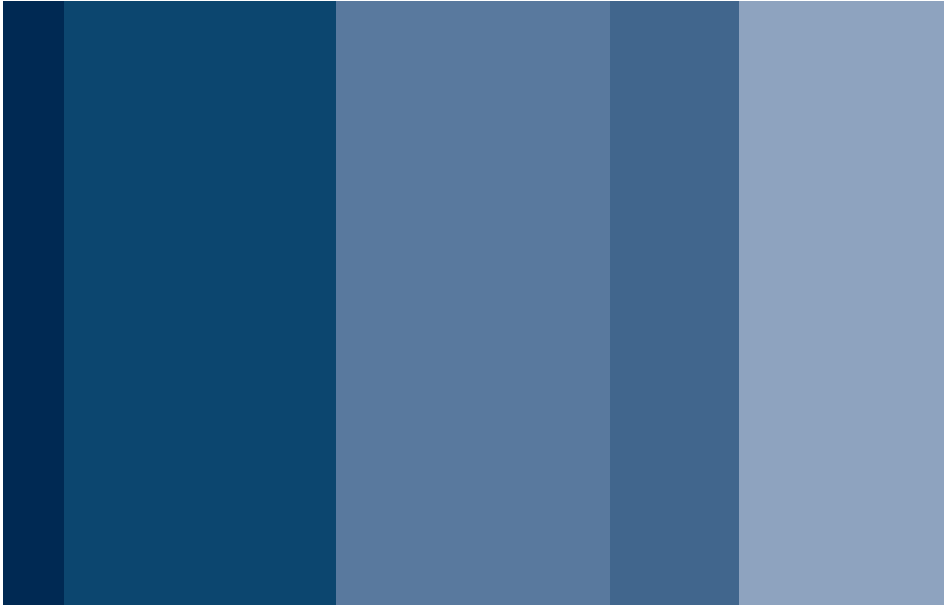


Rathbone Income Fund

Short report for the year ended 15 October 2009



Rathbone Income Fund

Manager

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Authority and member of the Investment
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Telephone 0845 300 2101
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Registrar

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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

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Trustee

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Trustee and Depositary Services
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Edinburgh EH12 9UZ
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Financial Services Authority**

Manager's report for the year ended 15 October 2009

Performance review

During the 12 months through to 15 October 2009, the Rathbone Income Fund achieved a capital return of 16.8%, versus the FTSE All-Share index which gained 35.9%. As outlined at the interim stage, our performance was impacted by a very poor start to the period, and we therefore spent most of 2009 playing catch-up to a resurgent market. In the second half of the period, performance steadily improved, with the fund returning 22.5% versus 28.7% from the FTSE All-Share index. This is a satisfactory return during a period where there has been a marked increase in appetite for risk. This resurgence has favoured more cyclical businesses with weaker balance sheets, rather than those of a more defensive nature, and this has held us back in relative terms. However, taking a longer-term view, we are happier concentrating on secure businesses on sensible valuations, with visible dividend streams. It is our belief that these will offer investors more consistent returns.

A major casualty this year has been dividend flow. Whilst difficult to quantify, we are on record as estimating that the total reduction in dividend this year, from companies in the FTSE All-Share index, approximates to 20–25%. Nevertheless, it is with reluctance that we have cut our final distribution, but perhaps unsurprising given the wider environment. Our final distribution is 17.71p (from 21.96p), meaning that total distribution for the year is down 13.7% to 26.71p (from 30.96p). This first decrease in distribution since 1994, whilst disappointing, is now at a level from where we are reasonably comfortable of a resumption of growth next year.

Investment review

Our motto this year has been “slow and steady wins the race”, and we maintain this conviction despite the ebullience of global markets since the lows of Spring. We want to avoid losses; we want to achieve steady returns, and we want to build the foundation for the future distribution growth that drives total long-term return for our investors.

Our trading over the period emphasises this philosophy. We have sought to exit from companies with highly leveraged balance sheets, where the risk of failure is greater, and have transferred funds into solid businesses on lowly valuations. This has meant going against the fashion of the day, but we believe it to be the correct course. We have steadily reduced our banking exposure, exiting from Standard Chartered, post the period-end and reducing our exposure to HSBC. We have sold BT and Cable & Wireless, maintaining Vodafone Group as our only exposure in the Telecommunications sector. Finally, we have sold out of Aggreko, a fine company, but one whose valuation is now too rich for our tastes.

