RATHBONE UNIT TRUST MANAGEMENT
FUND MANAGEMENT FOR YOUR INVESTMENT NEEDS

Rathbone Ethical Bond Fund

Short report for the half year ended 31 October 2013

Manager's report for the half year ended 31 October 2013

During the six months to 31 October 2013, the FTSE All-Stock Gilt index returned -3.88% (total return). The iBoxx Sterling Non-Gilt index returned -1.79% and, the IMA Sterling Corporate Bond sector retuned -1.40%. Over the period in question, your fund returned 0.17%

The period started with the 10-year gilt yield at 1.65% and finishing at 2.62%. Throughout this time, there were improvements in economic data from the US, UK, and parts of Europe, although the markets worried about the timing of the US Federal Reserve's (the Fed) tapering program, at times testing resolve in risk assets. There was also some confusion between the Fed tapering and the raising of interest rates. This led investors to watch data closely for clues – something that continues. By the summer, however, credit spreads rallied, with a lack of supply and cash bond demand causing a contraction in spreads, and reigniting risk appetite. Sterling credit was in demand, as was subordinated insurance. We also saw a pick-up in M4 money supply – an important data point, when one considers how much money has flooded the system in a bid to ignite inflation. We continue to work this theme through several inflation-linked assets. Also in the UK, there was stronger housing data, and we continue to invest in several property development and social housing bonds to take advantage of this. Towards period-end, concerns about a US shutdown were gaining traction, although a technical default by the US was eventually avoided. The Fed's decision not to taper in September again led markets to become "risk-on". We saw the aggressive buying of credit, with financials experiencing demand. The rally in Gilts coincided with a rally in US Treasuries, on the back of the Fed's reluctance to taper. US economic data was mainly positive, although somewhat skewed, due to the government shutdown. However, we feel the US, and its well-documented energy renaissance, will have a positive impact on the economy going forward, making us wary of chasing duration from here.

We took a significant position in the A2D Funding 4.75% 2022, a social housing retail bond, on an attractive yield. This is a senior unsecured bond, which has since rallied significantly. Credit Suisse 8.514% is a variable rate note, bought on an attractive spread over gilts. This is a callable, tier 1 bond, with a call date in 2015. Our purchases of EIB 6% 2028 and KFW 4.875% 2037, and latterly their sale were all duration trades. Old Mutual has continued to de-lever, and we bought an 8% 2021 bond. Subsequently, following Old Mutual tendered for another one of its bonds, leading to a rally in both. We exited the JP Morgan 6.125% VRN 2017, as the well documented regulatory breaches were negative for spreads and, in our view, brought into question certain ethics. Henderson Group 7.25% 2016 was a non-rated bond, which we exited, having found better value elsewhere. Finally, we sold out of the Lloyds Banking Group FRN 2016, which we bought earlier this year as part of our defensive strategy.

The supply of Sterling bonds is massively below demand. The current 'no tapering' stance by the Fed will now keep risk assets elevated into the New Year, but we are wary of any rallies in US Treasuries as the Fed will return to tapering-speak early next year. Valuations are beginning to get a little stretched. As a result, we are reducing credit at the margin. We also think rates' markets will be higher into the spring and summer of 2014, and we are therefore biding our time before adding to duration risk or credit risk.

Bryn Jones
22 November 2013

Social change

In September 2013, the fund invested £100,000 in bonds issued by Midlands Together CIC as part of a public issue that sought to raise £3 million. Midlands Together is a community interest company involved in the employment of ex-offenders. The company's business model involves the acquisition of sub-standard properties and the employment, training and mentoring of ex-offenders in the repair and restoration of these properties.

Employment is seen as the key to helping ex-offenders turn their lives around while at the same time reducing the burden on the criminal justice system: 58% of short-sentenced adult offenders return to crime within 12 months at an estimated annual cost to the taxpayer of between £9.5bn and £13bn. The re-offending rate for short-sentenced offenders who enter employment after release is 32%, compared to 69% amongst short-sentenced offenders who do not have the opportunity to enter employment.

The proceeds of this bond issue are to be used to buy approximately 15 properties a year over the five-year life of the bond. Refurbished properties will then be sold with capital proceeds (expected to be in the region of £2 million) being used to cover the cost of wages, training and mentoring of 100-150 ex-offenders. As well as equipping individuals with the skills necessary to obtain ongoing employment, the investment will help to revitalise communities by returning over 70 empty properties to the local housing stock.

The company works with experienced social enterprise partners including the Jericho Foundation (a charity working to rehabilitate ex-offenders, specialising in construction work) and Rural Experience (a charity providing a supported employment environment for unemployed individuals), as well as P3 (People, Potential, Possibilities) and The Vine Trust Group. Midlands Together is based on the successful Bristol Together project which tested the viability of the business model following its launch in October 2011.

Social housing

In October 2013, A2D Funding Plc raised £150 million through a retail bond issue. The bonds are guaranteed by A2Dominion Housing Group Limited, one of the largest social housing providers in London and the south east of England. The proceeds of the issue will be lent to members of the Group to fund its development programme.

