



Exciting boutique
fund managers
join **together** for
one event.



Julian Chillingworth

Chief Investment Officer

Rathbone Unit Trust Management Ltd



Another fine mess

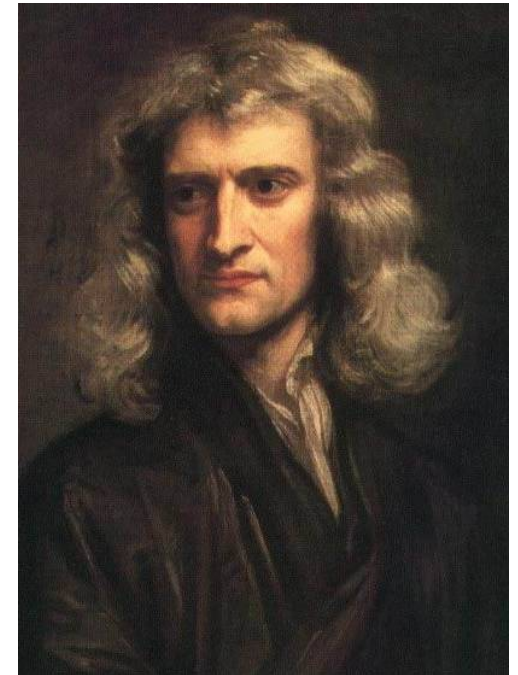
Anatomy of a financial crisis

“Plus ça change, le plus c'est la même chose”

(The more things change, the more they stay the same)

Jean-Baptiste Alphonse Karr

- 1636 – The Dutch Tulip Bulb Bubble
- 1720 – The South Sea Bubble
- 1866 – Failure of Overend, Gurney & Co in the UK
- 1890 – The Bank of England rescues Barings; Banque de France also involved in crisis management and bank rescues
- 1920s – Stock Price Bubble (1927-29)
- 1930s – The Great Depression
- 2001 – Tech Bubble bursts
- 2007 – Implosion of sub-prime mortgages
- 2008 – ‘The Great De-leveraging?’



Courtesy of Wikipedia

Origins of the current crisis

Expansion of credit, speculation and light-touch regulation

Greenspan provides liquidity to cope with:

- Black Monday – 1987
- LTCM bail-out ('Moral hazard debate') – 1998
- Clinton administration encourages poor onto housing ladder + banks encouraged to compromise lending standards + easy monetary policy + belief that house prices will rise ad infinitum
- Repackaged and sold as AAA-rated asset-backed securities
- Model unsustainable as economy weakens
- Defaults on mortgages lead to billion-dollar losses.



Courtesy of Wikipedia

The 'Greenspan Put' – encouraged greater risk-taking

Main events – 2008

- Collapse of Bear Stearns; rescue by JP Morgan
- Reversal of the long commodities/short financials trade
- FTSE falls 7%; Freddie Mac and Fannie Mae nationalised
- Run on Lehman Brothers; Bank of America buys Merrill Lynch
- US Government pumps \$80bn into AIG; Lloyds buys HBoS; announcement of a \$700bn bail-out bill in the US
- October 2008 - worst month for FTSE since 1987
- UK Government in £500bn bail-out
- Bank of England cuts interest rates by 150bps and produces dovish inflation report.

2008 - a year like no other since 1930

Wall of worry

Rising unemployment, weak consumer spending, falling property prices, foreclosures, toxic assets, high consumer and corporate leverage, rising delinquencies, pension fund deficits, low savings rates, inflation in emerging markets, deflation in developed markets, collapsing emerging market currencies, falling oil and commodity prices, difficulty obtaining debt and equity finance, illiquid credit markets, credit rating agencies, mutual fund redemptions, margin calls, hedge fund failures, forced selling, counterparty risk, covenant breaches, working capital squeeze, inventory build, pricing pressure, falling orders, rising input costs, peak margins, regulatory burden, ineffective monetary policy, capital spending cuts, windfall taxes, carry trade unwind, unions, geopolitics, terrorism, fraud.

'The fear gauge' - VIX



Source: Bloomberg

Julian Chillingworth

RATHBONES
Established 1742

VIX – Summer 2008 to the present



Source: Bloomberg

Obama inheritance



Source: Google

2009 – A year of challenges and opportunities (I)

- The return of 'Big Government' – financial institutions nationalised and greater regulation
- Budget deficits ballooning – US deficit \$2trn; funding will become an issue; longer-term inflationary pressures?
- Interest rates remain low in all G7 countries for some while
- Obama feel-good factor - US economy recovers into 2010, as do Europe and Asia
- UK economy remains moribund for some while – consumers under the cosh. Houses are to live in, not ATMs!

Thirties-style depression avoided, but at what long-term cost?

