



RATHBONE UNIT TRUST MANAGEMENT  
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

# THE RATHBONE MULTI ASSET PORTFOLIOS (RMAPS) THE CORE HOLDING IN AN INVESTMENT PORTFOLIO

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## INVESTMENT PROCESS

The information contained in this document is for use by investment advisers only and must not be circulated to private clients or to the general public.

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## WHO ARE THE INVESTMENT TEAM?

The manager of the portfolios is David Coombs, supported by a team of analysts. They make up the RMAPs investment committee. This committee works together constantly and meets formally once a month.



### **David Coombs, Fund Manager, Head of Multi Asset Investments**

David is a specialist in managing multi asset portfolios, with an emphasis on asset allocation and risk reduction. He has 21 years experience in this field, and joined Rathbones in April 2007 from Baring Asset Management, where he developed their absolute return investment process in the mid-nineties. David has managed unitised and segregated funds for institutional pension funds, captive insurance companies, corporate trustees and private clients including the Baring Optimum and Extended Risk funds. David joined Barings in 1988 from Hambros Bank in Guernsey where he started his career in 1984. He now sits on Rathbones' Strategic Asset Allocation Committee and chairs the Collectives Research Committee (sitting on all of its sub-committees). In 2007, David launched, and continues to manage, our Jersey-based multi asset funds. David is an Associate of the Chartered Institute of Bankers.



### **Elizabeth Savage, Research Director**

Elizabeth graduated from Newcastle University in 2001 with a degree in Geography. She joined Progressive Alternative Investments, a fund of hedge funds, in March 2002 as a graduate trainee where she spent three years, subsequently as a hedge fund analyst, conducting research on the hedge fund community across a range of different strategies. Elizabeth joined Rathbones in March 2005 to undertake independent research into funds of hedge funds and structured products. She is responsible for fund selection and due diligence across a range of alternative investment strategies. She sits on the Collectives Research Committee (and sub-committees) and on the Strategic Asset Allocation Committee. She holds the Chartered Alternative Investment Analyst Designation and the Investment Management Certificate.



### **Mona Shah, Research Analyst**

Mona joined Rathbones in September 2007 after graduating from the University of Bristol with a degree in Economics and Politics. She sits on the Collectives Research Committee which specialises in the use of quantitative and qualitative analytics to select the 'best of breed' collective funds for recommended use within the portfolios. Mona works alongside David Coombs, and also attends Rathbones' Strategic Asset Allocation and Collectives Research Committee (and sub-committees) meetings. Mona has successfully completed the CFA (Chartered Financial Analyst) and is a charter-holder.



### **Rashpal Sohan, Asset Allocation Analyst**

Rashpal graduated from the London School of Economics and Political Science with a degree in Actuarial Science. He joined Rathbones in 2005 as an Asset Allocation Analyst, working as an assistant to Robin Griffiths. Rashpal assists the Rathbone Strategic Asset Allocation Committee in analysing key data and research to make asset allocation and investment decisions.



### **Julian Chillingworth, Chief Investment Officer**

Julian joined Rathbones in July 2001 as Deputy Chief Investment Director. He was appointed as a board director of Rathbone Unit Trust Management Limited in October 2001. Julian was appointed Chief Investment Officer of Rathbone Unit Trust Management Limited in August 2002. He has responsibility for managing the Rathbone Blue Chip Income and Growth Fund, and is also co-manager for the Rathbone Ethical Bond Fund and the Rathbone Recovery Fund. As head of stock selection, he also plays a key role in the ongoing development of the investment process at Rathbones. He has 30 years investment experience gained within organisations such as James Capel, Global Asset Management, Bankers Trust and Investec Asset Management.

## WHAT ARE THE FUND OBJECTIVES AND GUIDELINES?

### The Rathbone Total Return Portfolio

The portfolio targets a return equal to 2% above the Sterling [six-month] London Interbank Offered Rate (LIBOR) over the long-term, and a volatility rate equal to one third or below that of equity markets, as measured by the MSCI World Equity index. This fund is suitable for lower-risk investors, seeking to achieve a positive real return over the medium-to-long-term, through a mixture of income and capital growth. If equities go down, investors might typically expect drawdowns of as much as one third of equity market falls, or possibly more in extreme market events. **This means that they should be committing money to these investments for a minimum of two years or more if necessary.**

### The Rathbone Strategic Growth Portfolio

The portfolio targets a return equal to 5% above UK CPI (Consumer Price Index), and a volatility rate equal to two-thirds that of global equities, as measured by the MSCI World Equity index. The fund is for medium-risk investors, seeking to achieve long-term returns generated from a mixture of capital growth and income, with lower levels of volatility than equity markets. If equities go down, investors might expect drawdowns typically of as much as two-thirds of equity market falls, or possibly more in extreme market events. **This means that they should be able to commit money to these investments for a minimum of five years or more if necessary.**

### The Rathbone Enhanced Growth Portfolio

The portfolio targets a return equal to, on average, 2% above a benchmark comprising of a combination of 70% MSCI World Equity index and 30% MSCI Emerging Markets index over the long-term, and a volatility rate equal to 100% of equity markets, as measured by the MSCI World Equity index. This fund is suitable for higher-risk investors who accept that in seeking to achieve high returns, there will be periods during which the value of their investments could fall significantly. Typically, these falls could be in line with global equity markets or possibly more in extreme events. **Investors should, therefore, be able to commit money to these investments for a minimum of five years and, ideally, for ten years or more if necessary.**

## WHAT IS THE RATIONALE FOR THE CHOSEN BENCHMARKS?

The benchmark for the Rathbone Total Return Portfolio has been set to deliver returns above the prevailing 'risk-free' or cash return. The benchmark for the Rathbone Strategic Growth Portfolio has been set in recognition of the fact that the equity market has delivered a real return of 5% over the very long-term. The benchmark for the Rathbone Enhanced Growth Portfolio has been chosen to match the ten year time horizon. This is because our contention (which is consistent with our forward-looking approach) is that in ten years time, the weighting to Emerging Markets in the World Equity index will more closely match their share of global GDP than current stock market capitalisation. The International Monetary Fund is forecasting that Emerging Markets share of GDP could be as much as 52% by 2013.

