



# RATHBONES

## RATHBONE UK OPPORTUNITIES FUND

MONTHLY UPDATE FEBRUARY 2026

**February was fairly decent for equities, particularly for UK assets, with UK large caps being the standout performers. The ongoing rout in software stocks again highlighted the UK's appeal as something of an AI hedge, alongside its heavy weighting in hard assets like commodities.**

Investors are increasingly looking for more of these tangible real-world assets and fewer intangible, potentially AI-disrupted, businesses. The UK, once derided as an 'old economy' play, suddenly looks well placed here. UK government bond yields dropped too (because their prices rose). This was another support to equities, as share prices tend to rise when yields fall. That's because – all else being equal – lower yields tend to make future cashflows more attractive when valued today. And then, right at the end of February, turbulence erupted as the US and Israel attacked Iran without warning, sparking a region-wide conflict.

The last thing the world needs is another war, and our thoughts are with those whose loved ones are affected by the violence. In terms of markets, it has had a few stark effects:

1. The prices of global oil and European gas have jumped
2. The dollar has bounced substantially, albeit from four-year lows
3. Global stocks have dropped (although sterling weakness has blunted the offshore fall for UK investors)
4. UK and European indices have fallen harder and faster than in the US
5. Energy suppliers have surged, while consumer discretionary (which depend on households deciding to spend) have dropped back
6. Government bond yields have risen markedly, with the UK and Europe the worst affected

### OIL AND GAS PRICE SPIKES STILL BELOW 2022, BUT CLOCK IS TICKING



Source: FactSet; Dutch TTF Gas Monthly Future for short-term delivery and Brent Crude Spot to 9 March 2026

Our bias to mid and small-caps has kept us behind our benchmark lately, especially as many of them tend to be more sensitive to fluctuations in bond yields than their bigger counterparts. But that's largely because these FTSE 250 businesses offer greater potential for longer-term profit growth, so we see this as short-term volatility that should pay off over the fullness of time.

We think our investments are coiled springs for the next rung of performance. Their expected earnings growth, springboarding off a multi-year valuation discount, and a steady reappraisal of the merits of UK assets are all in our corner. We will likely need a calmer geopolitical environment to prevail to unlock this, with the corresponding fall in yields and oil prices. But investing is a long-term game and we're patient.

### Adjusting software in response to AI, topping up 'quality' businesses

In February, our software stocks were the main detractors from performance, with software reseller **Softcat**, payments network **Boku** and software designer **Kainos** at the bottom of the pile. We've been working hard to ascertain which of our holdings are genuinely at risk from AI, and which have been unfairly sold off. We have developed a framework for analysis and have made portfolio changes accordingly. In very simple terms, we have maintained positions where our companies score highly: proprietary data, regulatory lock-in, and how deeply embedded they are in workflows. We have sold entirely those names that score worse on this framework, like digital identity specialist **GB Group**. We have trimmed others where we can't be sure just yet.

We have added to Softcat – we think the market has put this one in the wrong basket as an AI loser. Softcat sells the infrastructure layer that AI is built on and secured with – cloud, cyber – and not much of the seat-based 'software as a service' applications that might be vulnerable. Plus, their deep understanding of a customer's IT landscape and requirements gives them a strong foothold during a period of complex change and customer confusion. We've also added to **Alfa Financial Software**, which provides end-to-end software for car leasing, among other things. Alfa scores highly on our framework, which we think gives them defensibility and a chance to prove themselves with earnings upgrades.

The point of active management is that we should be able to take advantage of indiscriminate sell-offs to improve the quality and risk-reward of our portfolio; to go against the herd mentality. The other point is that we can engage with our companies to better understand these crucial inflection points, something which we have been doing with increasing intensity of late. Ironically, we could do this thanks to the team's use of AI software in our day-to-day research work. All portfolio management decisions remain human-made.

We sold the rest of our holding in fund administrator **JTC** ahead of the completion of private equity firm Permira's bid at a very small discount to the final price. We have already put the proceeds to work, topping up our holding in **Marks & Spencer** (and one other name which we will discuss in a later note). M&S needs no introduction, but it was last year's cyber-attack that gave us the opportunity to open a position as they continue to shake off their fusty image of yesteryear.

The company is gaining sustained market share and more consistent growth in sales volumes across both its Food and Clothing & Home divisions, underpinned by a "Reshaping M&S" strategy that has delivered its best financial health in nearly 30 years. We see a clear roadmap for M&S to double its Food and online fashion sales, alongside cost-saving targets of £600 million over the next few years (up from an initial target of £500m) that should provide significant operating leverage for long-term earnings expansion. The cost-cutting strategy spans a range of areas, including store rationalisation, back-office restructuring, more targeted marketing, and efficiencies in stores and the supply chain.

The company exhibits the high-quality characteristics we require for investments in our fund. M&S is disciplined in its capital allocation, is reducing its debts, and delivers a robust return on capital employed (ROCE) of 15%. Despite this progress, the shares trade at a chunky discount to peers like Tesco and Next (10.5x vs 15x and 15x respectively).

Meanwhile, we have some more cash that we can put to work in undervalued UK mid-cap businesses: our large holding in London insurer **Beazley** will be cashed out after a takeover bid by Zurich was agreed. Value is being recognised.



**ALEXANDRA JACKSON**  
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.

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