

SHINING A LIGHT ON..... RATHBONE GLOBAL OPPORTUNITIES FUND

At a glance

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy can work but the reverse is also true with investors being disappointed because they haven't fully understood the strategy.

We recently reviewed the Baillie Gifford Global Discovery Fund which looks to invest globally in companies which the manager believes will be the large cap businesses of the future. The performance over the last five years has been strong but with the focus on technology and healthcare the volatility is greater and for this reason the fund may not appeal to all investors.

As an alternative we recently listened to an update from the manager of the Rathbone Global Opportunities Fund which has delivered a strong performance, offers a point of difference and more importantly we feel would potentially be less volatile.

We feel it may appeal to investors looking at a more 'cautious' approach to global investing but without compromising performance against the benchmark

Who are the team behind the fund?

The manager of the fund is James Thomson, there are a plethora of awards for his management and he is well respected in the industry. He has been involved with the fund since its launch in 2001 and assumed day-to-day management in 2005.

This is not a one man show and the co-manager is Alexandra Jackson. She joined Rathbones in 2007, and should in theory provide stability to the fund should James leave.

Fund highlights?

Most global funds have a bias to the US because this is the world's largest global economy (currently), this fund has a heavy bias with 61% allocated to the US. The weighting to Europe is 15% and UK 11%.

There is a danger for investors also holding US Funds that there could be a duplication of holdings.

The fund has no direct exposure to emerging markets because James believes that emerging economies will be weak for some time; and no exposure to Japan (simply because he has no experience in this region).

All of this will enable investors to compare against other funds in the global sector. In the update the key point of difference that the manager was keen to highlight was that he is searching out under the radar companies and companies which would not normally appear in other global funds.

These are businesses which are shaking up their industry, they have high barriers to entry, and they are growing quickly and are easy to understand.

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Couple of examples we discussed were Facebook where he believes they have proven they can make money from mobile technology with relevant adverts appearing in the news feed. Speaking to some of the larger brands in the US they have admitted that there spend on digital marketing and social media will increase and Facebook will benefit from this.

Although you wouldn't necessarily see Facebook in many global funds you probably would see it in a US Fund so this is an example of a crossover of holdings.

Another example which appears to be more under the radar is Mastec who are specialist contractors in infrastructure. They supply pipelines to the Shale Gas, Oil and Liquid industry and have grown on average by 85% p.a. over the last five years. They expect a further \$250 billion to be invested in pipelines over the next 25 years and therefore the manager believes there is more to come from the stock. The company is also involved with Mobile Infrastructure – mobile data traffic is growing fast and it is expected to benefit from this.

We discussed the sell strategy and he is very disciplined in his approach, selling when the fundamental's worsen. An example would be Kansas City Southern a railway network which appears in a number of US funds. There is a potential threat to the business from Mexico and for this reason they have sold the holding. This cautious disciplined approach does mean that sometimes they might get it wrong but it removes risk to the portfolio should they hold and wait.

The fund appears to have a large cap bias however the manager was quick to explain that although 64% is in this area the majority are on the edge of large cap and therefore he views the fund as more mid cap.

The fund is stated as concentrated and high conviction. For a global fund, the holdings of around 56 is about right however our feeling on conviction is that investors would expect to see heavier weightings to a number of stocks. In reality the top ten holdings are between 2% and 3% of the fund.

We are therefore less convinced on the high conviction statement although this approach does provide protection should one of the holdings underperform and therefore reflects the more cautious discipline.

Unlike some of the other global funds we have seen this has a lower weighting to technology and heavier weighting to consumer services, consumer goods and industries. James' favoured area is Shale Gas and again investors may be able to get better exposure via more specialist US Funds if they want this.

In summary as a global fund looking for under the radar businesses this fund will offer a point of difference against other global funds. We believe the spread of holdings, and not heavily favouring one stock over another, reduces volatility for investors which is positive but the trade-off is performance. Performance is strong against the benchmark but other funds have outperformed it. However, they are more punchy and may not suit every investor so this could act as a good compromise. One concern would be where investors hold US Funds because there could a crossover in holdings but you could find this with any global fund.

An alternative option we will review is the Threadneedle Global Equity Income Fund which is more large cap focused, has less of a focus on the US and more of a global spread of assets. Performance is similar and this may appeal to those worried about a bias to the US.

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Fund performance

Performance for the past five years vs DB X-Trackers FTSE All World Ex UK, Baillie Gifford Global Discovery Fund, Threadneedle Global Equity Income Fund and Scottish Mortgage is shown below:

	2009	2010	2011	2012	2013	2014
Rathbone Global Opportunities Fund	38.05%	26.59%	-4.67%	9.52%	26.09%	-3.82%
Threadneedle Global Equity Income Fund	19.06%	23.55%	-3.90%	10.50%	21.58%	-0.41%
Baillie Gifford Global Discovery Fund	48.00%	26.67%	-13.24%	18.91%	55.76%	-7.07%
Scottish Mortgage	52.87%	33.90%	-15.15%	30.05%	39.80%	-7.68%
DB X-Trackers FTSE All World Ex UK	22.37%	16.83%	-8.33%	9.75%	20.98%	-0.14%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

In the global sector this fund is different in its approach of searching out under the radar companies. It has clearly demonstrated its ability to outperform the benchmark and provide some downside protection especially against more punchy funds. It has less exposure to technology and is more focused around consumer services. One point to consider is its heavy weighting to the US which means investors have a crossover of holdings if they are holding US funds.

The source of information in this note has been provided by Rathbones and is correct as at May 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.