2009 – A year of challenges and opportunities (II)

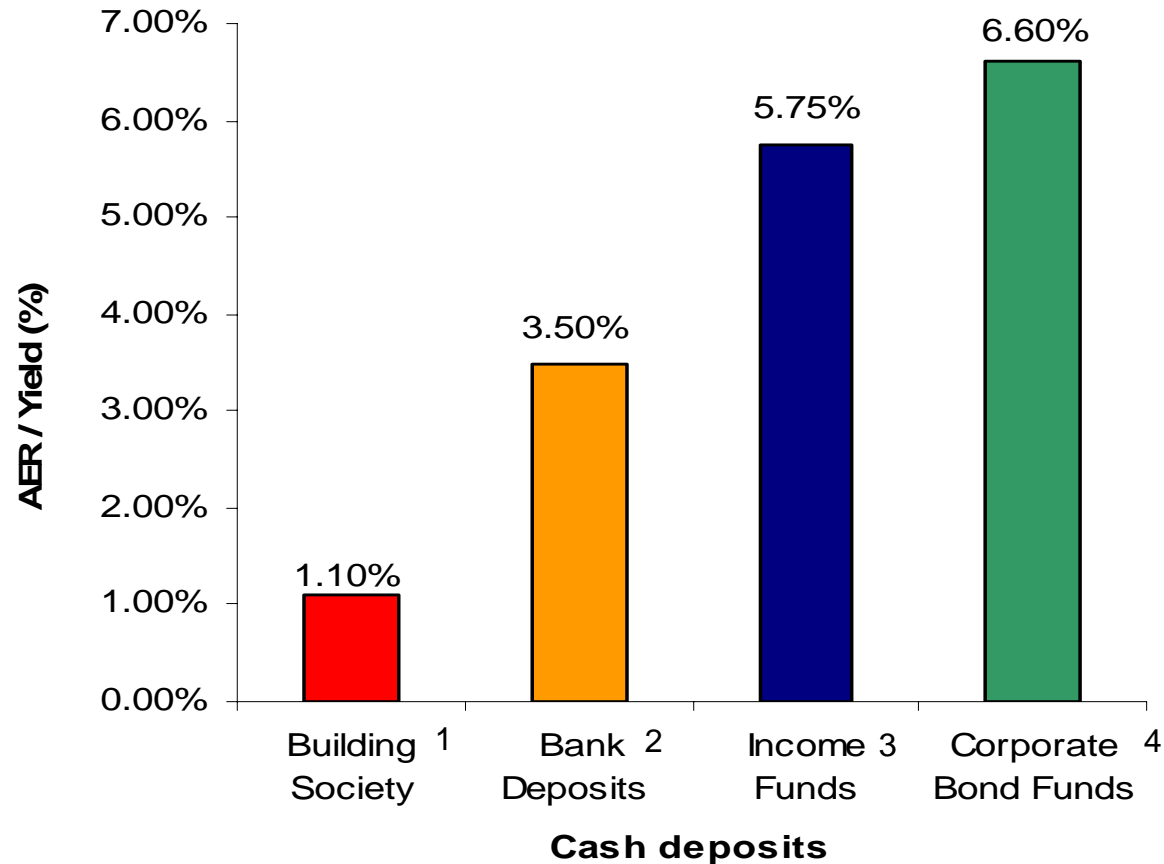
- Markets will remain very volatile through 2009, with spikey rallies, as investors try to anticipate economies bottoming out
- Good cash generation – UK “Trendy 20”
- Quality is the ‘watch word’ in the next six months – investors should own companies which are self-financing
- Financials will struggle, weighed down by the full effects of the recession hitting indebted balance sheets
- In the UK, consumer-centric stocks will continue to suffer
- High overseas revenues will prove beneficial.

Deleveraging will take longer, shackling growth

2009 - The year of the search for income



Income yields - Bank deposits vs. fund returns



¹ Source: Nationwide Building Society, Regular Savings account, based on an investment of £1 - £99

² Source: Lloyds TSB Bank, Term deposit account, based on an investment of £2000 or more

³ Source: Financial Express, Average sector yield from the IMA UK Equity Income Sector

⁴ Source: Financial Express, Average sector yield from the IMA Sterling Corporate Bond Sector

