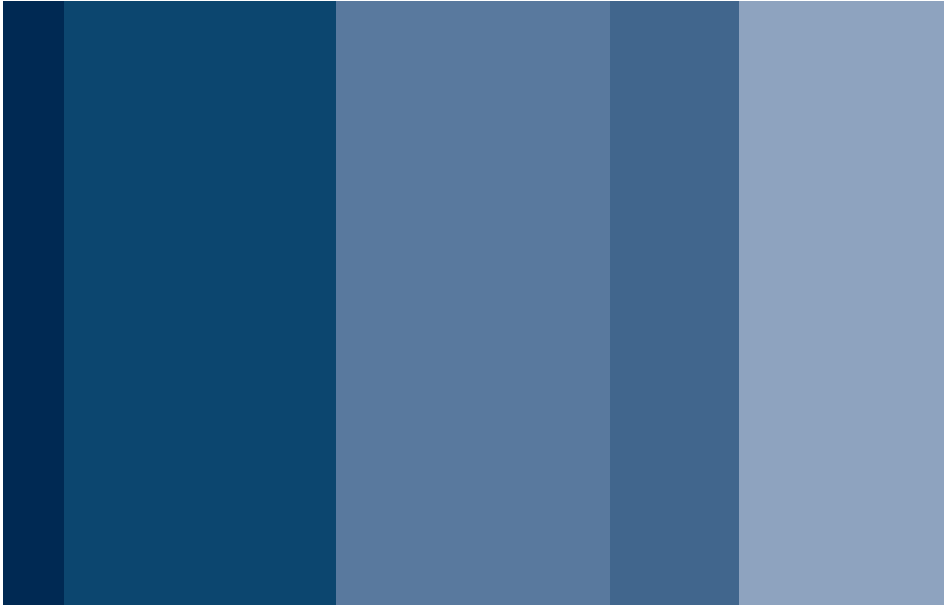


# Rathbone Ethical Bond Fund

Short report for the half year ended 31 October 2009





## Rathbone Ethical Bond Fund

### Manager

Rathbone Unit Trust Management Limited  
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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  
**JM Ardouin** – Finance Director  
**CRC Hexton**  
**RP Lanyon**  
**RE Loader** FCA  
**CP Mason** – Compliance Director  
**AD Pomfret**  
**CR Stick**  
**JG Thomson**

### Administrator

HSBC Securities Services  
1-2 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 half year ended 31 October 2009

During the six months to 31 October 2009, the FTSE All Stock Gilt index returned 0.43% (price terms) and 2.75% (total return). The iBoxx Sterling Non-Gilt index returned 12.65% (price) and 15.63% (total return). Your fund returned 22.72% (price) and 26.16% (total return) versus 18.21% (price) and 19.89% (total return) from the IMA Sterling Corporate Bond sector.

Strong risk appetite characterised this period as the belief grew in an enduring recovery. An ultra-easy environment and better than expected third quarter earnings compounded the momentum, benefiting both equity and credit markets. This scenario led to significant upside in hitherto battered financials, justifying our decision to increase our exposure to subordinated debt. Gilt yields also fell on the continuation of quantitative easing measures. We used this opportunity to reduce the duration of the portfolio – its sensitivity to interest rates – but have since increased this position on rising Gilt yields. At the start of the period, we also saw a number of tenders and buybacks, and a swathe of new issues as banks remained reluctant to lend to businesses at anything but punitive rates. Several of these came to the market on premium yields and at attractive cash prices versus the secondary market.

