RATHBONES

RATHBONE INCOME FUND

QUARTERLY UPDATE DECEMBER 2024

Most of us greet a new year with firm resolve to start afresh. We hope to draw a line under the previous year in anticipation of better things to come. There's absolutely nothing wrong with these ambitions. They reflect hope in progress.

In asset management, it's convenient to do something similar and restart the performance clock. But, of course, we cannot dismiss a bad year solely as a thing of the past (or rest on the laurels of a good one). Performance is a continuum. Nevertheless, we can take stock of a disappointing 2024, while also being optimistic about what 2025 may bring.

We make no bones about it. Last year was a frustrating one. We had high hopes that a more stable UK political environment would feed through to ongoing economic recovery that coincided with lower inflation and central bank interest rates. The outcome was at odds with this expectation. As we've explained in previous investment letters, that meant that two of our tactical decisions did not play out as we had hoped.

We pivoted to shares in businesses with more predictable earnings, a defensive move that would have reaped greater rewards if inflation and the rate cycle had tipped downwards in a more sustained manner. We also found great value in the shares of businesses with largely domestic earnings. In the event, the appeal of cheap shares and earnings recovery potential was dampened by the dismal reaction to the Autumn Budget.

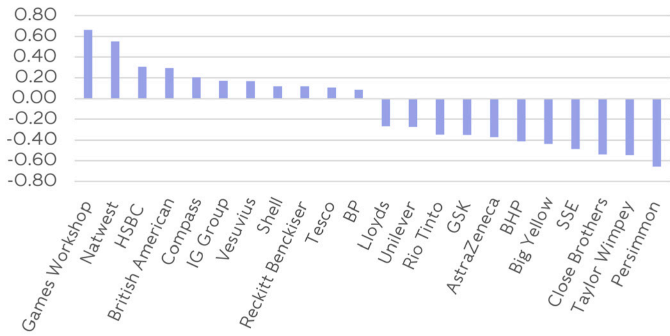
And while we delivered positive capital returns and dividend growth, the minimum outcome that our unitholders should demand of us, we disappointed in relative terms, versus both our peers and the broader FTSE All-Share Index. The impact of the Budget is revealed starkly in the final quarter. Our fund retreated by 3.8%, versus a sector loss of 1.3%, and the broader FTSE's 0.4% decline. Over the year, the fund gained 2.8%, versus a sector rise of 8.7%, and a FTSE gain of 9.5%.

It is very easy to write about a good year and to enjoy a self-administered pat on the back. It is more difficult to comment dispassionately about a bad one. On the one hand, we don't want to put everything down to bad luck. On the other, we mustn't get panicked into knee-jerk reactions. We need to think logically about how we're invested right now, with the start of a new year giving us extra impetus to take a long hard look at that positioning.

The fourth quarter: a nasty sting in the tail

Our stance throughout 2024 reflected what was, in hindsight, an overly optimistic prognosis for UK plc. The Autumn Budget delivered a stinging broadside to those expectations, further dampening sentiment that had already been weakened through the summer by the government's downbeat mood. We don't intend to add to the millions of words already written about the Budget, but its effect on our portfolio is evident in the stock level contributions for the quarter.

Q4 CONTRIBUTIONS



Source: StatPro; Rathbones

The housebuilders were hit hard as the promise of planning reform was squeezed out by the gloom pervading the UK economy overall, even though the housing market itself held up. **Close Brothers** continued to face idiosyncratic challenges and we have exited much of our position. Utility giant **SSE** and property company **Big Yellow** are strong long-term holds for us but are both domestic earners and defensive plays so each was doubly impacted as inflation fears increased. This bond-proxy argument hurt pharmaceutical giants **AstraZeneca** and **GSK**, as well as consumer staple **Unilever**. Finally, the effect of a tariff-hungry Trump presidency damaged expectations for the global economy, so miners **BHP** and **Rio Tinto** slipped further back.

Before we get too reductive, we recognise that the eclectic mix of winners certainly muddies the waters when it comes to understanding what is driving the market. Retailers overall were weak, but miniature model manufacturer and retailer **Games Workshop** delivered a strong set of full-year numbers and announced positive progress in its joint venture with **Amazon**. Shares in high street bank **NatWest** continued to move higher, belying wider concerns about the economy and the housing market. Global bank **HSBC**, food services business **Compass Group** and steel and foundry technology business **Vesuvius** all moved ahead, despite worries about a global slowdown and trade wars. And while some interest rate-sensitive and/or domestic earners certainly lagged, global staples giants like **British American Tobacco** and **Reckitt Benckiser** and supermarket group **Tesco** had good years. So we repeat, we are loathe to dismiss 2024 as simple bad luck. It was a complex year, and our reaction must reflect those complexities.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Income Fund	-3.8%	-1.3%	2.8%	10.6%	19.2%
IA UK Equity Income Sector	-1.3%	1.4%	8.7%	14.4%	20.9%
FTSE All Share Index	-0.4%	1.9%	9.5%	18.5%	26.5%

	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 Income Fund	2.8%	7.6%	0.1%	20.6%	-10.6%
IA UK Equity Income Sector	8.7%	7.0%	-1.7%	18.4%	-10.7%
FTSE All Share Index	9.5%	7.9%	0.3%	18.3%	-9.8%

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

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

How we're addressing immediate challenges
Investors need to know what we stand for.

