

**RATHBONE GREENBANK
MULTI-ASSET PORTFOLIOS**
DEFENSIVE GROWTH FUND

Quarterly investment update
October to end December 2024

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HOT TOPICS

MARKETS HOT TOPICS (MACROECONOMIC)

This information reflects our general views and should not be taken as a recommendation or advice as to how a specific market is likely to perform.

COMING UP TRUMP

Donald Trump's electoral win triggered a surge in American stocks, bonds and the currency as investors bought into the prospect for lower taxes, lessened regulation and a pro-growth agenda. This moderated somewhat in the final days of the year, likely because of people cashing in profits after another 25% rise in US stocks, but also as government bond yields rebounded sharply and inflation concerns rose to the fore once again.

There's a risk that Trump's touted policies (big tariffs on trade, big tax cuts for households and businesses, and a clampdown on both legal and illegal immigration) will send inflation higher. However, we think people are taking him too seriously on these areas and ignoring his ambitions on slashing government spending. Trump often talks big at the outset, only to negotiate a compromise at the end. To that end, some of the tariffs may be much smaller or not eventuate. Similarly, tax cuts may not be as large as some hope. But if he and "First Buddy" Elon Musk's Department of Government Efficiency manage to slash a significant amount of federal spending, the effect on inflation may be negligible.

We're particularly impressed with nomination of billionaire hedge fund CEO and one-time Democrat Scott Bessent as Treasury Secretary (the job currently held by former US Federal Reserve Chair Janet Yellen). He's eminently qualified for the top finance job and many investors see him as a restraining force for the administration, one that could smooth the sharp edges of other members.

We think US inflation is likely to remain in its current band: between 2% and 3%. Not quite low enough for the central bank to call victory and not high enough to cause serious panic. Just constant low-level anxiety throughout the year. But that would leave room for the Fed to cut rates.

We think this sort of situation should allow a broadening of American stock market performance beyond the handful of massive technology companies at the top of the index. That would benefit us as we can't pile into those companies in the same position sizes as the index (and wouldn't want to!). Solid economic growth, steadily falling rates and a reduction in regulation should boost smaller US companies as well.



2.9%

**US inflation in December,
down from 3.4% a year ago,
up from 2.4% in September.**

BOND YIELDS

Right now, however, bond investors around the world are definitely rattled. After a short-lived and aggressive drop for most major government bond yields in November, a swift reversal sent prices lower and yields rocketing again. The concerns appear to centre on the spendthrift ways of most advanced nation governments, but particularly the US, which is the bellwether bond market. The rampant American economy, which continues to outdo forecasts, and stickier inflation of late, also haven't been good for bondholders' nerves.

The US and UK 10-year yields were 4.6% by the end of the year, up roughly a full percentage point from their recent lows. Even Germany, which shares none of its peers' fiscal imprudence, has suffered a substantial rise in its bond yields.

US 10-YEAR TREASURY YIELD SETS THE TREND FOR ALL



Source: FactSet; data to 10 January

The big question for 2025 is the same as it was in 2024: how much will central banks be able to cut interest rates in the face of strong economic growth in the US and stubborn inflation virtually everywhere? As 2025 dawns, the prevailing answer is just one quarter-percentage-point reduction by July – if that.

As Trump's inauguration has approached, hopes have steadily faded for cuts to the Fed's overnight interest rate. One thing to note is that this isn't a new thing: yields were very volatile for all of 2024 as expectations for rate cuts have ebbed and flowed. They surged higher in the first half of the year on concerns that the Fed's rate-cut plans would be upended by strong economic growth and rising inflation. They then sunk back significantly when the panic subsided. Sound familiar?

6%

The percentage of GDP that US government is spending more than it receives in taxes.



BRITISH EXCEPTIONALISM

The UK wasn't the only country to suffer a bond market sell-off in the past few months, but it was by far the hardest hit. Very long-dated 30-year government bonds jumped to heights not seen since the 1990s. The increased borrowing costs across all maturities may have vaporised the headroom between what the government expects to receive in taxes and how much it will spend. Yield spikes have caused angst about UK government finances several times over the past five years, only for the problem to melt away when panic and yields subsided.

