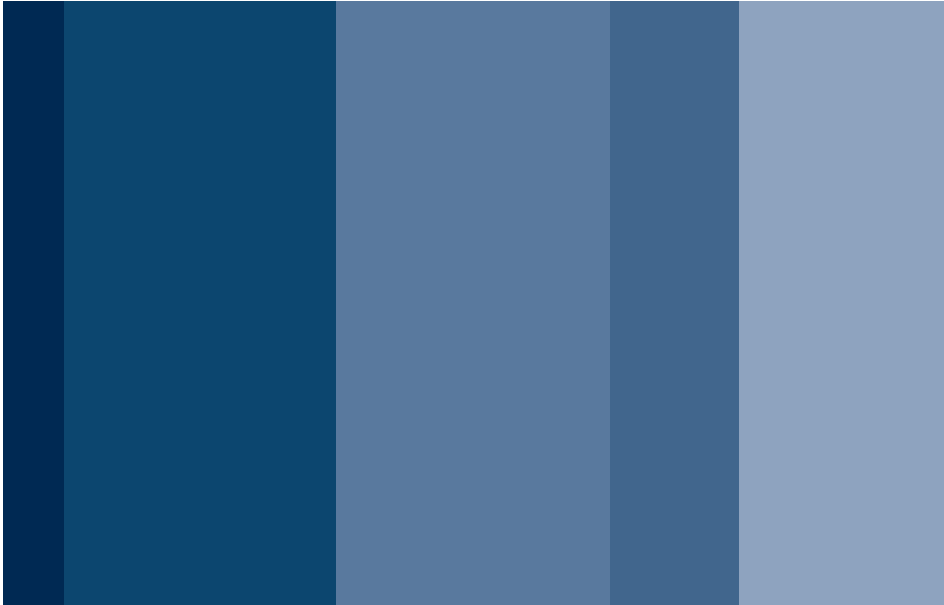


Rathbone Ethical Bond Fund

Short report for the year ended 30 April 2011



Manager's Report for the year ended 30 April 2011

During the 12 months to 30 April 2011, the FTSE All Stock Gilt index returned 1.95% (price terms) and 6.43% (total return). The iBoxx Sterling Non-Gilt index returned 1.02% (price) and 6.55% (total return). Your fund returned 9.52% versus 5.24% from the IMA Sterling Corporate Bond sector. Indeed, December 2010 marked the close of an excellent year. We are pleased to announce that we not only achieved a first quartile ranking in the IMA Sterling Corporate Bond sector for 2010, but ended the year as the best performing fund within our peer group. The fund continues its good relative performance, and remains first quartile over one and three years, and second quartile over five years.

The first six months of the period were characterised by investors switching between 'risk-on'/'risk-off' modes, underpinned by concerns about European peripheral bond markets and the possibility of another recession in the US. The three months ending January 2011, saw a gradual rise in the ten-year gilt yield, which closed out at 3.66%, having started the period at 3.08%. Economic data, leading up to the Q4 GDP figure, were patchy, but inflation concerns rumbled on as CPI and RPI inflation data for December came in at 3.7% and 4.8%, respectively. Fourth quarter GDP disappointed as it fell 0.5%, with much hullabaloo about the impact of the winter weather. From February to the end of April, inflation pressures increased amid geopolitical tensions, and investors anticipated the potential impact of higher interest rates on bond returns. In February, government bond markets benefited from safe-haven buying. March saw a tragic mix of natural disasters and escalating unrest in the Middle East and North Africa, both of which drove up the oil price. Investors instigated a flight to quality, although credit also held up reasonably well. Economic data in the UK were mostly positive, although inflation data remained strong. In the year to February, RPI

annual inflation was 5.5%, up from 5.1% in January, putting further pressure on the Bank of England to raise interest rates. However, the inflation figures for March were softer than expected (CPI was 4.0%; RPI was 5.3%), taking rate rises off the agenda and precipitating a rally in gilts. Generally speaking, many observers believed that the Bank would have had its hand forced sooner by higher inflation figures. Softer economic data, however, have kept them resolute for now.

Trades

Over the period, our largest trades by individual size were duration-management trades. These included the purchases and sales of European Investment Bank (EIB) 5% 2039 and EIB 6% 2028, and London and Continental Railways (LCR) Finance 4.5% 2028 and LCR Finance 5.1% 2051. We also sold LCR Finance 4.5% 2038, also as part of our view on the direction of gilt yields. We purchased a convertible bond in WPP 5.75% 2014, which is a beta play on the stock. The bond looked attractive as the equity value decreased.

Outlook

At this juncture, gilt yields are looking technically overbought, so we will wait until they are at more attractive levels, around the 3.75% mark, before adding to our duration position. This is a lower level than previously targeted. Economic data are likely to remain choppy over the summer months, and peripheral sovereign debt risk will continue to negatively impact sentiment, especially around the European banking system, of which we are increasingly wary.

