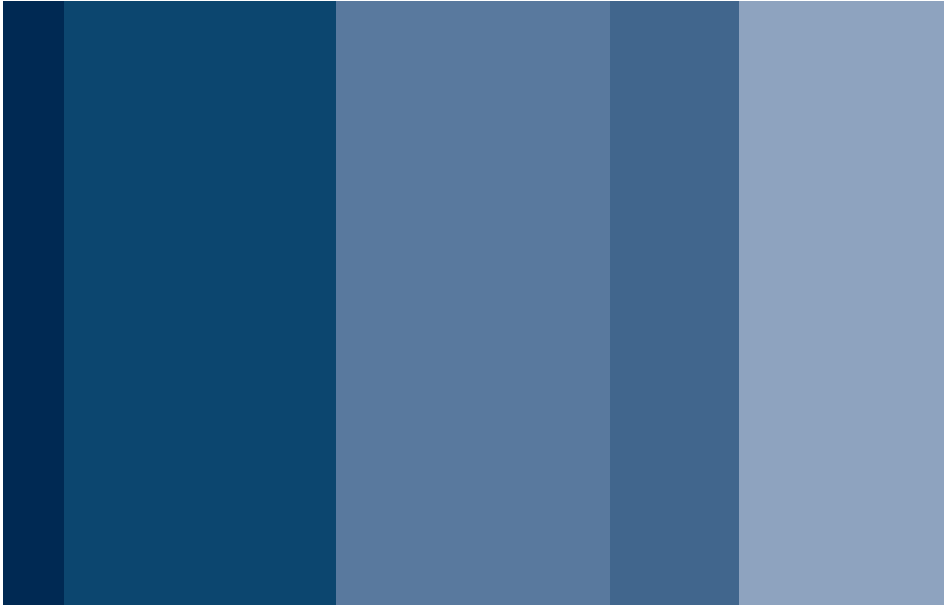


# Rathbone Recovery Fund

Short report for the half year ended 31 March 2010



## Manager's report for the half year ended 31 March 2010

Over the six month period to 31 March 2010, the Rathbone Recovery Fund returned 5.32% versus 12.24% from the benchmark FTSE All-Share index, and 9.60% from the IMA UK All Companies sector. Our underweight in the mining sector contributed significantly to our underperformance, as risk appetite gained momentum. Our financials exposure was also a drag on performance. (All performance figures shown are on a total return basis).

A continuation of ultra-easy monetary conditions and more positive economic data pushed equities upwards during the period under review. A mixture of strong economic and corporate news; continued strength from emerging markets and muted inflationary pressures encouraged investors back into the market. The potential for debt defaults in Dubai and Greece dampened the flames only briefly, as investors bet that fiscal bail-outs and accommodative monetary policies would prevail. However, despite the bullishness, many macro worries remain. Government deficits persist at alarmingly high levels; the banking sector remains a work in progress and unemployment statistics, though a lagging indicator, are still at high levels.

During this time, we made several changes to the portfolio. We initiated a holding in logistics company Stobart Group. The company's haulage division looks set to benefit from gradual improvements to the UK economy and we are excited by the prospects for development at the company's Southend airport. We also initiated a holding in UK mid-cap engineer Spectris. Trading on an attractive valuation, the company has performed well in recent months and benefits from being operationally-gearred into the recovery. Oil exploration company Gulfsands Petroleum was purchased on the basis of their undervalued assets and exciting drilling potential. This potential was recently placed in the spotlight as

the company became the focus of a takeover bid by several international oil companies. Our purchase of London Stock Exchange was predicated on our belief in the new Chief Executive Officer's strategy of reclaiming market share and broadening the earnings stream. Finally, we purchased a stake in Sherborne Investors. Knowing the management from their previous successful ventures, we have backed them to succeed with their latest investment vehicle.

In terms of sales, we exited JJB Sports, Hamworthy and Nokia. Despite JJB fitting the mould of a classic restructuring story, we became concerned that competitive pressures could place the company's recovery strategy at risk. We exited JJB at a small profit. On exiting holdings in Hamworthy and Nokia, we redeployed the capital into some of our higher conviction ideas. Profits were taken in cruise operator Carnival and JKK Oil & Gas, both of which have been strong contributors to our performance since launch.

Despite significant macroeconomic headwinds, we are encouraged by the progress of the economic recovery so far. Corporate results have also been encouraging. Cost-cutting efforts have borne much fruit; inventory restocking has provided an, albeit temporary, boost and structural growth continues apace in many parts of the world. Our stockpicking process continues to find attractive opportunities trading below our estimate of fair value, and we are enthusiastic about the outlook for our holdings. We thank you for your continued support.

**Julian Chillingworth**  
**Marina Bond**  
**Alan Dobbie**  
20 April 2010

## 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 September 2009	34,953,619	Income	14,153,231	246.97
30 September 2009	33,666,415	Accumulation	12,930,713	260.36
31 March 2010	30,939,157	Income	11,908,682	259.80
31 March 2010	32,120,908	Accumulation	11,625,260	276.30

### Income record

<i>Year</i>	<i>Income Units Net income per unit p</i>	<i>Accumulation Units Net income per unit p</i>
2009	3.93	4.08
2010*	2.32	2.44

\*To 31 May 2010

### Distributions

A distribution of 2.32p will be paid to income unitholders on 31 May 2010. The total distribution for the period under review amount to 2.32p per income unit.