If US central bank interest rates fall back, as most investors expect, then you would expect UK yields to recede with them. Let's hope the same happens this time as well. If not, greater borrowing costs may force the government to tighten policy to meet its fiscal rules. It's got until 26 March when the Office for Budget Responsibility gives its verdict on the rules – bond yields could easily move another half of a percentage point (in either direction!) between now and then.

Yet that's only one of Britain's pressing concerns: the other is a distinct lack of GDP growth. The economy has ebbed relentlessly since Labour took power, hitting 0% in the third quarter. We had been concerned about the increasing chance of a UK recession for some time and now it seems the chorus is growing broader. The major risk, as we see it, is stagnant economic growth and above target inflation and high unemployment. Some may call that stagflation. Inflation climbed back up to 2.6% in November as housing costs, utility bills and prices for package holidays, cinema tickets and pets all rose. The December figure, released after year-end, eased to 2.5%. Most helpful, however, was that it showed a big drop in services inflation – essentially anything that isn't a physical product. Persistently between 5% and 6%, the problem child is now closer to 4% than it is to 5%. If that trend continues it will help dampen those UK stagflation fears.

If inflation does remain above target despite an economic contraction, it would make it extremely difficult for the Bank of England to cut interest rates in support of the economy, because that would worsen inflation. It would also send government bond prices lower (so yields higher) because higher inflation would mean investors demanding a greater return to offset that reduction in the value of their coupons. This would make it even harder for the already cash-strapped government to boost the ailing economy too.

5.35%

The 30-year UK government bond yield is at its highest since July 1998.

PORTFOLIO ACTIVITY

Key purchases/additions

UK Gilt 1.5% 07/31/2053 (addition)

New Zealand Govt 3% 04/20/2029 (purchase)

EIB 2.75% 01/16/2034 (purchase)

AstraZeneca (purchase)

GE Healthcare (addition)

Key sales/trims

UK Gilt 3.75% 07/22/2052 (sale)

EIB 1.25% 02/14/2031 (sale)

Aviva (sale)

GSK (trim)

Nvidia (trim)

Source: Rathbones

Given investors' concerns about the large government deficits being run in the US and UK, early in the quarter we decided it was prudent to spread our government bond exposure a bit further afield. We looked for nations that have a better handle on their finances.

SPENDTHRIFT GOVERNMENTS ARE BECOMING MORE OF A RISK, BUT SOME BUCK THE TREND

Government deficit/surplus as percentage of GDP



Source: IMF; data is general government net lending/borrowing and doesn't include Trump policies

We sold our UK Treasury 1.125% 2039 and dollar-denominated European Investment Bank 3.75% 2033 and 1.25% 2031 bonds. We replaced them with the euro-denominated European Investment Bank 2.75% 2034 and 2.625% 2034, which are more geared to German bond yields. There are no deficit problems with the well-capitalised supranational development bank and, given Europe's fading inflationary pressures, rate cuts appear more assured on the Continent (which would boost the price of these bonds). We also bought New Zealand Government 3% 2029 bonds because we felt it was a good yield and the country is making strong strides to reduce its public spending deficit (as you can see from the chart). We also locked in the sterling value of our Kiwi and European bonds at October's exchange rate by 'hedging' the currency. This means that we won't suffer losses if the pound rises further against those currencies. The flipside of this hedge is that we won't make money if the opposite happens.

As yields continued to rise in the final months of the year, we added back some of our UK exposure through the UK Treasury 1.5% 2053 and 1.125% 2039.

We added UK pharmaceutical AstraZeneca to our portfolio this quarter. The share price was beaten down by fears that its sales in China could slow, in part impacted by allegations of corruption in its Chinese division, but we think the impact of this is overdone. China accounts for about 13% of Astra's sales; its biggest market is actually the US, where it makes and researches drugs in 17 sites across several states. Astra is a truly global operator, with 28 manufacturing sites in 16 countries, so it should also be sheltered from Trump's tariffs.

