RATHBONES

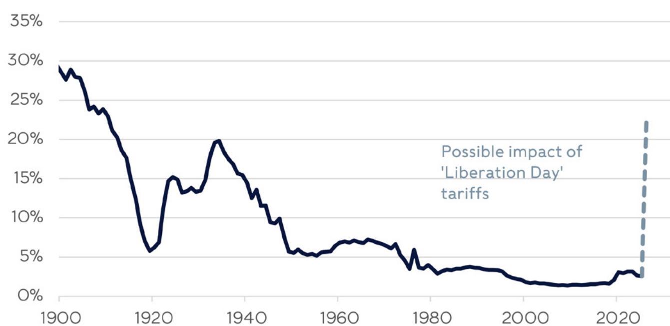
RATHBONE GREENBANK GLOBAL SUSTAINABILITY FUND

QUARTERLY UPDATE MARCH 2025

In the lead up to 2 April – dubbed 'Liberation Day' by US President Donald Trump – markets were positioned for some pain from higher tariffs on trade. What they weren't ready for was for Trump to do the economic equivalent of walking to the rostrum with no clothes on.

Rather than targeted tariffs on specific countries that could be used as negotiating leverage, Trump unveiled breathtaking increases on virtually all trade and at levels that were much higher than anticipated. The US will tariff all imports at a baseline of 10%, and all countries that have a 'trade surplus' with the US (i.e. that send the US more goods than the US sends to it) will be hit with much higher punitive tariffs. When you tot them all up, we estimate that the average US tariff is set to soar from 3% to 23% virtually overnight. As you can see from the chart, that level hasn't been seen since the early 20th century.

AVERAGE US TARIFFS SET TO SOAR



Source: US Census Bureau, FRED Database, Rathbones

Stock markets dropped with everyone's jaws. The S&P 500 fell more than 10% in just two days, dragging all other stock markets with it. That has happened on only three other occasions: the 2020 COVID fall, the Global Financial Crisis and Black Monday 1987. Right before they were supposed to go live, the White House said its 'reciprocal' tariffs on all nations barring China, which had retaliated, would be paused for 90 days of negotiations. This led to a big recovery in stocks, albeit they remain below where they started the year. There are still tariffs on many materials, like steel and aluminium, and the universal 10% levy on all imports remains as well.

The tariffs, including those that are paused, would mean a huge increase in taxes — contrary to what Trump and his Cabinet often argue, tariffs are a tax on consumers — and a large spanner in the spokes of global trade. The White House says $600 billion a year will be raised over the next 10. If correct, that's the equivalent of about 2% of American GDP, which would rank as one of the largest tax hikes of all time. If these tariffs are enacted, they will completely scramble business supply chains, international relations and people's buying decisions. The knock-on effects from these first-order effects are endless.

The US administration argues that tariffs will be paid by foreign exporters, and that the tax revenue raised will help reduce the big gap between what the government spends and what it receives and create better jobs for Americans. All of this is possible, if not necessarily probable. What is almost guaranteed, though, is that the first-order effect will be higher US prices for those tariffed products and materials. Expectations of US inflation have ramped up while forecasts of growth have slumped.

Europe: for every action, a reaction

Meanwhile, America's more aggressive, transactional foreign policy under Trump has caused massive shifts in geopolitics this year. Certain immutable facts and alliances, built up over decades, have fractured almost overnight.

The transatlantic pact of cordial relations and trade between Europe and the US has frayed considerably. Europe has responded with bold plans for investment in its infrastructure, led — surprisingly — by Germany. One of the twin engines driving Europe, it has always been spendthrift and frugal, unhelpfully so in recent decades. It has parched itself — and by extension Europe — of infrastructure investment for years because of a commitment to straitened government finances. It has now amended its constitution to scrap its debt brake, allowing the creation of a 10-year €500 billion infrastructure fund.

This paradigm shift sent European stock prices soaring over the quarter and pushed European bond prices significantly lower (which means they have now have higher yields). The drop in bond prices is because of three main reasons. Firstly, the sheer increase of bonds that will need to be issued in coming years to pay for the planned investments affects their price the same way that a bumper harvest of apples makes them cheaper. Secondly, this spending increases the outlook for GDP growth, and when that rises bond yields tend to rise with them (so the price falls). Thirdly, all that spending is likely to push inflation higher — again, something that usually pushes bond yields up.

That helped our European stocks this quarter. The infrastructure cash is earmarked for upgrading transport networks, investing in renewable power and developing digital infrastructure. It should stimulate economic growth both in Germany and in the wider trading bloc. This potentially epochal shift buoyed our holdings of German warehousing equipment and software supplier **Jungheinrich** and **E.ON**, our German power supplier.

We bought Swiss private equity investor **Partners Group** using weakness in the stock towards the end of the quarter to ramp up our position. About 40% of Partners' investments are made in Europe, so it has a strong foothold. A rising tide of funding and investments on the Continent should also boost prospective returns for existing investments that it will be cashing out of in the coming years. Partners is a strong operator that has grown its assets under management by an average 16% each year since listing in 2006.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone Greenbank Global Sustainability Fund	-4.3%	-5.1%	-7.6%	-2.1%	45.1%
IA Global Sector	-4.5%	-1.1%	-0.3%	13.4%	72.7%
FTSE World Index (GBP)	-4.4%	1.8%	4.8%	27.5%	104.9%

	31 Mar 24-31 Mar 25	31 Mar 23-31 Mar 24	31 Mar 22-31 Mar 23	31 Mar 21-31 Mar 22	31 Mar 20-31 Mar 21
Rathbone Greenbank Global Sustainability Fund	-7.6%	18.5%	-10.7%	2.5%	44.6%
IA Global Sector	-0.3%	16.7%	-2.7%	8.4%	40.6%
FTSE World Index (GBP)	4.8%	22.5%	-0.7%	14.9%	39.9%

Source: FE Analytics; data to 31 March, S-class, mid-price to mid-price.

