

Rathbone Global Opportunities Fund James Thomson – Lead Fund Manager

Autogenerated captions (may contain errors)

0:26

Year to date, at time of filming, the fund is up 13%, a healthy return, certainly better than many of the bears expected at the beginning of the year.

0:36

While markets are choppy at the moment, don't let the noise drown out the true message.

0:41

We don't think we're on the cusp of a prolonged bear market.

0:44

In fact, the long term future looks bright and we've been buying.

0:49

We've benefited from stocks like NVIDIA, Google and Microsoft which we've owned for over five years, Amazon for 15 years and we finally bought Apple in the growth sell off of 2022.

1:03

These magnificent members did well for us, but our machine driven competitors, the tracker funds did even better as they don't have the discretion to take profits or manage the risk of large position size.

1:16

We've banked some of the stratospheric 800% gains we've achieved in NVIDIA over the past 18 months, managing our position size and risk by selling 75% of our holding over that time and using that cash to buy new holdings.

1:32

That will be the success stories of tomorrow.

1:35

Some I'll talk about, others I won't.

1:38

While market wide returns have been concentrated in a small group of mega cap stocks, I'm pleased that our key drivers have come from a broad church.

1:48

Our top performers this year include NVIDIA, of course, Costco, medtech company Boston Scientific, Walmart and robotic surgery business Intuitive Surgical.

1:59

These companies have the star quality that we look for in a growth stock innovation, a protected competitive position, resilience, adaptability, scale and strength.

2:10

Their markets are growing and they're gaining market share.

2:14

They serve different demand drivers in different industries, adding to our balance and lowering portfolio risk when mistakes are made or business conditions deteriorate.

2:26

That broad Church of Investment themes and drivers will protect us from the entire portfolio trading in lockstep monetary tightening.

2:40

The interest rate increases we've seen work with long and variable lags.

2:46

We're seeing weakness in many economic indicators and corporate earnings growth outside of the MAG 7 and a small number of other outliers is sluggish.

2:55

Corporate revenue growth in the United States, if you exclude Apple, Microsoft, Amazon, NVIDIA, Meta and Google was just 2.9% in the most recent quarter, continuing to trend lower from its post COVID bounce.

3:11

It seems clear that A2 speed economy is here.

3:15

In this chart, the blue bars are the S&P 500 earnings growth.

3:20

The grey bars earnings growth excluding the Magnificent 7 growth has been negative for most quarters if you exclude the magnificent.

3:30

Perhaps another explanation for the concentration of returns in a market where growth is hard to find.

3:37

Over half the world's population goes to the polls this year.

3:41

Electorates are angry, unpredictable, and this is creating budget and policy priority uncertainty.

3:48

Corporates are talking about it because it remains a wild card and perhaps a useful scapegoat.

3:55

In the United States, the election has become particularly savage and at times weird.

4:00

Expect the unexpected, but a divided government, quite market friendly is still the book he's favourite.

4:07

But usually the impact of politics is overestimated as so many cheques and balances remain in place and market uncertainty usually evaporates as soon as the result is announced.

4:20

Investors are also worried about rising US unemployment.

4:25

The US unemployment rate has picked up in the last few months.

4:30

Whenever the unemployment rate rises by more than half a percent from the low, a recession would start historically.

4:37

But as we know, the data is not perfect.

4:39

Gig economy workers, multiple job holders, immigrants can create false signals and break historic comparisons.

4:47

And we know that the biggest cause of the rise in unemployment is people joining the eligible workforce, not people losing their jobs.

4:56

The Bureau of Labour Statistics doesn't count you as unemployed unless you're actively seeking work.

5:02

So if you're not working and not looking for a job and then move to not working but actively looking, it counts as an increase in unemployment.

5:12

Perhaps the rise in wages is finally tempting people into actively seeking work, perversely causing a rise in unemployment.

5:20

Most will look at these charts and find lots of reasons to be shaky and stay on the sidelines.

5:27

The consensus strategy is to be cautious and volatile markets are reinforcing this.

5:33

Cash and money market funds just hit a record of \$6.3 trillion.

5:38

Bearing this out, we think there's not always a straight line between economic data and stock market performance, especially if you can be nimble and target resilient growth.

5:49

Businesses Just rewind the clock to the beginning of the year when we were staring into the abyss.

5:57

ISM manufacturing was at its lowest since April 2009.

6:01

U Michigan consumer sentiment had been below 75 for 29 consecutive months, the most on record.

6:08

EUIPO volumes were at their worst level since 2009.

6:12

U.S.

6:12

housing sales at 28 year lows.

6:14

The UK housing index hadn't been that low since June 2008, and the previous year was the weakest year for stock buybacks since records began.

6:25

Pretty grim and yet we've posted double digit returns.

6:29

It's right to be balanced and have a portfolio that thrives in a variety of economic outcomes, but burying your head in the sand is probably wrong as the best returns come when you least expect them.

6:49

We've only made a few changes to the portfolio this year.

6:53

We've trimmed our very large holding in NVIDIA to manage risk, but that shouldn't curb our enthusiasm for this long term investment.

7:01

It just needs to be sized correctly.

7:04

AI is turning computers from instruction driven to intention understanding tools.

