Rathbones
Established 1742

Rathbone Total Return Portfolio

Quarterly investment report, July 2011 to end September 2011

Aim of the portfolio

The fund targets a return equal to 2% above Sterling [six month] London Interbank Offered Rate (LIBOR) over the long-term and a volatility rate equal to one third or below that of equity markets 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.

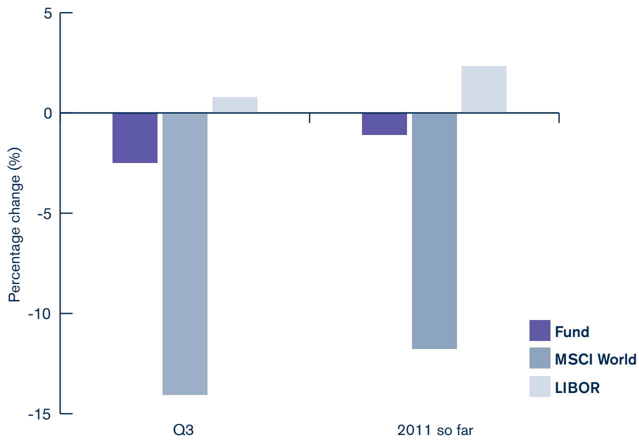
Fund performance

Over the period, the Rathbone Total Return Portfolio returned -2.48% versus +0.79% from the benchmark. The best underlying contributors to return were the BH Marco Fund (+0.50%); our holding in gold (ETF Securities Ltd Physical Gold, +0.43%); the Aspect Diversified Trends Fund (+0.24%); the CG Portfolio Real Return Fund (+0.21%); and the Standard Life Global Index-linked Bond Fund (+0.10% contribution to performance). Our negative contributors this month were the Veritas Global Equity Income Fund (-0.57%); the CQS Diversified Fund (-0.44%); the Prusik Asian Equity Fund (-0.35%), the Morgan Stanley FTSE100 product (-0.31%) and the First State Global Infrastructure Fund (which shaved 0.30% off return).

Significant movements within the portfolios

During the quarter, we added to the L&G Dynamic Bond Fund and purchased the Old Mutual Global Strategic Bond Fund. We switched into the Troy Trojan Income Fund; we put 1% into the iShares FTSE100 product on the 5th August, when the market hit a significant trough, and we added to a Morgan Stanley Defensive Autocall product on the secondary market.

Fund performance



Overall, the alternatives component offered the greatest contribution to performance over the quarter, falling 0.18%, followed by fixed interest down 1.85% with equities down 7.02%.

TER*	%
Income shares	+2.40
Accumulation shares	+2.37

Top performers	%
BH Macro Fund	+13.11
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 Global Equity Income Fund	-12.28
Lloyds TSB FRN 29/04/2011-16	-13.36
Prusik Asian Equity Fund	-14.08
Morgan Stanley FTSE100	-15.49
Picton Property Income Fund	-21.04

* These figures are at 30.06.11 and are unaudited.

Asset allocation change and strategy

As the quarter wore on, we took the opportunity to add to risk assets. Our most significant shift was the return to corporate bonds, having been net sellers over the past 12 months. At this point, 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. We have therefore increased our corporate bond allocation to around 9%, and are aiming to build this to 20% over the coming weeks, pending market conditions. We reduced our long/short equity exposure to 4%. This strategy has not worked, as most managers have been net 'long' investors, particularly net long in financials. We added to our long equity exposure, as markets shed around 14-17%, believing valuations to be attractive going into the period. 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	25.04%	28.48%	+3.44%	▲	+4.69%	▲
Alternative assets (Liquid)	21.08%	24.20%	+3.12%	▲	-3.50%	▼
Alternative assets (Less Liquid)	9.67%	6.49%	-3.18%	▼	-2.34%	▼
Beta (economically sensitive assets)	44.21%	40.83%	-3.38%	▼	+1.15%	▲
	100.00%	100.00%				

Asset class split	30.06.11	30.09.11	% Change		% Change, 30.09.11 compared to 30.09.10	
Equities	28.97%	28.54%	-0.43%	▼	+6.39%	▲
Index-linked bonds	10.74%	10.39%	-0.35%	▼	+5.52%	▲
Conventional government bonds	4.99%	4.45%	-0.54%	▼	-0.99%	▼
Corporate bonds	15.70%	9.52%	-6.18%	▼	-16.87%	▼
Private equity	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Long/short equity	5.44%	4.07%	-1.37%	▼	-5.71%	▼
Macro/trading (incl. CTAs)	11.80%	17.60%	+5.80%	▲	+2.82%	▲
Relative value	6.13%	6.49%	+0.36%	▲	+3.49%	▲
Property	6.02%	2.77%	-3.25%	▼	-6.15%	▼
Commodities	3.84%	2.53%	-1.31%	▼	-0.61%	▼
Cash	6.37%	13.64%	+7.27%	▲	+12.11%	▲
	100.00%	100.00%				

Asset allocation ranges

Liquid Assets	Alternative Assets	Beta Assets
10% to 50%	30% to 60% (liquid: 10% to 40%; less liquid: 0% to 20%)	20% to 60%

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

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