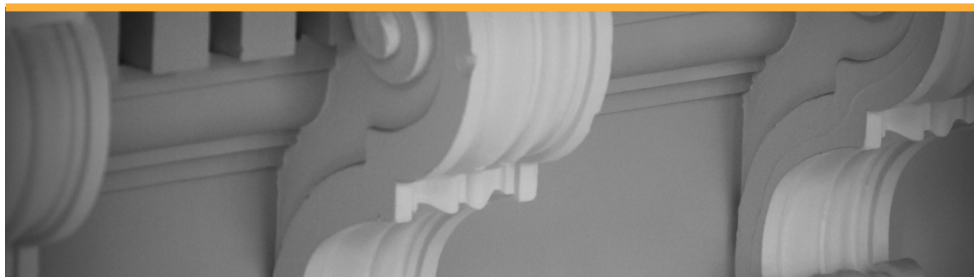




**RATHBONE UNIT TRUST MANAGEMENT**  
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

## RATHBONE INCOME FUND

SHORT REPORT FOR THE YEAR ENDED 15 OCTOBER 2013



## Manager's report for the year ended 15 October 2013

For the 12 months through to 15 October 2013, the Rathbone Income Fund generated a total return of 21.29%, which compares to an IMA Income sector average of 22.32%, and a return from the FTSE All-Share index of 19.28%. For the six months since our interim report, the fund returned 7.49% versus the sector average of 8.84%, and the FTSE All-Share index return of 6.44%. We have constantly repeated our risk-averse mantra, and this has certainly been put in practice across this reporting period. Our first interest is to preserve your capital and then to make a return. We have been very disciplined in taking profits where necessary and have not been too greedy, when there is great temptation to wait for yet one more leap forward. At times our cash levels have risen above 10%, as we would rather wait for better prices than expend all our firepower at higher levels. This has also meant that our returns have been less volatile than our peers. Finally, we have declared a final distribution (for retail income units) of 18.74p, an increase of 3.5% over last year's final. For the year as a whole, distributions total 29.24p, an increase of 4.1%.

This discipline is reflected in our largest trades for the period. We exited from four positions, and in two of these we saw that the business risk (an internal or external factors that makes the business model look vulnerable) was not reflected in the share price. Keller Group has been a good, albeit volatile, investment for us over the years. At the peak of the financial crisis, Keller was operating under stress, margins deteriorated, and the share price reflected this malaise. The business recovered well, however, and the share price ballooned. But the downturn revealed structural weaknesses within the industry itself, and we took our profits and moved on. Similarly, Vodafone is another business where we see long-term structural issues.

The company needs to invest in infrastructure, but we are unconvinced regarding the return on this investment, and so we have exited. In both cases,

the shares have strengthened further, but that does not change our view regarding the business risk. We sold our Close Brothers and United Business Media because we viewed the price risk as too high (the shares were too expensive). We took good profits from The Restaurant Group, a great business but fully priced.

Our purchases further display this risk-based approach. We have created three new holdings in stocks that have less compelling business models, for which we are compensated by much lower prices. We bought Rio Tinto believing that we may start to see greater capital discipline in the mining industry. BG has had its travails during the last year, which dampened the share price, but longer-term, we expect to see greater cashflow coming out of this business. And finally, right out of the 'ugly drawer', we bought Barclays on the announcement of its fund-raising. The target here is not short-term benefit but the promise of a market-beating dividend, two years hence. We also started building a position in household-product manufacturer Reckitt Benckiser, and added to GlaxoSmithKline on share price weakness.

The year ahead may prove challenging. Whether or not loose monetary policy continues to propel global markets forward, or whether this policy finally translates into an improved economic environment, remains to be seen. Equity markets have reached new heights in anticipation of a brighter future. Our aim is not to bet on this outcome, rather, we want to own the best possible assets, at the best possible prices, that can generate a sustainable rising income stream.

The success of the past 12 months has come about from a clear focus on this aim, married to a strict investment process. 2014 augurs more of the same.