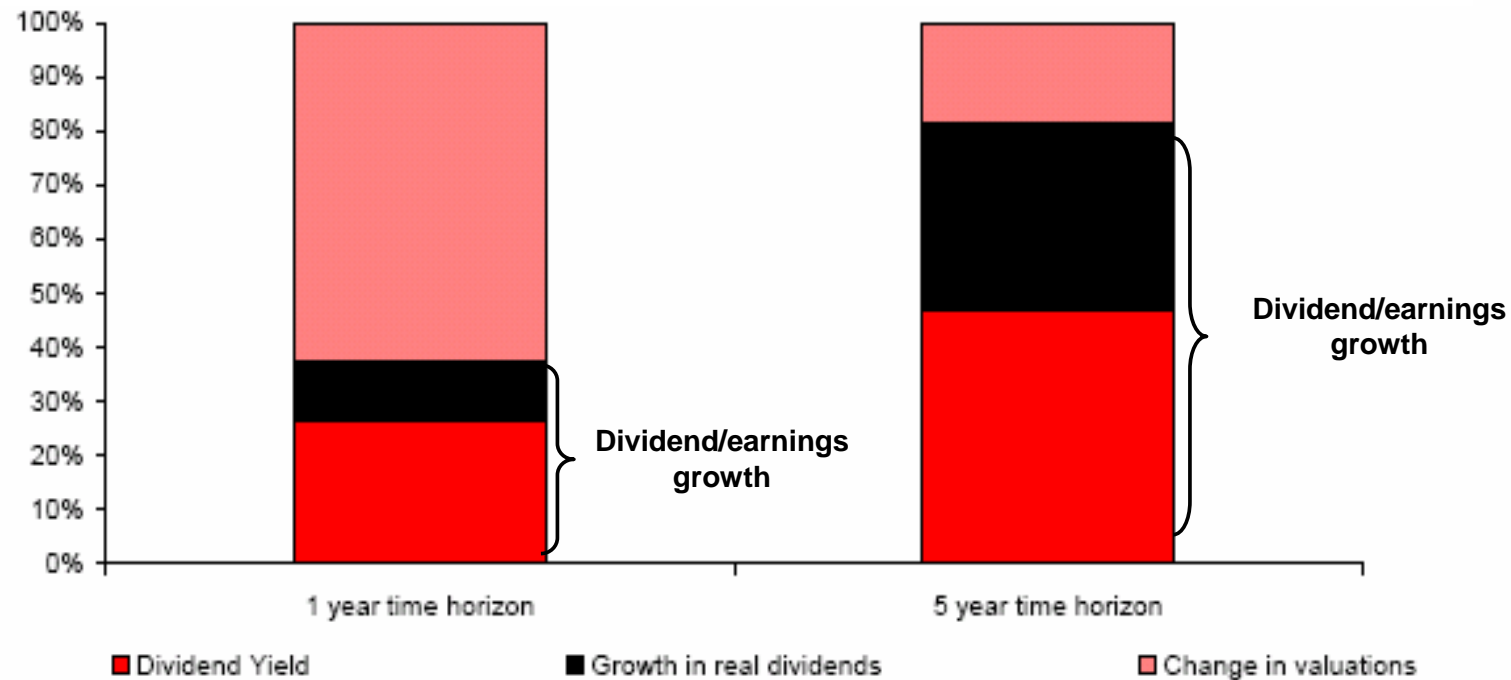
Rathbones' income offering

| Fund | Yield* |
|-----------------------------------|--------|
| ■ Rathbone Income Fund | 6.45% |
| ■ Rathbone High Income Fund | 6.58% |
| ■ Rathbone Income and Growth Fund | 5.25% |
| ■ Rathbone Ethical Bond Fund | 7.66% |

* As at 31 December 2008 on a mid price basis

Why income?

Contribution to total real return depends on your time horizon – US data since 1871



Source: SG Equity Research

Dividends drive stock performance over the long term

Rathbone Income and Growth Fund

Portfolio attributes

- Rising income above that of FTSE All-Share, plus a steady increase of capital appreciation
- A good example of our investment process: we combine top-down macroeconomic analysis with bottom up stock selection. Sell discipline is key
- Emphasis on value and growing earnings stream, and positive net cash flow. This enables dividends to rise above inflation over time
- We do not replicate FTSE All-Share sector weightings, but mindful of these when constructing the portfolio. *Not* a closet tracker fund
- Focused portfolio with an emphasis on the FTSE 100
- Average holding period of 2 years+ to gain long-term capital appreciation.

