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[INTRODUCTION]
Sam Slator (SS): I'm Sam Slator from FundCalibre and today I've been joined by James Thomson, manager of Rathbone Global Opportunities fund. Hi James.

James Thomson (JT): Hi Sam.

[INTERVIEW]
[0:11]

SS: So, growth strategies have struggled a little bit this year as economies have reopened. How has your fund fared and do you think next year will be a struggle too?

JT: Yes, it has been a roller coaster, and I think that will continue. I mean, let's first define what I mean by growth investing. I mean, to me, growth stocks deliver higher top-line revenue growth, but it's resilient and not very sensitive to changes in economic growth. Often these businesses have high levels of recurring revenue, long term repeatable subscription-like cash flows housed within an asset like shell where the intrinsic value of the business is built on high confidence in decades of sustainable growth: classic long duration assets. Growth investing does well when widespread reliable economic growth is hard to find. 20 years ago, almost half of the S&P 500 was growing their revenues consistently more than 15% a year. Today, only 70 companies out of 500 are doing that.

But starting with the discovery of the vaccine in November of last year, the tables turned. The vaccine triggered a change in investor sentiment. We went from stuttering Covid growth to visions of widespread booming reflationary growth. And in that world value, recovery and any stock that suffered a near-death experience was shocked back to life. My fund struggled in that world. In November of last year, the average in the global sector was up 9% and I was up just 5%. Now that's

just a month, so I wasn't flooded with letters of complaint, but envy and paranoia are common personality traits in my profession. Fast forward a year and visions of sugar plum fairies and reflationary Nirvana have faded. My fund is up over 20% in the past year, but it's been the sort of bull market that gives you grey hair. The waves of Covid, the supply chain disruptions, the booming employment picture, the $2 trillion of excess savings, and the hit from inflation and rising rates are all blending and bumping up against each other.

The rollercoaster will continue next year, but I don't think you need to get off the ride. This is an environment that calls out for balance, a blend of reopening and pandemic winners, pro-cyclical and defensive, growth and value, reflation and resilience. It's not the time for one-way bets. And just because we've reached peak growth doesn't mean that recession is imminent. We think that economic growth, household savings, employment and the confidence of companies to invest, is durable enough to keep us on the rise, but your stock picking has to be good in order to generate outperformance.

[3:25]

SS: And talking about stock picking, your normal sweet spot is in mid-caps, but I notice you've got almost 90% of the fund in large caps today. Why is that?

JT: Well, this fund invests in under-the-radar and out-of-favour growth companies, high quality, resilient, sustainable, long duration, growth assets. We're not interested in turnarounds or recovery or special situations. Really, we really want unblemished growth businesses.

Yes. I still believe that mid-cap companies with market caps between 1 and 10 billion pounds are our sweet spot. And yes, we have 90% in large caps, but many of those companies entered the fund when they were mid-caps. The fund is up a 1,000% since I started managing it, 145% in the past five years, many of those holdings were bought as mid-caps, but have now grown up and we don't sell them just because they've done well. We run our winners because we believe the strong often gets stronger.

[4:33]

SS: You also have a preference for US and European companies. The allocation at the moment to the UK is very low and you've got nothing in Japan or developed Asia. Are there simply not any good growth opportunities in these areas?

JT: Well, this is a developed markets fund with most of its exposure in the US, about two thirds of the fund, 25% in Europe and 5% in the UK. And you're right, nothing in Japan or developed Asia or emerging markets. I'm largely admitting defeat here. I think I don't have the skills to do it properly. And I think you're better off going to a dedicated emerging markets or Japanese fund manager who has real expertise in the region. There are many opportunities in those areas. I'm just not the right person to reliably find them for you.

I believe if you stick to areas that, you know, you can drive significant outperformance without some of the crippling mistakes by venturing into areas you have no business investing. Our key exposure is to the US, about two thirds of the fund, because that's where the growth is. US companies are growing profits more than four times faster than the rest of the developed world. And I think many of those advantages are permanent.

[5:52]

SS: Looking at your top 10, there seems to have been a bit of movement over the last couple of months. You've maybe been taking some profits from some of your big winners of the past few years?

JT: Yes. The top 10 does look a bit different from a year ago. We've seen such concentrated performance from some stocks that it does cause changes in the top 10. We've held some of those stocks for many years, but they've just muscled their way into the top 10. Businesses like Microsoft, which is obviously at the epicentre of the digital transformation and a 'mission critical' software partner for small and large businesses. Alphabet, owner of Google and YouTube, the king of search, the market leader for online advertising spend, and my daughter's favourite venue for videos about how to make slime, squishies or play pranks on her parents.

We have Costco, which is one of the best retailers in the world. Unique in that it deliberately tries to have a limited number of skews only about 4,000 compared to millions that you could find at Amazon, another one of my top 10 holdings. But I love them equally for different reasons. With limited assortment, you can get huge scale buying benefits and the simplicity of logistics and distribution. It's also the only company I've ever heard of that has a maximum mark-up, reportedly

around 15%. So I think in a world of rapid consumer goods inflation, this will stand up even taller as the best value and quality on the market.

And then finally SVB group, which stands for Silicon Valley Bank. This is a new investment in the past year, and one that has already rocketed into the top 10. We haven't bought a bank for five years, but this is a little beauty. Gatekeeper to the innovation economy, banker to the next generation of technology companies, a fortress-like Rolodex of movers and shakers in Silicon Valley. That is the envy of every banker in the United States.

Other holdings that have been in there for over a year include chipmaker Nvidia; e-commerce and cloud giant, Amazon; creative software company, Adobe; and the maker of QuickBooks for small businesses, Intuit. American companies dominate my top 10. US stocks have been outperforming for many years, and I think that continues.

[8:29]

SS: And you've had one other that caught our eye, it was the Sartorius Stedim Biotech. What's that all about?

JT: Well Sartorius is a German medical equipment company. Filtration, fermenters, fluid management, bio-reactors and their equipment is used in the manufacturing of drugs and other pharmaceutical products. This is especially relevant as the industry is moving away from producing millions of little pills to more targeted biologic drugs. Really the next generation of personalised medicine.

So traditionally big pharma would spend hundreds of millions of dollars developing large scale reusable stainless steel manufacturing facilities. Often years ahead of a risky drug approval. Sartorius brings single use technology that's scalable and much less capital intensive. Less risk of contamination, smaller footprint, quicker changeover between products and the flexibility to react to changing demand based on accessibility and competition. This technology is perfectly suited to producing Covid-19 vaccines. Sartorious reportedly works with over 80% of the Covid-19 venue, vaccine manufacturers. In fact, I think it's pretty safe to say that we wouldn't have a vaccine produced so quickly without Sartorious.

You can implement and validate much faster than traditional facilities. With large scale manufacturing reached in less than 12 months, and then react quickly as demand changes. Once Sartorius is embedded in the drug master file that gets approved by the FDA you're very difficult to displace. But this company has become a key partner in the fight against Covid, but it's playing a larger and more diversified role in the changing model of medicine. It does not [inaudible] the pandemic, although it may trade like that in the short term. We’re still so early in the conversion to single use technology. Only 30% of global manufacturers are using it and 50% of the pipeline of new drugs coming to the market are biologics - best suited to this technology. I think this is a pandemic winner becoming a permanent one.

SS: That was really interesting and honest. Thank you very much.

JT: Thank you, Sam, pleasure.

SS: And if you'd like to find out more about the Rathbone Global Opportunities fund, please go to fundcalibre.com and of course, don't forget to subscribe to the Investing on the go podcast.