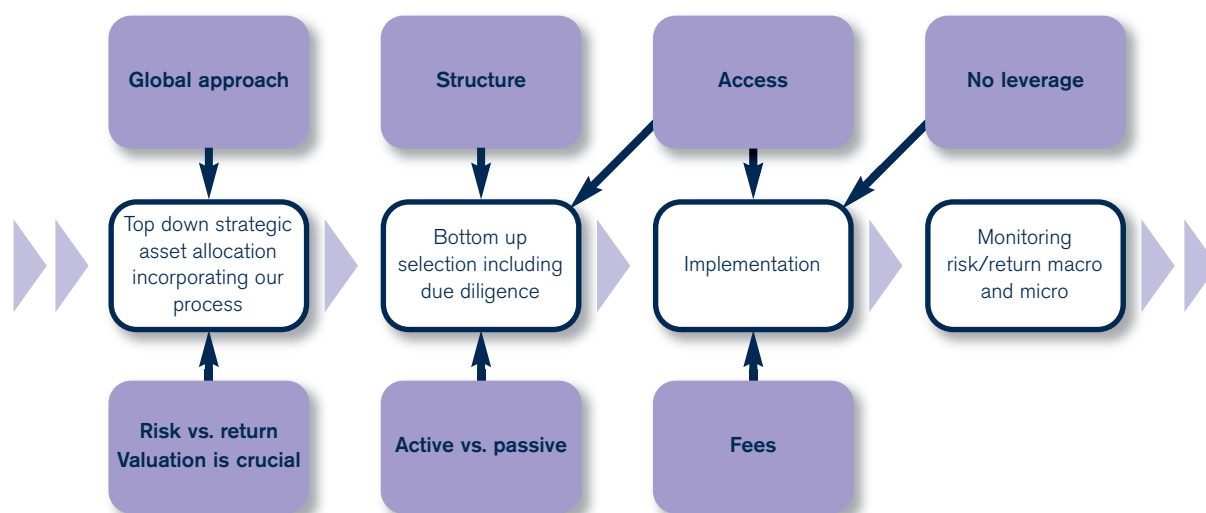
## WHAT IS THE PHILOSOPHY AND STYLE?

Across all the investment strategies, our primary objective is to maintain the real value of capital over time in a global portfolio of assets. Our core belief is in the equity risk premium (the excess return that an individual stock or the stock market provides over inflation), and that one must take a degree of risk to achieve superior real returns over the long-term. Therefore, we target return and risk using a mixture of fixed income, equities, commodities and property assets, as well as alternative investment strategies.

Our strategic asset allocation decisions drive our investment strategy and, therefore, our returns. We allocate capital using risk, valuation and correlation metrics, as allocation by geography is becoming less useful following the rapid increase in globalisation over the past 15 years. However, this does not mean we invest in all asset classes at all times.

Once the asset allocation decision has been made, the fund manager and his team aim to select only those funds which can enhance returns over the long-term in each asset class/investment strategy. Our approach means that our weightings are unconstrained by index benchmarks/peer universes. Please note that the Rathbone Enhanced Growth Portfolio will have a long-term bias towards equities, which at times could be as much as 100%. All investments, except for gilts, are made via collective vehicles using a 'best of breed' selection process that utilises the expertise of Rathbones' investment committees.

## WHAT IS AN OVERVIEW OF THE INVESTMENT PROCESS?



## WHAT IS THE INVESTMENT PROCESS IN DETAIL?

### a) Research and analysis

Our three-tier process:

**Tier 1:** We have two committees, the Strategic Asset Allocation Committee (SAAC, which meets monthly) which determines a macro overview and the investment strategy; and the Collectives Research Committee (which meets quarterly) with its six sub-committees (which meet every six weeks) which aims to identify the most appropriate funds to construct the portfolios. Each committee (and sub-committee) consists of experienced individuals, with a variety of different backgrounds, who have run money for many years, which brings a pragmatic perspective to the final decision-making. This is important to ensure a fair airing of opinions; they provide a good range of ideas and unbiased decision-making and recommendations.

#### Sourcing ideas

The output from the Strategic Asset Allocation Committee steers the bottom-up research effort by identifying particular geographic areas, industry sectors or investment strategies that are likely to outperform in the future. This ensures that fund selection is forward looking and not simply reliant on past performance. Specific investment ideas are sourced through industry contacts, conferences and referrals. We also subscribe to third party investment and analytics software which enables us to screen the universe according to various risk and return metrics. Specifically we are looking for 'best of breed' investment funds across the risk/return spectrum. We are always cognisant of the regulatory, tax and liquidity requirements of our clients when sourcing investment ideas.

We draw on research from the following strategists: Bank Credit Analyst, Macro Research Board, Wolfe Trahan, Capital Economics. Each committee utilises distinct methodologies to arrive at their conclusions, which prevents confirmatory bias.

