

RATHBONE GREENBANK MULTI-ASSET PORTFOLIOS

TOTAL RETURN FUND

Quarterly investment update
July to end September 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.

THE LONG-AWAITED CUT

Everyone has been waiting so long for US interest rates to fall that when they finally did it was almost an anti-climax. The first rate reduction by the US Federal Reserve (Fed) since the pandemic was a 'jumbo' cut of half a percentage point, taking the benchmark borrowing rate to the range of 4.75% to 5.00%. Since then, US stock prices and government bond yields are slightly higher.

A bit of a nonchalant shrug from investors then, albeit with several shifty looks at the horizon: how many more cuts are coming and how quickly will they arrive? Bond investors and the Fed's rate-setting committee were not seeing eye to eye on that question before the latest monetary policy meeting and they certainly haven't aligned themselves since. Despite the big first step in cutting rates, the Fed has outlined a relatively slow path from here. The latest iteration of the 'dot plot', which maps committee members' forecasts for interest rates, shows the average member expects the benchmark rate to be about 4.75% by the end of the year. Investors, as implied by interest rate markets, believe it will be 4.25%. There's a disparity further down the line too. The average Fed member thinks the rate will be somewhere around 3.25% by the end of next year; investors assume it will be comfortably below 3.0%. If investors are wrong, bond prices will need to fall; if the Fed is wrong bond prices should hold their gains and perhaps rally further.

That's a lot of detail. Big picture time: US inflation has ebbed as the year has progressed, the economy has cooled somewhat (judging by the labour market) and the Fed has started to cut rates in the second half of the year. In market shorthand, this scenario has typically been branded 'a soft landing'. That is broadly how we expected the year to go when it began, so we haven't been making any significant changes to our portfolios. That said, the market was noticeably more volatile in the past quarter. This was hair-raising in places, but we've tried to make use of it where we can to take profits during overexuberance and buy into overregged concerns.

While we expect the US economy will slow from here, we think a recession isn't the most likely outcome. If we're right, that should be good for stock prices, as rates fall and profits aren't upended by a contracting economy. This should benefit bonds as well, although they have already posted gains in anticipation of falling rates, so they may be a bit rockier in the coming months – at least until they come to an agreement with the Fed's view of the world.

The market's mood music will jive or trip in line with economic data and how the Fed interprets it. As long as the chance of recession appears slim, inflation stays in check and the central bank keeps lowering rates, we think markets will be supported. But there may be a few missed beats as monthly data drops occasional clangers. We're trying to keep focused on the bigger picture and the direction of travel.

0.5%

The size of the US Federal Reserve's first interest rate cut.



LABOUR'S FIRST BUDGET IN 15 YEARS

It hasn't been a smooth start to for the new Labour government. In fewer than three months, Prime Minister Keir Starmer's approval rating had fallen lower than his predecessor's. A raft of blockbuster public sector pay deals and 'unexpectedly high' spending by the previous government set the agenda as one of doom, gloom and diminishing chances of a British boom.

As the first UK autumn Budget approaches, the government has clamoured so loudly and relentlessly about the terrible state of UK finances and the inevitability of tax hikes that it's started to affect the confidence of households and businesses. That won't help the economy and it certainly won't encourage a badly needed resurgence of investment here. It's also driven many people to crystallise capital gains in anticipation of an increase in the tax rate. So the government's expected extra tax haul could be less effective than it hopes. That wouldn't go down well with bondholders, who may start to sell and send UK government borrowing rates (and therefore rates for all other Brits) higher.

All of which would crimp the money left over for boosting investment. The government has rowed back on most of its investment plans and there are worrying rumours of plans to slash infrastructure projects by 10% across government departments. The nation has underinvested in its hospitals, roads, railways, prisons and ports for decades. Cutting deeper won't help boost the UK's dire productivity growth, which

is the key to increasing long-term GDP growth and people's living standards.

