# RATHBONES

# RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE FEBRUARY 2025

**February was another hectic month for markets, with a torrent of geopolitical newsflow to digest and try to price in. In the US, the endless back and forth over tariffs and swingeing cuts to the public sector workforce have led to a massive increase in economic uncertainty and a deterioration in the macro data. As a businessman, Trump knows better than most politicians how uncertainty can hurt business confidence and investment. It's no surprise to see evidence of this damage in the two charts below. But it's frustrating that global markets are being rocked by what feels like a series of own goals by Trump, when there are challenges enough already.**

Figure 1. Policy uncertainty has surged in the US…

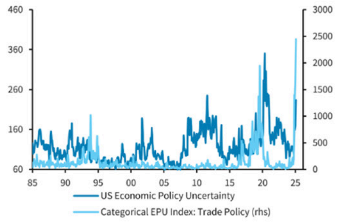
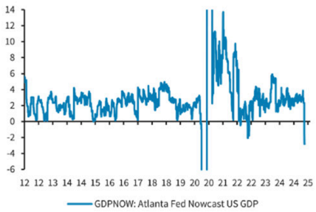



Figure 2. …and GDP nowcaster has turned negative




Source: LSEG Data & Analytics, Barclays Research.

The Magnificent 7 and US equities more broadly are bearing the brunt of the rapid deterioration in the US economic outlook. The Mag 7 had their worst month in more than two years. Meanwhile, European and UK equities continued to outperform, led by the defence sector, where stocks are reacting to the gale-force increase in rearmament spending from EU governments and the UK.

Our preferred hunting ground, UK mid caps, has not yet rallied. That's surprising given sterling's strength this year. But large caps have been very much to the fore. And because the FTSE 100 is so concentrated that it almost makes the Mag 7 look diversified, a mere handful of large stocks have driven most of the gains. A quality growth mid cap-focused fund like ours struggles to keep up when it's large cap financials driving returns.

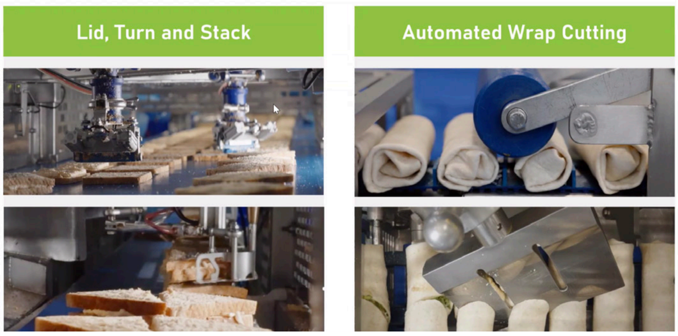
Nevertheless, there's plenty of strong operational performance coming from our investments. Defence contractor **Chemring**, for example, revealed a record-high order book plus investment in new capacity expansion, some funded by customers such as the Norwegian government. Obviously, this is a sector very much in the spotlight at the moment; Chemring's share price has benefited from the likely huge increase in European defence spending, as well as a new buyback and a mooted bid from a US private equity firm.

**A tasty new position**

We have a new position in private label food manufacturer **Greencore**. It makes millions of sandwiches, salads, sauces and ready meals for supermarkets every year. The food-to-go sector is booming right now; consumers are trading down from more expensive options towards meal deals and eating at home. This plays perfectly into the investment case for Greencore, which is working to improve its returns through volume growth, competitive pricing and innovative products. We were hugely impressed by the calibre of its management and its operational excellence at its Capital Markets Day last month.

## GREENCORE'S AWARD-WINNING ITALIAN READY MEAL RANGE FOR ALDI


Greencore's investment in automation of its sandwich lines will help it manage labour costs in the wake of the Budget increases in the National Living Wage and employer National Insurance contributions.



We've again trimmed some of our largest holdings, notably **Cranswick** and **CRH**, as they'd become too sizeable. Because the fund comprises only 50-60 stocks, we prefer to keep our holdings carefully balanced to avoid concentration risk. Cash is low, but we have around 10 stocks on our watchlist that we'd like to own. To keep our fund focused, we'll need to keep trimming or exiting positions where our conviction is lower before we buy any new stocks. During periods of market dislocation, our strategy is to improve the quality of the portfolio overall, by buying better businesses than we already own, while they are on sale.

Companies seen this month: Greencore, **Moonpig**, XPS Pensions, **SEGRO**, Petershill Partners, **Bloomsbury**, **Unite**, **Croda**, **Howden Joinery**.

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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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