



RATHBONE UNIT TRUST MANAGEMENT  
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

# RATHBONE GLOBAL OPPORTUNITIES FUND

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INVESTMENT PRINCIPLES & PROCESS

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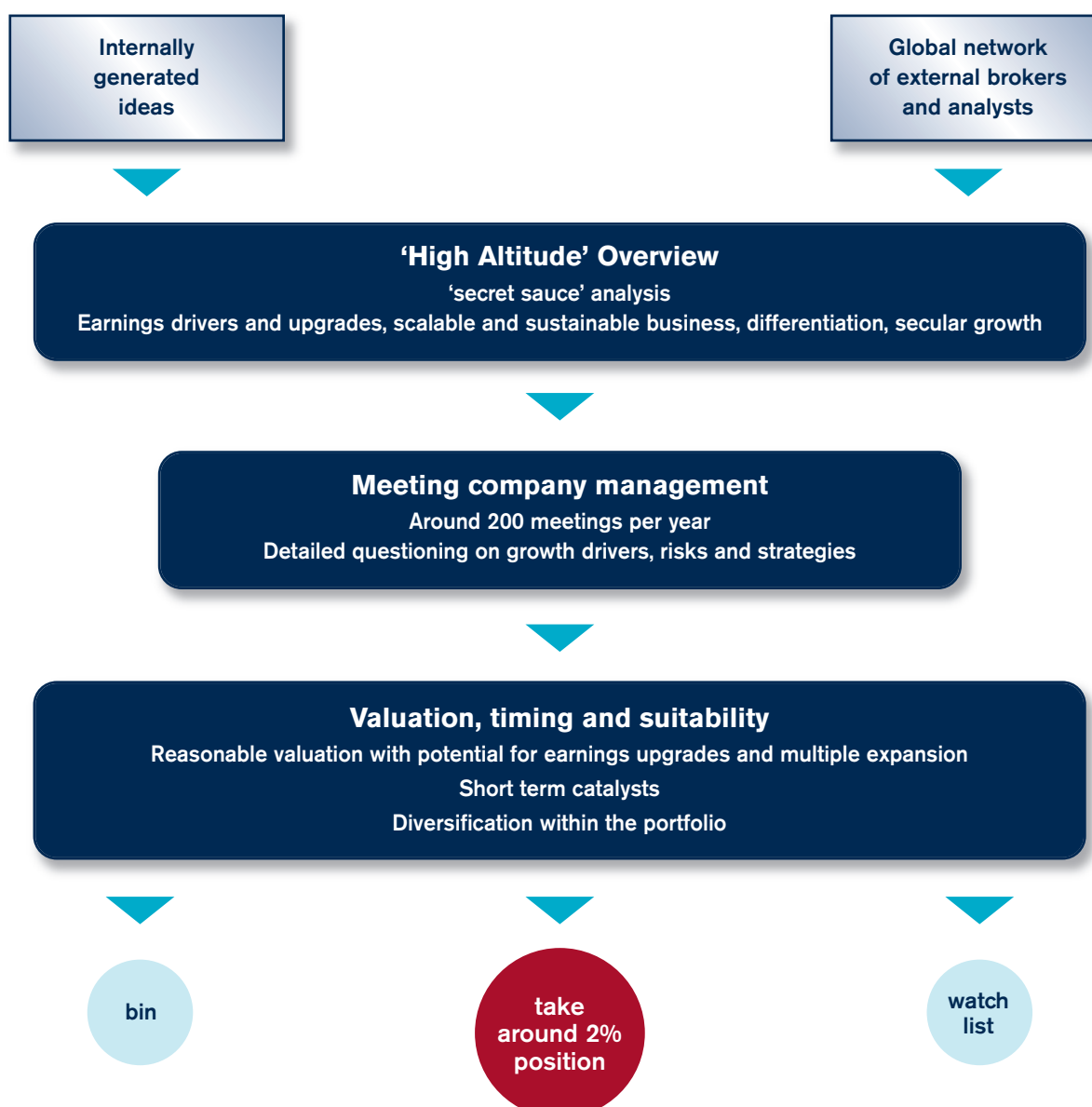
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## INVESTMENT PROCESS

### Overview

The Rathbone Global Opportunities Fund is a high conviction, stock picking fund which invests in undiscovered and under-the-radar growth companies – companies with star quality that are unrecognised by the market. The mandate is flexible and unconstrained in terms of company size, sector and geographic location. The fund is managed via a bottom-up process, but with regard to broader macro influences. Typically the fund will have 40-60 holdings, and the top ten holdings will usually make up more than 20% of the portfolio. We believe that this level of flexibility plus a responsible approach to risk means this aggressively managed fund is nimble enough to exploit market inefficiencies and achieve higher returns for investors.

