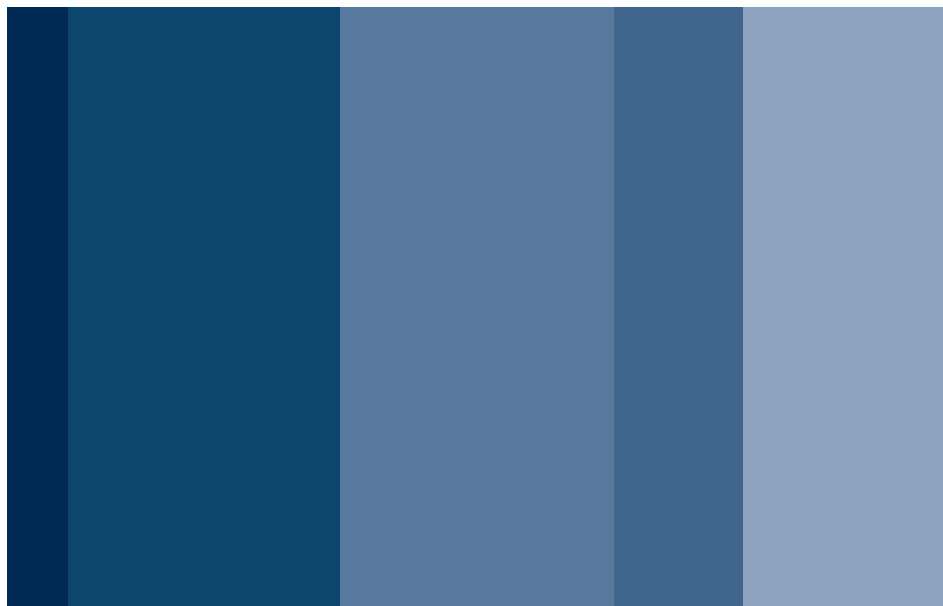


Rathbone Unit Trust Management Limited

## Rathbone Ethical Bond Fund

Short report for the year ended 30 April 2008



**RATHBONES**  
Established 1742



## Rathbone Ethical Bond Fund

### Manager

Rathbone Unit Trust Management Limited  
159 New Bond Street  
London W1S 2UD  
Telephone 020 7399 0399  
Facsimile 020 7399 0057

**A member of the Rathbone Group**

**Authorised and regulated by the Financial Services  
Authority and member of the Investment  
Management Association**

### Dealing Office

PO Box 9948  
Chelmsford  
CM99 2AG  
Telephone 0845 300 2101  
Facsimile 0870 887 0180

### Registrar

International Financial Data Services (UK) Limited  
PO Box 9948  
Chelmsford CM99 2AG  
Telephone 0845 300 2101  
Facsimile 0870 887 0180

**Authorised and regulated by the  
Financial Services Authority**

### Auditor

Grant Thornton UK LLP  
Chartered Accountants and Registered Auditor  
30 Finsbury Square, London EC2P 2YU

### Directors

**GM Powell** – Chairman  
**PG Pearson Lund** – Chief Executive Officer  
**JR Chillingworth** – Chief Investment Officer  
**CRC Hexton**  
**RP Lanyon**  
**RE Loader** FCA  
**CP Mason** – Compliance Director  
**AD Pomfret**  
**CR Stick**  
**JG Thomson**  
**SD Woodford** – Finance Director

### Administrator

HSBC Securities Services (UK) Limited  
1 Lochside Way  
Edinburgh Park  
Edinburgh EH12 9DT  
**Authorised and regulated by the  
Financial Services Authority**

### Trustee

Royal Bank of Scotland plc  
Trustee and Depositary Services  
The Broadstone, 50 South Gyle Crescent  
Edinburgh EH12 9UZ  
**Authorised and regulated by the  
Financial Services Authority**

## Manager's report for the year ended 30 April 2008

During the 12 months to 30 April, 2008, the FTSE All Stock Gilt Index returned +0.98% (price terms) and +6.24% (total return). The Iboxx £ Non-Gilt Index returned -5.83% (price terms) and -0.17% (total return). Over the same period, your fund returned -4.26% against -2.27% from the Morningstar IMA UK Corporate Bond Sector.

