



RATHBONES

RATHBONE ACTIVE INCOME AND GROWTH FUND

QUARTERLY UPDATE JUNE 2026

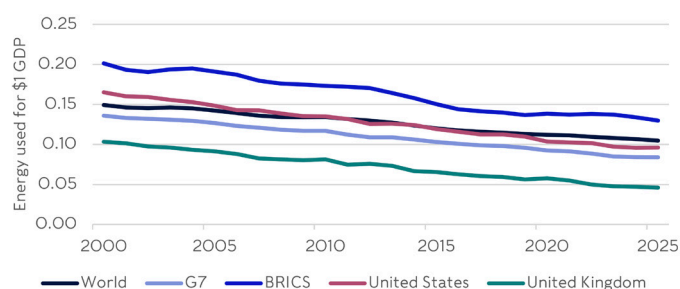
The second quarter was another reminder that markets are rarely short of plot twists. Yet our fund delivered very good returns despite some very volatile markets.

In the US, the appointment of Kevin Warsh as Chair of the Federal Reserve (Fed) quickly challenged expectations. Having spent much of the previous year criticising the Fed for being too slow to cut interest rates, his first meeting in June struck a more hawkish tone. The Fed left rates unchanged at 3.50-3.75%, while its forecasts shifted towards the possibility of higher rates in 2026. Yet we think the picture is more nuanced. Warsh appears less focused on any single rate decision than on changing how the Fed operates - with less forward guidance, greater emphasis on underlying inflation measures, and potentially a smaller role for the central bank in bond markets.

Artificial intelligence also continued to dominate markets. Semiconductor shares surged as investors focused on the scale of spending required to build the infrastructure behind AI. Demand for chips remains extremely strong, with supply constrained across several parts of the chain. That's encouraging huge new investment, especially from leading manufacturers such as **TSMC** (which we own) and memory-chip producers. This supports earnings today, but it also increases the risk of overbuilding tomorrow. Semiconductors have always been cyclical, and the more feverish the investment atmosphere becomes, the smaller the margin of safety if demand disappoints.

The oil and gas shock was the other major macro event. Despite the continued disruption to the Strait of Hormuz, energy prices fell back sharply from their highs. Emergency reserve releases, lower Chinese crude imports, weaker demand in parts of the emerging world and partial rerouting all helped to fill the gap. Greater electrification and use of renewable energy than in past years have also softened the blow compared with other shocks by reducing the energy intensity of global growth. This isn't a complete solution: the world still needs oil and gas, and a lasting reopening of the strait remains important. But it does show how a more diverse energy system can make the global economy more resilient.

MORE ELECTRICITY IN MIX HELPS LOWER ENERGY INTENSITY OF GDP



Source: Enerdata World Energy & Climate Statistics 2026 Yearbook, 2000 to 2024; \$1 GDP at constant purchasing power parity, 2015 prices; BRICS is Brazil, Russia, India, China, South Africa, Egypt, Ethiopia, Indonesia, Iran and the UAE

A broad-based recovery

Our fund did well over the quarter, benefiting from the recovery in global equity markets as geopolitical concerns receded and confidence improved. Equities were the primary engine of performance, with gains extending across a broad range of sectors and regions. That said, while leadership broadened, the bulk of the quarter's returns were still concentrated in information technology – specifically semiconductors and technology hardware and equipment.

Our technology and AI-related holdings were supported by resilient earnings and continued investment in digital infrastructure. Dutch semiconductor equipment maker **ASML** and diversified AI tech supplier **Cisco** performed particularly well as investors regained confidence in the long-term demand for advanced computing. They were joined by chip foundry **TSMC**, chip-testing equipment manufacturer **Advantest**, and perennial performer **Nvidia**, the designer of the very best chips.

The windfalls of this AI buildout are being felt beyond just the technology sector. We may interact with AI in the cloud, but the computing power behind it is very concrete indeed. Our investments in the suppliers of this data centre expansion enjoyed sharply higher profits and future orders in the second quarter as well: among the best performers were cabling and sensors maker **Amphenol**, industrial automation and digital infrastructure engineer **Siemens**, and industrial automation business **Daifuku**, whose fastest-growing business is a unique vibration-less chip transport system for nanochip foundries.

Portfolio update

	3 months	6 months	1 year	3 years	5 years
Rathbone Active Income and Growth Fund	8.3%	6.7%	16.6%	36.9%	34.7%
UK Consumer Price Index +3%	2.4%	3.5%	5.9%	18.5%	48.9%

	30 Jun 25- 30 Jun 26	30 Jun 24- 30 Jun 25	30 Jun 23- 30 Jun 24	30 Jun 22- 30 Jun 23	30 Jun 21- 30 Jun 22
Rathbone Active Income and Growth Fund	16.6%	5.5%	11.3%	3.8%	-5.3%
UK Consumer Price Index +3%	5.9%	6.5%	5.0%	11.9%	12.3%

Source: Morningstar; data to 30 June, mid price to mid price

These figures refer to past performance, which isn't a reliable indicator of future returns. When you invest your capital is at risk and you could lose some or all of your investment. Past performance should not be seen as an indicator of future performance.