Over the past few months, we have been gradually de-risking the portfolio in certain areas by reducing our exposure to individual bonds. In terms of our most significant trades, we participated in several new issues including Barclays (2021). Our purchase of Australia and New Zealand Banking was an interesting trade. This has an equity settle call date, whereby bonds are converted into equity if they are not called, which renders that call date more secure. We also

purchased bonds in Macquarie Bank and Nordea Bank, both of which were attractively priced, and Morgan Stanley Australian Dollar denominated floating rate note on the belief that interest rates would rise there. This purchase was later vindicated as the Reserve Bank of Australia raised rates in October by 0.25%. On the sell-side, we reduced our overall exposure to Lloyds Banking, which is looking to raise £13.5 billion from shareholders in a rights issue and a further £7.5 billion by converting other debt into equity (contingent convertibles, or CoCos). Finally, we booked profits in QBE, Scottish and Southern Energy, and Telereal Securitisation.

Key indicators continue to demonstrate improvements in economic data; however, we remain concerned about higher inflation risks. Recently, the US Federal Reserve described specific economic conditions that are likely to justify low interest rates for an extended period. Preconditions suggest that policy will remain ultra-easy well into the expansionary phase. Hopefully, market participants, businesses and households will drive inflation expectations higher, ensuring that continual review of the policy takes place. Between February and April 2008, the UK Government initiated its quantitative easing strategy via a £75 billion Gilt purchase programme. To date, this programme has been extended to £200 billion, artificially suppressing Gilt yields and weakening Sterling. An eventual reversal of this measure could leave Gilts vulnerable.

**Bryn Jones**

18 November 2009

Beginning with this Managers Report, we have introduced a supplementary commentary giving a short review of our holdings from the ethical perspective.

### Renewable energy

A recent acquisition within the fund has been the Norwegian solar photovoltaic company, **Renewable Energy Corporation (REC)**. REC is a vertically integrated company with three business segments that are involved in all stages of the solar PV value chain. REC Silicon and REC Wafer are amongst the world's largest producers of polysilicon and wafers, and supply the basic building blocks to the third business, REC Solar. This manufacturer of high performance solar cells and modules is also involved in project development activities in selected areas of the PV market.

The group currently has operations in Norway, Sweden and the US, and has plans to expand into the Far East by building the world's largest integrated wafer, cell and module plant in Singapore. Despite the benefits which the solar industry offers in terms of increasing the amount of electricity which can be generated from renewable sources, it is often criticised for being highly energy-intensive in itself due to the casting process used to produce silicon ingots. REC's Norwegian silicon plants are powered by hydroelectricity, as are the majority of its wafer and cell operations in Sweden, thereby helping to reduce the group's overall energy consumption.

### Sustainable transport

As one of the UK's leading public transport companies, **FirstGroup** continues to work with the UK Government on plans to electrify the Great Western mainline from London Paddington to Cardiff. To be implemented over the next ten years, the project will form a major part of efforts

to reduce the UK's carbon emissions from transport. On a much smaller scale, First's bus operations in Bristol have trialled a bus running on fuel produced from waste cooking oil. A six-month trial will allow the company to assess exhaust emissions relative to buses running on conventional diesel.

FirstGroup has been the subject of a concerted campaign by unions in recent years to ensure that workers at its US school bus operation, First Student, enjoy the same rights as other FirstGroup employees with regard to the freedom to choose whether to 'unionise' or not. Collaborative engagement with management by fund managers (including our research team at Rathbone Greenbank Investments) over an extended period has seen the implementation of a Compliance Monitoring Program, which has led to increased transparency and accountability in the conduct of ballots at local depots where workers wish to vote on the issue of unionisation.

### Banks

Long known for its ethical approach to banking, **The Co-operative Bank** launched its first ethical policy in 1992, which it updated in 2009. Following consultation with its customers, which resulted in a record response to such surveys, the bank received authority to implement a tougher stance on lending on some major ethical issues. Some of the new statements include avoiding lending to: organisations involved in the manufacture or transfer of indiscriminate weapons (such as cluster munitions); organisations failing to implement basic labour rights; or, businesses whose core activities contribute to climate change through the extraction and production of fossil fuels. The bank has estimated that it has turned away some £1 billion of business since the original implementation of its ethical policy in 1992.