We added to our holding in GE Healthcare Technologies. Spun out of the General Electric super-conglomerate in January 2023, GE Healthcare focuses on imaging machines, mostly for diagnostics. Think CT scanners, MRI machines, ultrasound equipment and X-rays. With populations getting older, the strain on healthcare services is only set to intensify. We believe greater investment in technology is the only way to increase efficiency and keep societies healthy while avoiding ever-increasing costs.

Danish-listed Novonesis, the product of this year's merger of Chr Hansen and Novozymes, was another stock we added to. It boasts an almost 50% market share and has clout across myriad industries. Everything from better animal feed and longer-lasting food, to the yeast in bread and beer, enzymes in diagnostic tools and good bacteria in dietary supplements.

We sold European insurer Aviva after it announced it was buying UK-listed rival Direct Line. Big mergers tend to create a lot of risk around execution and capturing the hoped-for benefits of a tie-up. Also, half of Direct Line's business is motor insurance, an area that we're a bit wary of. Car insurance is a difficult, opaque market. Higher inflation on labour and parts combined with worse driving post-pandemic has made it harder for car insurers to forecast costs, which led to some big losses in the past. We felt it was best to sit this one out.

We used the cash to add to French cosmetics business L'Oréal and UK-listed global household products maker Unilever. Meanwhile, we trimmed our holdings of Canadian e-commerce platform Shopify, digital-focused consultancy Accenture and high-end computer chip designer Nvidia after a strong run into the year end.



SPOTLIGHT

IN THIS QUARTER, THE SPOTLIGHT IS ON OUR SHOPIFY AND UNILEVER HOLDINGS.



SHOPIFY

- Leading e-commerce enablement and infrastructure platform, providing an online cloud-based ecosystem for brands and retailers, with its software used for payment processing, website building and shipping
- Shopify focusses on serving small and medium-sized businesses, offering unique solutions which help reduce the barriers and costs to move online
- E-commerce is growing meaningfully, catalysed by the pandemic, with a large, fairly unpenetrated addressable market, and Shopify is a one-stop shop for businesses aiming to move online
- Strategic partnerships with companies such as Facebook increase repeat sales via subscription services
- Its product breadth, ease of use and scale are distinct competitive advantages that provide Shopify with a strong moat and will continue to fuel growth
- Shopify helps people start, run and grow their business with specific support for underserved communities
- It offers computing education programmes that help draw a greater mix of backgrounds into the coding profession
- Since decommissioning its data centres and moving to the fully renewably powered Google Cloud in 2018, Shopify has been completely carbon neutral
- Businesses powered by Shopify can use the Planet app to offer carbon-neutral shipping to customers, and these shipping fees are then used to fund carbon removal projects

UNILEVER

- Largest global producer of household and personal products such as laundry detergents and deodorant, offering well-known iconic brands such as Dove, Hellmann's, Persil, and Vaseline
- Unilever has a well-diversified product-mix as well as geographic exposure, which includes a growing presence in emerging markets
- It is in the early stages of implementing a multi-year turnaround to unlock the growth potential of its portfolio, with the recently appointed new CEO well positioned to drive this change, bringing extensive experience in the consumer goods industry and a fresh perspective
- The business has undergone a reorganization to simplify and refocus the portfolio, with the opportunity to boost growth through more effective brand management. One example of this is the decision to sell its Ice Cream segment
- The stock has a defensive element to it, alongside predictable cashflow generation and an attractive return on capital
- Aims to improve the health of the planet by achieving net zero emissions in internal operations by 2030
- Working to halve its use of virgin plastic, increase its use of recycled plastics and ensure that all packaging is reusable, recyclable or compostable
- Unilever's Nature and People policy requires its suppliers to adopt regenerative agricultural practices, to restore soil health, improve surface and ground water quality, increase on-farm biodiversity and to improve climate resilience
- 97.5% of its supply chain across its five key commodities (palm oil, paper and board, tea, soy and cocoa) is now deforestation-free, and there is a further goal of regenerating 1.5 million hectares of land, forests and oceans by 2030