There are also whispers that Chancellor Rachel Reeves is mulling a 'definition change' that would change how government debt to GDP is calculated. This would allow her to stick to her fiscal rules that paint a picture of paying off the nation's debt, while also being able to invest for the future. This is both cynical and helpful: more debt, sure, but good investment in the UK's infrastructure should more than pay for itself in the long run. However, *good* is the operative word. Borrowing more cash to throw into money pits like HS-2 would leave us in a worse position. And making big changes that increase the government's ability to spend could spook bond markets.

We hope to be pleasantly surprised that the Budget won't be as bad as many are expecting. That the government will take a moderate line: slightly higher taxes, a reasonable accounting fudge to allow greater investment and reform to planning laws to make investment easier. We will have to see...

10%

Rumoured incoming cuts to government capital investment.



FUELLING THE DRAGON

It hasn't been an auspicious year of the dragon for the eastern giant. China's economic growth has steadily slowed in recent years as a huge, largely unaddressed, slow-motion property bubble disintegrates. After years of frenzied homebuilding and rampant speculation by businesses, local governments and households, billions of dollars are now locked up in property that isn't worth what it cost to buy. The lucky ones have the keys to empty apartments; the unlucky have had to swallow the loss of big deposits while looking at half-finished shells that will likely never be completed.

As China has continued to struggle with the fallout, its economic data has been continually 'refined' or 'improved' or just switched off to avoid annoying questions. But recently, it appears that the leadership has decided something must be done. The People's Bank of China cut its benchmark interest rate to 1.5% from 1.7%. It also reduced the reserves that banks must hold to protect against losses on the loans they have on their books. This frees up money that banks can then use to lend to businesses and households – estimated at 1 trillion renminbi (\$142 billion), or 0.8% of GDP – boosting economic growth. Mortgage rates were also cut, giving a direct reprieve of roughly \$21bn to many Chinese households.

Other parts of the Chinese government also got involved. The state could increase its borrowing by up to 1.5% of GDP, with half the cash to be used in propping up local governments groaning under unaffordable investments and the other half going direct to families and into consumer schemes that encourage people to replace old appliances and vehicles with better and greener alternatives ('cash for clunkers'). The government has also pledged to extend \$114bn in low-cost loans to listed businesses so they can buy back their shares. And there's talk of large-scale bank recapitalisation – an essential ingredient of property crisis resolution in the past – and stimulus cheques direct to consumers.

The market response was phenomenal: mainland stocks rose 16% (in local currency) in only a few days, instantly erasing the cumulative sadness of a torrid 18 months for the market. This is a strong show by the Chinese government that has driven an enormous overnight recovery in its stock market. But the plans that matter are vague at the moment. The devil will be in the detail. Solving China's long-term economic issues will need more than just loans, however. It will take an acceptance of past mistakes, reform and time. But as they say, the first step is admitting you have a problem. The Chinese government has done that.

\$21 billion

Savings on Chinese mortgage payments after central bank action.

PORTFOLIO ACTIVITY

Key purchases/additions

Soc Gen Rates Volatility Note (addition)

IBRD 1.75% 03/13/2025 (purchase)

L'Oréal (addition)

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

Co-op Bank 5.579% 09/19/2028 (purchase)

Key sales/trims

IBRD 0.875% 05/14/2030 (trim)

Asian Development Bank 1.5% 03/04/2031 (trim)

Soc Gen Rates Volatility Trend Note (sale)

Bank of America (sale)

DSM Firmenich (sale)

Source: Rathbones

We sold generator manufacturer Generac because its valuation had become quite inflated – especially as its profits were already boosted by generator sales on the back of a bad hurricane season. This should subside in the future, so it appears more overvalued than it would seem on first look. Also, we were concerned about the strength of competition in the energy storage market. Technology here is evolving so fast that the risk of your product becoming obsolete is high. Investors expect a decent slug of future profits to come from this area, but we're unsure whether that will come through. Because of these concerns, we decided to exit.

