

Rathbone Strategic Bond Fund Value Assessment

Accounting year end at 30 June 2020



Dear Investor,

It's important to us that we continually adapt to best serve our investors. To us, this means ensuring that you and all of our other investors are always treated fairly, that we spend time and resource continually improving our business and that we strive to cultivate a positive and diverse culture where our team members can grow. Value for us is more than just looking at the fees you pay or the performance of your fund in isolation.

As we race towards the end of 2020, we find ourselves reflecting on the year we've had and the challenges and opportunities awaiting us in 2021. In March, many of our funds suffered losses as the global markets fell sharply on the news of coronavirus spreading to the west. We braced for the worst, grappling with being locked away from the colleagues we rely on, working away from all that was familiar.

This pandemic has given us the opportunity to consider our world from a different perspective and refine how we look after your investments. We have strengthened our contingency planning and improved how we consider risk. Advances in technology have allowed our people to work together, whilst being apart, just as closely as before.

As we approach the end of the year, the majority of our funds have recovered and are once again meeting their performance objectives. The Rathbone Strategic Bond Fund is designed not to take excessive risk while delivering steady returns and I am happy that it has achieved this and met its objective throughout the period covered within this report.

We are now focused on supporting our staff through the winter months and beyond, so we can continue to deliver to the level of service and investment professionalism our investors are accustomed to. This includes new challenges, ranging from serious responsibilities such as assessing our staff's welfare from afar and ensuring they continue to be supported, as well as the more morale-oriented activities, such as planning ways of congratulating and celebrating the hard work they have put in throughout such a challenging period.

As we move forward through this winter, I thank you for your continued support and send my best wishes to your families and colleagues for the winter ahead. If you have any questions about the Rathbone Strategic Bond Fund's value assessment or any suggestions on how we can improve, please get in touch.

Best wishes,



Mike Webb
CEO, Rathbone Unit Trust Management



Who are Rathbones?

We have been in business since 1742 and are listed on the FTSE 250. We provide individual investment and wealth management services for private clients, charities, trustees and professional partners. We see it as our responsibility to invest for everyone's tomorrow.

Rathbone Unit Trust Management Limited, is the asset management arm of Rathbone Brothers Plc. and a leading UK fund manager. Through its subsidiaries, Rathbone Brothers Plc. manages £49.4 billion of clients' funds, of which £8 billion is managed by Rathbone Unit Trust Management (as at 30 June 2020).

What is a value assessment?

Our regulator, the Financial Conduct Authority (FCA), has asked us to assess the value of our funds.

Assessing value is much more than just looking at the fees you pay or the performance of your fund in isolation. Considering this, we have designed an assessment which looks at nine criteria. We have also appointed an independent research firm, Square Mile Investment Consulting & Research, to provide an impartial report on the value our funds offer compared with the market.

It is the responsibility of our board of directors to consider the outcomes of these assessments, ensure they are clear and fair, and then communicate to you, our investors, if we have delivered value or, if not, where we need to improve.

How are we doing?

It is important to us that our value assessments are informative, useful and easy to understand. There is little value in us bombarding you with technical jargon and analysis, so we have tried to explain things simply, in plain English.

We are always looking for ways to improve, so if you have any suggestions on how we can do better, please let us know by emailing rutm@rathbones.com.

Our assessment of the Rathbone Strategic Bond Fund

Our assessment criteria


In this section, we consider the nine areas we have assessed, both what we offer as a business, and the topics that are specific to each fund.


We conclude if our funds offer good value for money, offer value for money, or don't offer value for money.


If a fund doesn't offer value for money, we will detail the actions we will take.

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Assessment criteria which cover our entire fund range:


-  1. Improvements to our business ■


-  2. Our corporate culture ■


-  3. Quality of service you receive ■


Assessment criteria which are fund specific:


-  4. Performance of your fund ■

-  5. Costs charged to the fund ■

-  6. Economies of scale ■

-  7. Costs compared to the fund's peers and sector ■

-  8. The difference between share classes ■

-  9. Your fund compared to similar investment services we offer ■

Key

- Fund offers good value for money
- Fund offers value for money but merits action or further monitoring
- Fund doesn't offer value for money
- The assessment criteria is not applicable

Assessment outcome ■

The board of directors concluded the Rathbone Strategic Bond Fund offers good value for money.

1. Improvements to our business

What does this section cover?