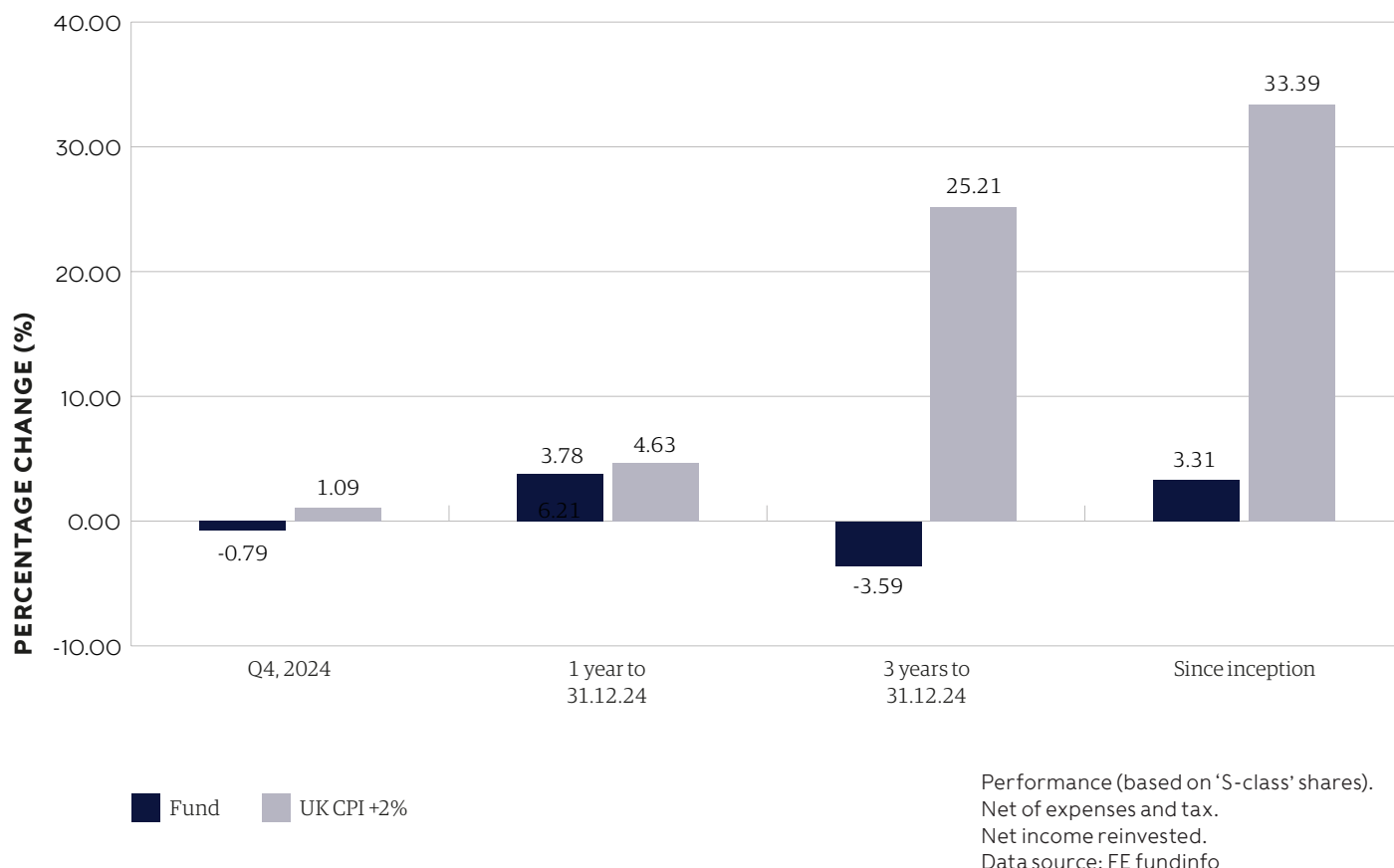
The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable.

