RATHBONE UNIT TRUST MANAGEMENT
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

Rathbone Income Fund

Short report for the half year ended 15 April 2013

Manager's report for the half year ended 15 April 2013

During the six months under review, the Rathbone Income Fund ("the Fund") achieved a total return of 12.84%. This compares favourably to the IMA UK Equity Income sector average of 12.38%, and the return generated by the FTSE All-Share index, up 12.07%. We are very pleased to announce an interim distribution of 10.5p, an increase of 5.3% over the last year (from 9.975p).

This has, undoubtedly, been a good six months for the Fund. Performance has been strong, yet we have remained true to our discipline with regards to risk management. In brief, this has meant regularly taking profits from winners (as price risks increase), and putting money back into cheaper areas of the market – we shall expand on this.

We remain of the opinion that markets are refusing to recognise the stresses inherent in the global economy. Economic data have been good, yet structural long-term tensions persist around the globe. Economies are heavily indebted, but central banks are using ever-greater degrees of monetary stimuli. In the US, the emphasis is on stimulating growth, whilst in Europe, austerity is the key dynamic. It seems that, for the moment, the Americans have got it right. Yet, in a world where inflation targets are being jettisoned, a future of rising prices seems assured. With this confused backdrop, equities have moved inexorably forward, with easy money attracted to the relative charms of the stock market. This does build up price risk, however, and this is our primary concern.

We will review our major trades with this in mind. We have exited from Vodafone and Catlin. In our view, Vodafone is a world class business, but we argue that it does not control the future of its dividend. It has large capital investment demands over the next few years, but returns are uncertain in a very price competitive market. Secondly, cash coverage of its dividend is dominated by the distribution that it receives from its stake in Verizon Wireless, something else out of their control. We accept that Vodafone may be an acquisition target, but the shares do not reflect the risk to the dividend, so we have sold.

We also removed Catlin from the portfolio. This is not a reflection on the company itself, more a reaction to the value of the underwriting industry itself. With UK businesses now trading at a substantial premium to book value, we have chosen to rein back exposure, and we have less conviction behind Catlin versus our other plays in the sector, such as Amlin and Hiscox. We have reduced our holdings in UBM and Keller, also on valuation grounds, and have taken some profits from our very large position in Unilever. This is a fine business, but we have big positions in many consumer goods businesses, so prudence necessitated a reduction.

Our purchases have been in areas of greater value, but that sometimes implies increased business risk. Our biggest moves have been in to two resource stocks, BG and Rio Tinto. Neither is without risk, and both have had their problems over the last six months; however, it is these problems that have caused the market to take fright, and that has presented us our opportunity. We contend that the market reaction has priced in too gloomy a future, and that in the long term, we are buying fair businesses at very good prices.

We have also introduced Ultra Electronics to the fold. The global defence industry shows up well on our screens – returns are good, but valuations are low because of concerns over global defence spend. On occasions, Ultra Electronics has been marked down with the wider industry. Our fundamental analysis, however, shows that Ultra Electronics is a very good business with a very strong management team, and a fine record in capital allocation decisions.

Finally, we have added to an already large position in GlaxoSmithKline, and have continued to augment our nascent holding in French media and telecommunications business, Vivendi Universal.

We view 2013 as a challenging year. On the one hand, equity markets could continue their onward march. On the other, certain structural weaknesses could shake markets to the core, and the actions of central banks may come to be regarded as reckless in the extreme. We do not know; however, we do believe that the discipline that this team has shown not just this half year but also over the last four years, does evidence a capability to deal with whatever is thrown in our direction. Running an income fund is not a matter of "hitting sixes" – it is the investment in good businesses at the right prices, for the harvesting of generous and growing streams of dividends. To this end, we maintain this discipline over the remainder of the year and into the future.

Carl Stick
17 May 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 2010	335,888,694	R-Class Income	55,725,034	602.76
15 October 2010	109,161,227	R-Class Accumulation	14,190,493	769.26
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 April 2013	316,615,166	R-Class Income	42,426,909	746.26
15 April 2013	168,561,268	R-Class Accumulation	16,026,033	1,051.80
15 April 2013	43,578,717	I-Class Income	5,715,671	762.44
15 April 2013	6,365,365	I-Class Accumulation	605,298	1,051.61

Income record

Year	R-Class Income Units Net income per unit (p)	R-Class Accumulation Units Net income per unit (p)	I-Class Income Units* Net income per unit (p)	I-Class Accumulation Units* 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†	10.50	14.60	10.75	14.09

† To 15 June 2013
* I-Class was launched on 1 March 2012 at 647.62p (I-Class Income) and 862.68p (I-Class Accumulation).

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 10.50p and 10.75p will be paid to R-Class Income unitholders and I-Class Income unitholders respectively on 15 June 2013. The total distribution for the period under review amounts to 10.50p per R-Class Income unit and 10.75p per I-Class Income unit with 9.97p per R-Class Income unit and 2.29p 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.