Executive members of the SAAC are responsible for specific investment areas. They submit a summary of views ahead of the meeting highlighting the risks and opportunities.

Our in-house asset allocation analyst collates a data book of information including model performance data, macro data, statistics and information.

#### Collectives research

A recommended list is maintained by the Collectives Research Committee which is made up of research analysts and fund managers who specialise in particular investment areas. This approach allows broad coverage of available investment opportunities, twinned with rigorous, in-depth research and due diligence. There is much interaction between the investment analysts who possess detailed technical knowledge and experienced private client fund managers. This ensures that committee recommendations are always made with client needs in mind.

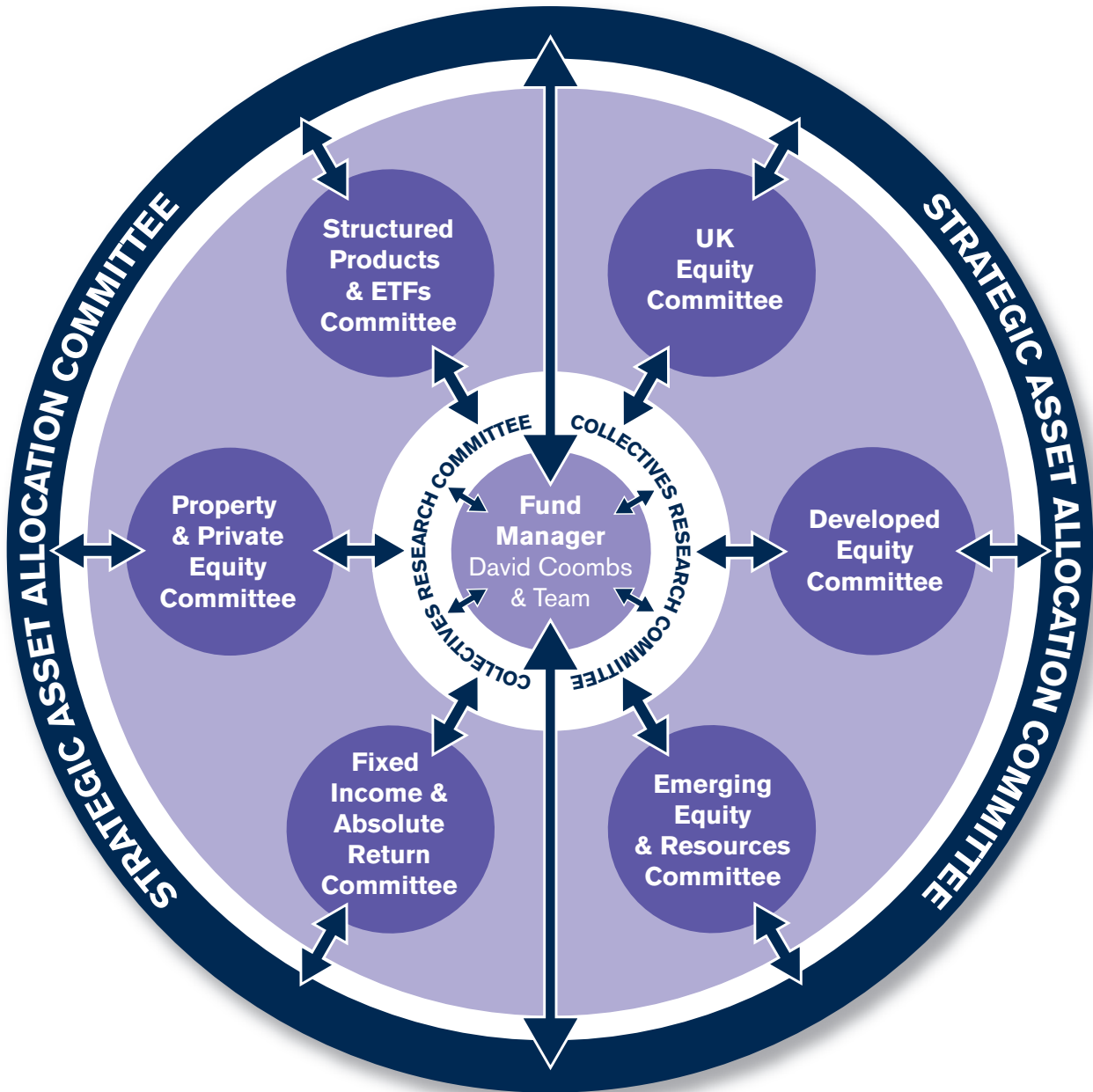
**Tier 2:** Our three dedicated analysts undertake the necessary due diligence. Many houses only have this layer plus the named manager(s). David Coombs chairs the Collectives Research Committee, and so drives process and objectives for these funds and influences areas for research.

**Tier 3:** David Coombs has ultimate responsibility for the tactical allocation within the funds. In David's absence, immediate responsibilities lie with CIO Julian Chillingworth (macro/top-down), and Mona and Elizabeth (bottom-up selection). However, this would be under Julian's supervision.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

### The rings of resource and expertise

The committees interact as follows:



The starting point is the Strategic Asset Allocation Committee – the macro driving force behind the funds:

The **Strategic Asset Allocation Committee (SAAC)** which advises on the structure of the portfolios (with eight permanent members holding a total of 182 years experience) and three analysts, do a once-a-month review. However, the manager David Coombs can act in a timely fashion without reference to the committee.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

### b) Macro positioning

The investment strategies are based around risk, correlation and return. It is important to define a framework when there is no index benchmark for reference and the targets are real returns. We begin by trying to identify the key risks in the world and the downside potential of each asset class, based on the prevailing valuations.