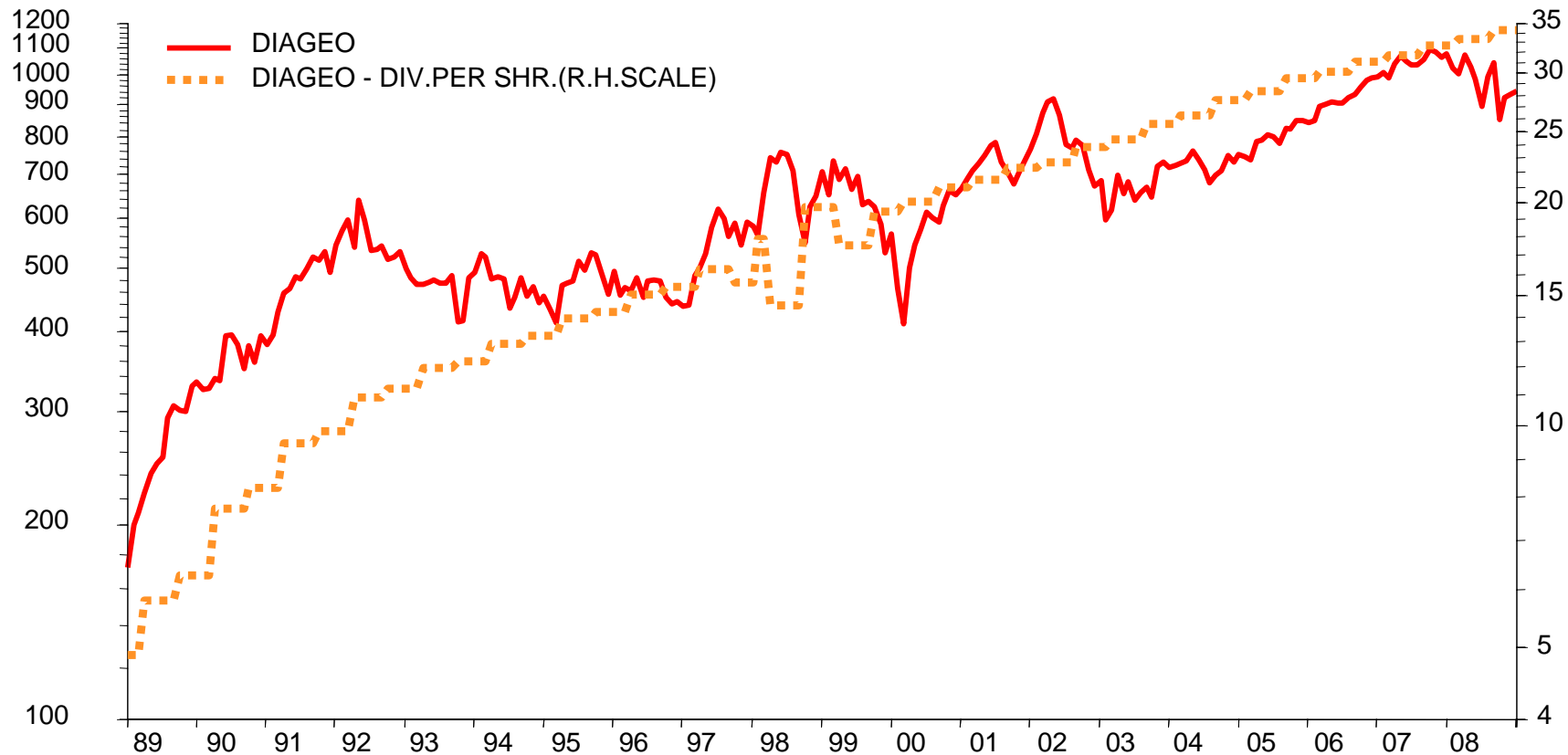
Top 10 holdings

| Holding | % |
|--------------------------|------|
| BAE Systems | 5.62 |
| BP | 5.50 |
| Tesco | 5.42 |
| Royal Dutch Shell 'B' | 5.23 |
| Diageo | 4.77 |
| Cable & Wireless | 4.71 |
| National Grid | 4.27 |
| Vodafone Group | 4.17 |
| Halfords Group | 3.98 |
| Associated British Foods | 3.79 |

Source: Rathbones; data at 01.01.2009

Process in action (I)