A2Dominion was formed in 2008 following the merger of the A2 and Dominion housing groups. It currently manages a portfolio of over 34,000 properties with a further 3,500 in development. These provide a range of housing opportunities including affordable housing, sheltered housing, student accommodation, shared ownership properties and key worker housing. The group's commercial division, A2Dominion New Homes, is involved in the construction of new homes for sale or rent on the open market.

As at March 2013, A2Dominion's portfolio consisted of some 17,000 homes which are classified as 'social housing' and are rented on a long-term basis. A further 4,000 properties are managed on a shared ownership basis, allowing individuals to buy a share of their home and pay rent on the remaining portion. Key worker housing, mainly consisting of on-site accommodation for hospital staff, comprises a further 2,800 homes. The group's care and support division manages some 2,500 homes for residents with additional needs. These include sheltered accommodation for the elderly, housing for individuals with learning disabilities, young parent accommodation and homeless hostels. In addition to providing accommodation, A2Dominion offers a range of related services including domiciliary care and support in finding employment or alternative housing.

After the successful issue, the senior relationship director for Lloyds Bank Commercial Banking's social housing team commented: "Social housing funding has developed in recent years and housing associations are now ready to tap into retail bond markets to support their growth. Bond issues by other providers demonstrated there is considerable appetite from the markets to invest in housing associations with attractive and growing portfolios."

Screening activity

During the period, the fund's ethical screening research provider, Rathbone Greenbank Investments, screened 13 new bond issuers on behalf of the fund: 10 were approved for investment and 3 were rejected on the grounds of involvement in animal testing, high environmental impact and a lack of positive credentials. A further 10 existing issuers in the fund's universe were fully reviewed for ongoing suitability: 2 were rejected on the grounds of exposure to gambling (through operation of casinos) and a lack of a fixed cut-off date with regard to non-medical animal testing.

Perry Rudd
22 November 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)
30 April 2011	43,561,796	R-Class Income	52,248,578	83.37
30 April 2011	17,256,704	R-Class Accumulation	13,273,742	130.01
30 April 2012	55,347,182	R-Class Income	69,459,135	79.68
30 April 2012	29,803,309	R-Class Accumulation	22,763,328	130.93
30 April 2012	563,988	I-Class Income*	703,643	80.15
30 April 2012	21,001	I-Class Accumulation*	16,070	130.68
30 April 2013	33,683,735	R-Class Income	37,614,126	89.55
30 April 2013	40,264,928	R-Class Accumulation	25,967,339	155.06
30 April 2013	37,454,835	I-Class Income	41,311,231	90.67
30 April 2013	2,477,360	I-Class Accumulation	1,594,227	155.40
31 October 2013	32,498,316	R-Class Income	37,099,089	87.60
31 October 2013	44,092,772	R-Class Accumulation	28,431,940	155.08
31 October 2013	47,014,765	I-Class Income	52,849,412	88.96
31 October 2013	11,262,101	I-Class Accumulation	7,223,192	155.92

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	4.16	5.41	n/a	n/a
2009	4.20	5.77	n/a	n/a
2010	4.89	7.14	n/a	n/a
2011	4.38	6.76	n/a	n/a
2012	4.69	7.66	3.28	4.97
2013**	3.88	6.69	3.94	6.60

* I-Class was launched on 1 March 2012 at 82.46p (I-Class income) and 133.54p (I-Class accumulation).
** To 31 December 2013

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

For more information on our charges, please visit the fund-specific pages of our website www.rutm.com

Distributions

A distribution of 0.96p and 0.98p will be paid to R-Class Income unitholders and I-Class Income unitholders respectively on 31 December 2013.

The total distribution for the period under review amounts to 1.94p per R-Class Income unit and 1.98p per I-Class Income unit with 2.53p per R-Class Income unit and 2.56p 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 revenue 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	**31.10.13**	**30.04.13**
Manager's periodic charge	1.25%	1.25%
Other expenses	0.10%	0.12%
Ongoing Charges Figure (OCF)	1.35%	1.37%

R-Class Accumulation Units

Expense type	**31.10.13**	**30.04.13**
Manager's periodic charge	1.25%	1.25%
Other expenses	0.10%	0.11%
Ongoing Charges Figure (OCF)	1.35%	1.36%

I-Class Income Units*

Expense type	**31.10.13**	**30.04.13**
Manager's periodic charge	0.625%	0.625%
Other expenses	0.083%	0.082%
Ongoing Charges Figure (OCF)	0.708%	0.707%

I-Class Accumulation Units*

Expense type	**31.10.13**	**30.04.13**
Manager's periodic charge	0.625%	0.625%
Other expenses	0.081%	0.294%
Ongoing Charges Figure (OCF)	0.706%	0.919%

* 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 or cash flow risk. There are no net borrowings and little exposure to liquidity risk because assets can 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.