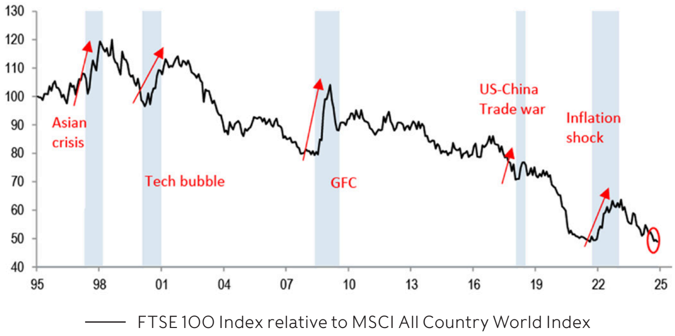
First and foremost, we are active investors. In order to beat the index over the long term, you need to do something different to the index.

We resolutely make the argument that valuation matters, and that the return you make on any investment is a direct function of the price you pay. That does mean that momentum is not always our friend. We don't jump on band wagons if the prices aren't right, but we understand that sticking with an alternative journey can involve a bumpier road for longer than is comfortable.

And it is uncomfortable right now. We're on the wrong side of a tussle between apparently unassailable confidence in US exceptionalism on the one hand and conviction in the decline of the UK (and Europe, for that matter) on the other.

We are not going to claim that the UK is in a strong position. It is foolish to argue that the consumer is vibrant, industry is investing, rates are coming down and growth is ratcheting up. Rather, for now, the opposite is true. However, the UK market is as cheap as it has ever been versus the global market and enjoys the world's highest dividend yield. It is also regarded as a low-beta market, which means it tends to move less than the wider global market (both up and down), which will be important if globally markets go into retreat. That low volatility should mitigate the downside.

UK EQUITIES TENDED TO BE A SAFER PLACE IN TIMES OF STRESS INCREASING



Source: JP Morgan, Mislav Matejka

The S&P 500 is almost as expensive as it has ever been. At the same time, no one seems to paying any attention to the many risks that are hiding in plain sight. Higher universal US tariffs will hurt the US consumer, they will be inflationary and they will impact the global economy. All else being equal, the threat that Trump's agenda could challenge the primacy of law in the US will damage the country's reputation internationally. Moreover, the FT has recently reported that US corporate bankruptcies are hitting a 14-year high on account of high borrowing costs. The US economy itself faces many challenges.

The first quarter of this year will be crucial. Trump will be inaugurated as US president on 20 January. Once that happens, we'll get a clearer view on how his rhetoric translates into policy. We now know that the Trumpian playbook can involve an outrageous opening gambit that's watered down in subsequent negotiations. But whatever transpires, it will certainly impact global markets.

In the UK, the key discussion will be how to balance tackling slow or non-existent economic growth and persistent inflation. The worst outcome would be stagflation. When it comes to economic growth, we're more optimistic than many and suggest that the worst fears are unlikely to be realised, though inflation is likely to stay awkwardly high. But that's true everywhere. As ever the jobs market remains key. That's complicated by widespread awareness that a lot of the jobs data is proving unreliable. We may well need to rely on anecdotal evidence.

The Treasury will be the biggest driver of change. Chancellor Rachel Reeves has a significant task ahead to regain trust. We may give her the benefit of the doubt and acknowledge that she chose to front-load all the bad news, but that doesn't escape the fact that things will really hurt if she's forced to break her fiscal rules in 2025. A very positive view on the UK relies on big international investors retaining their confidence in the UK sovereign debt market. Investment to produce GDP growth requires funding, and we cannot afford to squander these sources. All the noise in the opening weeks of 2025 has been hugely distracting. While we think the situation may not be as dire as some headlines suggest, there is a very real danger that all the noise becomes a self-fulfilling prophecy. We view this is as the key risk currently confronting us.

Adopting a contrarian position has proved very painful through 2024. We are not blindly sticking to our guns in the hopes that our antithetical view comes good. We continue to believe that we own many great businesses at outstanding valuations. Just because we've begun a new year shouldn't mean we suddenly jettison the disciplines and the processes we've always adopted. That said, there a lot of uncertainties ahead, with much corporate, economic and political news to digest in the next three months. The information we glean will, of course, inform our positioning as we continue to adhere to our long-standing disciplines and processes.

Wishing you all a happy, healthy, and prosperous New Year.

The Rathbone Income team.

Recent trading: In a light month for trading, we reduced our holding in Close Brothers.

Companies seen in December: Experian – broker-organised 'fire-side chat'.

CARL STICK
Fund Manager

ALAN DOBBIE
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.

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