## Ethical holdings report – October 2009 (continued)

In 2008, **Australia & New Zealand Banking Group** was assessed as the leading bank globally on the Dow Jones Sustainability Index for the second consecutive year. ANZ adopted the Equator Principles. These are a set of standards developed by the International Finance Corporation to help banks identify and manage the social and environmental risks associated with financing large infrastructure projects. In 2008, it demonstrated its commitment to the Principles when it declined to participate in a syndicate funding a controversial pulp mill in Tasmania; a further nine projects (out of 33 reviewed) were not financed.

### **Perry Rudd**

*Head of Ethical Research*

Rathbone Greenbank Investments

The ethical research for the Rathbone Ethical Bond Fund is carried out by Rathbone Greenbank Investments, the specialist ethical investment unit of Rathbone Investment Management Limited. Rathbone Investment Management Limited is authorised and regulated by the Financial Services Authority and is a member of the Rathbone Group.

## 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 2007	42,241,336	Income	47,018,935	89.84
30 April 2007	5,782,226	Accumulation	5,151,762	112.24
30 April 2008	36,238,442	Income	44,745,892	80.99
30 April 2008	5,602,219	Accumulation	5,271,674	106.27
30 April 2009	26,597,925	Income	43,997,290	60.45
30 April 2009	4,967,688	Accumulation	5,907,224	84.10
31 October 2009	32,168,120	Income	42,233,277	76.17
31 October 2009	7,048,422	Accumulation	6,466,143	109.01

### 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>	
2004	4.37		4.75	
2005	4.27		4.87	
2006	4.19		4.96	
2007	4.22		5.24	
2008	4.16		5.41	
2009*	4.20		5.77	

\*To 31 October 2009.

### Distributions

A distribution of 1.09p will be paid to income unitholders on 31 December 2009. The total distribution for the period under review amount to 2.14p per income unit with 2.04p per income unit for the same period last year.

### Performance record

<i>Performance to 31.10.09</i>	<i>6 months</i>		<i>1 year</i>	<i>3 years</i>	<i>5 years</i>
Rathbone Ethical Bond Fund	26.16%	18.16%	-2.81%	4.45%	
IMA Sterling Corporate Bond Sector	19.83%	17.66%	1.94%	11.84%	
<i>Discrete year performance ending 30 September</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Rathbone Ethical Bond Fund	6.80%	1.29%	-3.55%	-7.95%	9.98%
IMA Sterling Corporate Bond Sector	8.27%	2.01%	-2.66%	-6.31%	11.37%

Performance data source: Financial Express, 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**

