

Rathbone High Quality Bond Fund Value assessment

Accounting year end at 30 April 2022



Dear Investor,

This quarter, I have spent time reflecting on our achievements following the well-earned retirement of my long-time colleague and friend Julian Chillingworth, who has served in various positions at Rathbones for over 20 years. In his position as Chief Investment Officer, he was a driving force behind the success of our business and was responsible for creating many of the funds you invest in today.

With one eye on the future, I am excited to welcome Tom Carroll as Rathbones Fund's new Chief Investment Officer. Our people are the heart and soul of what we do, with our culture as the driving force behind the success of our business. With this in mind, I am pleased to report Tom not only brings a wealth of knowledge but is a great cultural fit, clearly demonstrating our core values of empathy, honesty and courage.

Although our staff retention rate is high, we believe it is prudent to have a robust succession plans to enable us to continue to deliver a quality service to you. As part of our people framework, we identify succession plans for each of the key roles in our business, allowing us to offer a consistent service to our investors. Where appropriate, we will assess and develop leadership from within, supporting our people to grow their careers with us.

As part of our assessment of value, we conclude whether our investors benefit from Economies of Scale within our funds. 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.

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.

We are committed to sharing the success of our business with our investors, and I am pleased to confirm we have been able to negotiate a reduction on the running costs of our funds. As a result, we will be passing on just shy of £1 million per annum* in cost reductions to our investors across our UK fund range.

Thank you for your continued support and I send you and your families my best wishes. If you have any questions about our value assessment or any suggestions on how we can improve, please get in touch.

Best wishes,



Mike Webb
CEO, Rathbone Unit Trust Management



* Savings of approximately £982,000 per annum estimated as at 1 April 2022

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 Group Plc. and a leading UK fund manager. Through its subsidiaries, Rathbones Group Plc. manages £58.9 billion of clients' funds, of which £10.9 billion is managed by Rathbone Unit Trust Management (as at 30 June 2022).

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 which you, our investors, pay or the performance of the 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 High Quality Bond Fund

Our assessment criteria


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


At the end, they conclude if our funds offer good value for money, offer value for money, or do not offer value for money.


If a fund does not offer value for money, we will detail the actions we will take.

Contents


Assessment criteria which cover our entire fund range:


-  1. Improvements to our business ■


-  2. Our corporate culture ■


-  3. Quality of service ■


Assessment criteria which are fund specific:


-  4. Performance of the 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. The 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 does not offer value for money
- The assessment criteria is not applicable

Assessment outcome ■

Our board of directors concluded the Rathbone High Quality Bond Fund offers value for money but merits further monitoring.

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 you, our investors, such as a reduction in fund costs, or an indirect impact through our business operating more efficiently

Assessment summary

Over the last 12 months, Rathbone Unit Trust Management has completed, or is in the process of implementing, a diverse range of projects to improve the outcomes that we provide to our investors. The most notable have been:

- We are investing £6 million over the next three years to upgrade our portfolio management and data management systems using the Charles River investment management solution.
- Our sales and distribution teams have enhanced the systems they use to look after our investors throughout every stage of our clients' investment journey.
- We have successfully launched our Rathbone Greenbank Multi-Asset Portfolios, which means we can now offer a full suite of sustainable investment funds, and we continue to integrate ESG into our other core investment processes.

Assessment outcome

Our board of directors concluded that Rathbone Unit Trust Management 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 you, our investors. In this section, our board of directors reviewed several 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. Our board have reviewed results of our employee engagement survey, our employee retention rate and how we invest into our business and people to attract and retain talent.

In a survey that was completed in Winter 2021, Rathbone Unit Trust Management received excellent ratings from our employees for the management support that we offer them. It was noted that we provide them with the support they need to complete their work, that are cared for as people, and we communicate with them openly and honestly.

Our Diversity and Inclusion Committee continue to meet monthly to drive progress and positive change across various threads of diversity e.g., neurodiversity, socio-economic background, sexual orientation, and disability. In 2021, we ran a wide range of different communications, events and webinars to help create a sense of belonging for everyone. These have covered Pride, Social Mobility, World Sight Day, National Inclusion Week, Parenting Perspectives, Diwali and Eid, amongst others. Three of our colleagues were shortlisted for a PIMFA Diversity & Inclusion Award 2021, one of whom went on to win the 'Rising Talent Award'.