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FUND PERFORMANCE

RATHBONE GREENBANK DEFENSIVE GROWTH FUND — QUARTER 4 2024



12-month rolling performance					
Year to:	End Dec 2024	End Dec 2023	End Dec 2022	End Dec 2021	End Dec 2020
Fund	+3.78%	+5.85%	-12.23%	—	—
UK CPI +2%	+4.63%	+6.03%	+12.87%	+7.24%	+2.38%
Annual calendar performance					
Calendar year	2024	2023	2022	2021	2020
Fund	+3.78%	+5.85%	-12.23%	—	—
UK CPI +2%	+4.63%	+6.03%	+12.87%	+7.24%	+2.38%

Price performance based upon single price (mid). Fund launched in March 2021, therefore there is no performance data before March 2022.

Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Top performers (%)			Bottom performers (%)		
Holding	Performance	Contribution	Holding	Performance	Contribution
Shopify	+42.10	+0.29	Advanced Drainage System	-21.05	-0.13
Salesforce	+30.97	+0.24	AO Smith	-18.29	-0.08
Servicenow	+26.95	+0.08	Novonesis	-15.95	-0.07
Dexcom	+24.24	+0.13	Renewables Infrastructure Group (TRIG)	-15.87	-0.12
Visa	+23.34	+0.19	L'Oréal	-14.86	-0.08

Note: Top and bottom performers are taken from the list of all holdings of 0.25% and above of the portfolio. Performance and contribution data shown above is based on unhedged GBP capital returns.

Source: Rathbones

In contrast to the third quarter, government and supranational bonds held back our returns in the final quarter of the year as yields in the US, Europe and UK surged. While the US Federal Reserve (Fed) cut its benchmark interest rate as expected by a quarter of a percentage point to the range of 4.25-4.50% in December, investors felt a mood change. The Fed's rate-setting committee signalled it expects to make just over half a percentage point of cuts in 2025; in September it thought it would make almost double that. If benchmark rates remain higher for longer, it reduces the value of bonds because their fixed returns become less attractive compared with cash in the bank that can be withdrawn at any time. Despite the volatility, we are comfortable buying a spread of dollar-denominated supranational and European government bonds at their current prices. We think they offer an attractive yield along with providing portfolio insurance should stock markets and economic growth falter. We added to these holdings.

Here in the UK, government bond yields rose markedly before and after the October Budget, partly in sympathy with US bonds and partly because investors took the announcements poorly. In particular, the government's decision to issue more gilts than expected sent prices lower (and therefore pushed yields higher). We think the risk of a British recession has risen, which makes bonds a more attractive prospect, especially given yields are back near multi-decade highs. We bought and sold throughout the quarter as yields fluctuated, ending up with a slightly larger holding than when Q4 started. Like dollar-denominated supranational and European government bonds, they should offer portfolio protection if there's a material downturn.

A number of our companies reported strong results during the quarter and rallied into the end of the year. These included e-commerce platform Shopify, sales tool Salesforce, computer chip designer Nvidia and payments networks Visa and Mastercard. It wasn't just American names either, with good performance coming from computer chip manufacturer Taiwan Semiconductor Manufacturing Company, Singaporean bank DBS Group and London Stock Exchange.

Two key detractors from our performance were recycled plastic pipe manufacturer Advanced Drainage Systems and boiler maker AO Smith. The share prices of both have been hit by President-Elect Donald Trump's threats to roll back Biden-era sustainability programmes. However, we believe these companies offer fantastic products that sell on their own merits – they aren't reliant on subsidies. Advanced Drainage is one of North America's largest plastics recyclers, turning unused bottles into quality and long-lasting infrastructure that America is in dire need of. AO Smith makes energy efficient-water heaters, for gas and electric, which save customers' money every time they turn on the tap. And it also produces water filters for residential and commercial use. AO Smith sells mostly in the US, but also in China where demand has been high. This has slowed recently which has also hurt performance.

The Chinese slowdown has also hurt our holding in pan-Asian insurer AIA Group and French-listed cosmetics company L'Oréal. Investors were already very negative on these names due to slowing Chinese economic growth (about a quarter of both businesses' sales are made on the Chinese mainland). Tepid results and cautious forecasts for 2025 sales drove a further sell-off. We think these companies – along with other names in our portfolio which have exposure to China – should benefit from a stabilisation in Chinese markets. While this may not be imminent, we now feel valuations have overly discounted this weakness. It's interesting to note that mainland-listed Chinese stocks posted the third-highest return of any major stock market in 2024 (behind the US and Canada) after a huge rally in the fourth quarter. Perhaps a sign that local investors are more optimistic.