There are a number of market stress measures we gauge. These include the TED spread (the difference between the US three-month Treasury-bill interest rate and three-month LIBOR); the VIX Index (tracking market volatility, with high values implying pessimism and low values implying optimism); global and domestic credit spreads; default rates; global yield curves; demand for precious metals, and cash levels.

We then consider economic indicators across an extremely broad range of areas such as consumption; output; the labour market; the housing market; inflation; liquidity; active fiscal policy; interest rates; political changes; money supply and currency reserves.

At the next stage we review each asset class in isolation and monitor more specific factors such as:

- **Equity markets:** Relative value to each other and other asset classes; yield gap; earnings growth
- **Fixed income markets:** Yield curves; liquidity/supply; credit spreads; relative value
- **Property:** Investment Property Databank (IPD) yield versus ten year government bonds; cost of leveraging; supply
- **Hedge funds:** Volatility expectations; rising risk premiums; falling earnings growth; momentum; equity valuations
- **Structured products:** Volatility; interest rates; Credit Default Swaps (CDS) rates; participation levels
- **Commodities:** Inflation expectations; supply; GDP growth expectations; economic cycle.

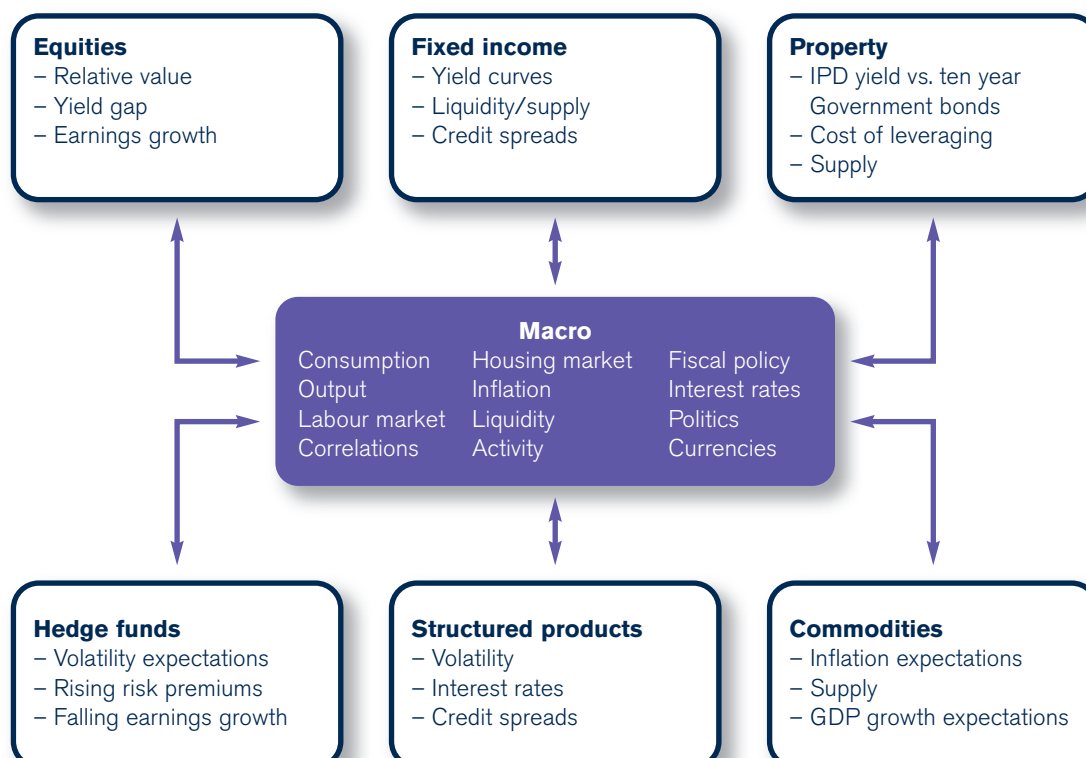
This data is reviewed monthly by the Strategic Asset Allocation Committee.

### c) Asset allocation – managing risk and return

Asset allocation is in two parts:

- **Strategic asset allocation** incorporates the long-term investment themes agreed by the SAAC.
- **Tactical asset allocation** is undertaken to reflect short-term market movements and their effect on relative valuations.

Key asset allocation drivers:



## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

- Our focuses are on correlation, volatility, relative value with close attention paid to risk versus reward, long-term.
- Unlike many companies, we have a dedicated and experienced alternative assets team who assess the best way to access these products.
- The funds selection team is complete – all regions and sectors are covered for ongoing assessment of which funds are moving up and down the rankings.

To deliver the respective target returns, we have to take some risk (the beta assets) but we cannot afford to have a lot of volatility or large drawdowns because it makes it more difficult to recoup losses and meet the objectives. So genuine diversification and volatility dampening assets are required – assets that can help reduce correlation to markets (such as alternative assets). We look at the portfolio construction on the basis of liquidity, alternative and beta groupings:

