RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

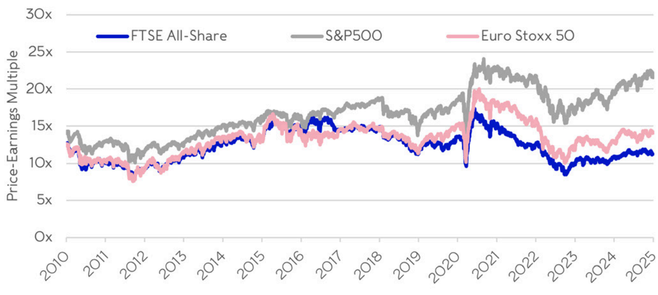
QUARTERLY UPDATE DECEMBER 2024

Donald Trump's win in November's US presidential election 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 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.

COMPANIES ARE MUCH CHEAPER ON THIS SIDE OF THE ATLANTIC



Source: FactSet; price divided by next year's estimated earnings, data 1 January 2010 to 31 December 2024

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.

Stocks in other parts of the world could also fare well in 2025. European and UK stock markets in particular lagged the US for a long time, yet there are many quality European businesses that are truly global. Economic slowdowns at home won't necessarily hold them back, yet their share prices are often seemingly factoring that in. I've spent quite a bit of time researching businesses, both here and on the Continent, to see if there are some good opportunities at sharp prices. I'm just back from a quick conference in Frankfurt where I met dozens of CEOs and other executives from companies in all manner of industries.

Bond investors around the world became much more uncomfortable towards the end of the quarter. 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.

Continuing to buy interest-rate sensitive stocks

While inflation concerns in the US may slow the descent of global interest rates, we still believe the direction of travel is downward. Because of that, we've kept adding to companies that we think should benefit from falling rates.

Ahead of the election we brought US-listed insulation and roofing maker **Owens Corning** back into our portfolio. Operating across commercial and residential projects, Owens Corning increases our exposure to construction — a more rate-sensitive part of the market. As rates fall, property owners and developers are naturally galvanised into building and renovating. This mid-cap business has been somewhat left on the side-lines over the last 18 months by US large/mega-cap companies, making it seem good value to us.

Ahead of the UK Budget we sold our position in **EDP Renováveis**, the Portuguese renewables business, and added **National Grid** to our fund. While we still like EDP's management team and the quality of its US franchise, we had higher conviction in National Grid. Once regarded as a dull but worthy high-yielder, the owner of energy networks in the UK and north-eastern US is now also something of a growth stock. Global demand for electricity is forecast to increase by 3% a year up to 2050. That would more than double generation between 2025 and 2050. Electricity demand has flatlined for the past five years or so as increased efficiency has reduced the amount of energy required to power our needs. However, decarbonisation plans will push more of the energy burden onto electricity — and that's before the extra demands sucked up by AI.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Greenbank Global Sustainability Fund	-0.9%	-3.6%	6.0%	-11.2%	36.1%
IA Global Sector	3.5%	3.7%	12.6%	12.8%	53.1%
FTSE World Index (GBP)	6.5%	6.7%	20.1%	30.6%	79.8%

	31 Dec 23-31 Dec 24	31 Dec 22-31 Dec 23	31 Dec 21-31 Dec 22	31 Dec 20-31 Dec 21	31 Dec 19-31 Dec 20
Rathbone Greenbank Global Sustainability Fund	6.0%	10.4%	-24.1%	15.6%	32.5%
IA Global Sector	12.6%	12.7%	-11.1%	17.7%	15.3%
FTSE World Index (GBP)	20.1%	17.2%	-7.2%	22.1%	12.7%

Source: FE Analytics; data to 31 December, S-class, mid-price to mid-price.

These figures refer to past performance, which isn't a reliable indicator of future performance.