Our Diversifiers did a useful job for us in the quarter. These are investments whose prices tend to move very differently to stock markets. One of these Diversifiers is the Société Générale US Rates Volatility structured product, a contract with an investment bank that benefits from increased price movement in US government bond yields. This perfectly summed up the quarter: big moves in both directions (mostly up). This meant we made good returns on this investment. Another volatility-based structured product that performed well was the JPMorgan 4.5% Dispersion contract which does well when the prices of an underlying basket of American stocks are more volatile than the price of the S&P 500.

ASSET ALLOCATION CHANGES

Asset allocation split	30.09.24	31.12.24	% Change	12 month change
Liquidity (5%-45%)	39.7%	37.7%	∨	-2.0%
Equity-type risk (30%-70%)	52.8%	54.4%	∧	1.6%
Diversifiers (0%-45%)	7.5%	7.9%	∧	0.4%

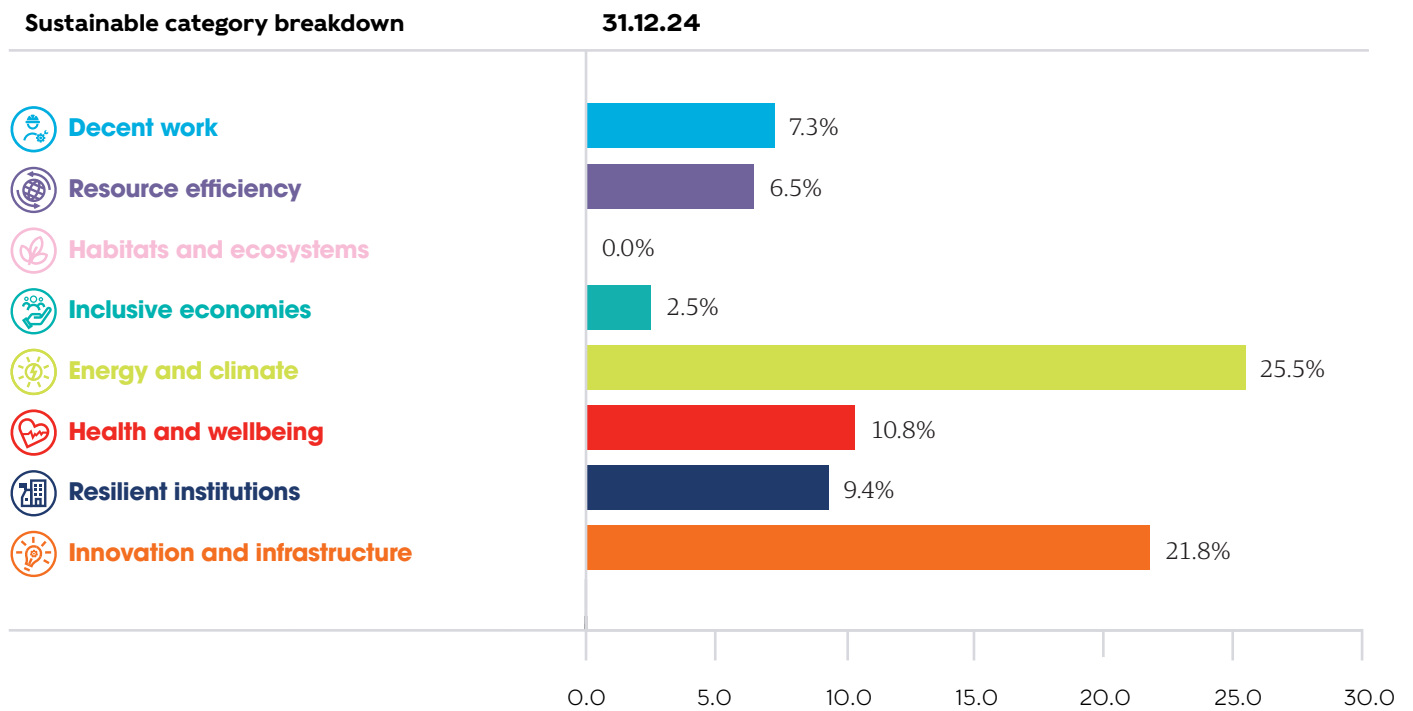
For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