7:12

In a recent survey, CIOs indicated that they currently spend 5% of their IT budgets on AI accelerated compute hardware.

7:24

They see this increasing roughly 45% a year on average to reach 15% of their IT budgets in the next three years.

7:33

And most are not defunding other projects to do it, which suggests the majority of AI investments will be fueled by incremental spending.

7:41

Yet investors remain sceptical and need more positive commentary on AI adoption, especially from practitioners.

7:50

Well, here's some interesting anecdotes.

7:53

In August, the CEO of Amazon said that AI saved them 4500 developer years of work.

8:01

The upgrades will provide an estimated \$260 million of annualised efficiency gains.

8:07

Google CEO said that their Gen AI solutions for cloud had already generated billions in revenue and are being used by more than 2 million developers.

8:18

SAPCEO said that AI had a direct impact on bookings, and in Q2, almost 20% of all deals included premium AI use cases.

8:27

Finally, Walmart CEO said that they used large language models to improve over 850 million pieces of data in the catalogue.

8:36

Without Gen AI, it would have required nearly 100 times the current headcount to complete that in the same amount of time.

8:43

This is real and we're just at the beginning.

8:46

So we continue to invest in AI, digitization and the electrification theme through multiple companies.

8:54

We use some of the proceeds of our partial sale to buy a new holding, ServiceNow.

9:00

Fears were raised during the summer that AI budgets were cannibalising traditional IT projects, but our cheques suggested that the majority were incremental.

9:10

We pounced on a rare sell off to buy this.

9:13

Best in class business Service Now is the key platform for digital transformation.

9:20

It's deployed in your IT service department for issuing tickets for IT problems, Customer service department to manage customer data and queries, HR workflows for aborting new employees, security, operations, risk and compliance.

9:37

This is a multi purpose platform to modernise and automate your workflows.

9:43

They started incorporating AI into their pro skews in 2018, long before it captured the mainstream.

9:50

Their most recent version with AI has been the fastest product launch in their history.

9:56

They describe AI as transformational, not just productivity and efficiency, but reshaping business processes.

10:03

One example, a typical clinical trial for a new drug development is 6.6 years on average.

10:10

What if you can shave months off that trial?

10:14

AI can automate paperwork, decipher streams of data and crunch the results.

10:19

NVIDIA provides the chips.

10:21

ServiceNow manages the work flows.

10:24

This new investment is already off to a strong start.

10:35

We have about 20% of the fund in weatherproof stocks, less economically sensitive stocks that have staple like characteristics and a track record of consistent delivery.

10:46

However, in a risk on tech dominated market, many of these stocks have lagged but there have been a few exceptions.

10:54

Costco is up almost 40% this year.

10:57

They have many competitors but no one can match their value.

11:01

It's the only retailer in the world that I know of that has a ceiling on markup, allegedly around 15%.

11:09

Most supermarkets are in the high 20s.

11:12

They have a number of lures to get customers into the store.

11:16

Some of the cheapest 4 quart gasoline in the country, cheap hot dogs and rotisserie chickens.

11:22

They sell 8 million chickens a week at Costco.

11:26

The consumer is looking for quality and value.

11:29

Investors are looking for consistent market share gainers.

11:32

Irrespective of the macro, Costco continues to do what it does best, consistently growing traffic at a mid single digit pace, increasing market share and sweating assets.

11:44

When consumers were flush with cash during the pandemic, Costco averaged 5% growth in traffic.

11:51

When the macro backdrop weakened in 2023, Costco continued to average 5% growth in traffic.

11:58

And so far in 2024, with consumer budgets stretched, deferring big ticket spending and trading down, Costco has grown its traffic at an average of 5%.

12:10

A picture of consistency, execution and nimbleness from one of the best retailers in the world.

12:16

We all love an underdog, but this is not the time.

12:20

Walmart shares are up 50% year to date and has become one of the largest holdings in the fund, even though we just bought it last year.

12:28

As part of our pivot to strong get stronger growth companies, they too are gaining market share and have the scale and flexibility to withstand highly seasonal consumer spending trends that tend to be concentrated around events like the 4th of July, back to school, Halloween, Thanksgiving and Christmas.

12:50

Walmart has the strength, scale and value offering to meet this stall speed growth.

12:56

They warded off the threat from ALDI, Little and Amazon with growing private label and e-commerce offerings.

13:04

They invested in logistics to improve efficiency on shelf availability and to reduce costs.

13:11

Lots of revenue drivers have been targeted from remodelling Walmart stores, launching a third party marketplace and targeting a consumer who is trading down from higher price rivals.

13:25

Peak operating margins used to be 6%.

13:28

Now they're four, and we believe they can get back there.

13:32

The valuation appears high at first blush, but that's because of the nascent lower profit contribution in India, Africa and jd.com.

13:42

Valuation on the core business is what many investors should look at under the radar Growth doesn't always mean companies you've never heard of.

13:52

This giant is starting to wake up.

13:55

We certainly make mistakes, but we can find companies that run up the down escalator, industry champions overlooked and under the radar opportunities for growth.

14:07

I've driven this fund to a #1 ranking over 20 years, top quartile over five and 1st quartile year to date.

14:16

But we couldn't have done it without your backing.

14:18

Thank you.