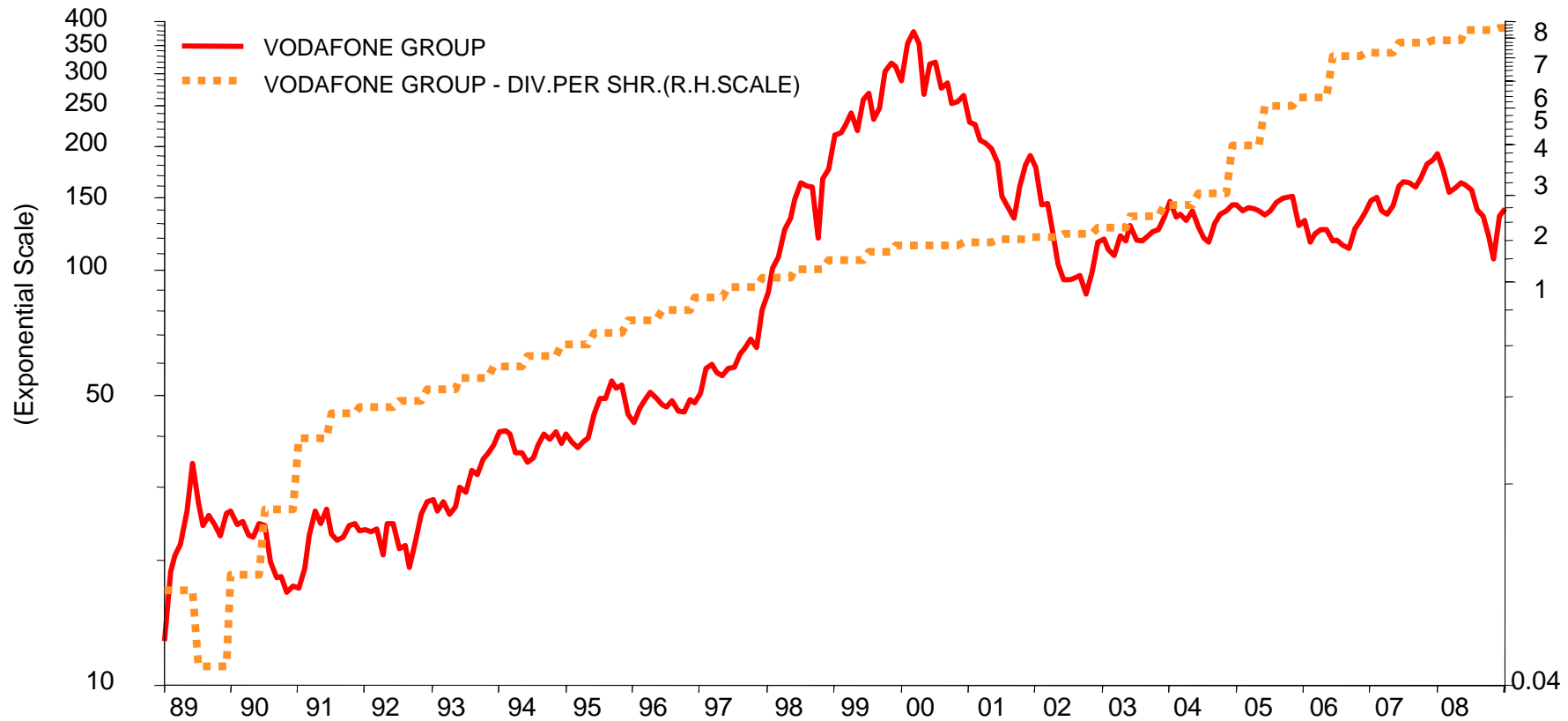
Diageo



Source: Thomson Datastream

Process in action (II)

