



RATHBONE UNIT TRUST MANAGEMENT
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

RATHBONE INCOME FUND

SHORT REPORT FOR THE YEAR ENDED 15 OCTOBER 2011



Manager's report for the year ended 15 November 2011

Performance review

For the 12 months through to 15 October 2011, the Rathbone Income Fund achieved a total return of 4.80%, which compares favourably with a fall of 0.19% from the IMA Equity Income sector, and a fall of 1.11% from the FTSE All-Share index. A difficult final six months is reflected by more negative numbers, with the fund down 1.43%, the sector dropping 5.85%, and the FTSE All-Share plunging 7.60%.

The fund's Income units had an annual distribution of 17.72p, remaining at that level for a third successive year. Total distributions for the year amounted to 27.22p, compared to 26.99p last year – an increase of 0.85%. Our intention had been to achieve a higher distribution but market conditions encouraged us to maintain higher levels of capital. We were not fully invested during the summer. Therefore, we chose to preserve capital rather than contrive an increase in distribution.

Investment review

Whilst short-term numbers reveal little, we do believe that this year has provided strong evidence that our risk-focussed investment process is being put into strict practice. In the spring, we highlighted four impending economic “storm clouds” – in summary, US debt; the UK's general economic malaise; European sovereign debt; and chaotic monetary controls and over-leverage in China. These risks are not necessary reflected in equity revaluations, but have defined our portfolio construction. We maintained core positions in strong, sustainable businesses, and used bouts of market weakness and volatility to target specific economically-sensitive names, when prices got too low. Irrespective of market conditions, our emphasis has been on quality.

Quality defines our five largest purchases this year, four of which are new names. We increased substantially our holding in Imperial Tobacco, a move that reflected our defensive positioning. Similarly, we created a new holding in AstraZeneca. Whilst AstraZeneca does encapsulate many of the wider issues confronting the pharmaceutical industry (namely patent expiries, pipeline, political

and pricing pressure), in the current difficult environment, we believe that the robust qualities of their immense cashflow are undervalued. We have also bought shares in Intercontinental Hotels and Next, two very different businesses that we have coveted for a long time. In volatile markets, shares occasionally get sold off indiscriminately, and opportunities arise to buy great businesses very cheaply, and we bought these two when they were “on sale”. Finally, we bought Catlin as part of a wider move into the Lloyds underwriters.

Our principal sales can be split into three categories. We sold all our BP, and reduced our Scottish & Southern (now called SSE) on account of excessive business risks, the former on ongoing management mishaps, the latter on future capital expenditure requirements. Diageo and Vodafone remain important positions for us, but having performed well, we deemed it prudent to reduce exposure, that is, react to increased “price risk”. Finally, we said goodbye to Holidaybreak, a great if sometimes frustrating small business, on its takeover by Cox & King.

Outlook

We are both ‘bearish’ (negative) and ‘bullish’ (positive) in outlook. Our bearishness arises from our concern over the major risks that still confront the global economy. The aforementioned storm clouds are right overhead, and they are dark and foreboding. Yet investors still need to garner a return on their savings, so where do they turn?

Our confidence derives from the strength of our risk-based methodology. The world does keep on turning, and despite the most violent convulsions in global markets, good businesses will survive, grow and prosper. We can use market volatility to buy these great businesses at bargain prices. These are very difficult times, and investors face many long-term savings issues, but there are also many opportunities for a conservatively run income mandate such as the Rathbone Income Fund.

Carl Stick
3 November 2011

Net asset value per unit and comparative tables

Fund size

Date	Net Asset Value £	Attributable to	Units in issue	Net Asset Value (pence per unit)
15 October 2009	377,648,445	Income	68,679,585	549.87
15 October 2009	110,300,189	Accumulation	16,947,046	650.85
15 October 2010	335,888,694	Income	55,725,034	602.76
15 October 2010	109,161,227	Accumulation	14,190,493	769.26
15 October 2011	309,195,324	Income	50,841,955	608.15
15 October 2011	117,458,547	Accumulation	14,499,241	810.10

Income record

Year	Income Units Net income per unit (p)	Accumulation Units Net income per unit (p)
2006	25.37	26.21
2007	28.66	30.57
2008	30.96	34.23
2009	26.71	31.40
2010	26.99	33.29
2011*	27.22	35.06

* To 15 December 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 17.72p will be paid to income unitholders on 15 December 2011. The total distribution for the period under review amount to 27.22p per income unit with 26.99p per income 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

Expense type	15.10.11	15.10.10
Manager's periodic charge	1.50%	1.50%
Other expenses	0.06%	0.06%
Total Expense Ratio (TER)	1.56%	1.56%

Net asset value per unit and comparative tables *(continued)*

Risk profile

There is little 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.