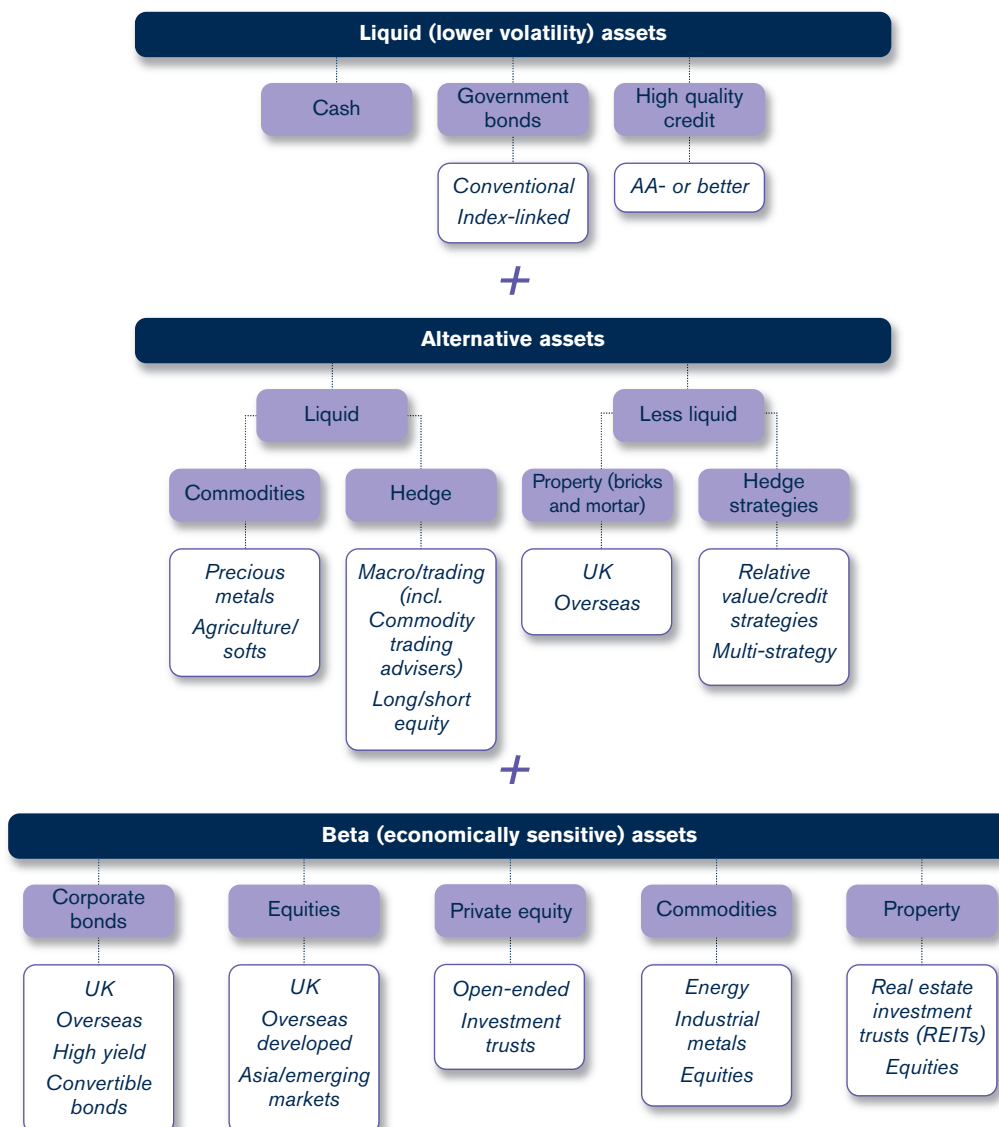
**Liquid assets** – less credit risk, should not suffer substantial volatility and can be disposed of readily.

**Alternative assets** – Includes all those assets that demonstrate lower correlation to equity markets compared to beta assets, hence provide significant portfolio diversification. These can be further divided into:

1. Liquid assets – precious metals, commodities, long/short equity etc.
2. Less liquid assets – property (bricks and mortar), hedge strategies etc.

**Beta assets** – Includes equities and all those assets highly correlated to equities and consequently have higher volatility than liquid assets. For example, private equity, corporate bonds etc.

The breakdown of the main classifications is shown below.



## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

Being overweight/underweight by geography is not as important as the relative positions in the classes above. Beta is derived out of the economic/credit cycle by analysing the relative risks and diversifying by investing in areas designed to reduce correlation rather than by merely adding lots of different asset classes together.

These allocations within each individual category are disciplined by limits. The key ‘risk lever’ and starting point is the allocation to beta. In very simplistic terms, if we believe valuations in risk assets are cheaper than neutral levels, then the allocation to beta will be above the median allocation, and if expensive, then vice-versa. The ranges are as follows:

Fund	Liquid Assets	Alternative Assets	Beta Assets
<b>Rathbone Total Return Portfolio</b>	10% to 50%	30% to 60% (liquid: 10% to 40%; less liquid: 0% to 20%)	20% to 60%
<b>Rathbone Strategic Growth Portfolio</b>	0% to 20%	10% to 50% (liquid: 10% to 50%; less liquid: 0% to 20%)	40% to 80%
<b>Rathbone Enhanced Growth Portfolio</b>	0% to 10%	0% to 20% (liquid: 0% to 20%; less liquid: 0% to 20%)	70% to 100%

What is not restricted is the allocation to assets within each sub-category, which is determined by a combination of our macro view and where we see value. For example, in the beta category, 100% of the allocation could be invested in the ‘equities’ sub-category. We aim to make our allocations as meaningful as possible. For instance, if we are feeling particularly ‘bullish’, then the beta part of the portfolio is higher. Conversely, if we are feeling ‘bearish’, then we take beta out. If we wish to leave the beta allocation unchanged, but wish to add to high yield bonds, then we would reduce another sub-category to maintain the overall risk profile. The process is all about balancing out the risk and correlation. This does not mean that we are restricted in each purchase to aiming at certain risk levels; it is the overall risk balance that is important.

