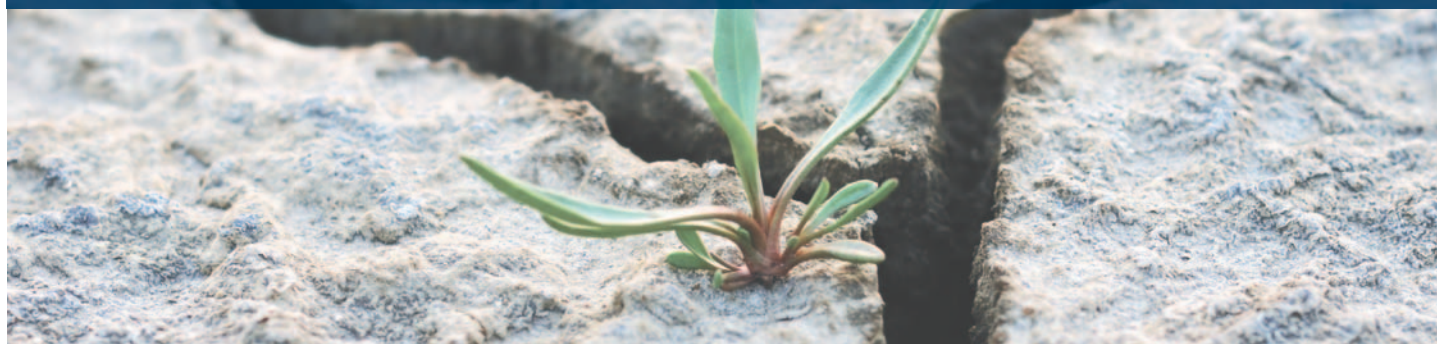


Rathbone Recovery Fund

Quarterly investment report, January 2010 to end March 2010



Market overview

Equity markets were in an ebullient mood during the first quarter of 2010. Apart from a setback in February, precipitated by worries about Greece and the pace of the global recovery, interest soared in risk assets. Major markets exuded confidence on the coat tails of positive economic data out of the US. The quarter yielded positive US data on manufacturing, jobless claims, and non-farm payrolls; the University of Michigan consumer sentiment index also held up well. Across the pond, however, there were less boosts to investor sentiment in terms of economic data. Sterling continued to weaken against the dollar, and despite looking like its owed a technical bounce, fundamentals remain fragile. The General Election result is expected to be close, with the likely outcome a hung parliament and a painful bout of fiscal consolidation. China's fourth quarter (2009) GDP figures revealed economic expansion of 10.7%, year-on-year – an acceleration from 9.1%, recorded in the preceding quarter. This led China to raise its reserve ratio, thereby restricting the amount that commercial banks can lend. Consequently, the Chinese and Hong Kong markets fell around 10% in the space of three weeks

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

Performance and fund activity

Over the period, the fund returned 4.06%, versus a return on the FTSE All-Share of 6.42%. Our low weighing in the miners meant that we faced a headwind against a market driven by a greater appetite for risk. During this time, we added to *New Britain Palm Oil*, a producer of sustainable palm oil, based in Papua New Guinea. It is profitable and cash-generative, and operating in a growth market, driven by demand from Asia. New Britain has announced encouraging results, and capacity will be stepped up with a proposed acquisition. It has delivered on all promises to date, and the market is recognising this. We initiated a holding in logistics company *Stobart Group* which we believe will benefit from gradual improvements in the domestic economy. Its road business provides haulage services to stalwarts such as Tesco, Coca Cola and Danone. Since investing, the company has received permission to extend its runway at Southend Airport in Essex, which it bought in 2008. This is in a bid to provide customers with both an air and road haulage service. On the sell-side, we exited *Intec Telecoms Systems* at a profit, on the basis of a cautious trading statement. This proved to be the correct call as the company, which provides billing solutions to the global telecoms sector, has since issued a profits warning.

Outlook

There is no question that we are facing uncertain times in the UK, with public finances in poor shape and with the General Election around the corner. However, we feel that perception has been overly-negative on the economy – relative to the rest of the G7 nations, where growth is also likely to be lacklustre – with an over-concentration on the fiscal deficit and government finances. These negatives are now largely known to the market, and sterling's recent depreciation appears to be stimulating the economy to some extent. We have seen some significant upgrades to company earnings, following an encouraging reporting season, and industry

data appear to indicate a more positive outlook. While the media focuses on the potentially drastic public sector cuts, businesses in the private sector – the life blood of an economy – are quietly exploiting their relative strengths. Those that have survived the recession have come out stronger, and will form a stabilising base beneath future reductions in the public sector.

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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.

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