**Carl Stick**  
*31 October 2013*

## Net asset value per unit and comparative tables

### Fund size

| Date            | Net Asset Value £ | Attributable to       | Units in issue | Net Asset Value (pence per unit) |
|-----------------|-------------------|-----------------------|----------------|----------------------------------|
| 15 October 2011 | 309,195,324       | R-Class Income        | 50,841,955     | 608.15                           |
| 15 October 2011 | 117,458,547       | R-Class Accumulation  | 14,499,241     | 810.10                           |
| 15 October 2012 | 295,923,628       | R-Class Income        | 44,383,600     | 666.74                           |
| 15 October 2012 | 145,040,614       | R-Class Accumulation  | 15,650,760     | 926.73                           |
| 15 October 2012 | 30,328,588        | I-Class Income*       | 4,469,664      | 678.54                           |
| 15 October 2012 | 558,535           | I-Class Accumulation* | 60,481         | 923.49                           |
| 15 October 2013 | 318,618,091       | R-Class Income        | 40,906,557     | 778.89                           |
| 15 October 2013 | 182,660,361       | R-Class Accumulation  | 16,247,968     | 1,124.20                         |
| 15 October 2013 | 71,040,254        | I-Class Income        | 8,894,836      | 798.67                           |
| 15 October 2013 | 16,802,614        | I-Class Accumulation  | 1,489,276      | 1,128.24                         |

### Income record

| Year     | R-Class Income Units    | R-Class Accumulation Units | I-Class Income Units*   | I-Class Accumulation Units* |
|----------|-------------------------|----------------------------|-------------------------|-----------------------------|
|          | Net income per unit (p) | Net income per unit (p)    | Net income per unit (p) | Net income per unit (p)     |
| 2008     | 30.96                   | 34.23                      | n/a                     | n/a                         |
| 2009     | 26.71                   | 31.40                      | n/a                     | n/a                         |
| 2010     | 26.99                   | 33.29                      | n/a                     | n/a                         |
| 2011     | 27.22                   | 35.06                      | n/a                     | n/a                         |
| 2012     | 28.08                   | 37.78                      | 19.21                   | 21.06                       |
| 2013**** | 29.24                   | 41.04                      | 30.04                   | 40.67                       |

\* I-Class was launched on 1 March 2012 at 647.62p (I-Class Income) and 862.68p (I-Class Accumulation).

\*\* To 15 December 2013

\* On 5 August 2013 the Taylor Young Growth & Income Fund merged into the Rathbone Income Fund.

The annual management fee is taken from the capital of the fund. This will enhance income but will restrict capital growth.

### Distributions

A distribution of 18.74p and 19.29p will be paid to R-Class Income unitholders and I-Class Income unitholders respectively on 15 December 2013. The total distribution for the period under review amounts to 29.24p per R-Class Income unit and 30.04p per I-Class Income unit with 28.08p per R-Class Income unit and 19.21p per I-Class Income unit for the same period last year.

### Risk factors

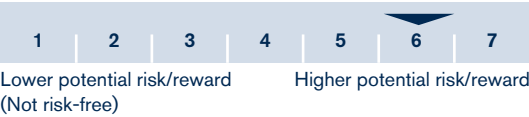
An investment in a unit trust should be regarded as a medium to long term investment. Investors should be aware that the price of units and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance should not be seen as an indication of future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

Net asset value per unit and comparative tables *(continued)*

Ongoing Charges Figure

| R-Class Income Units         |          |          |
|------------------------------|----------|----------|
| Expense type                 | 15.10.13 | 15.10.12 |
| Manager's periodic charge    | 1.50%    | 1.50%    |
| Other expenses               | 0.06%    | 0.06%    |
| Ongoing Charges Figure (OCF) | 1.56%    | 1.56%    |
|                              |          |          |
| R-Class Accumulation Units   |          |          |
| Expense type                 | 15.10.13 | 15.10.12 |
| Manager's periodic charge    | 1.50%    | 1.50%    |
| Other expenses               | 0.05%    | 0.06%    |
| Ongoing Charges Figure (OCF) | 1.55%    | 1.56%    |
|                              |          |          |
| I-Class Income Units         |          |          |
| Expense type                 | 15.10.13 | 15.10.12 |
| Manager's periodic charge    | 0.75%    | 0.75%    |
| Other expenses               | 0.05%    | 0.06%    |
| Ongoing Charges Figure (OCF) | 0.80%    | 0.81%    |
|                              |          |          |
| I-Class Accumulation Units   |          |          |
| Expense type                 | 15.10.13 | 15.10.12 |
| Manager's periodic charge    | 0.75%    | 0.75%    |
| Other expenses               | 0.06%    | 0.06%    |
| Ongoing Charges Figure (OCF) | 0.81%    | 0.81%    |

Risk and reward profile as published in the fund's most recent Key Investor Information Document



This indicator is a measure of the fund's past volatility (the extent and rapidity of up-and-down movements of the value of an investment). It may not be a reliable indication of the fund's future risk. The risk category shown is not a target or a guarantee and may change over time.