The Rathbone Enhanced Growth Portfolio will take higher equity weightings than Rathbone Strategic Growth Portfolio and will have weightings to higher beta markets. Fund selection will tend to focus on managers with higher tracking errors (more than we might for investments in the Rathbone Strategic Growth Portfolio), and may invest in less liquid markets. In the case of the latter, the structure would of course have to be suitable.

There is little commonality of holdings between our three portfolios.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

### d) Fund selection/rejection – the Collectives Research Committee and its sub-committees

From the views generated by SAAC, the Collectives Research Committee fashions its recommendations.

There has been considerable change within the investment funds universe over the past few years. One example is the increasing convergence between long only and alternative investment funds through greater use of derivatives and complex strategies via UCITS III. In light of this we recognise the need to have a consistent approach for approving funds, conducting due diligence and monitoring performance. We also recognise that investment opportunities should not be segregated by fund structure, but by sector, geography, liquidity and the key performance drivers of such investments.

The investment areas covered by the Collectives Research Committee are wide ranging. This higher level committee meets on a quarterly basis and focuses on process and resources (IT data providers and people) and risk, whilst monitoring the output from the sub-committees referred to below.

The sub-committees meet every 6 weeks and focus purely on investment-related matters. They focus on 6 different areas (the number of members and total number of years experience is in brackets):

- UK Equity (including long/short)  
*(8 members, 104 years experience)*
- Developed Equity (including long/short and global sector funds)  
*(8 members, 110 years experience)*
- Emerging/Asia Equity/Commodities & Resources (including long/short)  
*(9 members, 101 years experience)*
- Fixed Income/Macro/FX and Absolute Return (Including macro hedge funds, credit long/short, convertibles and convertible arbitrage and tactical asset allocation funds)  
*(8 members, 84 years experience)*
- Property/Private Equity and Infrastructure  
*(5 members, 74 years experience)*
- Structured Products and ETFs  
*(9 members, 109 years experience)*

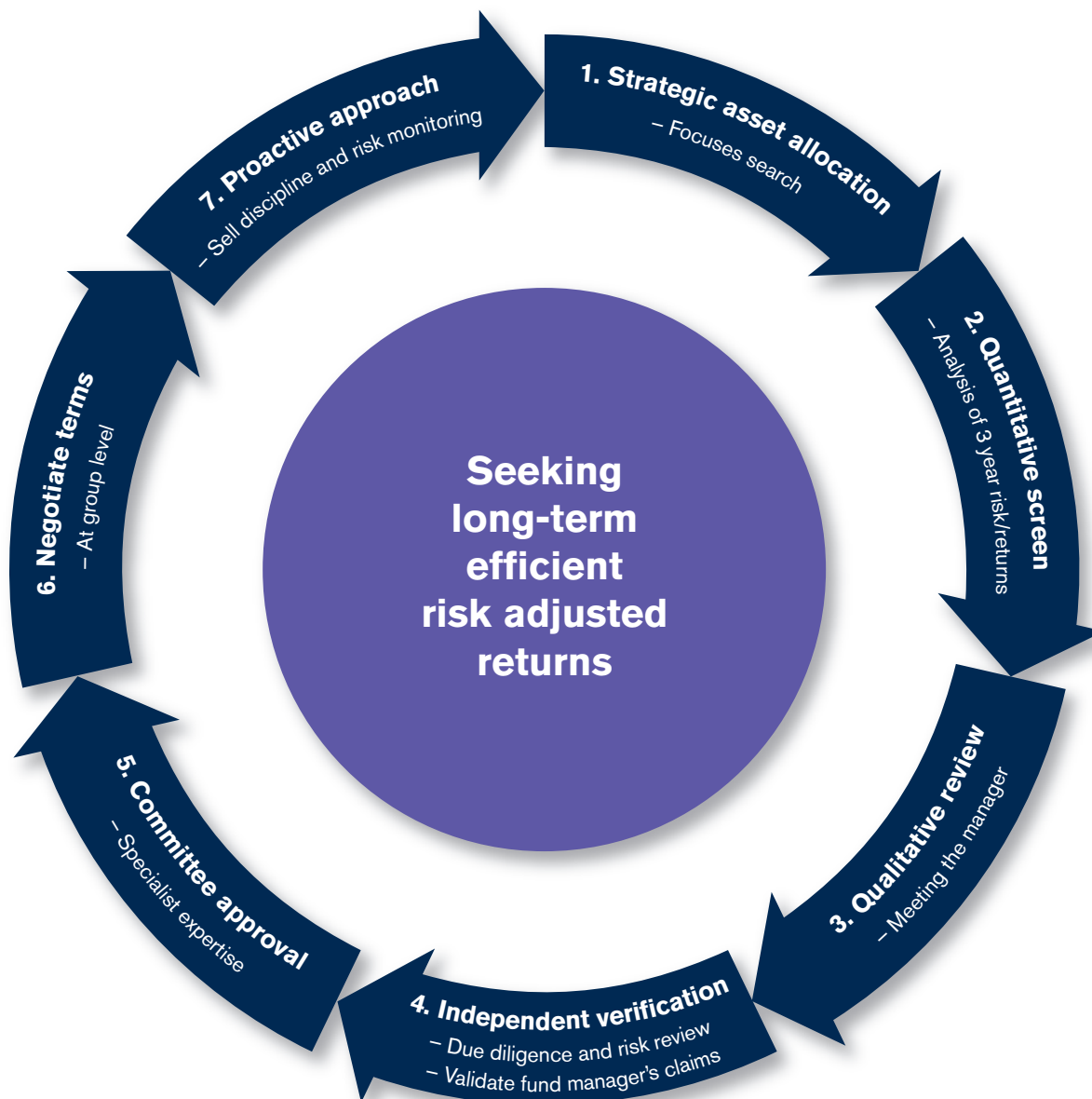
Our committee structure is designed to harness the complimentary skills and experience of the committee members. This means that committee members do not work in silos and have their ideas questioned and debated. The research analysts and committee Chair attend all sub-committee meetings to ensure that the investment process is applied consistently.