Another sale was enzymes and nutrition laboratory DSM-Firmenich, which we had held since the launch of our fund. We used the cash to buy a new tie-up in the same industry that we think is a higher-quality and slightly less cyclical option. Danish-listed Novonosis is the product of Chr Hansen and Novozymes, which merged earlier this year. 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.

Novonosis is also helping French biotech Carbios scale up a new way of recycling PET plastic that uses enzymes (Novonosis's wheelhouse) to break it down and make it reusable in a way that can be done many times over. One of the most prevalent plastics in the world, PET is mostly used in clothing, but is also used to make bottles. While PET usually takes around 450 years to decompose, the enzymes produced by Carbios and Novonosis can break it down with no toxic leftovers in just 10 hours. Carbios's full-scale pilot plant in France, due to be commissioned in 2025, will be the world's first biological recycling centre. If all goes to plan it will process 50,000 tonnes of PET waste each year, or the equivalent of 2 billion plastic bottles.

Bank of America (BoA) is one of the largest high street lenders in the US, with a huge book of loans helping finance households and businesses improve their lot. This massive reach means it can have a big influence on global emissions by lending more to cleaner businesses and moving away from carbon-intensive operations. When we bought BoA it had a clear strategy to achieve net-zero and offered good jobs to its staff. However, the lender has recently weakened these climate policies and hasn't implemented the cutbacks to fossil fuel financing that it had promised. Given the change in direction, it no longer met our sustainability criteria, so we sold.

We've built up a sizeable holding of government bonds from home and abroad as a hedge against any possible economic deterioration. As stock markets were roiling and bond yields were falling, we took the opportunity to sell trim our dollar-denominated supranational bonds and lock in some profits. They included the Asian Development Bank 1.5% 2031, International Bank of Reconstruction and Development 0.875% 2030 and European Investment Bank 3.75% 2033.

The inexorable rise of AI chip designer Nvidia is a remarkable success story. As the dominant provider of the chips needed to power AI, it's benefited from massive demand for its products at increasing prices and profit margins. That means the company now accounts for about 6% of the entire S&P 500! And, in turn, this means that it's viewed as a critical market driver, with its results getting as much scrutiny as big macro events like jobs reports. We decided to trim our position, given its rapid rise.

We took profits from medical technology business Smith & Nephew and UK household brands business Unilever after both companies' share prices had a strong run. We used weak patches to add to our holdings in cosmetics business L'Oréal, diabetes monitoring business Dexcom, customer relationship management software developer Salesforce, recycled car parts distributor LKQ and ASML, which makes the high-tech machines that print top-flight computer chips.



SPOTLIGHT

IN THIS QUARTER, THE SPOTLIGHT IS ON OUR LKQ AND AIA GROUP HOLDINGS.



LKQ

- Leading distributor of automotive recycled and aftermarket parts to the collision repair industry
- As new vehicle parts and components become more expensive, consumers and repair shops are looking for lower cost alternatives, such as recycled parts which can be 20-40% cheaper
- The global vehicle fleet is continuing to expand, along with the average age of vehicles on the road rising, increasing demand for repair and replacement parts
- Largest recycler of autos on the planet, recycling more than 800 thousand last year. Almost nothing is wasted, and a large majority are at the end of life, thus reducing landfill waste
- Acquired Green Bean Battery, a hybrid batter reconditioner and installer, meaning they are well placed to recycle Electric Vehicles (EVs)
- Launched the LKQ community Foundation in 2020, which focuses on supporting employees and communities, offering various health, education and environmental services. LKQ have committed to contributing a minimum of \$4 million annually