### Process chart



## INVESTMENT PROCESS (CONTINUED)

### Idea generation

Ideas for the fund are predominantly generated internally as a result of the lead manager's ten years' experience in the industry and 1200+ company meetings over the course of his career. Support is also given by a global network of around forty external brokers and sell-side analysts. We do not use quantitative screening techniques to identify new ideas in this portfolio.

#### Step one: *High altitude overview*

We conduct a high level fundamental analysis of the company, using the 'secret sauce' framework, which is more qualitative than quantitative. This helps us to discount many ideas at an early stage. For more on the 'secret sauce' analysis, please refer to our Investment Philosophy.

#### Step two: *Meeting management*

Quality of the management team is a vital part of our analysis so we do our best to meet senior management from each company before making an initial investment. We conduct around 200 meetings a year, and the best companies that we see will become a part of the fund. We ask detailed questions on growth drivers and strategies, and the risks and problems the company faces. These meetings will continue on a regular basis while the investment is held.

#### Step three: *Valuation, timing and suitability*

Valuation is a key determinant in assessing the risk profile of an investment, as excessive valuation indicates that the investment has already been widely-flagged and is unsuitable for inclusion in the fund. Nonetheless we try not to get too bogged down with valuation as this can often be misleading for growth companies. We look for a reasonable valuation combined with earnings upgrades and the possibility for multiple expansion.

We target long-term scalable and sustainable investments but will identify short-term catalysts for share price outperformance, for example, earnings upgrades, customer wins, positive news flow.

Although the fund is not benchmark constrained, we do consider the portfolio as a whole when deciding on stocks for inclusion. We account for portfolio diversification in terms of sector, size and country.

If the investment is deemed suitable for the fund, we will take an initial position of approximately 2%. This could be larger or smaller, depending on the risk profile of the company. Many companies will end up on our 'watch list' and will be monitored for potential inclusion at a later date when we have higher conviction on the story.

### The sell discipline

Changes in the company's business model, competitive positioning, management, supply/demand dynamics, regulation, or deteriorating fundamentals might all trigger a sell signal. Extreme valuation, either way, would also be a warning sign.

We also believe that markets give fairly strong hints about stocks; if catalysts for outperformance are unidentifiable following absolute share price declines, the investment will be exited. We run the winners and cut the losers.

We operate on the maxim "if in doubt, sell out."

## INVESTMENT PHILOSOPHY

Our investment philosophy is split into qualities that we like to see in companies, and characteristics that we would actively look to avoid.

### What we like:

- Easy to understand businesses
- Scalable and sustainable growth
- Barriers to entry
- Entrepreneurial, prudent, flexible management
- Able to control their own destiny
- Differentiated product
- Under-promise and over-deliver
- Gentle innovation
- Catalysts for the share price – contract wins, earnings upgrades, positive newsflow.

### What we avoid:

- Traumatized, turnaround, restructuring or special situations stories
- Vulnerable leaders
- Disruptive or unconventional technology
- High impact binary events
- Success based on factors out of their control
- Areas vulnerable to over capacity, or structural headwinds
- Early stage, equity capital intensive businesses
- Highly indebted, cyclical companies.

An investment does not have to meet all of the criteria – it is a framework for assessing the investment, not a recipe.

The information contained in this document is for use by investment advisers only and must not be circulated to private clients or to the general public.

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## Rathbone Unit Trust Management Limited

1 Curzon Street, London W1J 5FB

Information line: 020 7399 0399

Telephone: 020 7399 0000 | Facsimile: 020 7399 0057

[rutm@rathbones.com](mailto:rutm@rathbones.com) | [www.rutm.com](http://www.rutm.com)

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