

## Rathbone Global Opportunities Fund

### Conference call report: 8 September 2009

**James Thomson:** It is a lovely sunny day here in London. Spirits are running high, and we have certainly seen a major improvement in investor sentiment and company performance over the last few months. I am going to review the performance in 2009; look at the drivers of that performance; discuss more recent changes to some of the fund and, finally, offer a brief outlook.

#### Performance

Reviewing the performance in 2009, the Rathbone Global Opportunities Fund is up 25% year-to-date. Our benchmark index (FTSE World (£)) is up just 6%. The fund has also been taking in healthy new money and is approaching £70 million in size. What have been the drivers of performance in 2009? Broadly speaking, they are mid-cap, growth-oriented businesses in cyclical sectors, and very often in controversial areas where competitors in those sectors are struggling and my holdings are benefiting as a result. The fund has also benefited from the decision to invest in several new holdings in January of this year, when I reduced the cash position from 36% to 13%.

**Positive contributors:** The top contributor by sector was Basic Materials, driven by two investments listed in Singapore. These companies source raw materials and commodities - everything from sugar to iron ore - and they are both excellent proxies and precursors for emerging market growth. The largest holding in the fund is Singapore-listed *Noble Group*. Again, it sources and supplies raw materials and commodities, and has just reported volumes up 19% in the first half of 2009. This reflects the rapid restocking infrastructure and economic growth in China and other emerging economies. Noble Group shares are up 130% this year and are cheap on a price/earnings ratio of nine times.

Consumer Services was another area of outperformance, and covers everything from media to gambling companies, and internet-based business models. I have one investment in clothing retail, *Primark*, which is a part of Associated British Foods. One example of a company in the Consumer Services space that is doing all the right things is UK website *Rightmove*, which advertises property for sale or rent, primarily in the UK. Rightmove has an 80% market share and is highly profitable. Transactions are now increasing in the property market owing to the increased availability of mortgage finance and a view that prices are bumping along the bottom. Rightmove is really one of the very few successful business models on the internet. Its shares have trebled this year. The multiple looks high, but I think the earnings estimates are far too conservative, making it exactly the sort of undiscovered company for which I look.

Another sector that has done well is Oil and Gas. I have very little exposure to oil and gas producers because I am concerned about declining reserves and exposure to risky, high impact exploration companies. However, I do like engineering companies that help bring existing oilfields into production. One of the largest holdings in the fund is engineering and construction firm, *Petrofac*. Capital spending on oil and gas projects plummeted in 2008 and 2009, but this company was awarded almost \$6 billion of new projects in the first half of 2009. Its profits are up 20%, and the shares are up almost 170%. Petrofac has been the top contributor to my performance this year – its management executes flawlessly, and I expect it to become a core holding. I have trimmed the size of this investment recently. The shares looked like they had risen too far, too fast, but they are, by no means, grossly overpriced.

**Negative contributors:** Fortunately, there haven't been many, but this certainly isn't a time for complacency. Consequently, I have sold the majority of the underperforming investments, sticking to my mantra, 'run the winners, cut the losers'.

### **Portfolio positioning**

**Changes to the portfolio:** Over recent months, I have trimmed three holdings - two of those were taking profits, and one in reaction to a surprise profits warning. I have exited two holdings because I believe those businesses are growth-constrained. I have added to five existing holdings and have introduced four new ones – so a broad spread of interesting investments from around the world. Is there a common thread to these new holdings? Well, they are all bucking the trend and can grow in a variety of economic scenarios. I bought a Swedish tobacco company, one of the leaders in the growing snuff and chewing tobacco segment. I bought a life insurance company in Hong Kong which reported a 67% growth in premiums in the first five months of the year. I bought an Australian oil and gas company, and a UK-listed company that operates funeral homes and crematoria; a very highly profitable business within a fragmented industry with great pricing power. Bizarrely, it also reports very high levels of customer satisfaction which I find difficult to understand....

**Weights:** Broadly speaking, the portfolio is overweight growth and underweight defensives. It's overweight areas of the market such as Industrials, Basic Materials, Consumer Goods and Consumer Services. It's underweight Healthcare, Utilities, Telecoms, and Oil and Gas, and broadly neutral in Technology. I am still very underweight financials, and frankly that's a sector that really looks like a special situation or a recovery play. There are a lot of excellent fund managers out there who can invest in those sorts of special situations - I'm just not one of them. It's not my area of expertise, and it isn't a part of this mandate. I still have a high cash weighting of 18%, which will be deployed on a case-by-case basis over the coming months, but this has not been a drag on performance and actually gives me some firepower if the market has a correction.

**Geographic allocation:** There have been no material changes. I have investments in the US, France, Singapore, Hong Kong, Canada, UK, Sweden, Germany, Norway, Australia and Greece. I have no direct investments in the emerging markets, and directionally speaking, global equity markets are fairly synchronised. The major impact this year has been from strengthening risk currencies such as Sterling, which has actually reduced the performance of the benchmark index.

**Market capitalisation:** I hold 13% in smaller companies; 37% in medium sized companies, and 32% in large companies with the balance in cash, and that equates to an average market capitalisation of \$2.8 billion. So, a bias towards the smaller end of the market. There are 41 holdings in the fund.

### **Outlook**

In the last few months, companies moved from a position of stability and turned to some modest growth. Most of my investments have reported positive earning surprises, and there have also been some modest upgrades to forecasts. All these companies have cut costs and are leaner, so any further improvement in the economy should lead to significant earnings upgrades. At this juncture, I feel positive, although there could be many bumps on the road ahead. However, the portfolio is very well positioned, and I expect continued outperformance. Many thanks for your support.

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

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