Rathbone Unit Trust Management Limited

The Rathbone Multi Asset Portfolios (RMAPs)

The core holding in an investment portfolio

Your questions answered

1. What are the Rathbone Multi Asset Portfolios?

The Rathbone Multi Asset Portfolios are two sub-funds offered within an authorised UK open-ended investment company. They are called the **Rathbone Total Return Portfolio** and the **Rathbone Strategic Growth Portfolio**. The two products are well-diversified hybrid multi asset funds investing in traditional long-only equity and fixed income funds and harnessing alternative investments in a blend of strategies. The funds are structured as a Non-UCITs Retail Scheme (NURS), which allows for flexibility in terms of the instruments we can use.

2. What are you targeting in terms of risk and returns?

Rathbone Total Return Portfolio – LIBOR+2% over a rolling 3-year period with volatility targeted to be 33% of equity volatility – lower risk strategy. No yield target. The aim is to provide half the return from capital and half from income, hence the LIBOR+2% benchmark and over a time frame of 2 to 5 years. This fund is suitable for more risk-averse investors, looking for returns above the prevailing risk-free rate.

Rathbone Strategic Growth Portfolio – Inflation +5% over a rolling 3-year period with volatility targeted to be 67% of equity volatility – medium risk strategy. No yield target. Historically the market has delivered a real return of around 5% per annum over the very long term – hence adjusting for inflation, we are aiming at a target real return over 5 to 10 years equivalent to those typically achieved through investment in equities but with lower volatility.

Launch rationale

3. Can you explain the timing behind the launch of these funds?

The funds were initially launched by Rathbone Investment Management in June 2009 as part of a unitised portfolio service for IFAs. They now have meaningful performance history, and in the light of investor demand for these products, we feel it is an appropriate time to bring them to a broader retail market. As the intermediary market prepares for the introduction of the Retail Distribution Review (RDR), we feel these products will find strong support for those looking to simplify or outsource their investment activities in one form or another.

4. Given the attention multi asset funds have been receiving recently, is this a marketing driven initiative?

This is definitely a client-led proposition and not driven by marketing and sales objectives. We set out to design products that would help financial advisers meet their clients' core requirements. Much of the multi asset market is concentrated in the traditional managed sector categories with the aim of outperforming peers. As a result, a fixation on performance relative to competitors has developed. The Rathbone Multi Asset Portfolios have been designed to achieve absolute rather than relative outcomes and we are focused on using the core of our wealth management expertise and investment process to bring multi asset portfolios to the wider market.

5. Does this launch represent a change in direction for Rathbone Unit Trust Management from single strategy funds to multi asset vehicles?

We remain absolutely committed to our range of single strategy funds and continue to believe that we can deliver specialist, directly-invested funds where we have expertise. In essence, our existing funds continue to provide component part solutions for investment advisers where they continue to make their own asset allocation and fund selection decisions. These two new vehicles complement that range and provide the broader market with core products that play to the strengths of Rathbones as a wealth manager.

Team and experience

6. What are Rathbones' credentials in managing multi asset funds?

David Coombs has been running multi asset portfolios since 1990, and therefore has 20 years experience. Rathbones, as a whole, has been running multi asset portfolios for private clients for many years and has considerable experience of advising on a full range of asset classes and strategies. At the heart of the investment process is our strategic asset allocation, managed fund and alternatives selection committees. This brings together the substantial expertise found across Rathbones as a whole. **The Strategic Asset Allocation Committee** (SAAC) which advises on the structure of the fund, has eight members and a total of 174 years experience. **The Fund Selection Committee** – a team of twelve with a grand total of 142 years experience and the buying power of Rathbones. Finally, the **Alternative Assets Committee** – a team of seven people (apart from the fund manager, different personnel from the fund selection committee) with a combined 123 years experience.

