Rathbone Unit Trust Management Limited

# Rathbone Recovery Fund

Short report for the year ended 30 September 2009

RATHBONES
Established 1742

Effective from 13 July 2009, the Rathbone Special Situations Fund (launched June 1964) and the Rathbone Smaller Companies Fund (launched September 1993) merged and were relaunched as the Rathbone Recovery Fund, therefore there are no comparatives.

# Rathbone Recovery Fund

## Manager

Rathbone Unit Trust Management Limited
159 New Bond Street
London W1S 2UD
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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
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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
**JM Ardouin –** Finance Director
**JR Chillingworth –** Chief Investment Officer
**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 year ended 30 September 2009

The Rathbone Recovery Fund was launched on 13 July 2009 from the merger of the Rathbone Special Situations Fund and the Rathbone Smaller Companies Fund. From launch to year-end (30 September 2009), the fund returned 23.9% (on a total return basis) versus a return of 26.0% from the benchmark FTSE All-Share index. Over this period, the fund was placed in the third quartile relative to its peers in the IMA UK All Companies sector.

The period in question was characterised by a continuation of the strong rally in risk assets that began when markets recoiled from the lows of early March. During this time, corporate earnings on both sides of the Atlantic beat analyst expectations; key macroeconomic indicators improved, and rising equity markets encouraged investors back into the market. Typically, the improved macroeconomic outlook favoured cyclical over defensive sectors, and stellar share price gains were recorded by many companies that were in severe distress just six months ago.

Just to recap, our stock selection process is focussed on recognising recovery situations where fundamentals and price have diverged. We identify the 'type' of recovery situation – macroeconomic (areas that will benefit from an uptick in economic activity); stock-specific (companies that have been failed by management, prior operating performance or impacted by a one-off event), and sentiment-driven (lack of confidence). We then look for that all-important catalyst to drive performance.

In this period, there was much trading activity on the fund, as the new portfolio was constructed and positions built in early to late stage recovery plays. The initiation of a holding in Booker Group was significant amongst stock-specific recovery plays. This food wholesaler and catering supplier listed in 2007 and since then, management has been focussed on restructuring operations and paying down debt. Despite impressive progress on both fronts, we believe that the company still has considerable growth and margin expansion opportunities going forward.

Needless to say, the fund management industry was hit hard during the downturn. Despite its attractive franchise, Aberdeen Asset Management saw its share price drop from over 200p to 75p. During the slump, Aberdeen became active in acquiring distressed competitors at depressed levels. We initiated a holding, although history shows that the execution risks of trying to integrate fund management groups can be high, believing that the current share price allows enough of a margin of safety to compensate for these risks. Our purchase of Norwegian oil and gas giant Statoil was predicated on an improving macroeconomic environment and Statoil's high leverage to a recovering oil price. Also, the company's significant North Sea gas reserves put it in a powerful position in what is a politically-sensitive European market. Vehicle logistics company Autologic is more of a classic restructuring situation, and we are backing the new management team in adapting the business to operate in tougher macroeconomic conditions. So far, we have been encouraged by management's progress.

Our holding in Carrefour was based on a belief in the significant restructuring potential of the world's second largest food retailer. Despite being impressed with the initial plans, we became concerned about the execution risks associated with these cost-cutting measures and exited our holding. We also sold our position in fabric manufacturer Fiberweb as we become less comfortable with its recovery potential. Holdings in SAB Miller, Cineworld and Hansteen were also reduced as we took profits following good share price performance.

In light of the incredible equity market rally over the last six months, some are now pondering whether share prices have moved too far too fast. Rather than second-guessing the market's next move, our bottom-up stockpicking process, which focuses on the differential between share price and fundamental business value, obviates the need to time the market. With this in mind, we continue to find recovery situations trading at attractive valuations across the cycle and are excited about the opportunities for this fund going forward. We thank you for your support thus far.

**Julian Chillingworth**
**Marina Bond**
**Alan Dobbie**
27 October 2009

# Net asset value per unit and comparative tables

## Income record

| *Year* | *Income Units Net income per unit p* | *Accumulation Units Net income per unit p* |
|---|---|---|
| 2009* | 3.93 | 4.08 |

**To 30 November 2009*

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 1.89p will be paid to income unitholders on 30 November 2009. The total distribution for the period under review amounts to 3.93p per income unit.

## Fund performance

| *Unit class* | *Net Asset Value as at 30 September 2009 (pence per unit)* |
|---|---|
| Income | 246.97 |
| Accumulation | 260.36 |

## Total expense ratios

| *Expense type* | *30.09.09* |
|---|---|
| Manager's periodic charge | 1.50% |
| Other expenses | 0.21% |
| Total Expense Ratio (TER) | 1.71% |