We are always striving to improve the services we offer. In this section, our board of directors considered all the projects we are carrying out to improve our business. These projects can have a direct impact on investors (such as a reduction in fund costs) or an indirect impact through our business operating more efficiently.

Assessment summary

We reviewed eight complete and ongoing projects. The most notable over the past year:

- We switched all investors who invested directly in our 'Retail' class fund units into our 'Institutional' class units. We moved 1,982 investments into the cheaper units, saving investors between £6.25 and £10.00 per annum on every £1,000 invested.
- We reduced the minimum investment to £1,000 on our lower-fee-paying Institutional share classes, making them accessible to everyone.
- We removed initial costs from our entire fund range.
- We rewrote our fund documentation, so all our funds have much clearer investment objectives and investment policies. We did this to make it easier for our investors to understand what they should expect from our funds, to see if our funds have achieved their objectives, and to compare our funds against other funds.

Assessment outcome ■

Our board concluded that we have invested significant resources this year to improve our business, and this has had a positive impact on our investors.



2. Corporate culture

What does this section cover?

We believe the right corporate culture encourages positive behaviour which ultimately benefits our investors. In this section, our board of directors review a number of metrics to allow them to determine if our business has a positive corporate culture.

Assessment summary

Our board assessed metrics specific to Rathbone Unit Trust Management. The assessment of our corporate culture considers different aspects of our business. This includes how we demonstrate our values: to be responsible, to show courage, to work together and always be professional, the results of our employee engagement survey, our employee retention rate and how we invest into our business and people to attract and retain talent.

Assessment outcome ■

Our board of directors concluded, based on the available metrics, that Rathbone Unit Trust Management has a positive corporate culture.

3. Quality of service you receive

What does this section cover?

Service is more than just how fast we reply to an enquiry. When we consider the services we provide, we look at the breadth of knowledge and expertise of our fund managers and the analysts that support them, the qualifications we offer our employees to ensure they continually grow, and how efficient we are when trading on our investors' behalf. This section assesses the range and quality of services provided to our investors. We have considered both the quality of service that we provide to our investors directly, as well as the quality of services that we procure on behalf of our investors.

Assessment summary

We considered a number of different areas in our assessment of quality of service. The most notable were:

- How we respond to environmental, social and governance risks. We are committed to incorporating these risks when we invest on your behalf within this fund
- Professional development. The average number of hours our staff undertake continued professional development (CPD) greatly exceeds the regulatory requirement. Rathbone Unit Trust Management's employees in certificated positions undertake, on average, 63.8 hours of training and development a year, compared with the 35 hours mandated by the FCA. Rathbones also actively supports employees in undertaking additional professional qualifications, such as the Chartered Financial Analyst qualification
- Our research and investment processes. Both processes are personal to each fund management team, as we believe their knowledge and expertise adds significant value to our clients' investments. Their individual processes are scrutinised twice a year by our chief investment officer who ensures that each of our managers employ robust processes to select appropriate investments and fulfil the requirements of their fund's investment mandate
- How we vote on your behalf. Where voting rights allow, we actively engage with companies we invest in on environmental, social and governance issues and publish a report annually on how we have voted on your behalf
- The services we receive on our investors' behalf. These are managed by our operational oversight team and governed by our outsourcing governance committee
- How we handled complaints. We reviewed how many complaints we received and how quickly we resolved them
- How well we traded. We reviewed the transaction costs associated with our funds, which is an indicator of how efficiently we trade on our investors' behalf

Assessment outcome ■

Our board of directors concluded that, based on the areas assessed, Rathbone Unit Trust Management offers a good quality of service.

The board noted the substantial investment by Rathbone Brothers Plc., the parent company of Rathbone Unit Trust Management, into environmental, social and governance considerations and will continue to monitor the effectiveness of this investment within Rathbone Unit Trust Management.

4. Performance of your fund

What does this section cover

We check how our funds have performed against their objectives, after all fees have been paid, to see if we have delivered what we aimed to achieve.

If a fund has underperformed its benchmark, we explain why and assess whether the fund has invested in line with its 'mandate'. A fund's mandate is the investment strategy which was designed by the fund manager and agreed by our chief investment officer; it dictates *how* a fund manager can invest.

We also measure each fund's performance against a 'cash' benchmark to give you an idea of how your money would have grown in a UK bank account versus investing in our fund. We use the Bank of England base rate to approximate the interest you may have received in a bank account.