This was an exceptionally difficult time. Fears about the US sub-prime mortgage market were, by the summer of 2007, spectacularly realised. Banks suffered multi-billion dollar write-downs and, in the case of Bear Stearns, a collapse; debt finance was difficult to secure; and asset values plummeted. The US Federal Reserve slashed interest rates and spearheaded extraordinary initiatives. Bond investors dumped credit indiscriminately, and resumed a flight to quality, depressing the 10-year gilt yield to 4.35% by March 2008. Also in March, spreads on the Itraxx Crossover Index – a measure of credit risk – hit a 'super-wide' of 616. The sell-off in credit included high quality, investment grade debt. This meant, despite our defensive positioning, we were not immune from the weakness.

During this period, we kept a close eye on spreads and liquidity. Early on, we reduced riskier holdings and reinvested funds into defensive new issues. This was the right call; however, we should have exited more positions. We also bought BOLD Finance, a microfinance initiative in the developing world. In August, we purchased bonds in Scandinavian banks Nordea and Den Norske Bank – the region appeared insulated from the problems. September was dominated by Northern Rock. The saga impacted sentiment towards other banks and building societies, including some of our holdings. This focused us on those institutions, such as the Co-operative Bank, which exhibited little reliance on wholesale funding.

Weak economic data from the US and UK characterised the remainder of 2007. LIBOR – the rate at which banks lend to one another – rose to 6.90%. The increase in borrowing costs had a negative effect on financials. In October, credit enjoyed a small rally, and we reduced positions in Citigroup, Bradford & Bingley, HBOS and Bear Stearns. We switched the proceeds into existing AAA rated holdings, thus raising our defensive profile. We continued to increase this AAA weighting in November by purchasing Bank Nederlandse Gemeenten. Banks also started to re-issue paper at cheap levels, and we entered DnB NOR Bank. Our largest holding, Peverel, was tendered for, increasing the bond price by approximately 10.65%. However, confidence in banks slid further following allegations of rogue trading at Societe Generale and the threat of downgrades of monoline insurers. March saw the collapse and subsequent rescue of Bear Stearns. Equities reeled, and credit spreads widened to record levels. Bear's rescue is now seen as the trough in prices, and investors have switched their attentions to higher inflation, driving a rise in gilt yields. Equity rights issues have also supported credit, particularly amongst banks. Financials thus performed strongly in April, supporting our monthly return. We also participated in a cheap new issue for Alliance & Leicester on a 9.63% yield.

We expect UK inflation to trend upwards whilst growth falls away. This will negatively impact spreads and increase interim volatility. However, companies are repairing their balance sheets, and bond markets are already pricing in significant risks, thus giving corporate bonds the potential to perform well in the medium term.

**Bryn Jones**  
22 May 2008

## Net asset value per unit and comparative tables

### Fund size

<i>Date</i>	<i>Net Asset Value £</i>	<i>Attributable to</i>	<i>Units in issue</i>	<i>Net Asset Value (pence per unit)</i>
30 April 2004	34,601,702	Income	36,627,368	94.47
	3,640,527	Accumulation	3,527,357	103.21
30 April 2005	37,036,952	Income	38,918,659	95.17
	4,523,100	Accumulation	4,160,875	108.71
30 April 2006	42,432,806	Income	45,209,217	93.86
	5,577,935	Accumulation	4,981,499	111.97
30 April 2007	42,241,336	Income	47,018,935	89.84
	5,782,226	Accumulation	5,151,762	112.24
30 April 2008	36,238,442	Income	44,745,892	80.99
	5,602,219	Accumulation	5,271,674	106.27

### Price history

The table below shows, on a calendar year basis, the highest buying and lowest selling prices in pence per unit for the last five years. Past performance should not be seen as an indication of future performance.

