

RATHBONE STRATEGIC GROWTH PORTFOLIO QUARTERLY INVESTMENT REPORT, JULY 2011 TO END SEPTEMBER 2011

Aim of the portfolio

The fund targets a return equal to 5% above UK CPI (Consumer Price Index) and a volatility rate equal to two thirds that of global equities as measured by the MSCI World Equity index.

Markets

It's fair to say that most investors will be pleased to see the back of September and the quarter, in which European sovereign debt fears escalated; the Eurozone banking crisis developed and an impending recessionary outlook ruled the roost. This concoction made for volatile equity and credit markets, with corporate bond issuance at a record low. Indeed, negative sentiment filtered throughout the financial system, putting credit spreads under serious pressure, particularly in the banking and insurance sectors. This was the worst quarter for global equities since 2008, and it recorded falls of around 16%. The speed of the falls accelerated as the quarter dragged on, although the final week of September staged a mild recovery. US Treasuries, UK Gilts and the German Bund rallied, as investors sought safe-havens at the expense of risk assets.

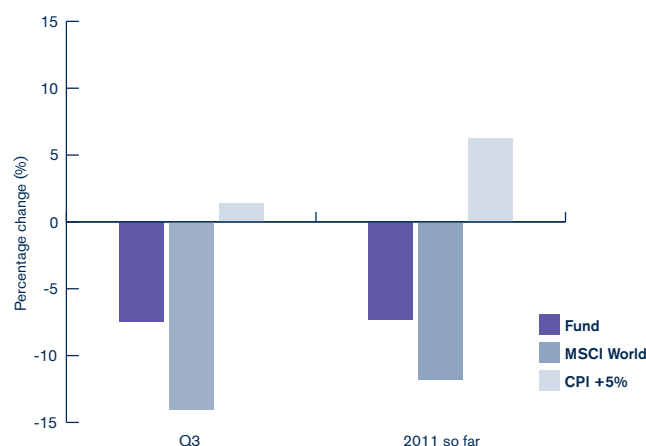
Fund performance

Over the period, the Rathbone Strategic Growth Portfolio returned -7.48% versus +1.41% from the benchmark. The best underlying contributors to return were our holding in gold (ETF Securities Ltd Physical Gold, +0.45%); the BH Macro Fund (+0.38%); the Aspect Diversified Trends Fund (+0.35%); the CG Portfolio Real Return Fund (+0.15%); and the Treasury 1.25% Index-Linked 22/11/2017 (+0.10% contribution to performance). Negative contributors were the Baring German Growth Trust (-1.99%); the Hexam Global Emerging Markets Fund (-0.84%); the Schroder UK Growth Fund (-0.76%); the Veritas Asian Fund (-0.61%); and our investment in the Soc Gen FTSE Autocall product (which took 0.40% off performance).

Significant movements within the portfolios

Over the period, we bought the Legg Mason Western US Core Plus Fund, and the Genesis Emerging Markets Fund. We have also added to our Asian exposure via the Veritas Asian Fund. We sold our Index-Linked Gilt (2013) to rebalance the portfolio. Finally, we sold our position in the GAM Global Rates Fund and in the GLG Emerging Markets Diversified Fund. We put the money to work in the Aspect Capital Diversified Trends Fund and in the BH Macro Fund, both of which have a lower correlation to equities.

Fund performance



Overall, the alternatives component offered the greatest contribution to performance over the quarter, falling 1.85%, followed by fixed interest down 2.07% with equities down 12.60%.

TER*	%
Income shares	+2.36
Accumulation shares	+2.39

Top performers	%
BH Macro Fund	+13.38
ETF Securities Ltd Physical Gold	+10.83
Aspect Capital Diversified Trends Fund	+9.81
CG Portfolio Real Return Fund	+7.66
Treasury 1.25% Index-Linked 22/11/2017	+3.96

Bottom performers	%
Veritas Asian Fund	-18.98
Picton Property Income Fund	-19.09
Franklin Templeton Emerging Markets Smaller Companies Fund	-21.77
Hexam Global Emerging Markets Fund	-25.51
Baring German Growth Trust	-28.95

* These figures are at 30.06.11 and are unaudited.

Asset allocation change and strategy

Our most significant shift was the return to fixed income corporate bonds, having had no exposure over the past six months. At this point in time, UK high yield bonds are trading above their historic averages, and corporate bond spreads, as a percentage of Gilt yields, are also high versus their historic average (ex-2008) and are looking attractive. Given the underperformance of emerging markets, we have started to rebuild our position. In the hedge fund space, we added to macro strategies, which tend to benefit from the dislocation seen in these types of markets. Finally, we took profits in our gold holding.

Asset allocation split	30.06.11	30.09.11	% Change		% Change, 30.09.11 compared to 30.09.10	
Liquid assets/lower volatility	7.16%	11.49%	+4.33%	▲	+0.51%	▲
Alternative assets (Liquid)	20.10%	18.81%	-1.29%	▼	-4.80%	▼
Alternative assets (Less Liquid)	8.20%	5.67%	-2.53%	▼	+2.37%	▲
Beta (economically sensitive assets)	64.54%	64.03%	-0.51%	▼	+1.92%	▲
	100.00%	100.00%				

Asset class split	30.06.11	30.09.11	% Change		% Change, 30.09.11 compared to 30.09.10	
Equities	52.21%	52.18%	-0.03%	▼	+0.52%	▲
Index-linked bonds	7.16%	4.95%	-2.21%	▼	-0.28%	▼
Conventional government bonds	0.00%	0.00%	0.00%	◀▶	-2.57%	▼
Corporate bonds	5.82%	5.45%	-0.37%	▼	+0.98%	▲
Private equity	3.53%	4.04%	+0.51%	▲	+1.66%	▲
Long/short equity	6.84%	5.79%	-1.05%	▼	-3.46%	▼
Macro/trading (incl. CTAs)	9.52%	10.41%	+0.89%	▲	+0.39%	▲
Relative value	8.20%	5.67%	-2.53%	▼	+3.64%	▲
Property	2.98%	2.36%	-0.62%	▼	-2.51%	▼
Commodities	3.74%	2.61%	-1.13%	▼	-1.73%	▼
Cash	0.00%	6.54%	+6.54%	▲	+3.36%	▲
	100.00%	100.00%				

Asset allocation ranges

Liquid Assets	Alternative Assets	Beta Assets
0% to 20%	10% to 50% (liquid: 10% to 50%; less liquid: 0% to 20%)	40% to 80%

Investment outlook

Whilst we can not begin to know when political leaders in Europe and the US will truly get to grips with the severity of the situation and implement an appropriate strategy, we are confident that they will pull out the stops to avoid a Lehman's-style debacle. We are sure that the right structures will eventually be put into place to stem the debt crisis and stimulate economic growth, although clearly time is of the essence. Some of this will continue to be politically-motivated and thus difficult, but the politicians might have their hands forced by market pressure. We are therefore adding incrementally to our positions in risk assets, as markets hit new lows. Crucially, we have protected on the downside enough to mean we are not tempted into chasing risk.

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

Rathbones will be relocating its London head office in early 2012 to 1 Curzon Street, London W1J 5FB | Tel 020 7399 0000
Until then we will remain at our current premises (New Bond Street).

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
rutm@rathbones.com | www.rutm.com

Authorised and regulated by the Financial Services Authority
A member of the Investment Management Association
A member of the Rathbone Group. Registered No. 2376568

RATHBONES
Established 1742