

## Rathbone Global Opportunities Fund

### Conference call update – 3 November 2008

**James Thomson:** I would like to provide you with an overview of how the fund is positioned. Very generally, I am keeping things simple; the companies are delivering, and for the first time in over a year, I have started to put cash back to work.

#### Current positioning

So where are we today? It's been the most extraordinary few months of my career; I have never witnessed such volatility and panic in equity markets. What I am hearing on a daily basis is just a phenomenal amount of rumour, speculation and market noise. One of the greatest challenges is distinguishing between company distress and investor distress; indeed, the greatest evil seems to be investor distress. Margin calls amongst hedge funds and other leveraged investors has been very high, and what I have learned over this period is the importance of spending time with my companies, talking about the health and longevity of their underlying investors and their companies. Indeed, over the last few months I have spent a lot of time talking directly with my companies - either on the phone or in person - and my confidence is increasing in specific areas. I will give you two examples of that: one major theme in the fund remains energy infrastructure, which represents about 22% of the total portfolio. By this I mean companies that design and build refineries, chemical and fertiliser plants, and power stations. These companies bring large oil developments on stream. The key for this theme is that growth in the industry will rely on capital spending from the large oil and gas companies, and the utilities and the infrastructure vehicles. We've received two very interesting data points over the last week from the largest customers in that industry. The first is Conoco-Phillips, the third largest integrated energy company in the US. Conoco just reiterated its intention to maintain a capital spending budget of \$15 billion in 2009.

We also heard from Exxon Mobil, the world's largest publicly-traded oil company, which underlined its commitment to \$125 billion of capital spending over the next five years. That gives me a significant level of comfort, coming from the customers themselves. Those companies which provide these design and building engineering vehicles haven't seen any cancellation of orders. My original investment thesis was predicated on this; these customers tend to make decisions to bring new facilities or new fields into existence based on very conservative long-term commodity price and rate of return assumptions, and that is coming through. Indeed, the share prices of these companies, which have been hit very hard from July through to the beginning of October, have started to roar back. I have started putting some of the cash allocation to work in these names, amongst existing holdings. The fund was running a 36% cash level at the beginning of the month, by far the largest cash holding in its history. I predict that number comes down to below 30% over the coming weeks as I add to more of these holdings, given their strong Q3 reports and confident outlooks.

Another specific area of operational strength amongst my investments, despite a weakening global economy, has been in the gambling sector. I have two strong plays in this space, both of which have been defying economic expectations. One is a company which provides gaming terminals and slot machines to land-based casinos. The casinos are struggling, but this company is consistently beating expectations; that is because it is taking market share off its rivals who are using old technology. This company still reiterated that it is going to grow its profits this year by more than 30% despite a very difficult economic environment. The other company I hold in this space provides online gambling software to the largest websites in Europe and Asia, and it has just completed a very significant and very elegant acquisition of an affiliated business. This company now looks set to secure more than 64% earnings growth this year, and

46% earnings growth in 2009, and yet trades on a P/E of 7x and a yield of 7.1%. This is also a name to which I have been adding.

Those are two interesting specific areas of optimism for me; let us talk about areas which I am very cautious on still and where I have minimal or zero exposure in the fund. The first is automotives. I have no exposure to this sector, although certainly last week I wish I had owned Volkswagen which briefly became the largest company in the world by market cap on a massive short squeeze. This industry is really struggling; pricing pressure and cost pressures are coming through, and the overall weakening consumer environment is poor. Another area is financials. I do not own any insurance companies; neither do I have any exposure to UK, US or Asian Banks. My exposure to financials is limited to some specialist financials and vehicles which invest in distressed assets, and are performing very well. Furthermore, I have no exposure to the real estate or property space, and I am very cautious on general retailers. I do hold two specialist retailers in the fund which seem to be bucking the trend, but in terms of general retail exposure in Europe, the US and Asia, we have no exposure. You might also remember that I don't own any companies listed in emerging markets (and do not intend to), and that is a decision I am very happy with, certainly over the last few months. Valuations have been hit very hard as foreign investors pull assets, and that's also led to a very sharp depreciation in currencies, so a double whammy for investors.

Where performance has been helped - and it's been a surprise - is the strength of the US Dollar; about 20% of the fund is invested in US Dollar-listed vehicles. Since July, the Dollar has appreciated by 20% against Sterling, and this has provided a fillip in what has been a very difficult environment.

### **Investment process and strategy**

In general, my investment mantra continues to be 'keep things simple'. This means investing in businesses that are easy to understand, where there is strong demand for the product/service and a good visibility of earnings. The latter is key at the moment - visibility looking forward into 2009; companies that are generating cashflow and have low levels of leverage, and little need for short-term financing.

Moreover, the strategy for the fund remains simple. I employ a long-only strategy; I do not use leverage, and I have no exposure to derivatives, so it is back to basics. I must also thank you for your support as my investors. The fund has not performed very well over the last six months, but I really believe that I will deliver for you over the longer term. Along those lines, I am pleased to say that the fund has not experienced any significant redemptions. I really appreciate that as a vote of confidence.

**James Thomson**  
**Investment Manager**

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