

Rathbone Global Opportunities Fund

Conference call report: 15 April 2010

Performance review

James Thomson: Year-to-date, the Rathbone Global Opportunities Fund has returned 11%; in 2009, over one year, it was up 43%, and over five years, which obviously captures both 'bull' and 'bear' markets, the fund has returned 11%. That puts it in the top quartile of its peer group in the IMA Global Growth sector.

I am pleased to report that the fund continues to attract net sales, and now stands shy of £83 million. Performance drivers in the first quarter were growth-orientated sectors and companies leveraged into the economic recovery.

Attribution by:

Sector: My top performing sector (in quarter 1 of 2010) was consumer goods, and that includes investments in sustainable palm oil; a clothing retailer (the only high street retailer that I own), and a Norwegian salmon farm company. Another top sector was consumer services, and that includes investments such as a surround sound technology company and two property web-sites, both of which advertise property for sale and for rent. Technology also made a strong contribution - companies that include an online gambling software business, and an outsourced IT software development company in India.

Negative contributors to performance were those defensive areas that underperformed a momentum-driven market. These included utilities and telecoms, to which I have zero exposure. I struggle to find sustainable growth companies in these areas. I can find revenue growth in the mobile telecoms space, for instance, but typically that's at the expense of margin.

My cash position has also been a drag in a rising market. By the end of the quarter, I held about 14% in cash, as I took profits and pared back holdings that had exceeded the 4% limit. I also sold two US engineering companies where large infrastructure projects are just not materialising. Quite simply, significant capex on energy infrastructure in developed markets is just not being approved, so I sold the investments.

Geography: the US and UK were the star contributors. US equities outperformed, largely on the back of a strong US Dollar, particularly against Sterling. Some 27% of the fund is exposed to US equities, which is actually underweight versus the FTSE World (£). So on a relative basis, it was actually a drag on performance.

My UK investments, as I've said many times before, pay little reference to the UK economy, save for two companies. One is a high street clothing retailer, which I view as one of the best business models in the retail industry, and also a property website whose shares are up about 130% over the past year. There were no negative country contributors during the quarter. But just to reassure you, I have zero exposure to Greece, Portugal, Spain, Italy and Japan, all which are struggling.

Market cap: About 50% of the fund is in small and mid caps - companies that range from £100 million up to several billion pounds. Unsurprisingly, it was the smaller growth contingent that made the greatest contribution to performance. My market cap split has remained broadly stable, with 17% in small cap;

35% in mid cap; 34% in large cap, and the balance in cash. The underlying liquidity of these holdings is very good, and our proprietary analysis shows that I could liquidate 90% of the portfolio in two days, and 99% of the portfolio in ten days. Despite its exposure to small cap holdings, it therefore remains very liquid portfolio.

Stock selection: Let's turn to companies. As a stock-picker, this is what really drives my portfolio construction. The top contributor this quarter was a US company called *Dolby*, a name that you will be familiar with. The shares were up 23%. This is a surround-sound technology company and, increasingly, its technology is being embedded in all sorts of consumer electronic devices, from high definition televisions to MP3 players. Dolby is also being shipped with most versions of Microsoft's Windows 7. The company reported superb first quarter results, with sales up 23% and earnings that beat expectations. The full-year numbers for Dolby just keep going up, as consumers demand better quality entertainment, including the emergence of 3D movies. If you watched Avatar in the cinema, you most probably listened to it on surround-sound from Dolby 3D.

Another top holding was *New Britain Palm Oil* (NBPO), which I've owned for a few years. This is the first company to be accredited as a sustainable and traceable palm oil plantation owner. Palm oil is a key ingredient in thousands of products, from chocolate bars to soap. Any product label that reads vegetable oil typically means palm oil has gone into its production. This company operates in Papua New Guinea, New Britain, and in the Solomon Islands. I'm not a green investor, but I follow what consumers are demanding and they're demanding sustainable production in their products that doesn't harm the local wildlife. NBPO is able to provide this palm oil at a premium to the price of regular palm oil. The shares were up 35% in the first quarter.

Themes

So now let me turn to some of the themes in the fund - areas that are working; areas that are not, and what I've been buying over the last few months. Companies exposed to emerging market commodities are definitely working. I own a few companies, listed in Singapore, which source and supply commodities. I own an energy infrastructure company, exposed to projects in the Middle East. Whilst the developed countries are not spending large amounts of capex on infrastructure projects, the Middle East and developing world continues to do so.

My exposure to property websites is also doing well. I own two companies in this space - one in the UK and one in France, both of which advertise properties for sale and for rent, and have incredible pricing power. Another theme that's working for the fund is the use of debit cards. Generally, consumers are reining-in their spending habits, particularly using credit cards. They're trying to live within their means and are spending more on debit cards. There were some very good data out of the US, showing that debit card volumes are increasing significantly. I own a company in that space.

Developed market energy projects are not working, and I've sold the two companies I have in that space. Disruptive technologies - anything 'whizz-bang' and new - just aren't flying at the moment. Companies just lack the confidence to invest in this area. Areas that are vulnerable to over-capacity, or are suffering from over-capacity, are also non-starters. These include the shipping and tanker industry, where there is simply too much capacity and pressure on day rates.

Portfolio activity

I'm pleased with the performance of the fund and how it's positioned. I've got some very exciting, undiscovered companies, and I've got some cash as fire-power if the market pulls back or opportunities emerge.

I've been buying some companies in the financial space. I own no retail or commercial banks, but I have been buying merger and acquisition advisory businesses. I've been buying a software company; a Chinese beer company; a Chinese company which has a tree plantation (importantly, both are listed outside of China); a Swedish smokeless tobacco company and a Norwegian fish-farming business. On the latter, fish-farming is largely about salmon. There are four major salmon-producing regions in the world - Canada, Scotland, Norway and Chile. Chile has had a major disease problem within their fish population over the last two years, which has forced them to cull the entire population. Chile represents about 25% of the world's farmed salmon production, and as of April, it's now shipping zero. Consequently, salmon prices are moving up very sharply, and I have two companies which benefit from this rise.

I'm increasingly finding interesting investments that really provide some weather-proofing for the portfolio - shares that should respond well if the market pulls back, within more predictable sectors. An example is the largest provider of funeral-related services in the UK, consolidating a fragmented industry. This is, obviously, a defensive area of the market, but the company has pricing power. I own an animal medicine company that sells throughout the world. I continue to dislike pharmaceuticals, but I'm interested in this company, because there's much lower clinical risk involved versus developing drugs for humans. Generally speaking, the drugs given to animals tend to be reformulated versions of existing human medication. Furthermore, most animal-owners would rather stop popping their own pills before they take away the flea medication for their dog - so a sustainable and predictable business. Indeed, this company's first quarter sales figures were up 25%.

I've been buying a smokeless tobacco company, which is primarily involved in chewing tobacco and a product called 'Snus', which is extremely popular in Scandinavia. I've also been buying a US software company that administers assets that go into bankruptcy - a counter-cyclical business, albeit slightly sombre.

I believe these companies should provide an insurance policy for the fund, and help mitigate any volatility going forward.

I'd like to thank you for your continued support...

James Thomson
Investment Manager

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