Why is the investment objective of a fund important?

The objective of a fund is important because it shows how a fund aims to perform. When we assess a fund's performance, we do so relative to its objective.

You'll notice that our funds' objectives are measured over three, five or 10 years. This is the time period you should plan to invest for – a 'recommended holding period'. Each fund's recommended holding period was chosen based on the historic performance of the fund and how we expect the fund to perform in the future. This doesn't mean the objective of the fund is guaranteed and there is always a chance you will get back less than you had invested.

This also means that the fund may perform very differently to the objective in the short-term. For example, returns or volatility could be much less, or much more, than the stated objective if measured over, for example, a six-month period.

Our assessment is based on a number of factors. We assess the fund against its objective while considering the prevailing economic and market backdrop, how the fund manager's investment philosophy and process should have performed, and how we believe the fund may perform in the future.

It's important to understand that sometimes a fund could underperform its objective, even though the fund manager is investing in line with their investment policy (which financial instruments they are allowed to invest in) and their investment process (how they pick their investments). This can be because of a general market downturn that affects all the assets a fund manager might invest in. Underperformance could also happen because the type of assets a fund invests in or its 'style' of investment is 'out of favour'.

What is the objective of the Rathbone Strategic Bond Fund?

We aim to deliver a greater total return than the Investment Association (IA) Sterling Strategic Bond sector, after fees, over any rolling five-year period. Total return means the return we receive from the value of our investments increasing (capital growth) plus the income we receive from our investments (interest payments). We use the IA Sterling Strategic Bond sector as a target for our fund's return because we aim to achieve a better return than the average of funds that are similar to ours.

We aim to deliver this return with a lower volatility than the IA Sterling Strategic Bond sector. As an indication, the value of our fund should be expected to fluctuate less than the sector. Because we measure volatility over a five-year period, some falls may be larger or smaller over shorter periods of time. We aim to limit the amount of volatility risk our fund can take because we want our investors to understand the risk they are taking compared to funds similar to ours.

Who looks after the Rathbone Strategic Bond Fund?



Bryn Jones is the head of fixed income for Rathbones and is lead manager on the Strategic Bond Fund and the Ethical Bond Fund. Bryn joined Rathbones in November 2004 from Merrill Lynch, where he managed \$3 billion of fixed income assets.



Noelle Cazalis is fund manager and joined Rathbones in July 2011. Noelle assists in the management of the Strategic Bond Fund, the Ethical Bond Fund and is the lead manager of the High Quality Bond Fund. Noelle holds two master's degrees in Economics and Finance.

Assessment summary

The Rathbone Strategic Bond Fund aims to deliver a greater total return than the Investment Association (IA) Sterling Strategic Bond sector, after fees, over any five-year period.

We also measure our fund's performance against a 'cash' benchmark to give you an idea of how your money would have grown in a UK bank account versus investing in our fund. We use the Bank of England base rate to approximate the interest you may have received in a bank account. The fund was launched on 3 October 2011. If you had invested £1,000 in a UK bank account on the same day as the fund was launched, you would have received approximately 4.43% or £44. If you had invested £1,000 in our fund, you would have received 51.46% or £515.

Assessment outcome ■

Our board of directors concluded that our fund has consistently beaten its benchmark on a five year rolling monthly basis.

5. Costs charged to the fund

What does this section cover?

In this section we assess the costs charged to the fund, which are paid by you in order to invest in our fund. We assess whether these costs are reasonable for the level of service we provide you (or the level of service we receive from third parties on your behalf).

Understanding fund costs

Fund costs are complicated. The most important cost for you to understand is the **total cost of your investment**, as this is how much you pay every year to invest your money into our fund.

The **ongoing charges figure (OCF)** is the easiest cost to compare between funds, which we also refer to as the **UCITS total cost of investment**. You can find this cost on all funds' Key Investor Information Documents (KIIDs), so it is easy to compare between different funds.