Bryn Jones

18 May 2011

Social responsibility

During the period, the fund acquired bonds issued by the **John Lewis Partnership**, the well-known retailer originally founded on the principle of employee democracy and whose staff continue to be involved in the running of the business through staff committees and councils; its board is also ultimately accountable to an employee-elected Partnership Council. Today the Partnership has grown into the UK's largest employee-owned business, with some 69,000 staff sharing in the profits of its department stores and Waitrose supermarkets. A code of practice regarding responsible sourcing applies to all its own-brand product suppliers which, in addition to general standards on minimum pay and working conditions, includes specific policies regarding child labour and conflict diamonds. A commitment to environmental responsibility is enshrined in the constitution of the partnership. Having met its 2020 target to reduce greenhouse gas emissions relative to sales by 20% ten years early, the Partnership announced that it would focus instead on achieving absolute emissions reductions, irrespective of any future growth in the business. It has a range of policies in place to address sustainability issues in its supply chain: Waitrose's responsible fishing policy was established in 1998 and has since been adapted to address problems of over-fishing by working with the Marine Stewardship Council to replace threatened species with alternatives. Waste is another key focus area: Waitrose has an agreement with the food charity FareShare that allows it to acquire and distribute surplus own-brand food to good causes.

Sustainable transport

The number of passenger rail journeys taken in the UK continues to grow as petrol price rises increasingly persuade car users to switch to rail for some of their journeys. As at the year end, the fund had increased its exposure to this sector through bonds in all three of the main UK rolling stock companies, having participated in a bond issue from **Eversholt Funding plc** during the year. Eversholt Funding was established by Morgan Stanley Infrastructure Inc., Star Capital

and 3i Infrastructure plc to raise finance for the acquisition of Eversholt Rail group from HSBC in 2010. Eversholt Rail owns around 29% of the UK passenger train fleet and is involved in the leasing of rolling stock to UK train operating companies. The group's assets include over 3,400 passenger vehicles and over 1,000 freight vehicles, which are leased to UK rail companies for periods of between four and ten years. The fund also has exposure to the European rail market through its holding in **Réseau Ferré de France**, the company that owns and maintains the French national railway network.

Social change

Originally established in 1968, **Circle Anglia** (now rebranded as Circle) is an industrial and provident society providing sheltered and supported housing, responsive care and maintenance services. One of the largest housing associations in the UK, the group owns over 63,000 homes and provides services for 200,000 people. The group works with nine housing associations which manage homes across south-east England, East Anglia and the West Midlands. The majority of its housing stock is general needs housing, but also includes a significant portfolio of key worker accommodation, shared ownership, market rent and private sale properties. Circle also operates a telecare division providing remote assistance services (such as personal security and alarm monitoring) which enable vulnerable people to remain living independently in their own homes.

Screening activity

During the period, the fund's ethical screening research provider, Rathbone Greenbank Investments, reviewed fourteen bond issuers on behalf of the fund. Eleven were approved for investment and three rejected: two on the grounds of insufficient positive characteristics, and one for links to human rights abuses and failure to uphold appropriate environmental safeguards.

Perry Rudd

18 May 2011

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 2009	26,597,925	Income	43,997,290	60.45
30 April 2009	4,967,688	Accumulation	5,907,224	84.10
30 April 2010	33,216,310	Income	40,802,810	81.41
30 April 2010	9,708,979	Accumulation	8,085,485	120.08
30 April 2011	43,561,796	Income	52,248,578	83.37
30 April 2011	17,256,704	Accumulation	13,273,742	130.01

Income record

<i>Year</i>	<i>Income Units Net income per unit p</i>	<i>Accumulation Units Net income per unit p</i>
2006	4.19	4.96
2007	4.22	5.24
2008	4.16	5.41
2009	4.20	5.77
2010	4.89	7.14
2011*	2.27	3.46

*To 30 June 2011

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 1.10p will be paid to income unitholders on 30 June 2011. The total distribution for the period under review amounts to 4.67p per income unit with 4.63p per unit for the same period last year.

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>30.04.11</i>	<i>30.04.10</i>
Manager's periodic charge	1.25%	1.25%
Other expenses	0.12%	0.17%
Total Expense Ratio (TER)	1.37%	1.42%

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 redemptions. 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.

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.