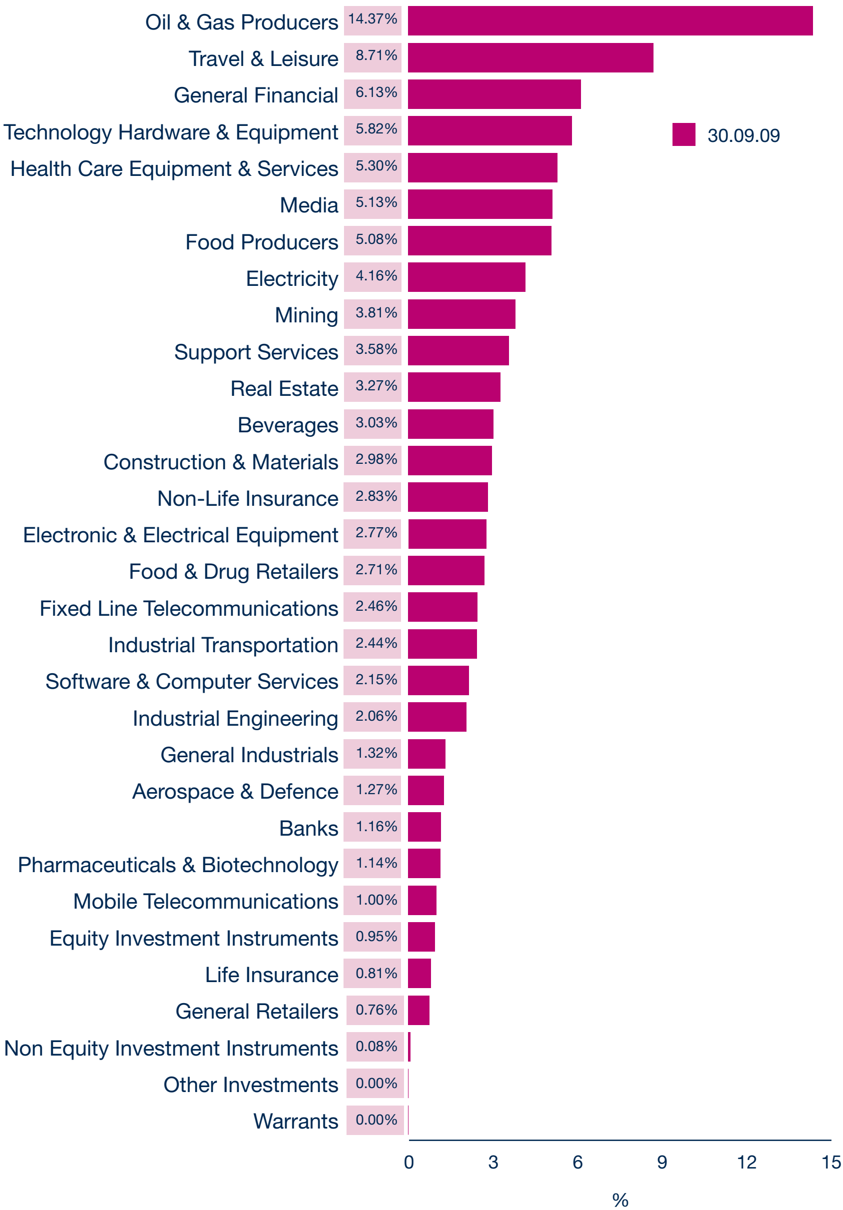
## Portfolio turnover rate

| *Date* | *Portfolio turnover rate (%)* |
|---|---|
| 30 September 2009 | 118.00 |

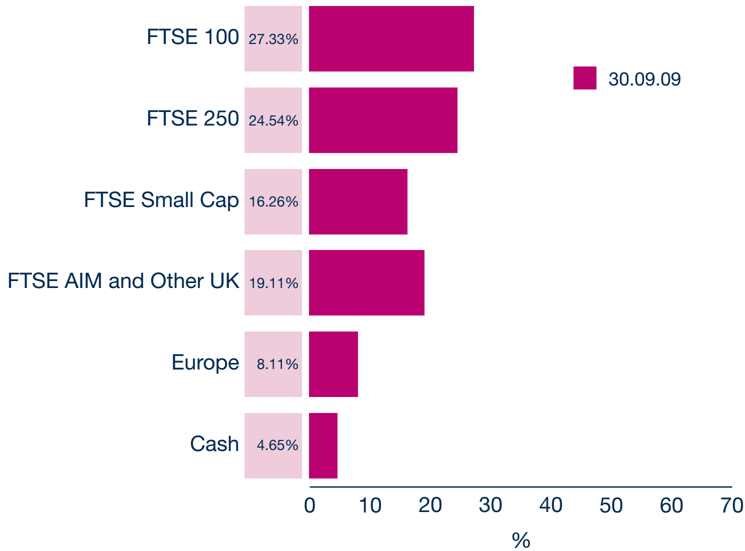
## Risk factors

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.

## 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.

| | *30.09.09* |
|---|---|
| Unilever | 4.14% |
| BG Group | 3.48% |
| JKX Oil and Gas | 2.99% |
| Anglo Pacific | 2.97% |
| Synergy Healthcare | 2.93% |
| Man Group | 2.89% |
| Hansteen | 2.78% |
| Booker | 2.71% |
| Carnival (London listed) | 2.48% |
| Tullow Oil | 2.47% |

## 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 Recovery Fund is an authorised unit trust scheme, established by a Trust Deed dated 25 August 1993 and launched on 13 July 2009 following the merger of Rathbone Special Situations Fund with the Rathbone Smaller Companies Fund.

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 capital growth by buying shares in companies whose recovery potential is not appreciated by the market and to sell them when this potential is recognised. The nature of unrecognised recovery potential may be based on macro economic, industry, sector specific or stock specific issues. Stock selection will involve the identification of a catalyst capable of triggering and sustaining a recovery in each specific stock selection. The fund has the flexibility to invest in companies of all sizes and to hold up to 20% in European shares; it will be benchmarked against the FTSE All-Share index. The benchmark is used for comparative purposes only.

To meet the objective, 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.

## 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

## Rathbone Unit Trust Management Limited

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Established 1742