#### Objectives of the Collectives Research Committee

- Identify the best funds with a variety of risk, return and correlation characteristics.
- Source traditional long-only funds that have consistently outperformed their benchmarks with the lowest level of risk.
- Identify alternative investments including hedge funds and structured products that have demonstrated that they can reduce the overall risk of a portfolio when combined with traditional asset classes.
- Look for fund structures that are tax and cost-efficient and have appropriate liquidity.
- Conduct thorough due diligence by identifying funds with robust risk management processes, strong corporate governance and independent, reputable counterparties.
- Monitor the performance of recommended investments on an ongoing basis.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

Best of breed selection:



### A place for carefully selected and monitored alternative assets

The majority of holdings in the alternative assets category should be liquid rather than less liquid.

With regard to our exposure to hedge funds, we hold a concentrated list of only six or seven funds at any one time. The purpose of holding such funds is to reduce risk in the portfolios. These will all be regulated UCITS funds or investment trusts and will only be selected for the portfolio after as much as three months or more of due diligence has been performed on the managers and processes in question. We conduct a full appraisal of all risk monitoring systems. We select funds with full transparency which spread their counterparty risk and in themselves, operate policies of separate custodians and valuations. This helps to avoid manipulation of data. Our investments come from the 'big' reputable European-based investment houses with funds established in Luxembourg and Dublin. In order to manage a portfolio on daily dealing, we invest in funds that also deal on a frequent basis (either daily or weekly) and are therefore, easily tradable.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

### Best of breed selection in detail

- 1) **Quantitative analysis.** For traditional long funds we first review returns over three years on a discrete basis – our overriding objective is to seek a long-term appointment. This is broken into 12 quarters. Any manager who has outperformed in at least 8 quarters, is worthy of further analysis. Next we assess this short list of funds based on 10 risk measures with particular attention to those which measure absolute losses, volatility and relative risk versus the benchmark.

As many alternative investments such as hedge funds follow unconstrained investment mandates, it is not meaningful to measure their performance against a benchmark. For these funds we first seek to understand the investment objective and the nature of the strategy employed. The performance track record is then assessed in the context of the market environment and whether this was conducive to the strategy. With this in mind we analyse the track record for the overall risk/return and correlation profile of the fund.

Those long-only and alternative investment funds with strong risk-adjusted returns will progress to the next stage of due diligence.

- 2) **Manager meeting.** No fund can be considered for the recommended list until we have conducted at least one meeting with the underlying fund manager/key risk taker. At the meeting we examine in detail the investment objective and how it relates to the investment strategy and its inherent risks. We seek to understand what the opportunities for the strategy are, why the manager has an 'edge' in exploiting such opportunities and whether this is sustainable. We also seek to identify the best and worst market environment for the strategy and examine the solidity of the investment manager's business infrastructure and team. Follow-up meetings are common to ensure a thorough understanding of the strategy employed.
- 3) **Due diligence.** This part of the fund selection process is designed to draw out the weaknesses of the investment strategy and manager's business. We use a proprietary due diligence questionnaire to answer key questions and examine in more detail operational and investment risk. Red flags include a lack of transparency, conflicts of interest, liquidity or asset/liability mismatches, inconsistencies in the story and inappropriate fees. When looking at business risk we consider the overall profitability of the firm, the experience, background and reputation of the individuals, in some cases obtaining references. We also investigate operational risk by looking at a fund's formation and structure, controls, segregation of responsibilities and counterparties. The final stage of due diligence includes a document review, checking the terms of the investment in the prospectus, due diligence questionnaire, marketing literature and financial statements. The suitability of the structure is determined by checking the liquidity, tax structure and regulatory controls. If everything is satisfactory then a detailed research note is completed and the fund is submitted to the appropriate sub-committee for approval. We aim to hold no more than 10% with any one manager and would hold typically between 30 and 40 funds at a time although the number could be lower.
- 4) **Approval by committee.** The Collectives Research Committee maintains a list of recommended investments. When an investment is submitted for approval, the committee debates its merits and drawbacks and decides whether the fund should be added to the list.

If the committee decides to add the fund to the list, then we will seek to negotiate terms with the fund provider. Fees levied by fund management houses can impact performance numbers markedly over the long-term. The scale of our business enables us to negotiate competitive fees and where available, we seek to hold institutional units which attract lower fees to the advantage of our clients.

- 5) **Ongoing monitoring.** The due diligence process does not stop once an investment has been approved. At their respective six weekly individual meetings, the sub-committees assess the performance of the recommended funds against their benchmarks and peer groups. The committees take a pro-active, forward-looking approach when monitoring investments. We check a number of risk metrics including volatility and correlation and look for change or deviation from the investment objective. Strong positive performance can be a warning sign as it can indicate an increase in risk-taking and can be the precursor to negative performance. We also monitor the size of assets under management as the returns of a fund that is too large may erode over time. We also check for changes to the business such as the departure of personnel or change of ownership. Some investments may be removed from the recommended list simply because a better alternative has been sourced.