Asset class split	30.09.24	31.12.24	% Change	12 month change
Equities	44.5%	45.9%	∧	1.4%
UK	10.3%	9.9%	-0.4%	1.6%
US	24.7%	26.3%	1.6%	3.4%
Europe	7.0%	7.3%	0.2%	-0.9%
Japan	0.0%	0.0%	0.0%	-0.8%
Asia ex-Japan	2.5%	2.5%	0.0%	0.5%
Emerging Markets	0.0%	0.0%	0.0%	0.0%
Global	0.0%	0.0%	0.0%	0.0%
Index-linked bonds	2.3%	2.2%	∨	-0.1%
Conventional government bonds	19.2%	20.1%	∧	0.9%
Corporate bonds	14.7%	14.9%	∧	0.2%
Emerging market debt	0.0%	0.0%	<>	0.0%
Private equity	0.0%	0.0%	<>	0.0%
Alternative investment strategies	7.5%	7.9%	∧	0.4%
Property	0.0%	0.0%	<>	0.0%
Infrastructure	0.6%	0.6%	<>	0.0%
Commodities	0.0%	0.0%	<>	0.0%
Cash	11.3%	8.4%	∨	-2.9%

SUSTAINABLE CATEGORY BREAKDOWN

GREENBANK HAS MAPPED THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGS) TO A SET OF EIGHT SUSTAINABLE DEVELOPMENT CATEGORIES.

These categories ultimately align with the same ambitions as the SDGs but focus on the areas most relevant to companies and investors. Assets in the fund must align to at least one of these categories and the current breakdown of these alignment is shown below.



The 'resilient institutions' category includes government bonds. For more information on our sustainability criteria, please consult [our sustainability process brochure](#).



INVESTMENT OUTLOOK

THE US ECONOMY IS STEAMING AHEAD AND THIS SEEMS LIKELY TO CONTINUE INTO 2025, ALTHOUGH IT MAY START TO COOL AS THE YEAR WEARS ON.

The big question is whether inflation will remain low enough for the US central bank to cut its benchmark overnight interest rate by the half percentage point or so that investors want to see by the end of the year (which would take it to 4.0%).

As for everywhere else, the economic situation is far from rosy. This divergence in economic strength has already led to big shifts in currencies: a strong dollar versus virtually all other currencies. One outlier in 2024 was the pound, which actually held its own as investors became sceptical about the Bank of England's ability to cut rates as much as it suggested (see chart). But that strength unravelled quickly in the final quarter and continued in the early days of 2025, as sterling fell along with other big, advanced currencies. Will this dollar strength continue?

STERLING HELD ITS OWN AGAINST THE DOLLAR IN 2024, UNLIKE ITS PEERS

G-10 currencies against the US dollar



Source: FactSet; currencies' exchange rates against the US dollar, indexed to 100 at 31 Dec 2023, data to 10 Jan 2025

The dollar should remain strong if investors continue to assume that US interest rates will stay higher and fall more slowly than other major countries. That's because money tends to flow to places where the rate of return is highest for a given risk. At the moment, the US has a high risk-free rate and the strongest economy with the most opportunities for profits. That attracts cash from around the world, meaning people sell euros, pesos and pounds to buy dollars so they can get in on the action.

For the US, the big risk is that resurgent inflation and an economy that keeps growing at a pace that could be unsustainably fast prevents the Fed from cutting rates at all. Or, even worse, pushes the Fed to resume *increasing* rates. That would likely send the prices of bonds and stocks alike slumping – and not just in America – as investors decide that it's better to sell assets and keep their money in cash. But we are confident that inflation will remain in check without the Fed needing to step in with rate hikes.

If there are any of the commentaries you require further clarification on, then please contact your advisers or Rathbones Asset Management (RAM) at the contact details contained on the RAM website.

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