<i>Year</i>	<i>Income Units</i>		<i>Accumulation Units</i>	
	<i>Highest Buying</i>	<i>Lowest Selling</i>	<i>Highest Buying</i>	<i>Lowest Selling</i>
2003	106.39	95.01	110.95	100.63
2004	102.70	92.79	113.42	101.39
2005	102.61	94.80	119.45	107.10
2006	103.82	92.37	121.23	111.27
2007	97.11	85.93	119.37	109.28
2008*	91.82	80.83	117.49	104.70

\*To 30 April 2008.

### Income record

<i>Year</i>	<i>Income Units</i>	<i>Accumulation Units</i>
	<i>Net income per unit</i>	<i>Net income per unit</i>
	<i>p</i>	<i>p</i>
2003	4.45	4.60
2004	4.37	4.75
2005	4.27	4.87
2006	4.19	4.96
2007	4.22	5.24
2008*	2.12	2.73

\*To 30 April 2008.

The annual management fee is taken from the capital of the fund. This will enhance income but will restrict capital growth.

### Distributions

A distribution of 1.07p will be paid to income unitholders on 30 June 2008. The total distributions for the period under review amounted to 4.23p per income unit with 4.24p per income unit for the same period last year.

**Fund Performance**

<i>Unit class</i>	<i>Net Asset Value as at 30 April 2008 (pence per unit)</i>	<i>Net Asset Value as at 30 April 2007 (pence per unit)</i>	<i>Net Asset Value change %</i>
Income	80.99	89.84	-9.85%
Accumulation	106.27	112.24	-5.32%

**Performance record**

<i>Performance to 30.04.08</i>	<i>6 months</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	
Rathbone Ethical Bond Fund	-3.07%	-4.26%	-0.99%	4.88%	
MorningStar IMA UK Corporate Bond Sector	-2.42%	-2.27%	1.73%	10.60%	
<i>Discrete year performance to 30 April</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
Rathbone Ethical Bond Fund	2.12%	3.59%	5.08%	-0.45%	-5.33%
MorningStar IMA UK Corporate Bond Sector	4.02%	4.55%	5.63%	-0.14%	-3.18%

*Fund and sector performance – Copyright – © 2008 Morningstar, Inc. All Rights Reserved. Morningstar Rating™ as of 30.04.08, in the Morningstar IMA UK Corporate Bond Category™. Morningstar, bid to bid, net income re-invested.*

**Risk factors**

An investment in a unit trust should be regarded as a medium to long term investment. Investors should be aware that the price of units and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance should not be seen as an indication of future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

**Total expense ratios**

<i>Expense type</i>	<i>30.04.08</i>	<i>30.04.07</i>
Manager's periodic charge	1.25%	1.25%
Other expenses	0.10%	0.09%
Total Expense Ratio (TER)	1.35%	1.34%

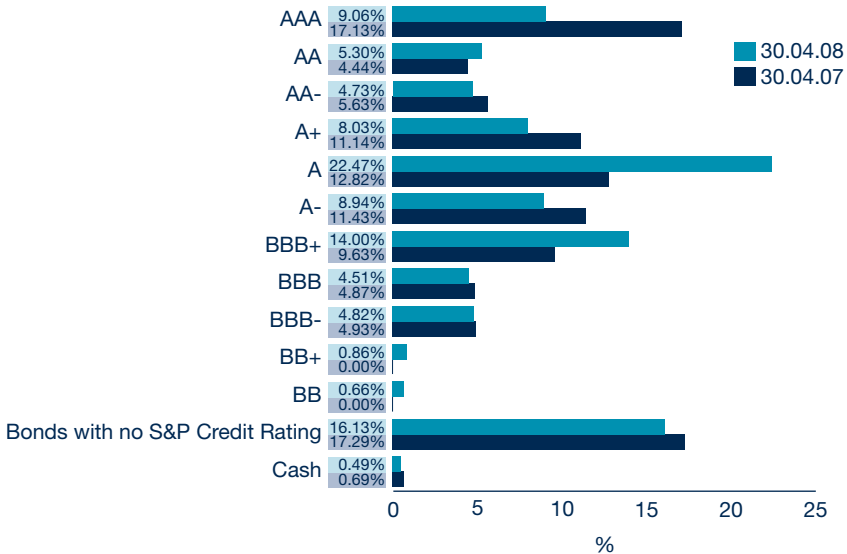
## Portfolio Information

### Top 10 largest holdings

The top 10 holdings at the end of the previous year and at the end of the current year are shown below.