Our five largest purchases have been in Aviva, BAE Systems, Diageo, GlaxoSmithKline and Vodafone Group, businesses with strong global franchises, and certainly laggards in terms of valuation. Some, like Aviva and BAE Systems have had their issues this year, but therein lies the opportunity. An old colleague once remarked that his clients required just three things from their investments: “dividends, dividends, and dividends.” Dividends are the tangible reward that one gets from equity ownership. They rightfully demand our full attention during this testing time.

Carl Stick

3 November 2009

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>
15 October 2007	1,053,314,027	Income	125,892,410	836.68
15 October 2007	230,036,913	Accumulation	25,084,907	917.03
15 October 2008	438,094,289	Income	91,100,477	480.89
15 October 2008	120,748,779	Accumulation	21,631,679	558.20
15 October 2009	377,648,445	Income	68,679,585	549.87
15 October 2009	110,300,189	Accumulation	16,947,046	650.85

Income record

<i>Year</i>	<i>Income Units Net income per unit p</i>	<i>Accumulation Units* Net income per unit p</i>
2004	22.16	–
2005	22.82	17.07
2006	25.37	26.21
2007	28.66	30.57
2008	30.96	34.23
2009*	26.71	31.40

*To 15 December 2009

#Available from 15 April 2005

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

Distributions

A distribution of 17.71p will be paid to income unitholders on 15 December 2009. The total distribution for the period under review amounts to 26.71p per income unit with 30.96p per income unit last year.

Fund performance

<i>Unit class</i>	<i>Net Asset Value as at 15 October 2009 (pence per unit)</i>	<i>Net Asset Value as at 15 October 2008 (pence per unit)</i>	<i>Net Asset Value change %</i>
Income	549.87	480.89	14.34%
Accumulation	650.85	558.20	16.60%

Performance record

<i>Performance to 30.09.09</i>	<i>6 months</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>
Rathbone Income Fund	32.88%	2.71%	-19.61%	19.15%
IMA UK Equity Income Sector	34.91%	10.37%	-9.85%	29.18%

<i>Discrete year performance ending 30 September</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Rathbone Income Fund	22.23%	21.26%	6.47%	-26.48%	2.71%
IMA UK Equity Income Sector	23.90%	15.65%	7.24%	-23.83%	10.37%

Source performance data: Financial express, bid to bid, net income reinvested.

Risk factors

An investment 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 they invested. Past performance should not be seen as an indication of future performance. Investments denominated in currencies other than the base currencies are subject to fluctuation in exchange rates, which can be unfavourable.

Total expense ratios

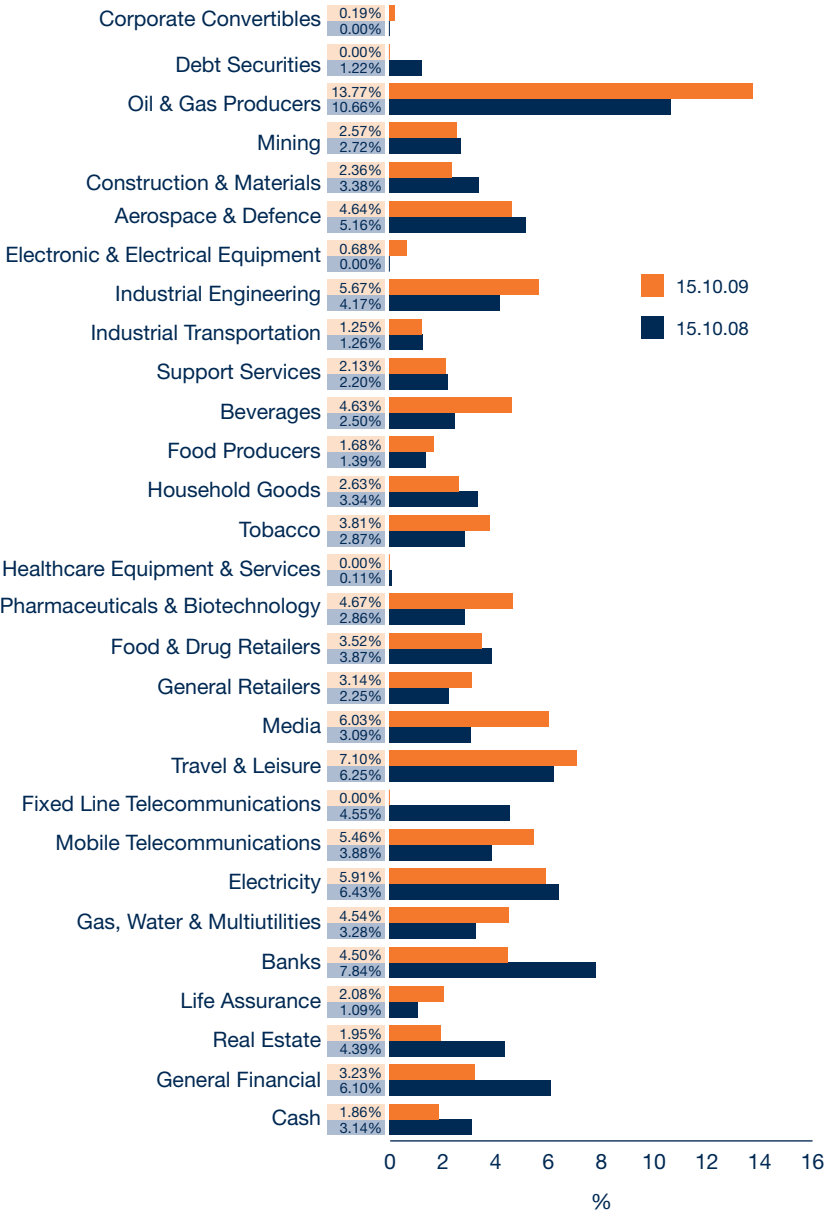
<i>Expense type</i>	<i>15.10.09</i>	<i>15.10.08</i>
Manager's periodic charge	1.50%	1.50%
Other expenses	0.06%	0.04%
Total Expense Ratio (TER)	1.56%	1.54%

