R&S UK Equity Opportunities Fund

Q4 2023 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Fund Performance (B Class)	6.8%	6.7%	10.1%	2.0%	24.5%	54.3%
FTSE All Share TR GBP	3.2%	5.2%	7.9%	28.1%	37.7%	68.2%
IA UK All Companies	4.5%	5.4%	7.4%	14.2%	31.1%	55.5%
Sector Quartile	1	2	1	4	4	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.

MARKET REVIEW

The UK and US stock market both performed well in the fourth quarter largely due to expectations that central banks around the world have begun to get inflation under control. Consequently, there is an expectation that interest rates have peaked and will be cut over the course of 2024. The conflict in Ukraine continued and shows no sign of being resolved. The Federal Reserve unanimously voted to hold the federal funds rate at its latest meeting, which is now at 5.25%-5.5%. Interestingly, the Federal Reserve chair Jay Powell was dovish in his outlook and signalled that interest rate cuts in 2024 were possible due to inflation being brought back down. The Bank of England voted to hold interest rates at 5.25% at its December meeting, with six members voting to hold rates and three members voting to increase rates. All of the UK indices were in positive territory in the quarter. Elsewhere, the oil price decreased to below $80 over the period, largely due to demand fears. The European Central Bank (ECB) held interest rates at 4.0%. The President of the ECB, Christine Lagarde tried to push back against calls for rate cuts and policymakers seem determined to keep interest rates at sufficiently restrictive levels until there is more evidence of inflation being contained.

PERFORMANCE & ACTIVITY

Against a volatile backdrop, the Fund was in positive territory during the quarter. Stock returns across the market continued to be dominated by macroeconomic and geopolitical considerations which have created a great deal of uncertainty for short-term corporate earnings but also some exciting valuations for companies with strong and growing market positions. These include innovative businesses with leading technology, products or operations that are hard to replicate, thereby providing strong economic moats. Fund outperformance was aided by overweight positions in the Travel & Leisure and Industrial Support Services sectors, underweight positions in Personal Care, Drug & Grocery Stores and having zero exposure to Oil, Gas & Coal. Overweight positions in Retailers and Healthcare Providers, and underweight positions in Closed End Investments and Aerospace & Defence impacted performance. At a stock level, Wise (Technology), On the Beach (Leisure), Global Data (Media) and Hotel Chocolat (Consumer Discretionary) were among the biggest contributors to performance. Hotel Chocolat and Smart Metering Systems were subject to bids during the period. Detractors included St James's Place (Financials), Sosandar (Apparel Retailer), 4imprint (Media) and Marlowe (Industrial Services). Fund activity included introducing positions in Rightmove, the UK's number one property portal, and Alpha Group, a provider of financial solutions dedicated to corporates and institutions operating internationally. We also increased our positions in SSP (Financials), Liontrust (Financials), JTC (professional business services) and Mattioli Woods (Financials). We sold out of GSK (Pharmaceuticals) and Hotel Chocolat and took profits in Ashtead (Industrials), AstraZeneca (Pharmaceuticals), Next (Consumer Discretionary), RELX (Technology), Wise, Legal & General (Financials), 4imprint (Communications) and Auto Trader (Consumer Discretionary).

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OUTLOOK

The prolonged conflict in Ukraine shows no sign of abating and will likely continue to have adverse economic impacts. Israel's military campaign in Gaza also shows no sign of coming to an end and its potential expansion into a wider regional conflict could lead to repercussions around the world. There have already been increased attacks on commercial vessels in the Red Sea and the situation could have a negative impact on global trade via increased supply chain disruption and an increase in the oil price, which could then have negative implications for inflation. China's economic recovery since ending its zero-Covid policy has been sluggish, and an important question will be whether authorities opt to go beyond targeted stimulus measures to revitalise the economy, with reverberations likely to be felt around the world. US-China relations have somewhat thawed although presidential elections in Taiwan in January could reignite tensions. Furthermore, the US and some European countries have attempted to de-risk their relationship with China, in an attempt to limit corporate and economic exposure. Meanwhile, relations between the UK and EU have improved under Prime Minister Rishi Sunak which should bode well for future co-operation.

Cost of living pressures have shown some signs of abating, but high inflation and high interest rates could see many homeowners having to refinance their mortgages at much higher rates, which could have negative implications for consumer spending. Whether the UK can boost its economic growth rate will be important amid the shadow of a general election which is likely to be held at some point in 2024. European economic activity is likely to remain impacted by its proximity to the conflict in Ukraine. The European Central Bank, Federal Reserve and Bank of England all held interest rates at their most recent meeting. The Federal Reserve was more dovish regarding potential interest rate cuts in 2024 while both the ECB and Bank of England were more cautious in their outlook. Arguably the biggest questions regarding monetary policy are around the timing and pace of interest rate cuts, and both the timing and the pace will have a large impact on investor sentiment. Artificial intelligence is increasingly at the forefront of investor's minds, and winners and losers will result from its disruptive impact. While some political and economic risks lie ahead, as ever, we remain focused on finding new opportunities in companies that meet our strict criteria of strong earnings growth, high margins and strong cash flows.

PERFORMANCE DISCRETE	12 Months to 31/12/2019	12 Months to 31/12/2020	12 Months to 31/12/2021	12 Months to 31/12/2022	12 Months to 31/12/2023
Fund Performance (B Class)	28.0%	-4.7%	22.5%	-24.4%	10.1%
FTSE All Share TR GBP	19.2%	-9.8%	18.3%	0.3%	7.9%
IA UK All Companies	22.4%	-6.2%	17.1%	-9.2%	7.4%
Sector Quartile	1	2	1	4	1

Past performance is not necessarily a guide to future returns.

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