



RATHBONE INCOME FUND

QUARTERLY UPDATE SEPTEMBER 2026

We live in a world where geopolitical noise seems cacophonous. But ‘twas always thus, and always thus will be. Major events are always unfolding, and markets gyrate with the noise, yet they tend to advance over time despite the occasional setbacks. Over the very long term, equities produce strong returns above inflation; but in the short term, we know well enough that market moves can be violent, with ‘rotations’ happening with alarming frequency.

And so, while the FTSE All Share Index has risen a strong 8% so far this year, on top of excellent returns in 2025, there was a deceleration in the third quarter. While our fund did indeed edge ahead, the market trends were less in our favour than in the previous quarter.

“Whenever you find yourself on the side of the majority, it is time to pause and reflect.”

Mark Twain

In reductive explanation of our fund’s performance, we did well when domestic and interest rate-sensitive stocks prospered; we lagged when market leadership reverted to large caps. It’s instructive to look at the market movements in the final three days of the quarter, as we think you can glimpse more idiosyncratic factors coming to the fore. Prime Minister Andy Burnham’s dangling of the carrot of a resurrected help-to-buy scheme (this one called ‘Your First Home’ and with required deposits halved to 2.5%) helped housebuilders and companion industries. Furthermore, mergers and acquisitions (M&A) activity – more on this later – acted as a further boost. Our relative outperformance year to date versus the index illustrates, we think, the benefit of a genuinely active portfolio: returns are driven by stock selection and differentiated exposures rather than by replicating the index.

Performance review

In the third quarter, your fund returned 1.7%, lagging both the FTSE All Share’s 2.4% and our IA sector peers’ 3.7%. Over the last 12 months and year to date, however, we are comfortably ahead of both the index and the sector average, and our medium-term numbers (three and five years) are continuing to improve.

It is ironic that numbers are so strong at a fund, sector and index level, yet money continues to leave the UK, and single-strategy mandates remain unloved. The situation is further confused by the fact that M&A and consolidation activity continues apace, reflecting the quality and value present in our market. In the last six months, we not only had activists sniffing around property platform **Rightmove** and hotels business **Whitbread**, and similar rumours surrounding insurer **Hiscox**, we also had news of a sequence of approaches to smelting and metal refining equipment maker **Vesuvius**, itself under pressure from the presence of an activist on its board.

Computacenter: a brilliant business we just sold (and why that’s not a contradiction)

Every so often, you own a company that performs superbly, watch its shares rise sharply and then sell it anyway. That is what we have done with **Computacenter**. Saying that we admire the company but no longer want to own the shares may sound contradictory, but the distinction between a great business and a great investment is crucial.

Computacenter is best understood as the plumber of corporate IT. When a bank, government department or hyperscaler builds or upgrades its technology infrastructure, Computacenter sources the servers, racks and networking equipment, installs them and often helps to manage them. It is not glamorous, but it is essential, embedded in customers’ operations, and highly cash generative. Importantly, this is an infrastructure business rather than a software company.

The business has changed dramatically. Once regarded as a mature UK software reseller with a strong German operation, it has become a major beneficiary of the data-centre boom. North America has moved from the sidelines to the centre of Computacenter’s story as large cloud companies pour enormous sums into AI infrastructure. The company supplies equipment and services into this build-out, and North America now contributes about 60% of the group’s adjusted operating earnings (profits after day-to-day running costs, but before paying interest and taxes). A meaningful proportion comes from only a handful of hyperscaler customers, making today’s business very different from the one investors owned five years ago.

This growth is impressive, but it comes with a catch. Hyperscaler contracts are high-volume and low-margin: Computacenter shifts vast quantities of hardware while earning relatively little on each sale. The market has understandably focused on the exceptional volumes. At the latest half-year, revenue rose by roughly 72% to £6.85 billion and adjusted pre-tax profit increased by about 87%. Management lifted full-year guidance to no less than £380 million, well above the previous consensus of around £341m, with North America driving almost all the upgrade. Yet the underlying picture was not flawless. Germany was soft, ‘managed services’ (supplying IT staff and systems for large organisations) remained weak, and gross margins (profits after the cost of delivering their products and services) missed expectations by approximately 1.6 percentage points as the business mix moved further towards hyperscaler activity. The engine is roaring, but it is increasingly powered by a small number of very large (and less profitable) customers.

	3 months	6 months	1 year	3 years	5 years
Rathbone Income Fund	1.7%	10.0%	22.0%	48.9%	60.8%
IA UK Equity Income Sector	3.7%	10.9%	16.1%	47.9%	52.8%
FTSE All Share Index	2.4%	7.3%	16.8%	53.9%	68.2%

	30 Sep 25- 30 Sep 26	30 Sep 24- 30 Sep 25	30 Sep 23- 30 Sep 24	30 Sep 22- 30 Sep 23	30 Sep 21- 30 Sep 22
Rathbone Income Fund	22.0%	8.9%	12.1%	14.0%	-5.3%
IA UK Equity Income Sector	16.1%	10.6%	15.2%	13.3%	-8.8%
FTSE All Share Index	16.8%	16.2%	13.4%	13.8%	-4.0%

Source: Morningstar; data to 30 September, I-class, mid price to mid price.