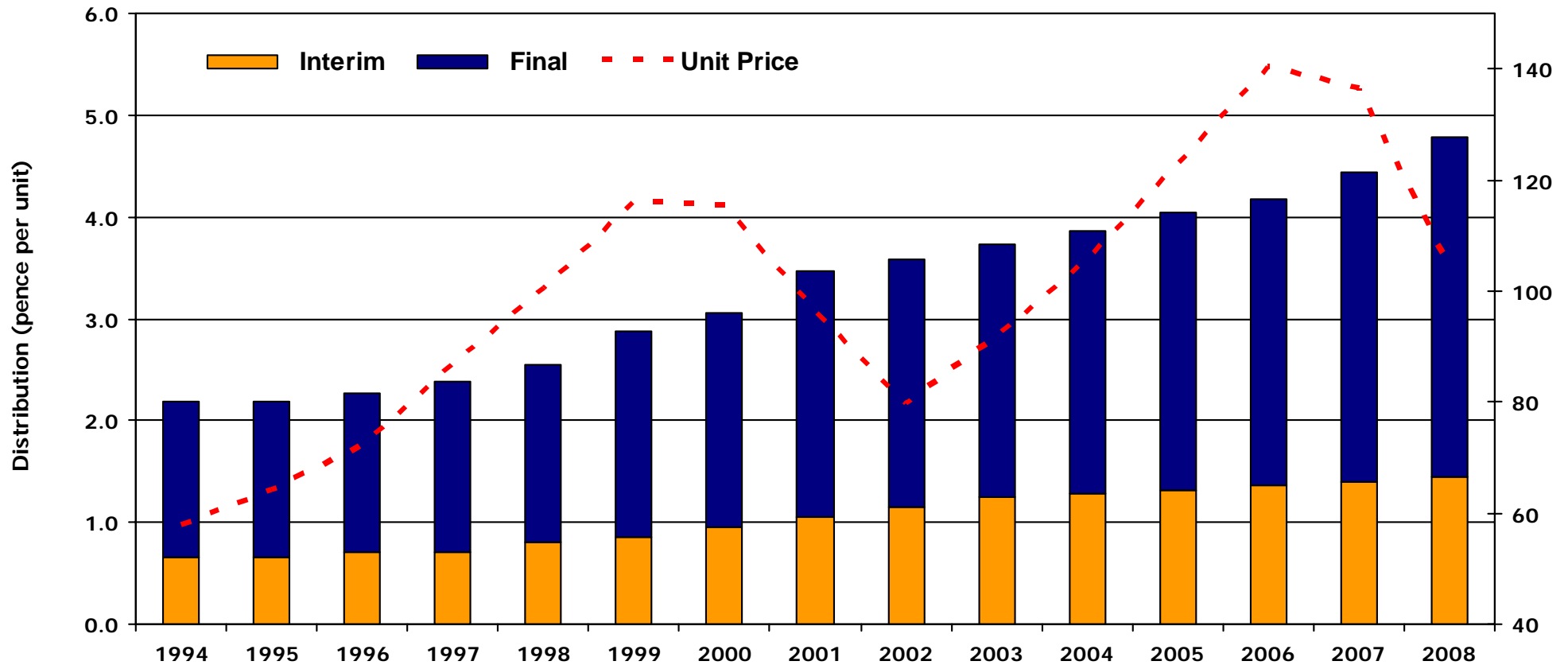
Vodafone Group



Source: Thomson Datastream

Rathbone Income and Growth Fund

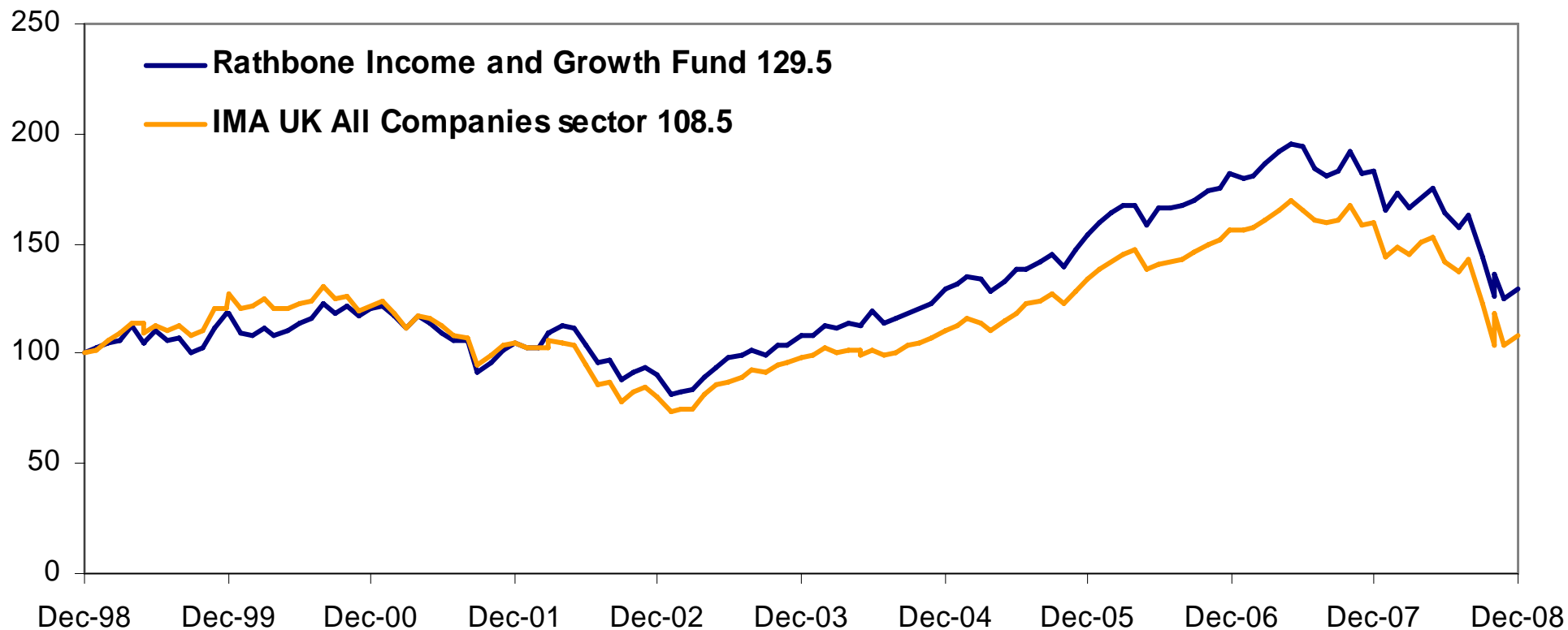
Distribution history 1994 - 2008



Past performance should not to be seen as an indication of future performance.

Rathbone Income and Growth Fund

10-year performance



Source: Data Source – Financial Express, bid to bid, net income re-invested. 31 December 1998 to 31 December 2008, UK Basic Rate, based In UK Sterling, Calculation Indexed.

Past performance should not be seen as an indication of future performance.