We are developing a suite of Inclusion Networks which will provide our colleagues with shared characteristics (such as gender, race, ethnicity, sexual orientation, socio-economic background and disability) and their allies, a safe space to come together across the organisation. Our Inclusion Networks will provide support, build empathy and create networking opportunities for under-represented groups, based on our diversity data to date we are starting with a focus on Gender Balance, Race & Ethnicity and Ability Matters.

We report annually on our gender pay gap and the action we are taking to address it. To view the latest version, released March 2022, [click here](#).

We have developed our work with specialist providers to ensure we have in depth knowledge of ESG issues which we take into account when we are making investment decisions.

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

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 your behalf. This section assesses the range and quality of services we provide you. We have considered both the quality of service that we provide you directly, as well as the quality of services that we procure on your behalf.

Assessment summary

In our assessment of quality of service, we considered a range of different areas. The most notable were:

- Planning for the future. Our people are the heart and soul of what we do, with our culture as the driving force behind the success of our business. Although our staff retention rate is high, we believe it is prudent to have a robust succession plan to enable us to continue to deliver a quality service to you. In the period covered in this report, we have overseen the smooth transition of a new Chief Investment officer, Tom Carroll, following the well-earned retirement of Julian Chillingworth after serving 21 years at Rathbones.
- Hybrid working. We, alongside our third parties, have successfully adapted to hybrid working, enabling us to continue to deliver the service you expect.
- Open communication. We have continued to maintain our high levels of communication and advisers support, post pandemic restriction easing. Over the last six months, we have also added back in face-to-face events as well, giving them a choice of medium to interact with us, which best suits them and their business. We continue to receive positive feedback on our accessibility, our open and honest flow of information and our support for our investors.
- Professional development. The average number of hours our staff undertake continuous professional development (CPD) greatly exceeds the regulatory requirement. Over the last year, 31 Rathbone Unit Trust Management certified individuals have completed over 1,700 hours of training and development. Rathbones also actively supports employees in undertaking additional professional qualifications, such as the Chartered Financial Analyst qualification.

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 about how we have voted. This is available on our website – [click here to review it](#).

- The services we receive on your 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. We also conduct trend analysis on complaints as an early warning indicator within our product governance process.
- How well we traded. We reviewed the transaction costs associated with our funds, which is an indicator of how efficiently we trade on your behalf.

Assessment outcome ■

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

4. Performance of the 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 several 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 High Quality Bond Fund?

The Rathbone High Quality Bond Fund aims to preserve your capital and pay an income by delivering a greater total return than the Bank of England's Base Rate +0.5%, after fees, over any rolling three-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 Bank of England's Base Rate +0.5% as a target for our fund's return because we aim to provide a return in excess of what you would receive in a UK savings account.

Who looks after the Rathbone High Quality Bond Fund?



Noelle Cazalis Fund Manager

Noelle 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 Rathbone High Quality Bond Fund. Noelle holds two master's degrees in Economics and Finance.

Assessment summary

The Rathbone High Quality Bond Fund aims to preserve your capital and pay an income by delivering a greater total return than the Bank of England's Base Rate +0.5%, after fees, over any rolling three-year period.

In the three years ending 31 March 2022, the fund's benchmark returned 3.10% whereas the fund returned 0.50%. This means the fund has underperformed its targeted return for this period.

This fund is designed to be defensive in falling Fixed Income markets. In times of market stress this fund is expected to produce first quartile ranking in its sector, which it has achieved over a six-month, one-year and two-year period.

This fund is benchmarked against the Bank of England's Base Rate + 0.5%, which is an 'absolute benchmark'. This means the benchmark does not rise and fall with investment markets. Because of this, when markets fall, we expect to see some short-term underperformance of the fund. The fund had been meeting its benchmark until this calendar year. The exceptional market background of rapidly rising inflation has meant all major fixed interest market indices have fallen heavily. The board will monitor this fund to ensure it recovers as expected.

We also measure our funds' 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. If you had invested £1,000 in a UK bank account on the same day the fund was launched, you would have received approximately 1.34% or £13. If you had invested £1,000 in our fund, you would have received 0.5% or £50 (based on the total return of the accumulation S-class).

Assessment outcome ■

Our board of directors concluded that the Rathbone High Quality Bond Fund has not met its total return objective and merits further monitoring.

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, our investors, 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

Before we set out how we assess our funds, it's essential to explain the costs you pay to invest in our funds.