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

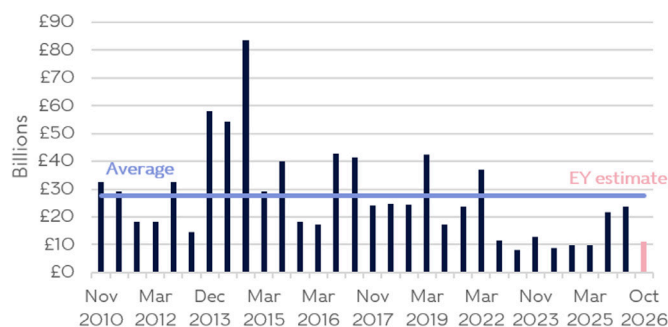
We had already reduced our holding as the shares rose, before selling the remainder for three related reasons. First, valuation had done much of the work. After gaining about 90% this year, the shares had re-rated towards the top of their historical range. A great company at a demanding price is a different proposition from the same company at a fair price. Second, the income case had weakened: the rising share price compressed the dividend yield, leaving us less well paid to wait. Finally, customer concentration and dependence on the AI data-centre capital-spending cycle had become difficult to ignore. If there's merely a hint of slowing hyperscaler expenditure, the shares may react abruptly because considerable optimism is already reflected in the valuation.

Computacenter remains an exceptional company and a rare UK-listed asset with powerful structural tailwinds. Nevertheless, a great company is not automatically a great investment. The price is always a relevant factor. With its yield diluted, valuation elevated and earnings increasingly reliant on a concentrated and cyclical market, the balance of risk and reward no longer suited us. We therefore took our profit and moved on, without changing our view of the quality of the business. At a more attractive price, we would be very happy to reconsider owning it again.

Outlook

It seems unwise at this juncture to look too far beyond Chancellor John Healey's Budget on 28 October and the US mid-term elections on 3 November. On balance, we are minded to be cautiously optimistic that both support our constructive stance on UK stocks. While Healey is facing the same strictures as past Chancellors, we are hopeful that the shrinking headroom will spur action on the UK's policy snarl-ups, such as a terrible tax regime, an inability to build, and unsustainable spending. The UK has so many fantastic advantages going for it: a strong services culture, world-leading scientists, a well-educated populace and a legal realm that acts as arbiter for parties the world over. With the right incentives, the UK should flourish.

WILL THE SQUEEZE ON UK FISCAL HEADROOM SPUR POLICY CHANGE?



Source: OBR; headroom is the government's expected surplus after day-to-day spending by 2029-30; past headrooms standardised against forecast GDP at the time and then calculated as if the economy was the size expected at the end of 2029-30; latest forecast unofficial estimate by accounting firm EY.

While the housebuilding industry is a small sub-sector of our fund in absolute terms, it is an important performance catalyst – when they do well, we do well, relative to our peers and the benchmark. Positive, and more importantly, actionable policy arising from the 'Your First Home' initiative, including the old bugbears of planning consents and affordability, will provide impetus.

But bond markets trump politics. We do fret about debt markets. Domestic investors feel angst about the UK's fiscal position. But the US looks more precarious. US growth, impacted like elsewhere by the Middle East war, is not just slowing, but is increasingly imbalanced, with main street feeling the squeeze that is absent from the heady AI-oriented tech sector. The increased sense of inequality and unaffordability is pressurising the Trump administration ahead of crucial elections, the results of which will determine how hamstrung the current administration will be in the final two years of its term. And Europe is on tenterhooks, with France looking fragile as people take to the streets.

30-YEAR BONDS CAUGHT THE WORST OF A BAD QUARTER FOR GOVERNMENT DEBT



Source: FactSet; 1 January 2006 to 1 October 2026.

This doesn't feel like a world where markets should be hitting new highs. There is a lot of noise. It does make us nervous. And to be brutally honest, the increasingly violent rhetoric emanating from the White House will surely have an impact eventually on the global confidence in the US as a reliable partner where the rule of law is sacrosanct. There is something about the dizzying heights of the S&P that doesn't sit easy with us.

We seek refuge in process and valuation, the things that are in our control. That's why we have detailed our sale of Computacenter. It's been a great investment, but we must stick to process, and to carry on owning this business means ignoring price risk, which we cannot do.

It is important to take the time to pause and reflect, to take a break from all the noise and dispassionately review every investment decision. We will make mistakes, but it is less forgivable to run from making difficult decisions because they are different to the consensus view, the conventional wisdom. October will be a fascinating month.

Recent Trading: Our re-positioning away from expensive FTSE 100 giants into better value elsewhere continues. We have trimmed miner **BHP**, and two banks, **HSBC** and **NatWest**. Funds have been re-allocated to **Rightmove**, housebuilder Persimmon and investment platform **AJ Bell**. We have also reduced **Bunzl** and added to **Diageo**, taking advantage of strength in the former and weakness in the latter.



CARL STICK
Fund Manager



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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. When you invest, you could lose some or all of your investment.

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