Rathbone Greenbank Global Sustainability Fund David Harrison - Fund Manager

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0:28
We saw strong absolute portfolio performance, particularly in the first six months of the year.

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Inflationary pressures, which have been a key concern across markets in 2023, showed further signs of easing.

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Global economic growth also remain robust with particular strength in the US.

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At the same time, the UK market showed signs of recovery.

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This backdrop was helpful for our equity market returns.

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We benefited from robust performance from a number of technology companies we hold in the fund.

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Companies exposed to investment in artificial intelligence such as NVIDIA were positive contributors and we believe we're still in the early innings of a structural growth trend.

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We also saw strong performance from a number of our healthcare companies.

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Healthcare is a sector we added to in 2023 as we viewed valuation too cheap for such attractive growth opportunities.

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Eli Lilly, which is one of the leaders in diabetes treatment has been one of the largest contributors to growth in 2024.

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AstraZeneca, the UK lifted pharmaceutical business has also performed very well.

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On the industrial side, Schneider Electric continued to benefit from ongoing investment spend on power grids.

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Badger Metre, which been one of our long term holdings exposed to water spending and Hidden Gem also saw strong performance.

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We want to invest in the infrastructure that is exposed to sustainable change and find it helpful to break it down into three key areas, physical infrastructure, digital infrastructure and well-being infrastructure.

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When you think about our portfolio, all the businesses we invest in will be linked to one of these 3 pillars.

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Physical infrastructure captures opportunities such as the energy transition and investment in water assets.

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Digital infrastructure is linked to our exposure in areas such as semiconductors, artificial intelligence and industrial digitalization.

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Well-being infrastructure focus on companies involved in diabetes care, oncology and the picks and shovels driving changes in medical treatment.

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By finding the best quality businesses exposed to each of these pillars, we believe investors will benefit over time.

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The portfolio remains exposed to a number of long term structural sustainability trends such as the energy transition, artificial intelligence growth and medical innovation.

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This positioning has remained consistent since the beginning of the year, but we have started to increase our exposure to more interest rate sensitive companies.

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A good example is our purchase of American Tower in the past several months.

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American Tower provides critical digital infrastructure through its ownership of cell towers in a number of regions.

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It is a well run and highly cash generated business that has a proven growth track record.

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The shares were hurt in a rising interest rate environment with valuation becoming extremely attractive.

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Our view is that the global interest rate cycle has peaked and a business such as American Tower will be a beneficiary in a looser monetary policy environment.

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We also gradually increased our exposure to several small and midcap companies we hold in the portfolio.

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In many cases, high quality franchises were penalised for not being a mega cap stock in the first half of 2024 and we saw some extremely attractive valuations appear.

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We believe that many of these hidden gems will also benefit from a lower interest rate environment.

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well-being infrastructure has been an area we've added exposure to in the past 12 months and we believe there are a number of compelling investment opportunities.

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Diabetes and obesity remain one of the most significant healthcare issues we will face the next 25 years.

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We're invested in Eli Lilly, which is a global leader in insulin products and GLP One treatments along with Nova Nordisk.

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We believe that the demand for GLP one drugs will remain significant in the long run and we're still only learning about the additional health benefits.

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So we think it remains a compelling area to invest in.

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In the oncology space, we're invested in AstraZeneca and Merck.

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Both companies have market leading cancer treatment portfolios with the opportunity further develop their effectiveness and impact in the years ahead.

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We're also invested in those companies that are the picks and shovels of the healthcare industry and help drive medical innovation.

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A good example is Thermo Fisher Scientific, which is a global leader in laboratory equipment and diagnostic technology.

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Thermo is spearheading the integration of artificial intelligence into its product portfolio, which should help drive significant benefits to its customers and uncover new forms of drug discovery and development.

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Whilst much has been written about the large concentration in markets such as the S&P 500, we think it's important to understand why some of these technology stocks have consistently grown so strongly.

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The situation is very different to the year 2000.

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Many of the larger technology companies are highly cash generative of a constructed significant moats around their business models.

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They're reinvesting cash to help fund research and development for future product growth.

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This flywheel is extremely positive for earnings and it's hard to displace.

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A good example is a business like Microsoft where sensible investment and ongoing innovation has allowed it to maintain its dominant market position whilst being a beneficiary of future trends such as artificial intelligence.

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We don't see artificial intelligence as a bubble and are already seeing significant real world applications across multiple industries.

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Critically though, we're the very early stages of the artificial intelligence investment cycle, so there will inevitably volatility.

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It's our job as investors to look through this and own the businesses most likely to flourish in the long run.

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In each of the three sustainable growth pillars of the fund, we see exciting investment opportunities.

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Within physical infrastructure, we think the energy transition will continue to accelerate.

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Investment in electricity grids, coupled with emerging technologies such as energy storage, will be positive for businesses such as Snyder Electric and Hannon Armstrong.

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In well-being infrastructure, it is hard to look past the opportunity to combat obesity and diabetes and the role businesses such as Eli Lilly will play in that.

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On the digital infrastructure side, the sheer scale of the artificial intelligence opportunity remains compelling.

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It will be closely watched, which could bring volatility.

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However, businesses such as NVIDIA or Cadence Design Systems are likely to remain critical cogs in its delivery and should be beneficiaries in the long run.