



# RATHBONES

## RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE NOVEMBER 2024

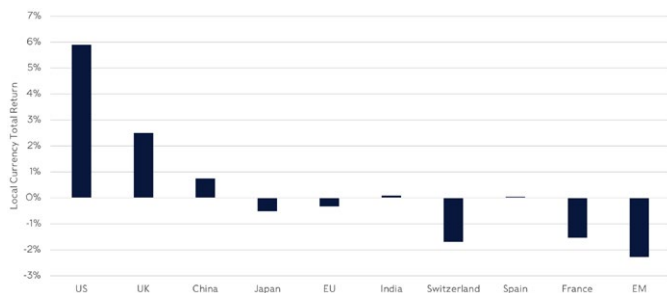
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**The US election and UK budget have helped solidify confidence in American exceptionalism. A President focused on deregulation, tax cuts and putting America first set against a Prime Minister intent on raising the tax and regulatory burden on British businesses. The immediate outcome is evident in the relative returns and valuations of US stocks versus their UK counterparts. The S&P 500 is up by almost 35% this year compared with the FTSE 250's 16% gain, while the former is trading at a P/E multiple just over double that of the latter. In the very near term, there's no reason to expect the US juggernaut to stall.**

But we know clients worry about how all this could play out over longer timeframes. After spectacular returns, leaving heady valuations, and massive over-crowding in US large caps, the risks could be building. Scary tariff-related headlines, or earnings misses in the Mag 7, become much harder to stomach at these lofty heights. What's the alternative? The political and economic situation in Europe is worsening day by day. The data out of China remains largely impervious to disappointing stimulus. And tariff risks abound.

UK assets may offer a way to thread this particular needle in 2025. There's a lot to like: a huge valuation discount to cushion against volatility, a markedly lower tariff risk than other countries, and the possibility of lower energy costs, which would be particularly beneficial for the UK economy.

### THE UK OUTPERFORMED EVERYWHERE EXCEPT THE US IN NOVEMBER



Source: FactSet, Rathbones; local currency

When, like now, there are so many variables at play, positive earnings momentum is often the factor that performs best. We are focusing our efforts here and this keeps us largely in the FTSE 250.

### A miniature success story

Indeed, our top contributor this month is FTSE 250 stalwart **Games Workshop**, the creator of the Warhammer miniature fantasy games series. In an impressive feat of prudence, modesty and compounding, Games Workshop will, in fact, be promoted to the FTSE 100 at the end of the year. New game Space Marine 2 has provided a material boost to earnings, with 4.5m unique players since launch in September. This is a hobby in rude health.

### GAMES WORKSHOP: A DECADE OF OUTPERFORMANCE



Source: FactSet, Rathbones; data from 1 January 2015 to 6 December

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

### ... DRIVEN BY THE WARHAMMER BRAND



Aerospace engineer **Melrose** rallied nicely during the period after disclosing more information about its cashflow. We expect cash generation to ramp up materially from here as its programmes reach maturity.

Aggregates business **CRH** continues to re-rate as US investors become increasingly comfortable (and impressed) with the margin dynamics here. It's a nice play on US infrastructure spending too, which continues to be very strong.

Detractors in November included natural flavour developer **Treatt**, where investors have been worrying about the higher coffee price. Post month-end, the company released numbers which garnered a 17% rise in the share price thanks to excellent cash generation. Travel retailer **WH Smith's** numbers on the other hand were not taken as well, with slightly disappointing sales in the US and fewer new stores than expected.

We have exited the rest of our position in **JD Sports** due to softness in consumer demand for trainers and sportswear, as well as some management missteps and unambitious targets. We expect management teams to aim for more than mediocrity. We have trimmed our holding in digital transformation consultant **Kainos** and recycled into identity software firm GBG. Many of Kainos public sector clients are stuck in a vacuum while the new Labour government beds in, whereas **GBG** has an impressive new CEO who is succeeding in simplifying and sharpening sales. We added to our **Raspberry Pi** holding too after some technical weakness.

Companies seen this month: **Howden** (site visit), **Unite** (site visit), **Moonpig**, **Kainos**, **Intermediate Capital**, **Oxford Instruments**, **Bloomsbury**, **Halma**, **Cranswick**, **Warehouse REIT**, **Diploma**, **GB Group**, Pets at Home, Gym Group, **Greggs**, **Treatt**, Baltic Classified, **Dowlais**, **discoverIE**, **Boku**, Foresight, **Melrose**, Pollen St, **Ashtead Tech**, **Hill & Smith**, **WH Smith**, **FDM**, Cerillion, **Grainger**.



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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.

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