Julian Chillingworth

RATHBONES
Established 1742

The argument for growing income with Rathbones

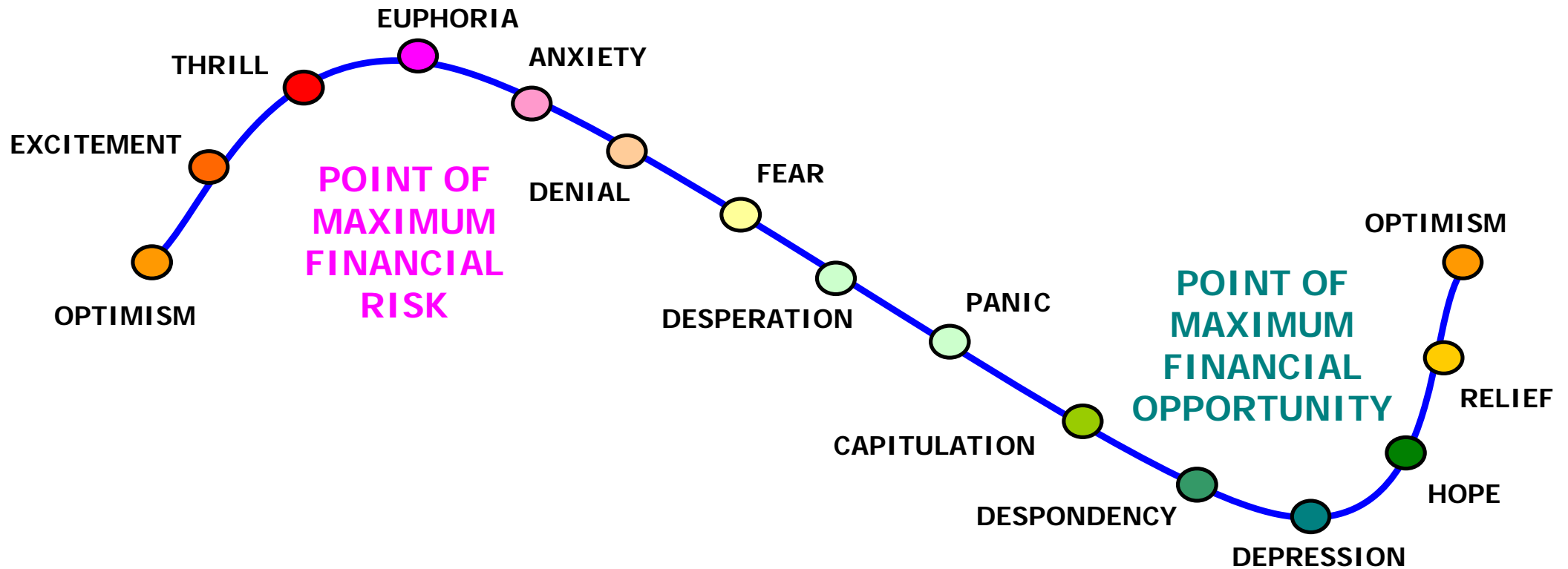
- Growing dividend provides a hedge against inflation
- Over the long term, this growth generates total returns
- Adherence to process identifies value and quality
- We are in the midst of arguably the worst market since the 1930s...
- ... and history suggests this might be the moment of greatest opportunity
- But until markets recover, growing distribution is a compensation for unit-holders.

With strong dividend flow, you are being paid to wait

It's darkest before the dawn



Stock market sentiment roadmap



Source: Westcore Funds/ Denver Investment Advisors LLC, 1998

There may be a pot of gold at the end of the rainbow



Source: Bloomberg

Julian Chillingworth

RATHBONES
Established 1742

Important Information

- **The unit trusts managed by Rathbone Unit Trust Management are authorised for retail distribution only in the United Kingdom.**
- **The information contained in this presentation is for use by investment advisers and is not intended for circulation to clients or the general public**
- Simplified Prospectus and application forms may be obtained from Rathbone Unit Trust Management Ltd
- Changes in rates of exchange between currencies may cause the value of investments to decrease or increase
- Details of tax levels and reliefs may change in the future. The value of any tax relief depends on individual circumstances. If you have any doubts about your tax position, or the suitability of this investment, you should seek professional advice
- 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 your original investment.