Consumer spending has remained resilient, yet what households are spending on isn't equally spread. Lifestyle and travel have been particularly strong spots, helping **InterContinental Hotels**, whose brands include Crowne Plaza and Holiday Inn. And while retail has been a very tough gig for some businesses recently, those that strike a chord with customers can reap the rewards. Our holding in **Inditex** (Zara and Massimo Dutti) did well, with double-digit sales growth and very high margins.

Financials shook off their first-quarter weakness, with our investment and commercial banking exposures performing well. **Barclays, HSBC, DBS** and **ING Groep** all contributed, helped by resilient economic activity, improving capital-markets issuance (SpaceX's IPO is a nice example) and higher trading volumes. Financials are also helped by expectations that interest rates will stay higher for longer because of the energy-led resurgence in inflation. Banks generally make more money when rates are higher.

The disappointments of the quarter were oil majors **Shell** and **TotalEnergies**, derivatives marketplace **CME Group** and **Deutsche Telekom**.

Oil and gas prices swiftly dropped from their crisis highs, taking Shell and Total's share prices with them. This is to be expected and simply gives back some of the tremendous outperformance of the first quarter. Both companies are still up handsomely over the year. We are happy to hold these oil majors as an insurance policy against inflation surprises generally and against escalation in the Middle East specifically.

CME has been hit hard by the rise of events-betting sites, such as Kalshi, which offer 'leveraged perpetual futures' that are taking market share from traditional bourses like CME. CME has sued the US commodities regulator about its stance on these products, and we think they have a pretty good case. The market has heavily marked CME down in recent months because of this competitive threat, yet we think it's been overplayed. We added to our position in late June.

As for Deutsche Telekom (DT), it fell back along with its peers because of a \$17 billion deal for SpaceX to buy wireless spectrum to expand Starlink to direct-to-mobile service in the US. This has worried some investors that a new challenger could enter the US mobile market. DT owns 53% of fast-growing T-Mobile, the second-largest American carrier, and wants to buy the rest. T-Mobile accounts for 70% of DT's operating income, so increased competition in America is a big deal. However, we think the Starlink technology isn't as big a threat as some fear: it uses low-orbit satellites, so needs direct line of sight to work. That means it doesn't work in buildings or in high-rise cities, which makes it less attractive to most people.

Our bonds generated a modest positive return, albeit it was a bumpy ride. Bond yields (which move inversely to prices) waxed and waned on an accelerated cycle as investors reassessed the outlook for inflation, growth and central bank policy. Even so, our overall fixed income portfolio continues to do its job, providing diversification and a reliable source of income.

Alternative assets contributed too: our commodity exposure was mixed, with the gold price falling while copper rallied. And our infrastructure investments – **3i Infrastructure**, **HICL Infrastructure** and **Sequoia Economic Infrastructure** – all rose by double digits, benefiting from their defensive characteristics and increasingly attractive long-term growth prospects. Direct property was broadly stable: UK commercial transactions remained subdued, but valuations were underpinned by improving sentiment and the attractive income offered by high-quality assets.

Taken together, the quarter demonstrated the benefits of holding a genuinely diversified portfolio. While geopolitical and macroeconomic risks remain elevated, we were able to participate in the equity recovery while continuing to draw resilience from our allocations to fixed income, infrastructure, property and commodities.

Portfolio positioning and activity

We have kept our mix of equities, bonds and alternatives virtually unchanged over the quarter, with just a small trim to our corporate bond holdings, which we have kept in cash for now. Under the surface, we made a few adjustments.

In fixed income, we kept actively managing the sensitivity of our UK government bond portfolio's value to changes in market interest rates ('duration' risk). We marginally shortened duration in early April. With yields still elevated, the uncertainty around inflation, fiscal policy and the future path of interest rates warranted a more cautious stance. We also reduced our corporate bonds, reflecting both tighter credit spreads – which reduce the compensation on offer for taking credit risk – and our desire to retain the flexibility to buy quickly should more attractive opportunities emerge elsewhere.

Within equities, we leaned further into semiconductors and technology infrastructure, reflecting our conviction in the long-term growth outlook for AI, digitalisation and advanced computing. We bought the **iShares MSCI Global Semiconductor ETF**, providing diversified exposure to the leading manufacturers and equipment companies benefiting from demand for high-performance computing, AI and data-centre investment. We also bought Cisco, which supplies high-speed networking equipment for cloud computing and AI data centres, well placed to benefit from relentless growth in data traffic.