7. What track-record does fund manager David Coombs have for managing this sort of vehicle?

David Coombs is a specialist in managing multi asset portfolios, with an emphasis on asset allocation and risk reduction. He has around 20 years experience (26 in the industry). He joined Rathbones in April 2007 from Baring Asset Management where he developed their absolute return investment process in the mid-nineties. He has managed unitised and segregated funds for institutional pension funds, captive insurance companies, corporate trustees and private clients including the Baring Optimum and Extended Risk Funds. David joined Barings in 1988 from Hambros Bank in Guernsey where he started his career in 1984. David sits on the Strategic Asset Allocation, Alternatives and Managed Funds committees at Rathbones. In 2007, he launched and continues to manage our Jersey-based multi asset portfolios.

8. What broader support does he have?

David heads up a four-strong team which includes research analyst, Mona Shah, Elizabeth Savage, an alternative investment analyst, and Rashpal Sohan, an asset allocation specialist. This team draws on the broader expertise within Rathbones and in particular the three specialist investment committees: the Strategic Asset Allocation Committee, the Alternatives Committee and the Managed Funds Committee.

9. Will you be looking to recruit further fund analysts to support the existing team?

No. We are fully resourced.

Fund structure, process, holdings

10. What would you not expect the funds to do?

These funds will **not**:

- ***Match*** equity returns in strong short term rallies as we are attempting to reduce volatility over the long term.
- ***Avoid*** losses entirely. We believe you have to take risk to achieve our return targets and remain sceptical of the promises from the absolute return community. These are not absolute return long/short funds.
- ***Target*** an income yield as these funds are designed to achieve a total return.
- ***Focus*** on peer group indices – it is important to avoid the 'herding' temptation when setting investment strategy. The funds are designed to meet their target and risk objectives and not outperform a peer group which is a diverse group of funds.
- ***Chase*** short term performance when selecting underlying funds.
- Allow ***Fees*** to dictate portfolio construction. We will always use our purchasing power to drive fees lower but net-of-fees-performance is our key determinant.
- Make ***Money*** in all market conditions, but aim instead to dampen the 'ride' whilst achieving its real return target over the long term.

11. What exposure will there be to alternative investment vehicles?

There is no asset class bias. We have total flexibility in terms of where we think is the right place to invest at a given point. For each fund however, there are restrictions on the permissible allocation across each category. In the case of the alternatives assets 'bucket', this range is up to 60 per cent of the total portfolio for Strategic Growth and between 30 and 60 per cent for Total Return. Note that the majority of holdings in this category will be liquid rather than illiquid.

12. Will either portfolio invest in direct holdings?

Given that we are top-down driven, investing significantly in asset allocation, it is not appropriate for us to invest in direct equities. We invest in individual corporate bonds and short-term commercial paper, but only on occasion, and direct government bond exposure is typically achieved using US Treasuries and Gilts.

13. What is the key to your investment process?

The key for these funds is ***risk***, ***correlation*** and ***return***. We start by allocating by risk, formulating a macroeconomic perspective. This view then feeds our allocation into our asset allocation 'buckets". We categorise assets into ***liquidity*** (government bonds and high quality, investment grade debt); ***alternatives*** (highly liquid and illiquid assets), and ***beta*** (economically-sensitive assets) 'buckets'.

14. How do you determine asset allocation?

On the macro side, we consider data across an extremely broad range of areas such as macro consumption; output; the labour market; the housing market; inflation; liquidity; active fiscal policy; interest rates; politics and currencies.

15. How frequently is this reviewed?

These data are reviewed monthly amongst fund manager David Coombs's immediate team and at a quarterly meeting of the Strategic Asset Allocation Committee.

16. Is either portfolio likely to hold any funds run by Rathbone Unit Trust Management?

No, to avoid any potential conflicts of interest, directly invested funds run by Rathbones are excluded from the universe.

Investors and marketing

17. Who should consider investing in these two funds?

The funds have been designed as a core holding for those seeking to generate long-term absolute returns at a lower volatility than the equity markets. As core holdings they are suitable for anyone saving for a pension or as a core holding in an overall investment portfolio.