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.

	15.10.11		15.10.10
GlaxoSmithKline	5.65%	GlaxoSmithKline	5.79%
British American Tobacco	5.46%	Diageo	5.68%
Imperial Tobacco	5.18%	British American Tobacco	5.32%
Diageo	5.15%	Vodafone	4.97%
BAE Systems	4.62%	BAE Systems	4.73%
Royal Dutch Shell 'B'	4.59%	Royal Dutch Shell 'B'	4.65%
Unilever	3.95%	Scottish & Southern Energy	4.22%
Restaurant Group	3.37%	Restaurant Group	3.69%
Tesco	3.35%	Halfords	3.50%
William Hill	3.15%	Man Group	3.43%

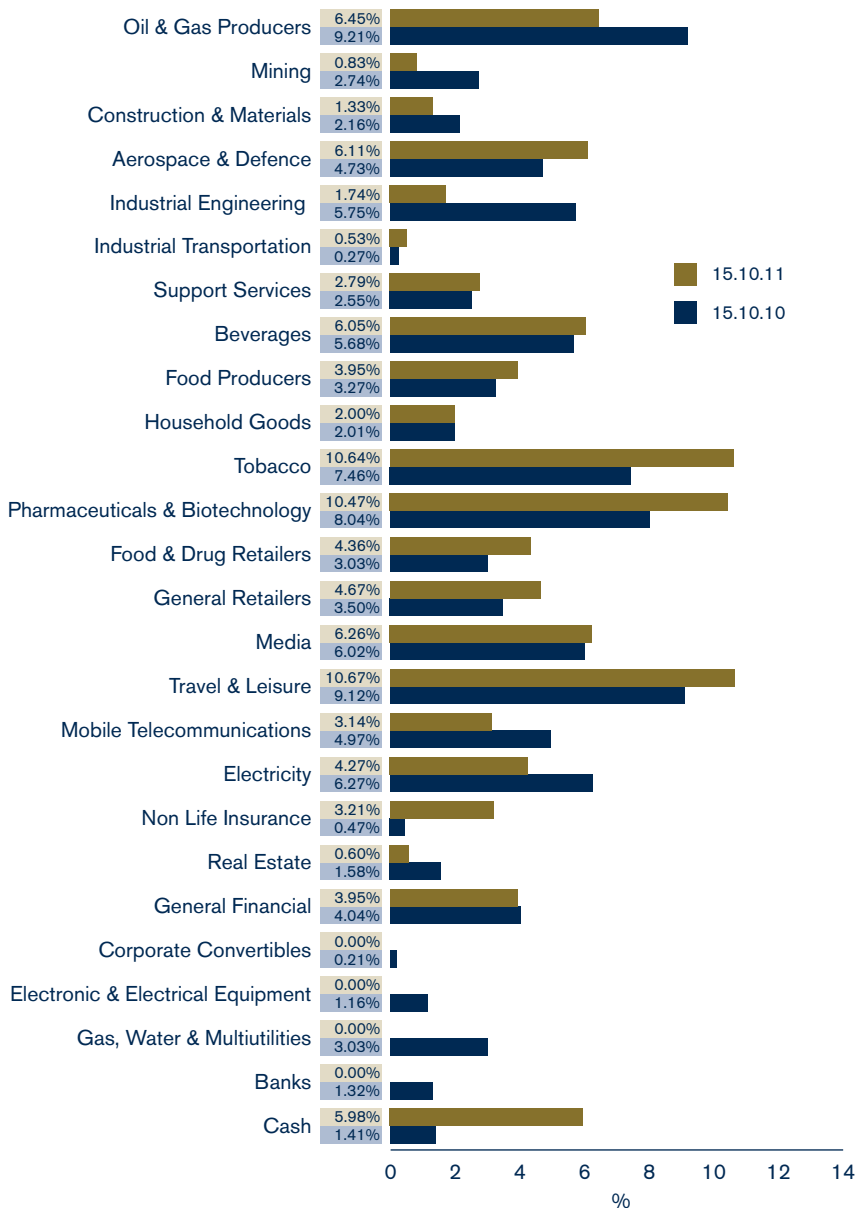
Discrete year performance

ending 30 September	2007	2008	2009	2010	2011
Rathbone Income Fund	6.67%	-26.32%	3.11%	12.17%	3.62%
IMA UK Equity					
Income sector	7.23%	-23.49%	9.78%	10.47%	-2.04%

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

Portfolio information

Sector breakdown



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, policy and strategy

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.

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

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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RATHBONES
Established 1742