### 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>31.03.10</i>	<i>30.09.09</i>
Manager's periodic charge	1.50%	1.50%
Other expenses	0.16%	0.21%
Total Expense Ratio (TER)	1.66%	1.71%

### Portfolio turnover rate

<i>Date</i>	<i>Portfolio turnover rate (%)</i>
31 March 2010	22.52

### **Risk profile**

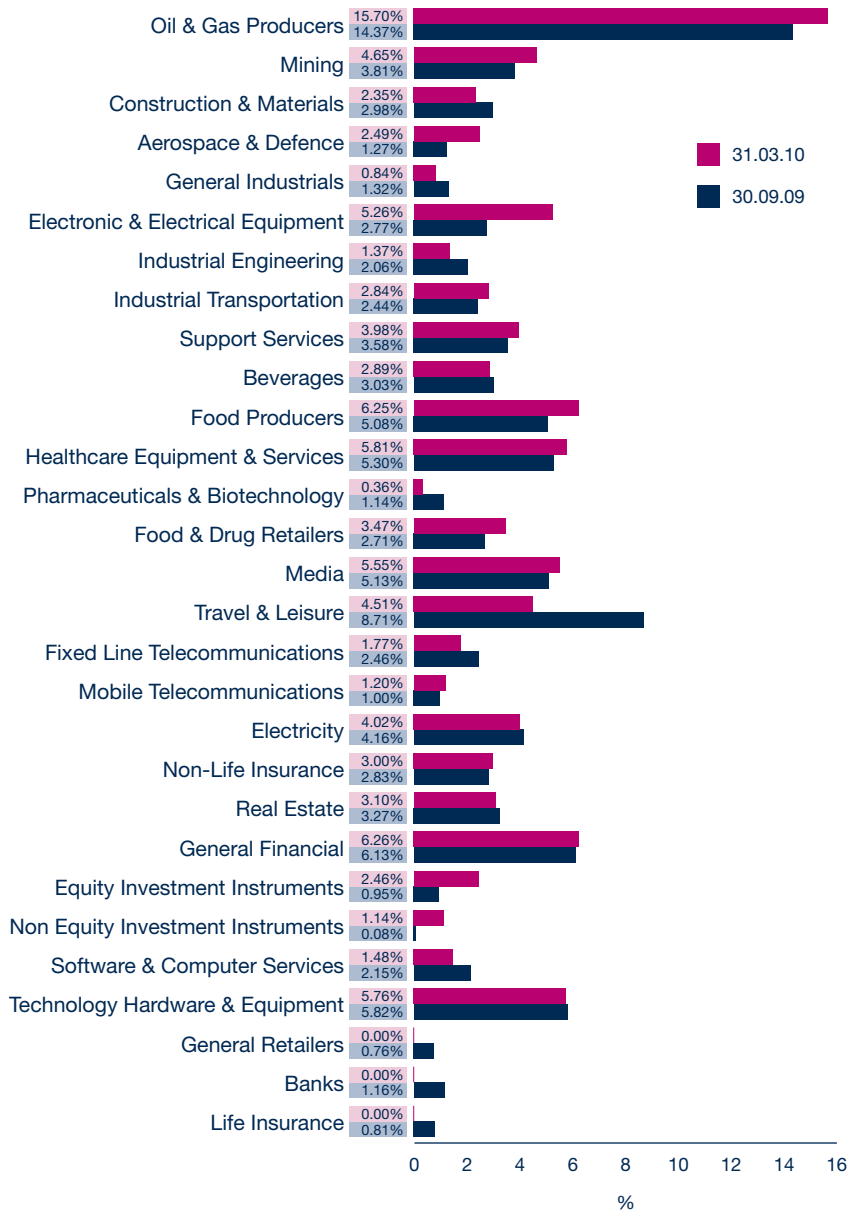
There is little exposure to credit or cash flow risk. There are no net borrowings and little exposure to liquidity risk because assets can be readily realised to meet redemptions. The main risks arising from the financial instruments are foreign currency, interest rate, market price and counterparty. 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.

## Portfolio Information

### Sector breakdown



**Top 10 largest holdings**

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

	<i>31.03.10</i>		<i>30.09.09</i>
Unilever	4.30%	Unilever	4.14%
BG Group	3.98%	BG Group	3.48%
Anglo Pacific	3.31%	JKX Oil and Gas	2.99%
Tullow Oil	2.97%	Anglo Pacific	2.97%
Booker	2.77%	Synergy Healthcare	2.93%
Hansteen	2.53%	Man Group	2.89%
International Power	2.53%	Hansteen	2.78%
Senior	2.49%	Booker	2.71%
WPP	2.49%	Carnival (London Listed)	2.48%
Synergy Healthcare	2.48%	Tullow Oil	2.47%

## 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

### 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.

### 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](http://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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