RATHBONES

RATHBONE UK OPPORTUNITIES FUND

QUARTERLY UPDATE DECEMBER 2024

The annual ‘Santa rally’ that investors in UK small and mid caps have come to expect was notably absent in 2024. An unpalatable Budget, plus stickier inflation and lower growth than envisaged, proved an unappealing combination, particularly when compared with the storming growth that the market expects new President Trump to unleash in the US.

Looking at the UK from a bottom-up perspective, the best performers through the year exhibited a combination of low starting valuations, earnings upgrades and probably a share buyback to boot. We did well identifying earnings growth and buybacks, but our bias towards quality and growth ensures we’re rarely heavily invested in very cheap stocks. Owning the more expensive parts of the market that are more sensitive to the direction of interest rates held us back. We underperformed our FTSE All-Share benchmark, but the fund outperformed many of its IA UK All Companies Sector peer group funds with a similar style and mid cap skew. We’re retaining our focus on stocks with strong profit momentum and buyback potential in 2025 as both things lead to higher earnings per share. We think we can do better in exiting problem stocks more quickly and recycling into fresh names.

Persistent outperformers

Top contributors this quarter included fantasy games creator **Games Workshop** and building materials supplier **CRH**. Both stocks were serial outperformers and the biggest contributors to performance over the year as a whole. Games Workshop recently joined the FTSE 100 and so likely is benefiting from index buying. CRH continues to perform very well operationally as it provides cement, limestone, granite, concrete and asphalt to the building and construction industry that’s benefiting from the long-term positive tailwind of growing infrastructure spend. It is now the largest building materials company in both North America and Europe, but is still more lowly rated than its US-listed peers.

Tech hardware manufacturer **Raspberry Pi** made its inaugural appearance as one of our key outperformers after its share price doubled in the final month of the year. We’d added to our holding in late November as we gained confidence in its story. Its simple, programmable and cheap single-board computers (SCBs) outdo their Chinese and US peers in terms of price, performance, security and power consumption. As a result, Raspberry Pi computers are selling well: for example, its SCBs power Heathrow’s departures & arrivals boards and electric vehicle chargers and control the production line for folding Brompton bikes.

The poor performers also included some repeaters. We’ve exited our holding in **JD Sports** as discussed last month. **WH Smith** has successfully transitioned from a British high street shop selling furry diaries and CDs into an international travel retailer. We like this exposure, particularly to US passenger growth. However, its lack of strong earnings momentum has weighed on the share price. The shares disappointed this quarter and we’ve trimmed our holding. Venture capital investor **Molten Ventures** also fell back during the period after a strong showing earlier in the year.

A pessimism bias?

The mood in the UK market is poor. Barely a day goes by without an article in the media discussing the travails of the country’s equity markets. We have fallen into a vicious cycle in which negative headlines ensure that sentiment gets yet more negative and so on. That leaves limited space, or appetite, for more constructive approaches. There’s evidence that negative arguments gain more attention (perhaps because they seem more memorable and sophisticated?). That gives commentators an incentive to go down the pessimistic track.

But there’s little correlation between all this negativity and the actual performance of the FTSE 250. Recent analysis by HSBC shows low or little link between mid-cap share prices and the general public’s mood, satisfaction with the government of the day or press stories about UK equities. Fixation on shadow-chasing risks missing out on the diversification benefits and potential returns on offer from smaller UK equities. In our view, crowded positioning and lofty valuations in some parts of the global market leave little margin for error. The UK isn’t in a comparable tight spot. Indeed, domestic merger and acquisition (M&A) activity has reached a five-year high, suggesting some are spotting the value on offer from British assets. You can find out more here.

Companies seen during the month: **AB Dynamics**, **discoverIE**, **SSP Group**, **AJ Bell**, **Treatt**, **Moonpig**, **Greencore**, **Future**.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone UK Opportunities Fund	-3.1%	-0.1%	5.6%	-18.3%	6.0%
IA UK All Companies Sector	-1.3%	1.0%	7.9%	5.3%	16.1%
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 UK Opportunities Fund	5.6%	9.6%	-29.4%	21.4%	6.8%
IA UK All Companies Sector	7.9%	7.4%	-9.1%	17.3%	-6.0%
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 the past, which isn't a reliable indicator of future performance.

ALEXANDRA JACKSON
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.

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