18. How can investors access these funds?

These funds are available direct. They are also already available on a number of fund platforms.

19. Are these funds be open to ISA investment?

Yes.

20. What is the minimum investment and what are the charges?

The minimum initial investment and minimum holding, for each sub-fund is £1,000. The minimum subsequent investment is £500 and the minimum regular investment is £100 per month. The initial charge is 5% and is made at time of purchase and the annual management charge is 1.5% per annum.

21. Where can I find fund prices?

You can also find prices at the Investment Management Association website www.investmentuk.org under 'Rathbone Unit Trust Management'; in The Financial Times; or in The Telegraph; or at www.fundlistings.com www.fundlistings.com; or on our website www.rutm.com

22. How will the funds be classified and in which Investment Management Association sector?

The funds will be in the 'Unclassified' sector. Firstly, these funds are very different to other multi asset funds on the market. Our weightings are determined not by how much we should weight elements such as property, commodities, stocks, bonds etc against each other or by geography, but by how much we should relative weight our three main categories Liquid, Alternatives and Beta. These weightings are determined by our view on macro issues and how much correlation there is between the underlying investments. Therefore, if we tried to fit the funds into the Managed sectors for example, which carry strict limits on asset allocation either by geography or class, this would have no relevance whatsoever to the management of these products and be misleading for the client.

23. Can you tell me about the exposure to hedge funds?

With regard to our exposure to hedge funds, we hold a concentrated list of only 6 or 7 funds at any one time. The purpose of holding such funds is to reduce risk in the portfolios. These will all be regulated UCITS funds and will only be selected for the portfolio after as much as three months or more of due diligence has been performed on the managers and processes in question. We conduct a full appraisal of all risk monitoring systems. We select funds with full transparency which spread their counterparty risk and in themselves operate policies of separate custodians and valuations. This helps to avoid manipulation of data. Our investments come from the 'big' reputable UK-based investment houses with funds established in Luxembourg and Dublin and in order to manage a portfolio on daily dealing we invest in funds that also deal on a frequent basis (either daily or weekly) and are therefore, easily tradable.

24. Should we compare your funds to absolute return products on the market?

In terms of portfolio construction and implementation, our multi asset funds will have some similarities to absolute return funds but there are several important differences.

The key difference is the investment objective. Absolute return funds are designed to prioritise avoiding negative returns and often target a set nominal return. In our funds, we target a return, relative to cash or inflation, and a distinct level of volatility which means the return remains relevant in all economic scenarios and risk taken is consistent.

Investment philosophy is another key difference. We believe one must take risk to achieve excess returns and therefore we will accept small losses over the very short term given in our opinion consistent successful market timing is unachievable.

Both types of product invest in a wide range of assets and are designed to have low correlations to stock and bond markets. In fact many absolute return funds claim a negative correlation. We remain sceptical that this is achievable on a consistent basis. Multi asset funds are a natural development/extension of more traditional balanced funds which largely invested in just two or three asset classes including equities and bonds.

25. How does the management of risk differ between our funds and absolute returns?

The Rathbone Multi Asset Portfolios aim to manage the risk within the portfolio by balancing economically sensitive assets (beta) with alternative assets that should remain uncorrelated to the economic cycle and lower volatility liquid assets. An absolute return fund will in the main try to be either market neutral (aim to remove beta altogether) or market directional with significant emphasis on the manager's ability to call market timing. In very simplistic terms, market neutral funds aim to match long positions (those they believe will rise in value) with short positions (those they think will fall in price) – aiming then to make positive returns purely from alpha or stock picking. Market directional funds bet on market movements and typically try to make returns from beta.

Our approach is to take a long term strategic view directed on fundamental macro analysis and taking into account valuation, potential return, risk and changing correlations. Absolute return funds tend to focus on the shorter term and tend to be more tactical. As stated above we are sceptical as to the ability of most managers to achieve this consistently given the range and breadth of outcomes in world markets over short periods.

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