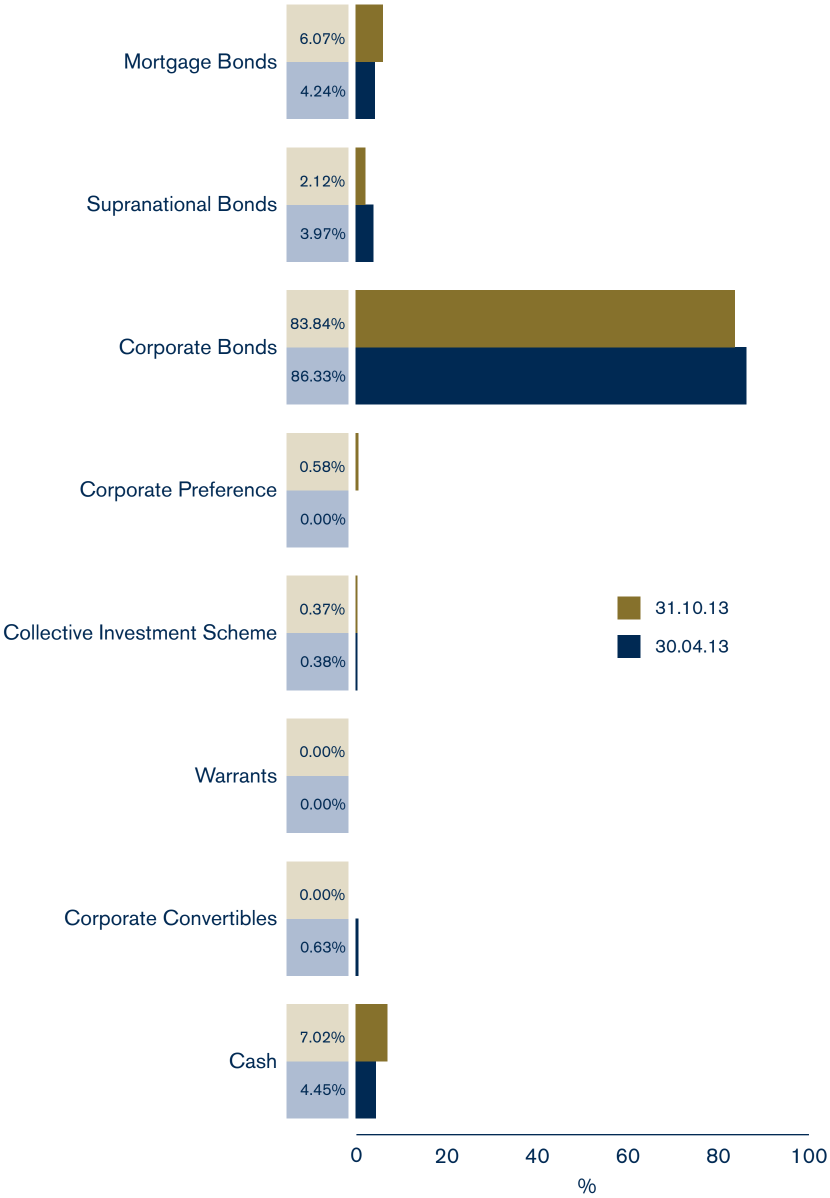
	31.10.13
Insurance Australia 5.62% 2026	2.51%
Suncorp Metway 6.25% variable 2027	2.37%
CPUK Finance 7.239% 2024	2.00%
Coventry Building Society 6.092% VRN perp	1.96%
BUPA Finance 6.125% 2020	1.95%
Rabobank Nederland 5.25% 2027	1.93%
RL Finance Bonds 6.125% VRN perp	1.88%
Close Brothers 6.5% 2017	1.86%
Santander Issuances 6.5325% VRN	1.84%
Rothschild 9% 2024	1.80%

	30.04.13
Insurance Australia 5.62% 2026	2.43%
Suncorp Metway 6.25% 2027	2.28%
Coventry Building Society 6.092% VRN perp	2.06%
BUPA Finance 6.125% 2020	2.04%
Society Lloyds 7.421% VRN perp	2.01%
Lloyds Banking Group FRN 2016	1.95%
Close Brothers 6.5% 2017	1.93%
Principality Building 5.375% 2016	1.92%
Nationwide Building Society 7.971% VRN perp	1.84%
Fresh Finance for Residential Social Housing 11.126% 2058	1.82%

FRN = Floating Rate Note
VRN = Variable Rate Note

Portfolio information

Sector breakdown



General information

Authorised status

The Rathbone Ethical Bond Fund is an authorised unit trust scheme, authorised by the Financial Conduct Authority on 29 October 2001 and launched in May 2002.

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 provide a regular, above average income through investing in a range of bonds and bond market instruments that meet a strict criteria ethically and financially.

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.

Fund composition

The performance data have been based on mid-day bid-market prices ruling on the markets on which the bonds are quoted, on the last business day of the accounting period. All other data have been based on investments valued at the closing bid-market prices on the last business day.

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:

Client Services Department
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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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