	30.04.08		30.04.07
Fresh Finance for Residential		Kreditanstalt für Weideraufbau 5.75% 2032	3.26%
Social Housing 11.126% 2058	2.76%	Peveler Funding 6.06% 2034	2.77%
QBE 5.625% 2009	2.58%	Land Securities Capital Markets	
Svenska Handelsbanken 6.125% 2009	2.50%	4.875% 2025	2.75%
Telereal Securitisation 7.098% 2033	2.37%	Juneau Investments 5.9% 2021	2.60%
Legal & General Finance 5.875% 2019	2.33%	QBE Insurance Group 5.625% 2009	2.47%
Clerical Medical Finance 7.375% 2019	2.10%	Network Rail Infrastructure Finance	
Amlin 6.5% 2026	2.09%	4.375% 2030	2.29%
Quadrant Housing 7.9% 2033	2.06%	Resolution 6.5864% 2016	2.02%
Land Securities 4.875% 2025	2.03%	Rothschild 9% 2024	2.00%
Lloyds TSB Bank 5.125% 2016	1.99%	Resona Bank 5.986% 2011	1.96%
		Quadrant Housing 7.76% 2033	1.93%

### Sector breakdown



## Portfolio information – continued

### **Risk profile**

There is little exposure to credit or cash flow risk. There are no net borrowings and little exposure to liquidity risk because assets can be readily realised to meet redemption. The main risks arising from the financial instruments are foreign currency, interest rate, market price and counterparty. The fund may invest up to 10% of its net asset in securities for which there is no ready market.

The investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the investment objective and policy set out in the Prospectus.

Adherence to investment guidelines and to investment and borrowing powers set out in the Trust Deed and the Prospectus and the rules of the Financial Services Authority's Collective Investment Scheme Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

### **ISA eligibility**

The fund has been managed throughout the year to ensure that it is eligible to qualify and be included in an Individual Savings account (ISA). The fund will at all times be invested in such a way that the units will constitute "Qualifying Investments" for the purposes of the individual Savings Account (ISA) Regulations 1998, as amended from time to time.

## General information

### Authorised status

The Rathbone Ethical Bond Fund is an authorised unit trust scheme, authorised by the Financial Services Authority on 29 October 2001 and launched in May 2002.

It is a 'UCITS Scheme' authorised under Section 243 of the Financial Services and Markets Act 2000, and the currency of the fund is Pounds Sterling.

### Investment objective and policy

The objective of the fund is to provide a regular, above average income through investing in a range of bonds and bond market instruments that meet a strict criteria ethically and financially.

To meet these objectives, the fund may also invest, at the Manager's discretion, in other transferable securities, money market instruments, warrants, cash and near cash, deposits and units in collective investment schemes. Use may be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted by the FSA rules.

### Valuation of the fund

The fund is valued on each business day at 12 noon for the purpose of determining prices at which units in the fund may be bought or sold. Valuations may be made at other times on business days with the Trustee's approval.

### Fund composition

Data for the top 10 holdings and credit rating summary of the fund have been based on investments valued at the closing bid-market prices ruling on the markets on which the bonds are quoted, on the last business day of the accounting period.

### Long report

The full report and accounts are available free of charge upon written request from:

Client Services Department  
Rathbone Unit Trust Management Limited  
159 New Bond Street  
London W1S 2UD

### Further details

Should you require further details of this fund or any of the other Funds managed by Rathbone Unit Trust Management Limited, a Prospectus, a Simplified Prospectus (incorporating Key Features) (all literature is available free of charge), please write to:

Client Services Department  
Rathbone Unit Trust Management Limited  
159 New Bond Street  
London W1S 2UD

Information is also available on our website:  
[www.rutm.com](http://www.rutm.com)





# Rathbone Unit Trust Management Limited

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Registered No. 2376568