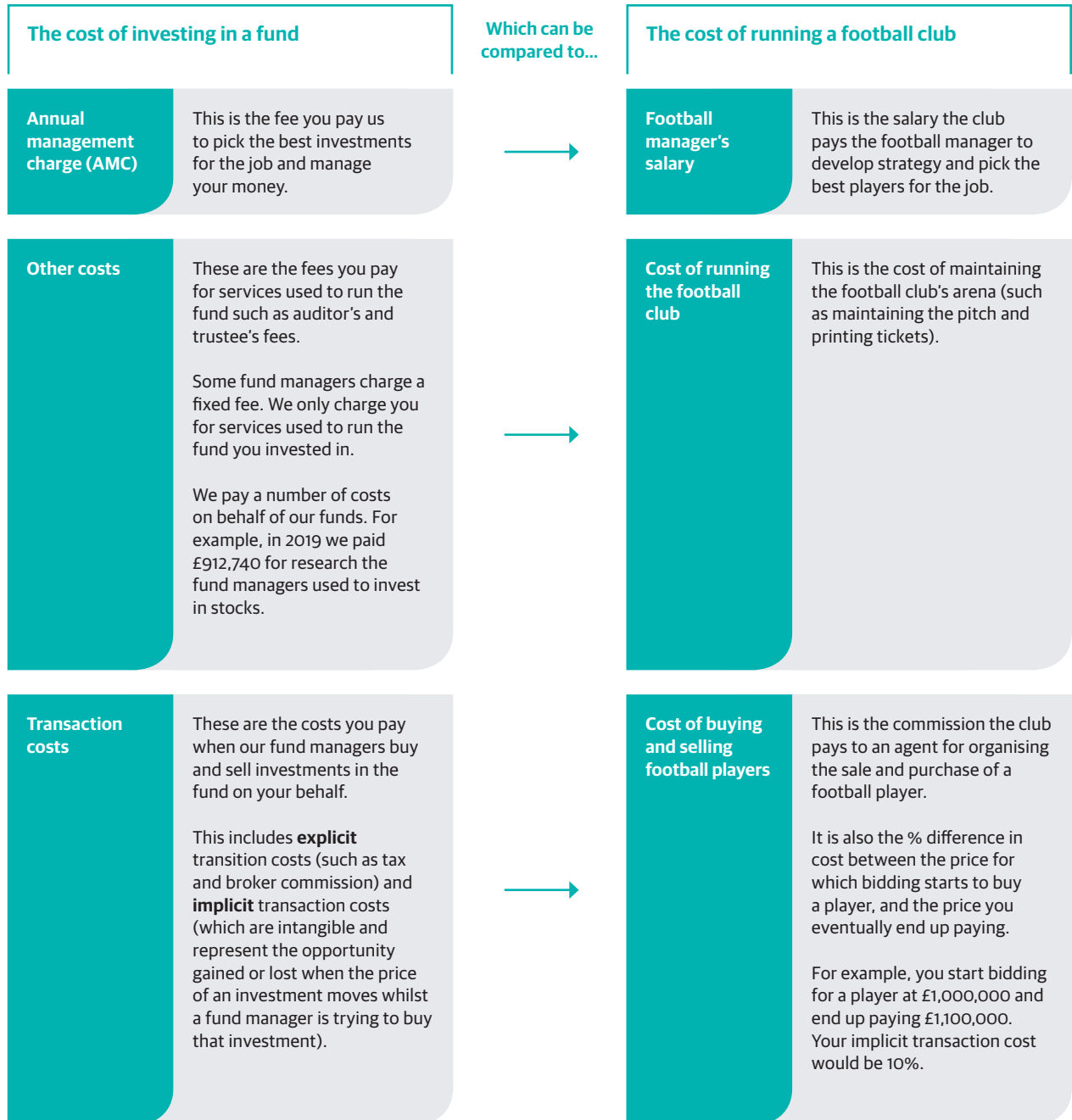
The total cost of your investment is expressed as a percentage. You can work out roughly how much you pay per year by multiplying the value of your investment by the percentage cost.

If you invest using the services of a financial adviser or through an investment platform, they will also charge you fees on top of the fees you pay for investing in our funds. You can request a breakdown detailing the full fees you pay, including the fees you pay for our funds, from your financial adviser or investment platform.



Explaining the different parts of fund costs

It's not essential that you understand the underlying cost components when investing in our funds, but we know it can be useful, so we've broken it down below.



Explaining the different ways to calculate costs

As we are bound by two different regulations, which are dictated by the Financial Conduct Authority, we have to publish costs based on two different calculations. These regulations are called **UCITS** and **MiFID II**. You will see these terms throughout this report.

Very simply, MiFID II costs include transactions costs, or in our example, the cost of buying and selling football players. UCITS costs do not include transaction costs.