## Discrete year performance ending 30 September\*

|               | 2009  | 2010   | 2011   | 2012   | 2013   |
|---------------|-------|--------|--------|--------|--------|
| R-Class Units | 3.11% | 12.17% | 3.62%  | 18.33% | 22.16% |
| I-Class Units | 3.89% | 13.01% | 4.40%  | 19.24% | 23.11% |
| IMA UK Equity |       |        |        |        |        |
| Income sector | 9.78% | 10.47% | -2.04% | 17.35% | 21.01% |

\* Source performance data Financial Express, mid to mid, net income re-invested.

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.

## Risk profile

There is little exposure to credit and cash flow risk. There are no net borrowings and usually little exposure to liquidity risk because assets can, in normal market conditions, be readily realised to meet redemptions. The main risks arising from the financial instruments are foreign currency, interest rate, market price and counterparty. The fund may invest up to 10% of its net asset in securities for which there is no ready market.

The investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the investment objective and policy set out in the Prospectus.

Adherence to investment guidelines and to investment and borrowing powers set out in the Trust Deed and the Prospectus and the rules of the Financial Conduct Authority's Collective Investment Scheme Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

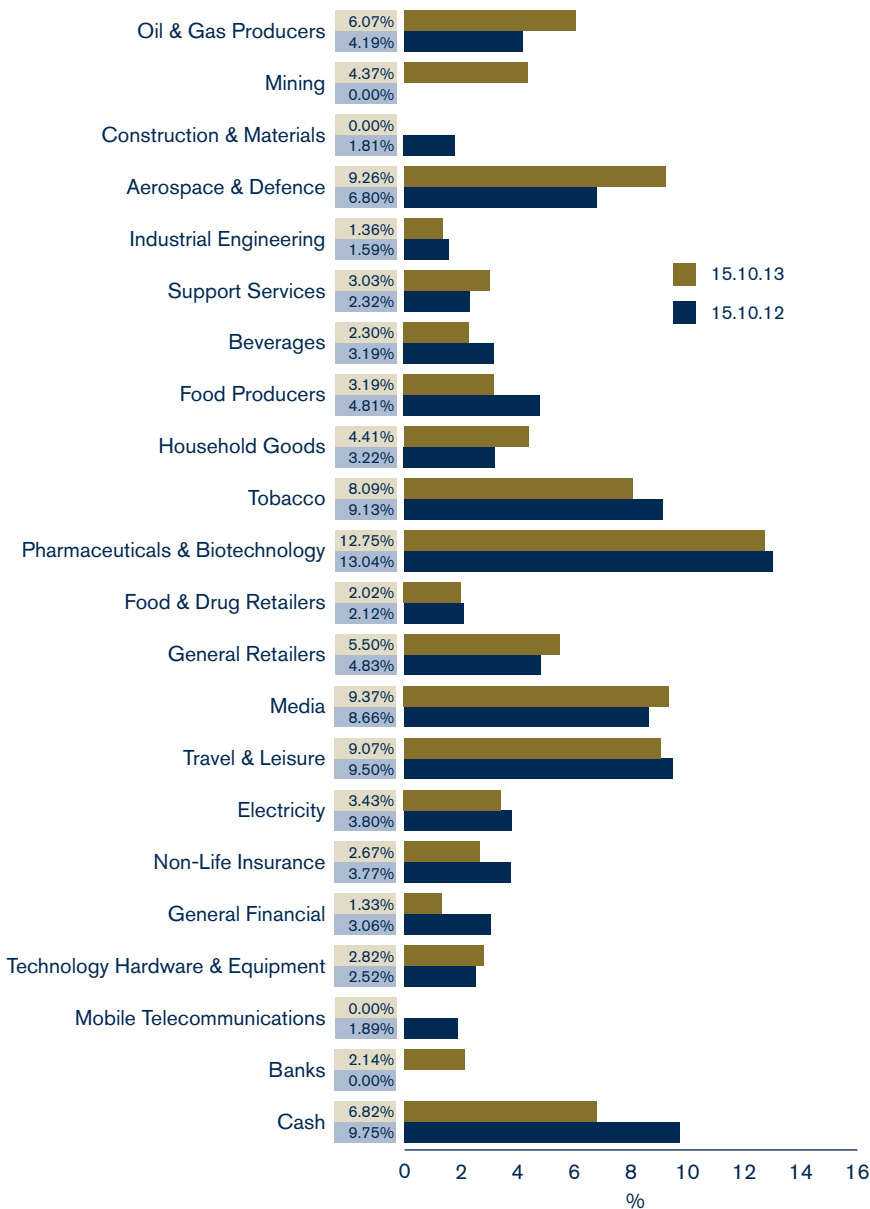
## Top 10 largest holdings

The top 10 holdings at the end of the current year and at the end of the previous year are shown below.

|                          | 15.10.13 |                          | 15.10.12 |
|--------------------------|----------|--------------------------|----------|
| GlaxoSmithKline          | 5.48%    | GlaxoSmithKline          | 5.03%    |
| British American Tobacco | 4.75%    | Unilever                 | 4.81%    |
| Rio Tinto                | 4.37%    | British American Tobacco | 4.79%    |
| Royal Dutch Shell 'B'    | 4.00%    | Imperial Tobacco         | 4.34%    |
| BAE Systems              | 3.88%    | Royal Dutch Shell 'B'    | 4.19%    |
| SSE                      | 3.43%    | SSE                      | 3.80%    |
| Imperial Tobacco         | 3.34%    | Restaurant Group         | 3.71%    |
| Restaurant Group         | 3.30%    | BAE Systems              | 3.46%    |
| Unilever                 | 3.19%    | Dechra Pharmaceuticals   | 3.25%    |
| Cineworld                | 3.18%    | Diageo                   | 3.19%    |

# Portfolio information

## Sector breakdown



## General information

### Authorised status

The Rathbone Income Fund is an authorised unit trust scheme, established by a Trust Deed dated 12 February 1971 and launched in February 1971.