Ongoing Charges Figure

R Class Income Units

Expense type	**15.04.13**	**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	**15.04.13**	**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	**15.04.13**	**15.10.12**
Manager's periodic charge	0.75%	0.75%
Other expenses	0.04%	0.06%
Ongoing Charges Figure (OCF)	0.79%	0.81%

I-Class Accumulation Units*

Expense type	**15.04.13**	**15.10.12**
Manager's periodic charge	0.75%	0.75%
Other expenses	0.07%	0.06%
Ongoing Charges Figure (OCF)	0.82%	0.81%

* I-Class was launched on 1 March 2012

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

1	2	3	4	5	6	7

Lower potential risk/reward
(Not risk-free)

Higher potential risk/reward

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.

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

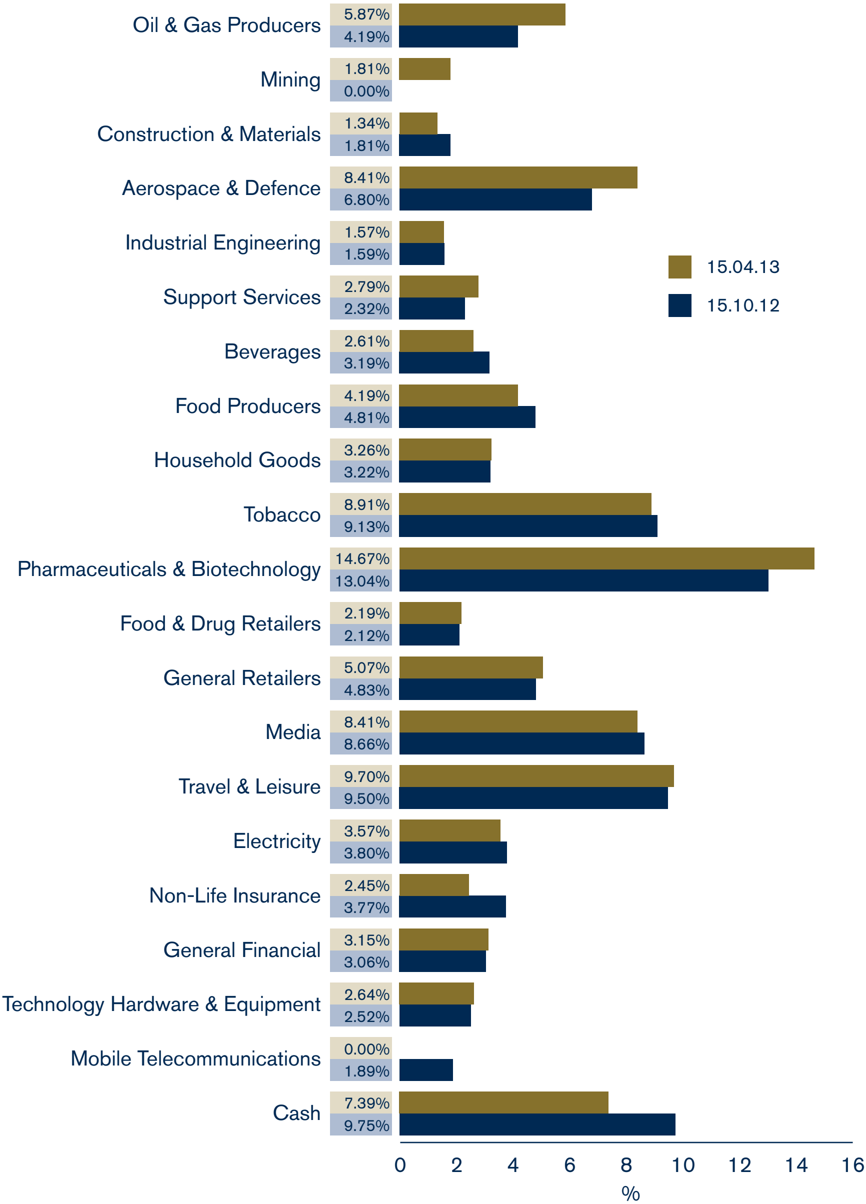
The top 10 holdings at the end of the previous year and at the end of the current period are shown below.

	15.04.13
GlaxoSmithKline	6.40%
British American Tobacco	5.04%
Unilever	4.19%
BAE Systems	4.07%
Imperial Tobacco	3.87%
Royal Dutch Shell 'B'	3.84%
Restaurant Group	3.72%
Scottish & Southern Energy	3.57%
Dechra Pharmaceuticals	3.15%
William Hill	2.99%

	15.10.12
GlaxoSmithKline	5.03%
Unilever	4.81%
British American Tobacco	4.79%
Imperial Tobacco	4.34%
Royal Dutch Shell 'B'	4.19%
Scottish & Southern Energy	3.80%
Restaurant Group	3.71%
BAE Systems	3.46%
Dechra Pharmaceuticals	3.25%
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

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 Uni 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

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