In practice, the way these costs are calculated are much more complicated than how we've explained here. If you would like more information on the technicalities of fund cost calculation, please get in touch.

Assessment summary

The charges of the Rathbone Strategic Bond Fund are as follows:

Cost	UCITS costs	MiFID II costs
AMC	0.50%	0.50%
Other costs	0.33%	0.44%
Transaction costs	n/a	0.05%
Total cost of investment	0.83% (OCF)	0.99%

This means if you invested £1,000 for one year, you would be charged £8.30 (calculated using the UCITS total cost of investment).

Assessment outcome ■

The board of directors concluded that, when reviewed against the fund's performance, all charges to the fund are reasonable, with several initiatives in the business being established to actively reduce other costs and transaction costs.



6. Economies of scale

What does this section cover?

When funds get bigger, you pay proportionally less for the fixed costs of running the fund. For example, when a fund grows considerably, the management company should be able to negotiate lower costs on your behalf. This is called economies of scale - a proportionate saving in cost gained by an increase in scale or size. In this section, we assess if all economies of scale have been passed onto the investor.

Some asset managers charge a fixed percentage admin fee, so it doesn't matter how large the fund grows, investors don't benefit from the saving in cost gained by an increase in fund size. We only charge for services used to run the fund and never charge a fixed percentage admin fee, so as our funds grow, you benefit from lower fixed costs.

Some asset managers tier their annual management charges based on the size of their funds. We think this is an unsustainable method to pass on economies of scale. In the event of a market correction where a fund is significantly reduced in size, we wouldn't want to ask our investors to pay more for the management of their investment. For this reason, we have chosen not to tier the annual management charges of our funds.

We will continue monitoring the annual management charges of the funds to ensure they are appropriate.

Assessment summary

All costs charged to the Rathbone Strategic Bond Fund have been assessed to determine if all available benefits from economies of scale were passed on to investors.

Assessment outcome ■

The board of directors concluded all available economies of scale have been passed on to the Rathbone Strategic Bond Fund's investors.

7. Costs compared to the fund's peers and sector

What does this section cover?

It's important that the costs of our funds reflect the service you receive. We believe that cost cannot be assessed in isolation and must be considered alongside a fund's performance, the type of assets in a portfolio and the quality of service we offer. We do not believe that value means selling our services at the cheapest price.

We assess our funds based on their performance, taking into account the cost you have paid to invest, against an independently selected peer group and the wider market sector. In other words, how much you get for the fees you pay compared to our peers. We consider the results of this analysis keeping in mind the service Rathbones provides and the prevailing economic and market backdrop.

Assessment summary

The costs for the Rathbone Strategic Bond Fund are slightly above the median of its peer group and sector. However, when its returns are compared to the rest of the sector, this cost would indicate reasonable value for money.

Assessment outcome ■

Our board of directors concluded that, when reviewed against the fund's performance, the fund's cost represents value for money.

⑧ 8. The difference between share classes

What does this section cover?

Investment funds can offer different share classes. Share classes usually have different investment minimums (the minimum amount you need to invest) and different costs (how much you pay annually for your investment). Although share classes have different investment terms, they all invest in the same fund.

The larger the investment minimum, the lower the charge for managing your investment. This is similar to getting a cheaper price for buying product in bulk rather than one at a time. For this reason, when you invest through a third-party like an investment platform or a financial adviser, your money is pooled with others and you may have access to a cheaper share class than if you were to invest directly with us. In this section of the assessment we have determined if unitholders are invested in appropriate share classes.

Assessment outcome ■

The board concluded that the Rathbone Strategic Bond Fund has only one share class.



9. Your fund compared to similar investment services we offer

What does this section cover?

It's important to us that all our investors receive fair investment terms when they choose to invest their money in Rathbone funds. In this section, the board considers the investment terms that we offer you compared with those we offer our institutional and international investors. Comparable services include the international range of Rathbone funds which are registered in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier and 'segregated mandates', which are pots of money managed by our fund managers separately from our UK fund range for large institutional investors.

Assessment outcome ■

The board concluded that the Rathbone Strategic Bond Fund does not have any comparable services



Glossary of terms

AMC	Annual Management Charge
FCA	Financial Conduct Authority
MiFID II	Markets in Financial Instruments Directive II
RUTM	Rathbone Unit Trust Management
OCF	Ongoing Charge Fee
UCITS	Undertakings for the Collective Investments in Transferable Securities



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Rathbones
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