Portfolio turnover rate

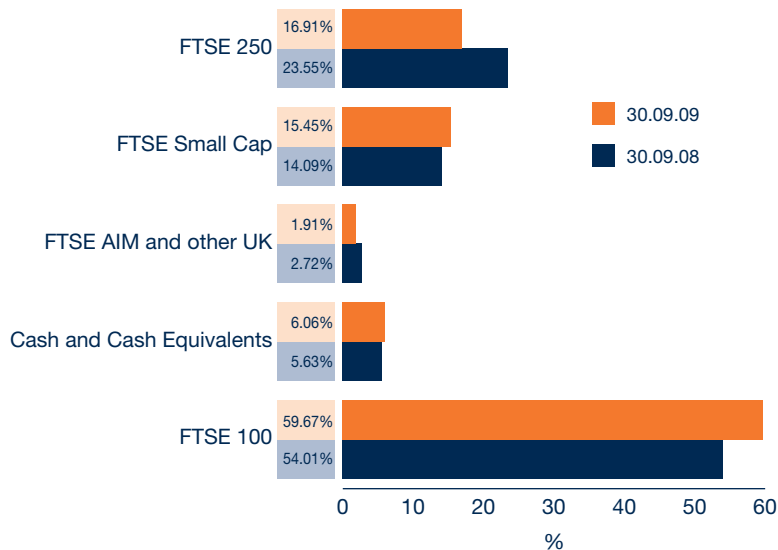
<i>Date</i>	<i>Portfolio turnover rate (%)</i>	<i>Portfolio turnover rate (%) (15.10.08)</i>
15 October 2009	39.29	34.44

Portfolio Information

Sector breakdown



Capitalisation split



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.

	15.10.09		15.10.08
BP	6.38%	BP	4.22%
Royal Dutch Shell 'B'	6.27%	HSBC	4.18%
Vodafone Group	5.46%	Royal Dutch Shell 'B'	4.10%
Diageo	4.63%	Scottish & Southern Energy	3.89%
Scottish & Southern Energy	3.98%	Vodafone Group	3.88%
National Grid	3.87%	Tesco	3.87%
BAE Systems	3.60%	National Grid	3.28%
HSBC	3.55%	British American Tobacco	2.87%
British American Tobacco	3.35%	Dechra Pharmaceuticals	2.86%
Tesco	3.27%	BT	2.79%

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.

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 Income Fund is an authorised unit trust scheme, established by a Trust Deed dated 12 February 1971 and launched in February 1971.

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 achieve above average and maintainable income but without neglecting capital security and growth. The Manager intends to achieve the objective primarily through the purchase of ordinary shares with an above average yield. There is no restriction on the economic sectors or geographical areas in which the fund may invest. However, investments will always be predominantly in the ordinary shares of UK companies.

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, cash and cash equivalent figures quoted in the Manager’s commentary and market capitalisation splits have been based on mid-day market prices ruling on the markets on which the stocks are quoted, on the last business day of the accounting period. All other data has 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.rutm.com

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