	30.04.11		30.04.10
Clydesdale 5.75% 2017	2.58%	EIB 6% 2028	4.37%
Fresh Finance for Residential		Fresh Finance for Residential	
Social Housing 11.126% 2058	2.44%	Social Housing 11.126% 2058	2.33%
British Land 6.75% 2020	2.26%	Standard Life 6.546% 2020	2.32%
BUPA Finance 6.125% 2020	2.19%	BUPA Finance 6.125% 2020	2.26%
Standard Life 6.546% 2020	2.02%	Clydesdale 5.75% 2017	2.19%
British Telecom 3.5% 2025	1.98%	Society Lloyds 7.421% VRN <i>perp</i>	2.12%
Amlin 6.5% 2026	1.95%	Quadrant Housing 7.9% 2033	2.06%
Nationwide 6.024% VRN <i>perp</i>	1.94%	Resona Bank 5.986% 2011	2.05%
Lloyds Banking Group		Macquarie Bank 5.5% 2016	2.01%
floating rate notes 2016	1.94%	Australia & New Zealand	
WPP 5.75% 2014	1.89%	Bank 6.54% <i>perp</i>	1.98%

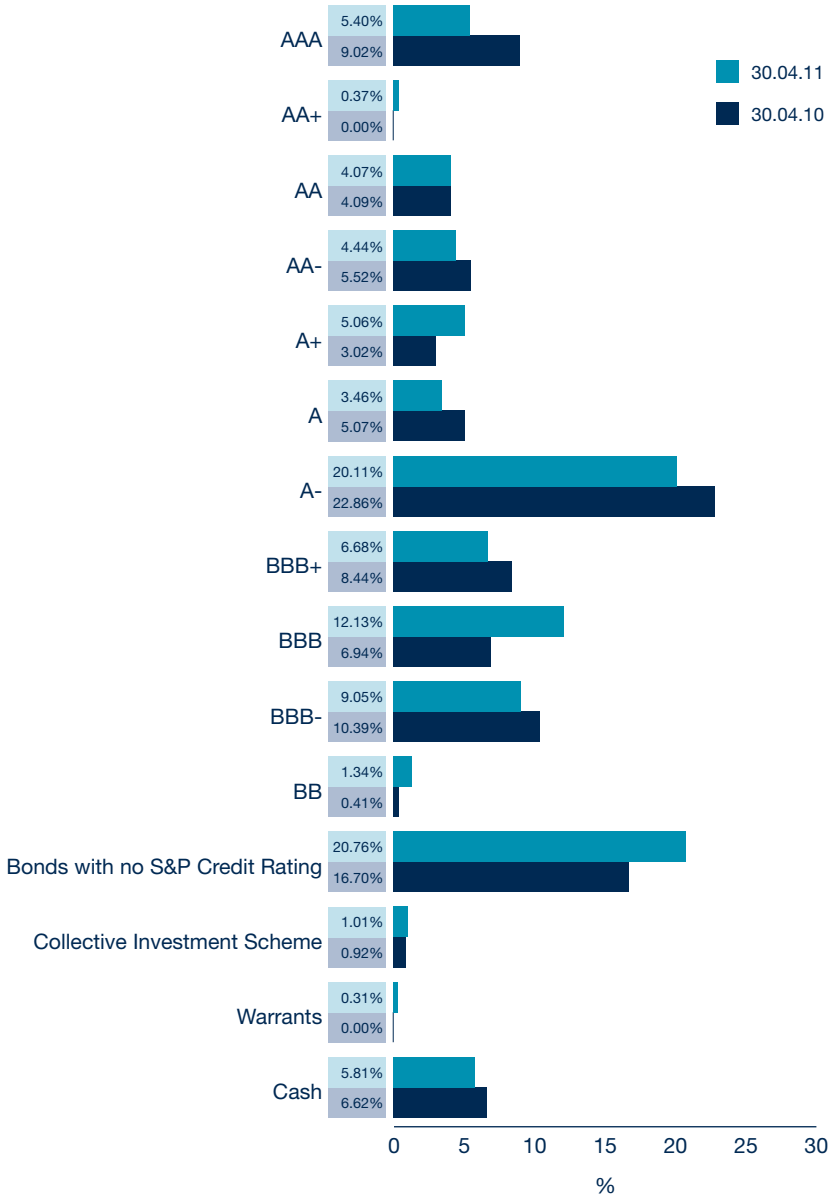
Discrete year performance ending 31 March

	2007	2008	2009	2010	2011
Rathbone Ethical Bond Fund	-0.42%	-5.36%	-23.21%	42.56%	10.42%
IMA Sterling Corporate Bond Sector	-0.03%	-3.73%	-12.03%	27.55%	4.37%

Source performance data Financial Express, bid to bid, net income re-invested.

Portfolio Information

Credit quality



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, policy and strategy

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.

Stewardship code

Rathbone Unit Trust Management Limited fully supports the UK Stewardship Code sponsored by the Financial Reporting Council. Our statement on complying with the Code can be found on our website www.rutm.com

Fund composition

The performance data have been based on mid-day bid-market prices ruling on the markets on which the bonds are quoted, on the last business day of the accounting period. All other data have been based on investments valued at the closing bid-market prices on the last business day.

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.

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
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Information is also available on our website: www.rutm.com

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Authorised and regulated by the Financial Services Authority

A member of the Investment Management Association

A member of the Rathbone Group

Registered No. 2376568

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