It is a “UCITS Scheme” authorised under Section 243 of the Financial Services and Markets Act 2000, and the currency of the fund is Pounds Sterling.

### Investment objective, policy and strategy

The objective of the fund is to achieve above average and maintainable income but without neglecting capital security and growth. The Manager intends to achieve the objective primarily through the purchase of ordinary shares with an above average yield. There is no restriction on the economic sectors or geographical areas in which the fund may invest. However, investments will always be predominantly in the ordinary shares of UK companies.

To meet these objectives, the fund may also invest, at the Manager’s discretion, in other transferable securities, money market instruments, warrants, cash and near cash, deposits and units in collective investment schemes. Use may be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted by the FCA Rules.

### Valuation of the fund

The fund is valued on each business day at 12 noon for the purpose of determining prices at which units in the fund may be bought or sold. Valuations may be made at other times on business days with the Trustee’s approval.

### Stewardship code

Rathbone Unit Trust Management Limited fully supports the UK Stewardship Code sponsored by the Financial Reporting Council. Our statement on complying with the Code can be found on our website [www.rutm.com](http://www.rutm.com)

### ISA eligibility

The fund has been managed throughout the year to ensure that it is eligible to qualify and be included in an Individual Savings Account (ISA). The fund will at all times be invested in such a way that the units will constitute “Qualifying Investments” for the purposes of the Individual Savings Account (ISA) Regulations 1998, as amended from time to time.

### Long report

The full report and accounts are available free of charge upon written request from:

Client Services Department  
Rathbone Unit Trust Management Limited  
1 Curzon Street  
London W1J 5FB

### Further details

Should you require further details of this fund or any of the other funds managed by Rathbone Unit Trust Management Limited, a Prospectus, a Key Investor Information Document, please write to:

Rathbone Unit Trust Management Limited  
1 Curzon Street  
London W1J 5FB

All literature is available free of charge.

Information is also available on our website: [www.rutm.com](http://www.rutm.com)

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