

Transcript of conference call for the new Rathbone Recovery Fund Thursday 19th March 2009

Proposal

Peter Pearson Lund: Thank you very much for joining us on this call. I'm going to summarise the proposal with regard to the merger of some of our funds. Julian Chillingworth, Chief Investment Officer, will cover the new Rathbone Recovery Fund in more detail. Co-manager Marina Bond and Assistant Fund Manager Alan Dobbie will talk us through some case studies. Let's start with the proposal. We looked at our product offering and decided that there was room for consolidation and change. We wanted to create a new product, appropriate for business conditions today and in the future. It makes sense to merge smaller funds, to make them more economical, and to involve the whole investment team going forwards. Subject to FSA and unit-holder approval, the proposal is that we merge the Rathbone Special Situations Fund and the Rathbone Smaller Companies Fund to create the Rathbone Recovery Fund.

For existing unit-holders, seeking income and capital growth, there is an option to enter the Rathbone Blue Chip Income and Growth Fund (which will combine with the Rathbone High Income Fund). All of these changes will be subject to clearance by the HM Revenue & Customs. Importantly, none of these changes will trigger liability with regards to Capital Gains Tax if we do get that clearance. The Rathbone Recovery Fund will sit in the IMA All Companies sector.

On the day-to-day management of the portfolio, Julian will look after the large cap element; Marina Bond, who currently manages the Rathbone Smaller Companies Fund, will look after mid-to-small cap investments, and Alan Dobbie, who has been promoted to Assistant Fund Manager, will advise the European element and also assist in the general management of the fund.

Rathbone Recovery Fund

Julian Chillingworth: What is a 'recovery situation'? We believe it's a company whose potential recovery value is unappreciated by the market. When we were planning this product, we looked at the various ways in which, throughout an economic cycle, one could participate in a recovery situation. We have defined our 'recovery situations' as those companies whose potential recovery values are going unappreciated by the market. These situations fall into four distinct categories, or across them: macroeconomic recovery (for example, in 2010), industry (industrial cyclicals), stock-specific (management changes or changes in the business model) and a sentiment-driven recovery (a huge element of the returns from financials are driven by sentiment at present).

Obviously we're in the depth of a deep global recession and we should start to see some improvement into 2010. Therefore, investors might well be looking at macroeconomic recovery situations, such as consumer-facing areas, which should benefit from a pick-up in growth. It may also be an industry or stock-specific recovery taking place. For example, the financial and property sectors have had very traumatic times over the last 18 months. At some juncture, these sectors will base out and may well offer the opportunity for gain. Stock-specific recovery situations can be due to a change of management; a change of business model or change of approach to the product line. Sentiment is also very important, particularly at this time. Markets

are moving on investors' lack of confidence or a pick-up in their appetite for risk and, consequently, we need to look at companies that may benefit. What is crucial is the selection of those recovery stocks – so identifying the reasons why a company's share price is very depressed, then identifying the catalyst to see some stock price appreciation (change in business model; general pick-up in the economy; collapse in competition; change in management).

Structure of the fund

This is a long-term investment vehicle, where we are looking to build a portfolio through economic cycles. It's a focused portfolio of 50-60 stocks, with a maximum holding size of 4% and benchmarked against the IMA All Companies sector. However, this is a stock-picking fund, and asset allocation is driven by our ideas. Our universe covers the entire UK equity market with some European expertise from Alan Dobbie. He has been successfully running a European mandate for a Canadian client over the last year, which is now second in its universe. There will also be also some quantitative assessment.

Case studies

Marina Bond: (*Morgan Sindall*). I am predicting a much larger fall in underlying earnings than either analysts or Morgan Sindall's management is forecasting. Hopefully, I'm being too harsh here, but even if it is accurate, Morgan Sindall still looks good value if you're buying below £5. The crucial thing about this sensitivity analysis is the impact on the balance sheet. In Morgan Sindall's case, a third of its market cap is in cash, and that's a conservative number. As for the management team, if any team is going to survive this downturn, it will. It's a sensible and conservative team, with good controls in place. If things get worse, numbers for 2009 will look awful, but when the economy recovers this company should survive. It will be in a strong position because it's the market leader, and it's got a strong balance sheet.

Alan Dobbie: (*Nokia*). Nokia is a classic 'industry' recovery story. This is a stock that some investors feel uncomfortable with; many investors had their fingers burnt by it in the tech bubble, as well as in the general mire of the last 18 months. Nokia is getting hit in two ways right now: consumer confidence is very weak, which means that discretionary purchases like mobile phones are being delayed. Secondly, it's also being hit by inventory de-stocking. We believe these impacts are only temporary. De-stocking, by its very nature, can't continue forever - we should see the impact lessen as we move into the second half of 2009. Consumer confidence and delayed purchases are trickier to call, but mobile phones are now so engrained in our lives, and technology changes so rapid, that we're still going to be upgrading our existing handsets.

We're also continuing to get good growth from emerging markets where Nokia has, historically, been strong. In terms of industry standing, Nokia has a 38% global market share. This is important in an environment where competition is pressured. Finally, on the stock-specific side, this is a very well capitalised business, with net cash of about €2.4 billion on the balance sheet, and has, by far, the best distribution and product positioning in the industry. It has a good management team; and is trading on 8.6x (2010) and a yield of 5%, so investors are being paid to wait. On a medium/long-term horizon then, Nokia is a compelling buy.

Julian Chillingworth: To conclude, we believe this is an ideal time to launch a recovery fund. However, this is a fund for long-term capital appreciation, not just for one part of the cycle. We bring together an experienced team of individuals. I've been looking at large cap UK and European stocks for over 25 years; Marina brings with her 10 years experience of the small cap universe, and Alan has five years investment experience, with an expertise in Europe.

This is a structured investment process, focussing on investments across several areas - macroeconomic, industry and stock- specific situations - and that ever-elusive 'sentiment' recovery play, which is going to be very important as we try and build confidence over the course of the year. We believe that the fund is one that investors could back throughout the cycle and will offer good long-term capital appreciation.

Thank you very much indeed for listening. We'll keep in touch as the weeks unfold to provide more information on the structure of the fund as it emerges as a new product towards the middle of June.

Finally, thank you very much for your overall support for our business.

Peter Pearson Lund (Chief Executive Officer)

Julian Chillingworth (Chief Investment Officer)

Marina Bond (Investment Manager)

Alan Dobbie (Assistant Fund Manager)

For those of you wishing to review this conference, the replay facility can be accessed by dialling the UK on 0845-245-5205 or alternative on country code +44-1452-5500-00, the reservation number is 89355901#.

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