Rathbone Blue Chip Income and Growth Fund

Quarterly investment report, October 2009 to end December 2009

Macro overview

2009 was year marked by both despair and delight; a year that confounded expectations, and where risk was the name of the game. More specifically, the final quarter of the year, was characterised by a UK firmly in recession; debate about the timing and extent of exit strategies, and shadows cast over hitherto 'risk-free' government bonds. Fragilities in the recovery were also exposed by the potential default of Dubai World, and India's purchase of 200 tonnes of gold (highlighting inflation concerns). Nevertheless, equity markets, including emerging equities, still closed December 1%-10% higher, with a strong bounce from Japan. However, Government bond yields rose markedly on better economic data from the US; concerns about deficits, and warnings from rating agencies. Corporate bond spreads, on the other hand, continued to tighten.

Over the year, the UK market finished up 22% – its best performance since 1997. Financials had a torrid 2009, whereas the secondary miners posted the best gains. Elsewhere, the Dow Jones Industrial Average gained 19% in 2009; the S&P 500 index +23%, and the NASDAQ +44%. Elsewhere, Germany's Dax rose 23%; France's CAC +22%; Shanghai Composite +80%, and the Nikkei – one of the year's main underperformers – up a comparatively modest 19%. The price of oil closed at $79.53 per barrel, having climbed 78% during 2009, and gold stood at $1096.05/troy oz, having peaked at $1,226.10/troy oz earlier in the month. The prices of industrial metals also continued to rally.

Past performance should not be seen as an indication of future performance.

Changes to the portfolio

We added to our holding in ***Telit*** via a fund raising exercise designed to strengthen their balance sheet. We bought shares in ***William Hill*** on a compelling yield, and were attracted to it, amongst other things, by the online offering which comprises around one-fifth of the business.

We exited our holding in mining company ***ATH Resources*** over concerns about debt levels and the potential for success of their Australian expansion plans.

Outlook

By the end of the fourth quarter, risk appetite was being reined in. Investors took the view that some cyclical stocks may have risen too far, too soon, and that the outlook for G7 nations is for trend to sub-trend growth in 2010. In the UK, a looming election and high debt levels are troubling both equity and government bond markets. More than likely, we will see fiscal tightening, although monetary tightening is likely to remain low on the agenda whilst other factors prove a drag on growth. Against this backdrop, Sterling will remain weak versus other major currencies. Therefore, we continue to favour companies with strong balance sheets, low levels of debt that can grow their top line and, crucially, have a high proportion of sales outside of the UK. Our research also suggests that less expensive, 'defensive growth' areas of the market should fare well in 2010.

Julian Chillingworth
Chief Investment Officer, Fund Manager

Rathbone Unit Trust Management Limited

159 New Bond Street, London, W1S 2UD
Information Line: 020 7399 0399
Telephone: 020 7399 0000
Facsimile: 020 7399 0057
Email: rutm@rathbones.com
Website: www.rutm.com

The value of investments and the income from them may go down as well as up and you may not get back your original investment. **Past performance should not be seen as an indication of future performance.**

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

RATHBONES
Established 1742

TH5474/01/10