We bought a new position in **Morgan Stanley**, reflecting the strength of its franchise across investment banking, markets and asset management, and the scope for earnings growth as capital-markets activity improves.

Another addition to the fund was long-standing and diversified industrial engineering business **Parker Hannifin** (best known for its aerospace division that's roughly 30% of its revenue). We think this is a premier industrial company that can compound steady gains in sales and profits through a highly lucrative 'razor-and-blades' business model. A big portion of its revenue comes from recurring aftermarket parts and servicing (the 'blades'), which tend to make more profit from each dollar of sales than one-off kit sales (the 'razor'). We think Parker is perfectly positioned to capture long-term tailwinds from renewals of commercial aerospace fleets and the reshoring of manufacturing infrastructure.

Elsewhere, we adjusted positions following strong share-price performance and evolving opportunities, selling our holdings in social media and AI business **Meta**, and the **Baillie Gifford China Trust**, recycling that capital into areas where we see more attractive long-term returns for the risk offered. As ever, these changes reflect our ongoing focus on maintaining a diversified portfolio while selectively adding to themes and businesses with compelling growth potential.

Widespread concerns about private asset markets (mostly credit, but also equity) smoulder on, with many high-profile retail-facing funds getting flooded with redemption requests. Private assets aren't inherently bad. These loans aren't wildly different to those that banks used to provide. Most of them are relatively conservative and often backed by assets. We have used this weakness to buy into private equity and alternatives asset manager **Blackstone**, which we have confidence in. This is one of the giants of the sector, with a spread of businesses

across property, private assets, and loans and insurance. The best time to buy these sorts of assets is right now: when people are running for the hills.

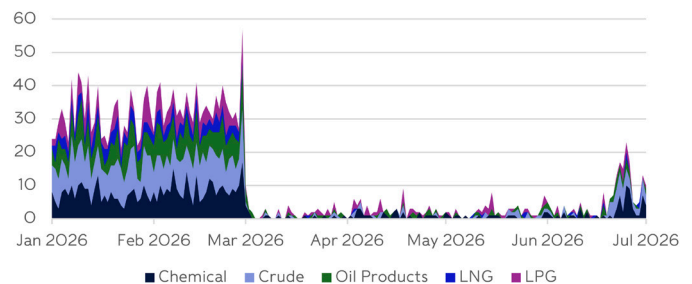
Investors are optimists

It's been a remarkable year. And we're only halfway through.

Markets and the global economy have adapted remarkably well to the energy shock sparked by the Iran war. The resilience and flexibility of the global economy helped contain what could have been a nightmare scenario. Thankfully the fighting appears to have now cooled, and the parties are working on a long-term solution to bury the hatchet.

We're confident that final terms will be agreed under the Islamabad Memorandum and a new normal will be reached that unequivocally reopens the Strait of Hormuz. If that comes to pass, we think it would make inflation recede once again, opening the door to US rate cuts in 2027.

TANKERS LEAVING THE PERSIAN GULF EACH DAY



Source: UBS Evidence Lab, includes content supplied by S&P Global Market Intelligence (Maritime & Trade); 1 January 2026 to 1 July 2026

The US economy is slowing slightly, but it still looks very strong indeed. Contrast that with the other side of the Atlantic, where the story is almost inverted. The European Central Bank raised its interest rate by 0.25 of a percentage point to 2.25% in mid-June – its first hike since 2023. The ECB lifted its 2026 inflation forecast to 3.0%, while cutting its expectation of eurozone growth from 0.9% to just 0.8%.

Germany, which was supposed to be the engine of the recovery, has instead stalled: the BDI, a German industrial trade body, cut its 2026 growth forecast to 0.4%, from 1% in January, and the government has halved its own projection to 0.5%. Chancellor Friedrich Merz's €500 billion "investment booster" was meant to be the tailwind Europe needed, but by the end of last year only €24 billion had actually been invested – bureaucracy, it turns out, is harder to reform than a spreadsheet.

While the US continues to forge ahead, we think the global economy is on a strong footing. We are optimistic about the rest of the year. There are risks, sure, but there are always risks. There are also opportunities. A massively powerful technology is being rolled out around the world, offering countless ways for people and businesses to experiment and find better ways of doing what they need to do. The modern world can be overwhelming and it's often framed as a place where all roads lead to doom. But there's a lot going for it too.

Are we investors because we're optimists? Or optimists because we're investors? It's hard to know how the causality runs, but it's a requirement of the job: You can't invest in the future unless you think it can get better.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

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