AIA GROUP

- The largest Pan-Asian insurer for households and businesses, offering a range of life, health and retirement protection, as well as savings plans
- AIA operates and has dominant market share in some of the fastest growing economies in Asia, including China, Thailand, Singapore, Hong Kong and Malaysia, but where insurance penetration remains low, and therefore providing substantial growth opportunities
- Benefits from increasing household income, alongside favourable demographic changes such as a growing yet aging population, and a rising middle class. These all contribute to a growing demand for the insurance products offered by AIA
- Double-digit sales growth is supported by excellent and durable returns on capital, as well as strong cash flows
- AIA invests a significant amount of the money it receives from life assurance premiums into infrastructure projects, like transportation, and electricity and telecommunications networks, that improve quality of life and resource efficiency
- 'AIA One Billion' is their ambition to engage one billion people to live longer and better lives by 2030, supported by their wellness platform, AIA Vitality, which rewards customers for making healthier lifestyle choices

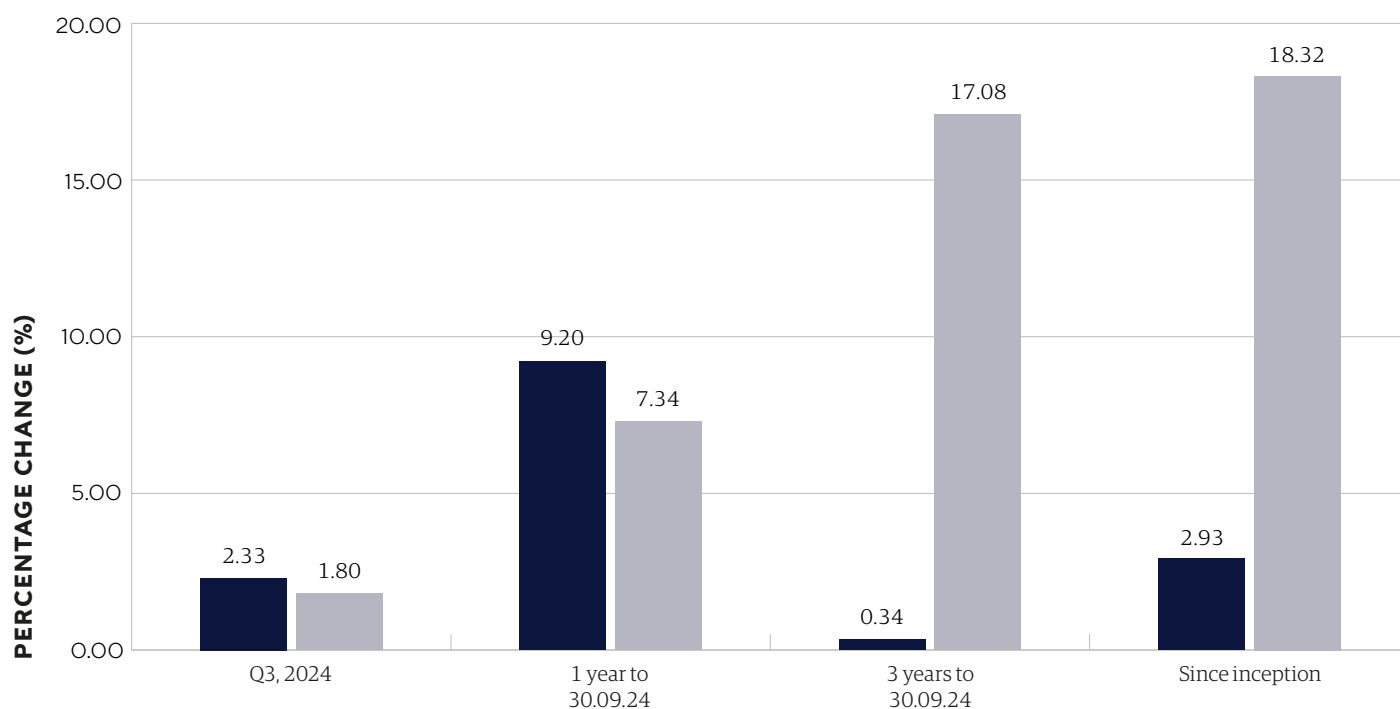
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FUND PERFORMANCE