Earlier this year, National Grid announced an extraordinary £60 billion investment plan to upgrade its infrastructure on both sides of the Atlantic to cope with the power systems' rapid shift from fossil fuels to renewable generation. With thousands of miles of both offshore and onshore cables to be laid in the UK alone, the challenge is great. However, the prize of set, regulated returns on an asset base growing at 10% each year is highly attractive. The energy sector can be challenging for sustainable investors. We often can't buy traditional energy companies making moves into renewable generation and pure renewables businesses are often less mature, which carry significant risks. National Grid gives us exposure without compromising our values or taking on more single-stock risk than we feel is appropriate. This joins our April investment in North American infrastructure outsourcer **Quanta Services**, which builds and maintains assets for owners of big, complicated assets, concentrating mostly on energy plant and electricity grids.

Investing in healthcare and physical infrastructure

Another addition to our fund was **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. Digitisation and automation will of course be a big part of the solution and GE develops these software tools as well.

We were attracted to GE because, while it already has a strong portfolio of machines and technologies, it spends more than $1 billion a year in research and development to refine its existing products and design new ones. Global spending on healthcare infrastructure is expected to grow significantly as healthcare providers upgrade and increase the amount of treatment space available. This is an industry with high barriers to entry: taking a chance on someone new and unproven can literally be playing with patients' lives, while the money and expertise required to develop these machines and technologies are vast. Alongside rivals Siemens and Philips (both of which we don't own), GE is likely to take the majority of increased spending in its relevant areas of expertise.

Another purchase was Finnish-listed **Konecranes**, which specialises (as the name suggests) in the manufacture of cranes, lifting equipment and port infrastructure. It's a relatively small business, with a market cap of €5 billion. It's growing nicely though, with sales spread all over the world. This should give it some protection from any significant increases in tariffs in some jurisdictions. Global port improvement and development isn't something many people see (how often do you visit a port?) yet it's a growing phenomenon. Anticipated upgrade costs over the next decade are thought to be in excess of $2 trillion (yes, trillion), offering Konecranes a strong growth trajectory in a relatively sparse industry. Maintaining cranes and equipment it sold in the past makes up about 35% of its sales. This servicing revenue is something we find attractive in investments because it comes in every year, as opposed to lumpy payments for machines that aren't replaced often. And Konecranes is more than just heavy gear. It sells container and warehouse management systems to help its customers become more efficient.

We reduced our investment in UK pharmaceutical giant **AstraZeneca**, given the recent news of a corruption investigation in China. The company remains a holding in our fund – and we think one of the best placed in its industry based on its track record on research and development and the quality of its portfolio of cancer treatments. Yet we are waiting to see the outcome of the inquiry. China is about 13% of Astra's sales base, but an important and growing market for the business.

We switched US water treatment and flow business **Xylem** for **Veralto**, which does water testing and treatment, along with tracing and verification for ingredients in food and medicine as well as the products themselves. We received Xylem stock when our holding in Evoqua Water Technologies was acquired by it. While Xylem gave us a comprehensive portfolio of water infrastructure technology, we have found that this was often a bug, not a feature. Each quarter there seemed to be part of the business that wasn't performing as well as expected, which hurt earnings progression and valuation. It felt like perhaps the company was spread too thin across different businesses and couldn't focus on all of them simultaneously.

We saw Veralto in November at a US investment conference. Almost 18 months ago, Veralto was spun out of American life sciences conglomerate Danaher, a company whose approach to management and value creation we have always liked. Veralto has a high-quality business in water testing and treatment. This is an area we really like, which has delivered good compounding returns from our holding in Halma (which has some similar exposure). Veralto should generate steady organic sales growth while continuing to acquire other businesses in what is still quite a fragmented market. The valuation is undemanding for a business that is still not that well known as a stand alone entity. The big question for investing in 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?

DAVID HARRISON
Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. 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 what you originally invested.

Rathbones Asset Management

30 Gresham Street
London EC2V 7QN
+44 (0)20 7399 0000
Information line:
+44 (0)20 7399 0399
ram@rathbones.com
rathbonesam.com

9265.01.25