## WHAT IS THE INVESTMENT PROCESS IN DETAIL? (CONTINUED)

### 6) Risk management

#### *Management oversight*

- A monthly review meeting chaired by the Head of the Strategic Asset Allocation Committee.
- Weekly performance data is circulated to senior management and monitored by the Rathbone Unit Trust Management executive.
- Half yearly 'CIO Challenge' review meetings attended by the Rathbone Unit Trust Management CIO and CEO to scrutinise the portfolio decisions made.
- Semi-annual presentations are made to Rathbone Unit Trust Management's Board of Directors.
- All purchases are reviewed by the Rathbone Unit Trust Management Compliance team pre-trade.
- Structured product transactions are pre-approved by the Structured Products and ETFs Committee.

#### *Portfolio risk*

The following risks are actively monitored by the multi asset team and reported to the monthly review meeting:

- Relative volatility of portfolios versus the MSCI World Equity index over the short and long-term, in an attempt to identify early a deteriorating trend.
- Correlations of the Liquid, Alternatives and Beta sub portfolios to each other and global equities over 3 time periods, again to identify changes in trends.
- Equity beta risk of the Liquid, Alternatives and Beta sub portfolios.
- Interest rate risk via duration analysis.
- Liquidity risk.
- Ad hoc stress testing of portfolios (scenario analysis).
- All 6 collective sub committees monitor 10 risk factors over 1 and 3 years for each fund held in the portfolios.
- Funds are identified individually by risk for each portfolio and are unlikely to be deemed suitable for more than one fund.

In addition to, and as a consequence of the monthly review meeting and other inputs:

- Our analysts are strictly accountable for monitoring risk in underlying positions.
- Performance is always assessed and re-assessed in the context of expectations.
- Daily monitoring of risk positions to ensure no unintended exposure to key risk factors.
- Both over- and underperformance is carefully monitored to identify style drift.
- Stress testing of the portfolios is carried out for perceived macro risks.
- Quantitative and qualitative screening is undertaken with a view to identifying consistent alpha generation.

## BUY/SELL DISCIPLINE OF UNDERLYING FUND INSTRUMENTS

Determining the quality throughout – there is a detailed and thorough fund buy and sell discipline:

### Buy

*We examine:*

- Manager experience and ‘edge’ over others
- Repeatable investment process
- Depth and longevity of team
- Alignment of interests, manager co-investment
- Strong and consistent risk-adjusted returns
- Long only: Consistent out-performance over twelve discrete periods covering 3 years
- Quality of risk management
- Strategy should justify fee levels
- Strong liquidity and capacity management
- Good flow of information
- Valuation integrity
- Corporate stability
- Quality of third party providers
- Fund gearing
- Use of derivatives.

We do not try to buy ‘big-brands’ for the sake of it; to buy large funds or to blend funds together – others can and will do this. We will buy mostly regulated vehicles for added strength. The big decisions are in the asset allocation not in fund turnover.

### Sell

*We examine:*

- Changes in key personnel/corporate instability
- Style drift
- Manager lack of conviction
- Performance undershooting expectations
- Long only: under-performance for three successive quarters, unless clear catalyst for change
- Poor risk controls
- Assets under management (avoiding asset gatherers)
- Reduced transparency and changes to fund structure
- Poor administration
- Change in investment philosophy and process.

Funds are continually monitored to ensure they are delivering to their mandate.

## WHAT YOU SHOULD NOT EXPECT FROM THE PORTFOLIOS

- **They will not aim to match equity returns in strong short-term rallies.** This is because we are attempting to reduce volatility over the long-term.
- **They will not be protected against losses entirely.** We believe that we have to take risks to achieve our return targets and remain sceptical of the promises from the absolute return community. These are not like absolute return long/short funds that attempt to make money in all market conditions. Our funds will not make money in all market conditions. We aim instead to dampen volatility whilst achieving its real return target over the long-term.
- **They will not focus on peer group performance.** It is important to avoid the temptation to ‘herd’ when setting investment strategy. The funds are designed to meet their target return and risk objectives and not outperform a peer group (which can be a diverse group of funds). The dispersion of returns and volatility in active managed sectors for instance, is a good indicator of the dangers. Therefore, we have specifically categorised these funds in the ‘unclassified’ sector for Investment Management Association (IMA) purposes.
- **They will not chase short-term performance.** When selecting underlying funds, we will typically appoint a manager with a minimum of three years performance record in mind.
- **We will not allow fees to dictate portfolio construction.** We will always use our purchasing power to drive fees lower, but our objective is to generate the target returns net of fees.
- **They will not invest in other Rathbone funds.** This removes any conflict of interest.
- **They will not target a specific income yield.** These funds are designed to achieve a total return.

## FEATURES OF SPECIFIC PORTFOLIOS

### Rathbone Total Return Portfolio and Rathbone Strategic Growth Portfolio

- The portfolios are managed to meet real return targets
- The aim is to dampen the 'ride' relative to equity market risk
- Have no asset class bias – to improve the fund managers ability to act with conviction
- Provide exposure to a broad range of assets.

### Rathbone Enhanced Growth Portfolio

- The return target of the fund is to deliver an average 2% per annum, outperformance of the returns generated from a benchmark of 70% MSCI World Equity/30% MSCI Emerging markets, over the long-term
- The target is not designed as an asset allocation benchmark, but rather creates a target for the type of returns we seek to achieve over time
- Will have a volatility similar to that of world equity markets
- Has access to a broad asset class range, but with a long-term bias to equities which could at times be as much as 100%.

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