RATHBONE GREENBANK TOTAL RETURN FUND – QUARTER 3 2024



■ Fund ■ Bank of England Base Rate +2%

Performance (based on 'S-class' shares).
Net of expenses and tax.
Net income reinvested.
Data source: FE fundinfo

12-month rolling performance					
Year to:	End Sep 2024	End Sep 2023	End Sep 2022	End Sep 2021	End Sep 2020
Fund	+9.20%	+1.40%	-9.38%	–	–
Bank of England Base Rate +2%	+7.34%	+6.11%	+2.79%	+2.10%	+2.40%
Annual calendar performance					
Calendar year	2023	2022	2021	2020	2019
Fund	+4.85%	-9.67%	–	–	–
Bank of England Base Rate +2%	+6.73%	+3.47%	+2.11%	+2.23%	+2.76%

Price performance based upon bid to bid prior to 21 January 2019 and single price (mid) thereafter. 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
DSV A/S	+27.20	+0.11	Dexcom	-44.13	-0.17
AIA Group	+25.33	+0.13	Edwards Lifesciences	-30.43	-0.15
Haleon	+22.38	+0.13	ASML	-23.91	-0.15
Eurofins Scientific	+21.07	+0.08	Cadence Design Systems	-17.89	-0.09
Smith & Nephew	+18.09	+0.10	Jungheinrich	-13.51	-0.03

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

Developed world government bond yields dropped over the quarter in anticipation of the first US interest rate cut since the pandemic. Our collection of government and quasi-government bonds from the UK and elsewhere boosted our returns as their prices rose on these lower yields. We had added to these bonds, particularly those whose prices are more sensitive to changes in prevailing yields, earlier this year when yields were higher. Towards the end of the quarter, we sold some of our dollar-denominated quasi-government bonds to lock in profits. Having this higher level of rate-sensitive bond exposure hurt our performance at times over the year, but we felt confident that inflation would keep falling, and that interest rates would follow, in time. We think government bonds remain attractive assets at current levels, given the returns above inflation that they now offer, with further returns likely as more rate cuts materialise. Equally, we expect bonds to provide important ballast to our portfolio in the event of economic stress, rather than the source of pain they were in 2022.

China announced a raft of government spending, interest rate cuts and changes to banking regulations in September that led to an astonishing turnaround in its stock market. Our stocks with significant exposure to China rallied along with those companies listed on the mainland. Many are quality companies that we believe should do well over coming years, yet a downbeat outlook for China had weighed heavily on them. These include cosmetics business L'Oréal and the much more directly linked pan-Asian insurer AIA Group. Another is medical technology

business GE Healthcare, which we bought during the quarter because we felt it was undervalued. Around the same time, we added to our L'Oréal and AIA. All three have since jumped higher, delivering a boost to our portfolio.

As bond yields and interest rates have fallen, they have pushed up the share prices of our infrastructure and utilities stocks, including UK electricity network operator National Grid, data centre operator Equinix and American Tower, which owns mobile network transmitters. These types of business look a little like bonds: they have relatively fixed returns stretching far into the future, so lower interest rates make those returns more attractive. Also, they tend to have quite a bit of debt to finance big upfront investments in land and equipment, so a reduction in financing costs can make a significant difference to their bottom lines.

US technology companies were generally weak this quarter, lagging the overall US stock market. Our tech holdings were not immune, with poor showings by digital office supplier Microsoft, design software developer Cadence Design Systems and ASML, which makes the high-tech machines that print topflight computer chips. Some of our medical technology companies underperformed as well, including diabetes monitoring business Dexcom and heart-valve maker Edwards Lifesciences. Both share prices fell significantly after poor profit announcements. We used those falls to add to both names, as we still believe in their future opportunities, despite these short-term stumbles.