These figures refer to past performance, which isn't a reliable indicator of future performance.

Strong earnings announcements for many of our healthcare holdings was another boon for us. These included US diagnostics, medical devices and nutrition company **Abbott Laboratories**, and **General Electric Healthcare**, which is one of the global leaders in imaging equipment and services. Each enjoyed strong demand and sales in their various product divisions, driven by continued innovation, new product launches and steady demand. **Eli Lilly**, the US pharmaceutical and weight-loss drug maker, also outperformed a weaker US market during the quarter.

Other companies posting strong returns this quarter were data mast leasing firm **American Tower** and US rubbish and recycling business **Waste Management**. Despite operating in different industries, these two both benefit from steady demand for crucial services that are the last to be cut from a budget. This should make them resilient in an uncertain economic environment.

The technology sector was significantly weaker, however, and our holdings were no exception. This was mostly due to post-DeepSeek concerns that Western companies might be over-investing in chips for AI development and some signs that corporate customers may be tapping the brakes on their cloud-computing and software spending. This hurt our holdings in AI chip designer **Nvidia** and business office tools titan **Microsoft**. We kept discipline last year and took profits in these investments as their strong performance increased their size relative to our portfolio.

Adjusting our healthcare investments

We bought US credit rating agency **S&P Global** over the quarter. S&P has demonstrated consistently high returns on the money it has invested in its business. This has remained true both in the good economic times and in the bad. S&P makes money by assessing the financial strength of companies and the bonds they issue. This means it should continue to benefit from high debt issuance over the next few years. It also majority owns S&P Dow Jones, which manages reams of financial indices used to benchmark and make investments. This makes S&P a natural beneficiary of the increased use of passive financial products, which use these indices. We think the business should be able to increase its revenue by more than American GDP in most years, and there's also a good opportunity to make its analytics division more profitable. A new CEO has a clear plan to boost returns and recent results have encouraged us to buy in.

We sold the rest of our position in German pharmaceutical business **Merck**. We had already reduced our holding and felt that its management was too slow fixing problems in China. We felt there was a risk that the company was holding too much spare inventory, which could further dampen returns. While Merck's valuation looks cheap, organic growth is proving harder to come by. We see plenty of attractive alternatives in the healthcare space, so we sold.

We recycled that money into Luxembourg-based laboratory chain **Eurofins Scientific** and US supplier of diagnostic tools and reagents for laboratories **Bio-Techne**. We've had more healthcare investments than our FTSE World Index benchmark for some time. There are increasing signs of normalisation in global demand patterns after being subdued since 2022. Eurofins and Bio-Techne are both trading at prices that are much lower multiples of their profits than they have in the past. We believe this could reverse as headwinds slowly turn into potential tailwinds this year.

Another new purchase was **Accelleron Industries**, a Switzerland-listed industrial business that focuses on turbo-charged engines across a number of industries including marine and energy. Turbo-charged engines produce more power than their vanilla cousins from the same fuels, so they help drive efficiency and cut emissions, while enjoying a strong reputation for reliability and performance. Accelleron has few large rivals, as it's time-consuming and expensive to develop engines and the sales networks required to break into the industry. This means it can make generally attractive returns that allow it to reinvest in improving its products as well as sharing profits with shareholders. Accelleron also makes three-quarters of its revenues through ongoing service contracts. This makes cashflow more consistent and less lumpy from sales cycles, which tends to make a business more valuable to investors.

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

Not our first rodeo
Trump's 'America First' platform of fewer foreign entanglements, higher tariffs, tax cuts, public spending cuts and lessened regulation was widely signposted ahead of time. Most investors expected these measures to boost American workers, juice consumption, encourage business investment and drive the dollar and US stocks higher. However, there was always the other side of the coin. That these policies – along with a clampdown on immigration, both illegal and legal – could refire inflation, clog up supply chains and generally make it harder or more expensive to do business.

Yet it's important to remember that this isn't the first major shock to economies and markets. It's not even the first in the past five years! In 2020 a pandemic completely upended life and commerce in virtually every nation. Everything came to a standstill. Yet societies and business adapted – and in many cases thrived. Two years later, Russia invaded Ukraine, completely scrambling markets for everything from grains and plutonium to oil and gas. All economic growth is essentially energy transformed, so skyrocketing energy costs (and food, which is energy for workers) was a massive shock, yet economic activity adapted and continued.

In both those years, 2020 and 2022, global stocks experienced falls of more than the 19% we've seen so far this year. Both times they bounced back. This isn't unusual: since 1960, 92% of rolling 10-year periods have been positive. Trade policy isn't all that matters for business and investment. People and companies are adaptive and can adjust their suppliers, business models and strategies.

We think it's most likely that the US economy continues to forge ahead, slower than in the recent past but avoiding recession. And if that accompanies a resurgent Europe after two decades of funk, that should support global demand for goods and services, which is what drives corporate profits in the long run. China's leaders also seem to have realised that they need to act decisively to help their nation break out of its property-bubble slump. If they continue to pour well-targeted support into their financial system, that adds yet another leg to underpin the world economy. Albeit assuming that this is not completely offset by effectively losing access to America, its largest export market (accounting for 15% of the total).

It's completely understandable to feel worried when markets start falling, especially when there's so much news and uncertainty flying around. But knee-jerk reactions can be harmful for long-term returns.

DAVID HARRISON
Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click here.

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

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