Rathbone Income

A UK equity fund investing across large, mid and small caps, with a bias to dividend-paying companies. The manager is an experienced steward of capital, dedicated to delivering the best possible risk/return outcome for investors.

OPINION

- This Recommended fund is managed by a passionate investor who seeks to deliver the best possible risk/return outcome for his underlying clients.
- He is a natural contrarian who seeks to identify the value within each stock he holds, favouring companies with healthy dividends which have the potential to grow over time.
- The manager's experience and tenure, combined with an expanding resource at Rathbones which supports his efforts, makes the fund worthy of consideration by investors.

CHARACTERISTICS AND UTILITY

- The fund is all-cap in nature with a bias to quality and value, particularly in the large-cap holdings. While the fund always features a healthy exposure to small caps, the manager is acutely aware of potential illiquidity when managing this allocation.
- The fund's exposure to more cyclically-orientated companies is limited by the manager's focus upon quality and particularly on pricing power, which drives earnings and therefore the potential for dividend growth. As such, the fund tends to struggle when the market is driven by economically-sensitive sectors.
- The portfolio is fairly concentrated, with low levels of portfolio turnover a persistent feature.
- The fund is suited to longer-term investors who are in a position to withstand the volatility typically associated with investing across the capitalisation spectrum, although the dividend focus offers a good degree of protection during times of market stress.

RISK COMMENTARY

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

The fund's risk score is in keeping with that of mainstream UK equity income funds. The all-cap nature of the portfolio means that it is unlikely to be the most defensive of our UK equity income selections in a downturn, although this has been more than offset in recent years by the focus upon quality companies. Different share classes could have differing SRRI scores.

Lower risk — Higher risk

Typically Lower Rewards ↔ Typically Higher Rewards

1	2	3	4	**5**	6	7

KEY FUND FACTS

Inception Date:	*12 February 1971*
Manager(s) Since:	*Carl Stick (Jan 00)*
Fund Size:	*£1,270m at 30 Jun 18*
Fund Domicile:	*United Kingdom*
Fund Benchmark:	*IA UK Equity Income*
IA Sector:	*UK Equity Income*
Share Class Type(s):	*Acc and Inc*
Ongoing Charge Figure:	*0.79% at 31 May 18*
Charges Levied Against:	*Capital*
Yield:	*3.53% (historic) at 31 May 18*
Dividend Distribution:	*15 Jun and 15 Dec*

Dividend Distribution Date(s)/Charges Levied Against/Yield relate to "Clean" Income Shares

DESCRIPTION

Formal Investment Objective (provided by the fund company)

The objective of the fund is to achieve above average and maintainable income but without neglecting capital security and growth.

Investment Team

The fund has been managed by Carl Stick since January 2000. He has been working within the unit trust business at Rathbones since 1998. He is assisted by Elizabeth Davis, co-manager of the Rathbone Heritage fund, and a team of dedicated analysts.

Investment Philosophy

The manager believes that superior returns are achieved through dividend investing with a margin of safety to minimise the risk of permanent capital loss. The manager cites ten core investment principles which guide the overall investment process. Key to these are that share prices ultimately reflect company performance over time and that a long-term perspective is required, as share prices fluctuate more than underlying business values.

Investment Process

The ten core investment principles drive the investment process and manifest themselves in the three areas of risk management, the assessment of a company's quality and its valuation. Risk management is at the forefront of the process and is defined as the potential for a permanent loss of capital from a holding, which may be the result of deteriorating earnings power, an excess of debt or an elevated purchase price for the portfolio. The assessment of quality is framed around business and financial risks. These are alleviated by investing in well-capitalised businesses with competent management and durable business franchises. Valuation is at the heart of the investment process and purchases are made, where possible, with a wide margin of safety. The bulk of research is generated internally, with qualitative research supported by disciplined quantitative screens which help to generate new ideas and to monitor the relative attractions of existing investments.

Once a stock is identified, the investment process moves on to meeting company management and associated industry experts. A thorough review of past financial data is undertaken, all of which is intended to build a long-term picture of the company's operating background and corporate history. External research is used to cross-reference their work and they use a handful of trusted brokers to generate additional ideas. Stocks are sold when the margin of safety diminishes or the fundamentals change.

Portfolio Construction and Risk Controls

The fund typically comprises 30-50 stocks and starting positions are usually greater than 1%. Top ten positions are typically up to a 5% weighting each. In terms of risk management, the compliance department is the primary source of control and they check adherence to the risk parameters of the fund. In addition, the Rathbone Unit Trust Executive Committee reviews the fund on a weekly basis and there is also a weekly CIO portfolio review and six-monthly CIO challenges.