ASSET ALLOCATION CHANGES

Asset allocation split	30.06.24	30.09.24	% Change	12 month change
Liquidity (10%-50%)	46.1%	50.4%	∧	4.2%
Equity-type risk (20%-60%)	43.9%	40.5%	∨	-3.4%
Diversifiers (0%-50%)	10.0%	9.2%	∨	-0.8%

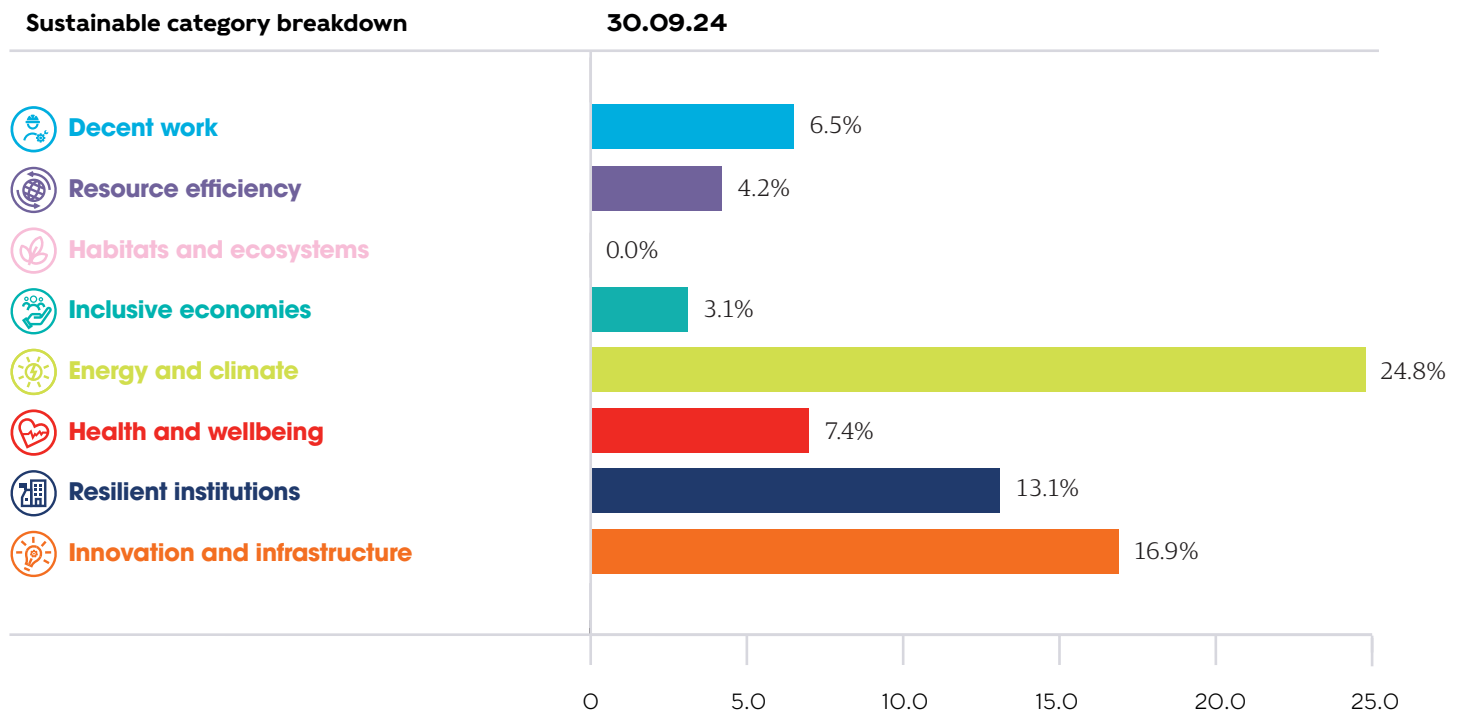
For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