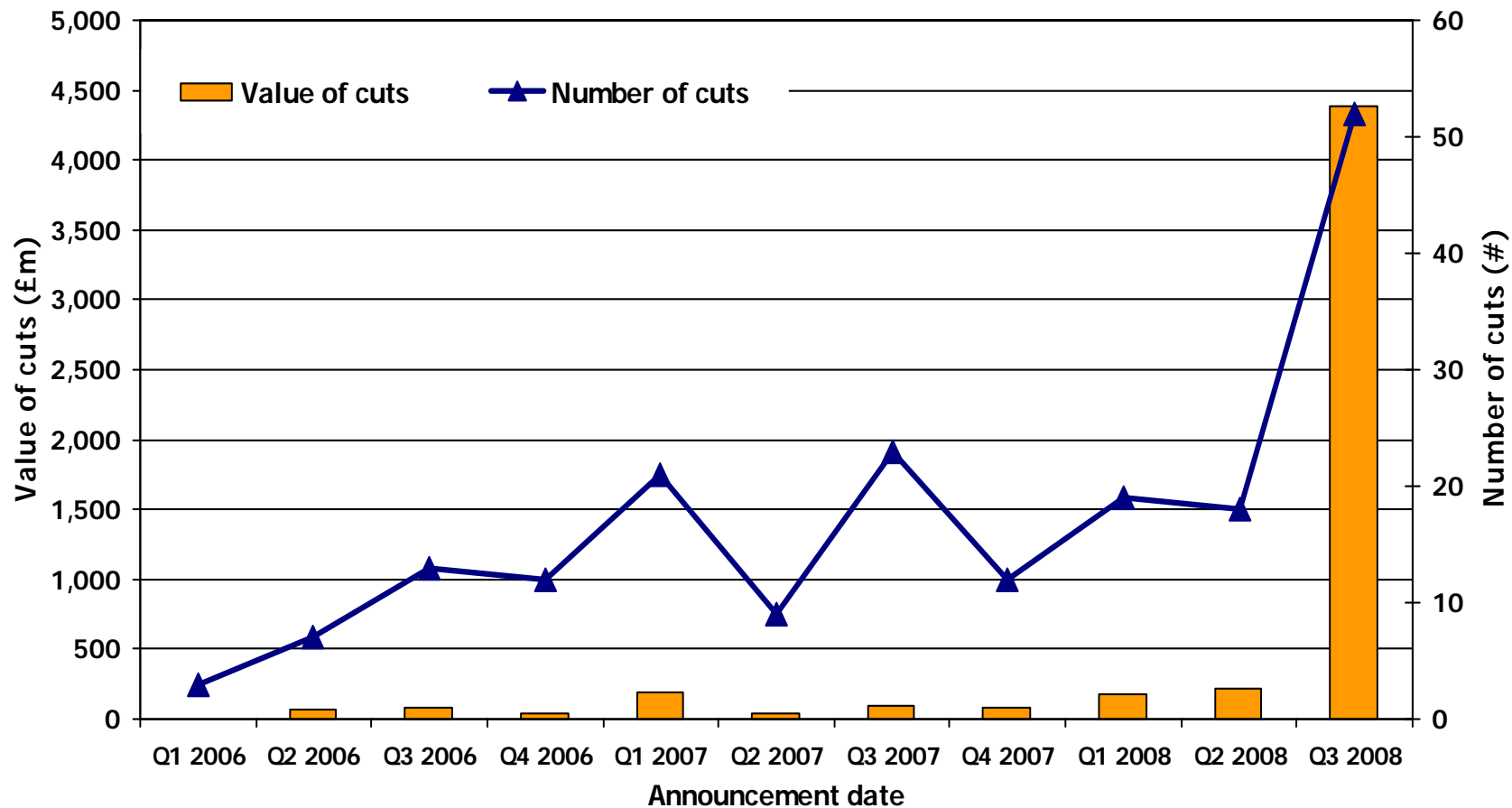


Appendices

‘Trendy Twenty’

| | PE Ratio | | Free Cash Flow |
|--------------------------------|----------|---------|----------------|
| | Current | Next Yr | Yield |
| Associated British Foods Plc | 14.9x | 11.0x | 0.0% |
| BAE Systems Plc | 14.6x | 9.8x | 10.5% |
| BG Group Plc | 10.1x | 11.8x | 3.0% |
| BHP Billiton Plc | 5.6x | 7.3x | 5.0% |
| British American Tobacco Plc | 16.0x | 12.8x | 4.8% |
| Diageo Plc | 16.1x | 12.7x | 5.4% |
| GlaxoSmithKline Plc | 14.2x | 11.6x | 6.4% |
| HSBC Holdings Plc | 5.0x | 7.3x | n/a |
| National Grid Plc | 13.3x | 11.2x | -2.0% |
| Prudential Plc | 38.8x | 4.0x | n/a |
| Reckitt Benckiser Plc | 19.5x | 16.2x | 4.0% |
| Reed Elsevier Plc | 14.8x | 11.3x | 9.7% |
| Royal Dutch Shell Plc B Shares | 3.6x | 6.2x | 3.8% |
| Sage Group Plc | 14.0x | 10.9x | 9.0% |
| Scottish & Southern Plc | 24.5x | 10.3x | 3.0% |
| Serco Plc | 23.6x | 16.6x | 3.8% |
| Smith & Nephew Plc | 16.3x | 10.8x | 2.2% |
| Tesco Plc | 12.5x | 12.3x | 0.4% |
| Unilever Plc | 11.0x | 12.8x | 3.5% |
| Vodafone Plc | 13.0x | 9.1x | 8.1% |

Market dividend cuts and omissions 2006 to 2008



Source: Collins Stewart Europe Ltd.