The regulator requires us to calculate our costs using two different methods as we are bound by two different sets of rules: Undertaking for Collective Investment in Transferable Securities (UCITS) and Markets in Financial Instruments Directive II (MiFID II). To confuse things further, there are several different methodologies and underlying assumptions to choose from when calculating different portions of MiFID II costs. This makes it almost impossible to compare MiFID II fund costs on a like-for-like basis. You can, however, compare UCITS fund costs. The FCA is working to harmonise how our industry calculates and presents costs to make it easier for you to understand.

We pay a number of costs on behalf of our funds. For example, in 2021 we paid £1,042,698 for research the fund managers used to invest in stocks.

Differences between UCITS and MiFID II costs

UCITS costs are made up of several different types of charges. Foremost is the annual management charge (AMC) which is a set percentage of your investment that we charge for managing your money. Then there are other costs, including services used to run the fund (such as auditors' and trustee fees) and the cost of our funds investing in other funds. When these costs are combined, they are known as a fund's ongoing charges figure (OCF).

MiFID II costs are made up of the AMC, other costs (calculated slightly differently to UCITS) and transaction costs (not included in UCITS costs at all). Transaction costs include tangible payments made (such as tax and broker commission) as well as opportunity costs that are intangible. The calculation of MiFID II other costs includes the transaction costs of the fund's underlying investment. As a result, MiFID II costs appear higher than UCITS costs.



Assessment summary

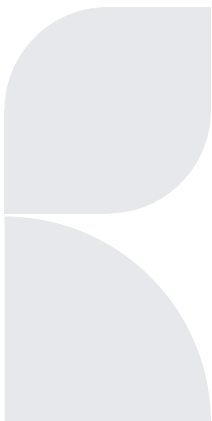
We based our analysis on the cost of the S-class, as this is the largest share class in this fund.

Cost	UCITS costs	MiFID II costs
AMC	0.20%	0.20%
Other costs	0.05%	0.05%
Transaction costs	n/a	0.08%
Total cost of investment	0.25% (OCF)	0.33%

This means if you invested £1,000 for one year, you would be charged £2.50 (calculated using the UCITS total cost of investment).

Assessment outcome ■

Our board of directors concluded that, when reviewed against the Rathbone High Quality Bond Fund's performance, all charges 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 you, 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 you to pay more for the management of your investment. For this reason, we have chosen not to tier the annual management charges of our funds.

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

Assessment summary

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

We use several third-party outsourcers to help us run our funds. Within the period detailed in this report, we have negotiated and agreed a lower fixed cost to run our funds from these providers. We will pass approximately £982,000 per annum of these savings onto the funds, which means you will be paying a lower cost for the administration of your investment.

Assessment outcome ■

Our board of directors concluded all available economies of scale have been passed on to the Rathbone High Quality 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 alone and must be considered alongside a fund's performance, the type of assets in a portfolio and the quality of services that 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 paid to invest, against an independently selected peer group and the wider market sector. In other words, how much you got for the fees you paid us, against what you would've got if you'd invested with any of our peers. We consider the results of this analysis keeping in mind the service Rathbone provides and the prevailing economic and market backdrop.

Assessment summary

We based our analysis on the cost of the S-class, as this is the largest share class in this fund.

Share class	Total UCITS costs	Total MiFID II costs
I-class	0.40%	0.48%
S-class	0.25%	0.33%

The Rathbone High Quality Bond Fund has a lower cost than the sector median and compares favourably with its peers and wider sector when cost is considered against the performance of the fund.

Assessment outcome ■

Our board of directors concluded that the fund's cost represents good value for money.



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 buying 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 other people's money 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 summary

The Rathbone High Quality Bond Fund has two share classes.

Share class	Minimum investment	Annual management charge
I-class	£1,000	0.35%
S-class	£100,000,000	0.20%

Assessment outcome

Our board of directors concluded that all investors are in the appropriate share class.

9. The 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 summary

The Rathbone High Quality Bond Fund has an equivalent offshore international fund which invests following the same strategy.

Assessment outcome ■

Our board of directors concluded that investors receive fair investment terms when compared to those invested in comparable services.



Glossary of terms

AMC	Annual Management Charge
FCA	Financial Conduct Authority
MiFID II	Markets in Financial Instruments Directive II
OCF	Ongoing Charges Figure
UCITS	Undertakings for the Collective Investments in Transferable Securities



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Rathbones
Look forward