Asset class split	30.06.24	30.09.24	% Change	12 month change
Equities	33.8%	31.7%	∨	-2.1%
UK	8.1%	8.0%	-0.1%	2.0%
US	18.7%	17.1%	-1.6%	1.1%
Europe	4.9%	4.8%	-0.1%	-0.8%
Japan	0.3%	0.0%	-0.3%	-0.3%
Asia ex-Japan	1.7%	1.7%	0.0%	0.3%
Emerging Markets	0.0%	0.0%	0.0%	0.0%
Global	0.0%	0.0%	0.0%	0.0%
Index-linked bonds	3.0%	2.8%	∨	-0.3%
Conventional government bonds	25.5%	23.6%	∨	-1.9%
Corporate bonds	21.7%	17.3%	∨	-4.4%
Emerging market debt	0.0%	0.0%	<>	0.0%
Private equity	0.0%	0.0%	<>	0.0%
Alternative investment strategies	10.0%	9.2%	∨	-0.8%
Property	0.0%	0.0%	<>	0.0%
Infrastructure	0.7%	0.7%	<>	0.0%
Commodities	0.0%	0.0%	<>	0.0%
Cash	5.4%	14.9%	∧	9.5%

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

WE THINK THE US ECONOMY — WHICH HAS UNDERPINNED GLOBAL GROWTH OF LATE — SEEMS IN RELATIVELY GOOD SHAPE.

Recent data shows it's slowing from the red-hot growth of the past few years, but that was to be expected. The deceleration shouldn't be an issue unless the Fed keeps rates too high for too long, choking the economy into recession. It all comes down to the gradient of its path from here.

Another looming uncertainty is the US election. While the economic policies of both sides are actually more alike than either would wish to admit — protectionist and loose with government cash — there are stark differences that do matter for investors.

Republican Donald Trump's planned crackdown on immigration and his heavier hand on tariffs (he has floated a tax of at least 10% on every import) would be inflationary. The presence of fewer workers would bid up wages; more expensive imports would raise costs and reduce choice (and therefore price competition) for households and businesses alike. He also plans to deregulate business, particularly relating to the environment, and reduce subsidies for clean power. Democrat Kamala Harris would more than likely retain the status quo on all these issues, although lately she's talking tougher on immigration and Chinese imports.

Both sides offer similar messages for trade and business but the quantum makes a difference, especially in terms of tariffs. The starkest difference is the corporate tax rate. Trump's official platform says he intends to keep the rate at 21%, the rate he cut it to in 2017 when he was President. But he has mulled cutting it even further to 15%. Meanwhile, Harris has pledged to raise the rate to 28%. For an American company paying the headline rate of tax, a cut to 15% would boost profits by 8%, while an increase to 28% would reduce profits by 9%. That's roughly equivalent to an average year's earnings growth either gained or lost. This is a big swing for potential profits — and one depending on an uncertain election.

Whether Harris or Trump wins the White House is too close to call. As is the fight over Congress. It won't take much for Republicans to overwhelm the Democrats' razor-thin majority in the Senate, yet they their own hold on the House of Representatives is extremely slim. A switch in control of both chambers of a divided Congress has never happened before. It may just occur this November. A split Congress would make it difficult for whoever wins to implement their agenda. Often not necessarily a bad thing!

One thing both presidential candidates agree on is spending more money than they get in taxes. That means the amount of US Treasury bonds issued is likely to keep rising, which could put upward pressure on their yields. Any resurgence of inflation would have a similar effect. We think the chances of inflation heading higher are low, but it's something to keep an eye on.

Other investors are no doubt wary of disappointment as well. As we mentioned earlier, stock markets, government bonds and most commodities have lurched around extensively over the past year in reaction to unexpectedly variations in data from business surveys, to inflation, employment and central bank pronouncements. Markets go from calm to high alert in a flash.

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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Call

020 7399 0399

Lines open 9.00-17.00

Visit

rathbonesam.com

Email

ram@rathbones.com

Address

Rathbones Asset Management Limited

30 Gresham Street, London EC2V 7QN

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