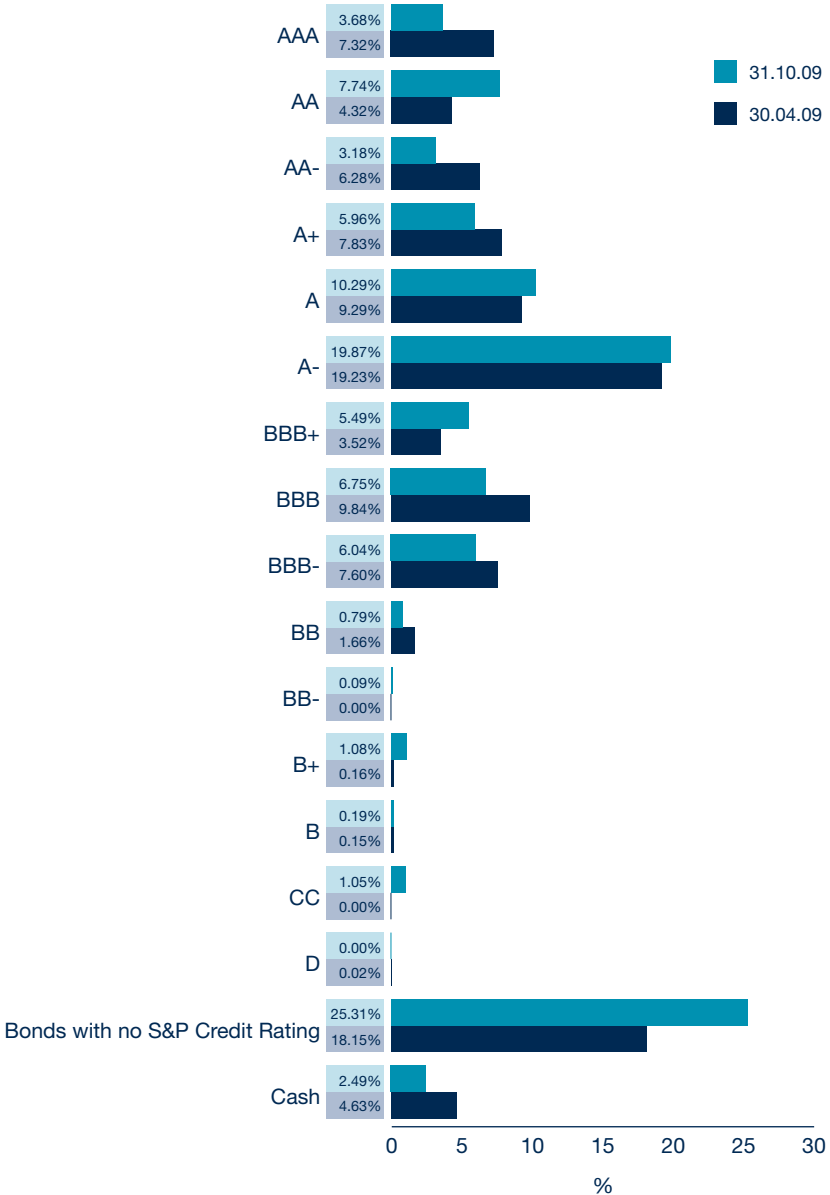
<i>Expense type</i>	<i>31.10.09</i>	<i>30.04.09</i>
Manager's periodic charge	1.25%	1.25%
Other expenses	0.19%	0.17%
Total Expense Ratio (TER)	1.44%	1.42%

**Portfolio turnover rate**

<i>Date</i>	<i>Portfolio turnover rate (%)</i>	<i>Portfolio turnover rate (%) (30.04.09)</i>
31 October 2009	99.79	124.67

# Portfolio Information

## Credit quality



## Top 10 largest holdings

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

	<u>31.10.09</u>		<u>30.04.09</u>
Fresh Finance for Residential Social		Fresh Finance for Residential Social	
Housing 11.126% 2058	2.68%	Housing 11.126% 2058	3.64%
Land Securities 4.875% 2025	2.23%	Telereal Securitisation 7.098% 2033	3.01%
Quadrant Housing 7.9% 2033	2.23%	Quadrant Housing 7.9% 2033	2.41%
BUPA Finance 6.125% 2020	2.18%	Land Securities 4.875% 2025	2.37%
Co-Operative 5.625% 2021	2.16%	Co-Operative 5.875% 2013	2.16%
Australia & New Zealand Banking		THPA Finance 7.127% 2024	2.03%
Group 6.54% perp	1.99%	Amlin 6.5% 2026	2.00%
Rabobank 5.556% 2019	1.94%	Scottish & Southern Energy 8.375% 2028	1.93%
Rothschild 9% 2024	1.94%	North British Housing 5.09% 2024	1.93%
Amlin 6.5% 2026	1.93%	Co-Operative 5.625% 2021	1.90%
Bank of Ireland 9.25% 2020	1.89%		

## Risk profile

There is significant exposure to credit and cash-flow risk. There are no net borrowings and usually little exposure to liquidity risk because assets can, in normal market conditions, 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.

## 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

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.

### 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.ruttm.com](http://www.ruttm.com)









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