Rathbone Blue Chip Income and Growth Fund

Quarterly investment report, April 2010 to end June 2010

Macro overview

June was a difficult month, ending a difficult quarter. Investors switched to 'risk-off' on concerns about sovereign debt defaults; slowing growth in China, and the potential for a double-dip recession in the US and Europe. Over that time, the FTSE 100 was down 12.6%; the FTSE 250, 7.13% and FTSE Small Cap (ex-IT) was down 5.29%. The move mirrored other major markets – the US (S&P 500) fell 10.19%; Europe (Eurofirst 300) -13.83%; Japan (Topix) -7.87% and emerging markets -7.01%. Similar to gilts, US-Treasuries gained on safe-haven status. Oil ended the quarter down at $75.37 per barrel as global growth fears took hold; gold was up at $1,242.25 troy/oz, again on safe-haven status.

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

Changes to the portfolio

Over the period, the fund returned -5.82% versus a return of -11.80% from the FTSE All-Share index. The most significant piece of activity was a rebalancing of the portfolio following BP's clawback of its first quarter dividend, an event that took the market by surprise. We continue to hold ***BP***, but are watching closely as to whether or not there is potential to pay a dividend going forward. Consequently, we added to our holding in ***Man Group***, and initiated a holding in ***Centrica*** on the back of a positive outlook for the retail gas market. On the sell-side, we took profits in ***Halfords***, and switched from ***RSA*** into ***L&G***. The market was becoming too negative on the life insurance business, and we envisaged more growth potential from L&G.

Outlook

The end of the quarter was marked by a reversion in risk appetite. Macro data have been less encouraging adding to fears about another recession; however, we believe these fears might be somewhat overdone. This is more typical of this stage in the cycle, and is more likely to indicate a moderation in earnings, not a collapse: the global government yield curve is not inverted, suggesting another recession is unlikely; monetary policy remains loose, which is, generally, supportive to stronger global earnings; the ratio of new orders to inventories remains high, the global profit cycle is still immature. However, we cannot entirely dismiss uncertainties either. The European debt crisis continues to hit confidence (at the time of writing, the bank stress tests need to be conducted). The G20 leaders intend to slash deficits by 50% by 2013 whilst, somehow, still nurturing economic growth, and there is a potential risk emerging in the form of inflation being exported from developing countries. We maintain that policy error remains the biggest risk to the market and thus maintain our defensive positioning.

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

RATHBONES
Established 1742

TH5544/07/10