

Rathbone Strategic Bond Fund Value assessment

Accounting year end at 30 June 2022



Dear Investor,

It's difficult to stay positive when we are continually hit with doom and gloom. We feel it here at Rathbones' headquarters and I am sure you are feeling it too. At times like this it's worth reminding ourselves that markets seldom stay static and that looking (and learning) from history can make us feel slightly more confident about the future.

We are long term investors; this means we do not chop and change the investments in our funds to try and capture gains from violent moves in a volatile market. This takes investment discipline in treacherous times, but history tells us sticking by our principles provides good outcomes over the long run. This does also mean, in times of market stress, our funds may underperform their benchmark in the short term. This is why we have a recommended holding period (the minimum term you should consider investing in our funds) of five years for the majority of our fund range.

As well as measuring the performance of our funds, we keep close tabs on the risk of the investments in our funds to ensure they remain suitable for your needs and to prepare us for times of market stress. On a monthly basis, we review several types of risk across our fund range:

Quantitative risk: We run our funds through computer simulations of past financial events and fictitious future scenarios. We do this to check how the investments in the fund would perform under the circumstances, and whether this performance is acceptable given how the fund is designed – we call this 'stress testing' a fund. An example of a past financial event we simulate is the 2008 global financial crisis.

Liquidity risk: Financial investments are traded in a market driven by buyers and sellers; generally, when there are more buyers than sellers in the market the price of an investment goes up, and when there are more sellers than buyers in the market the price goes down. How 'liquid' a market is depends on how many buyers and sellers there are for the type of investment. A market with very few buyers and sellers is known as 'illiquid'. In times of market stress, such as the 2008 global financial crisis, it can be difficult to find buyers for investments because of market uncertainty, this is an example of a 'liquid' market becoming 'illiquid'.

We use computer simulations of calm and stressed markets to calculate how quickly and at what cost we could sell the investments in a fund – we refer to this as how 'liquid' a fund is. We do this to make sure we could give you your money back should you want to sell your investment in one of our funds.

Environmental, social and governance (ESG) Risk: We monitor the businesses we invest in to determine the likelihood of the activities they undertake having a negative financial impact on their value. For example, the value of an oil company is vulnerable due to the environmental risk of the activities it undertakes. We would mitigate the environmental risk of an oil company we own by working with them to improve their environmental practices. We do this to protect our investors from unexpected loss of value.

Learning from history, we can make sure we are prepared for unsettled markets that we continue to experience through this period. Testing our funds against historical events, with the help of sophisticated risk systems, ensure our funds remain fit for purpose today.

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



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 Rathbones 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 Strategic 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 but merit action or further monitoring, or do not offer value for money.













If a fund offers value for money but merits action or further monitoring, or 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 you receive 

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 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 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 continued to build and expand our approach to responsible investment. [More information can be found on our website.](#)

Assessment outcome

Our board of directors concluded that Rathbone Unit Trust Management has 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, 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.

In a survey that was completed in Summer 2022, Rathbone Unit Trust Management received excellent ratings from our employees for challenging work, alignment and 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 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 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.

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 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
Lead Manager, asset allocation
and stock selection

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
Fund Manager

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

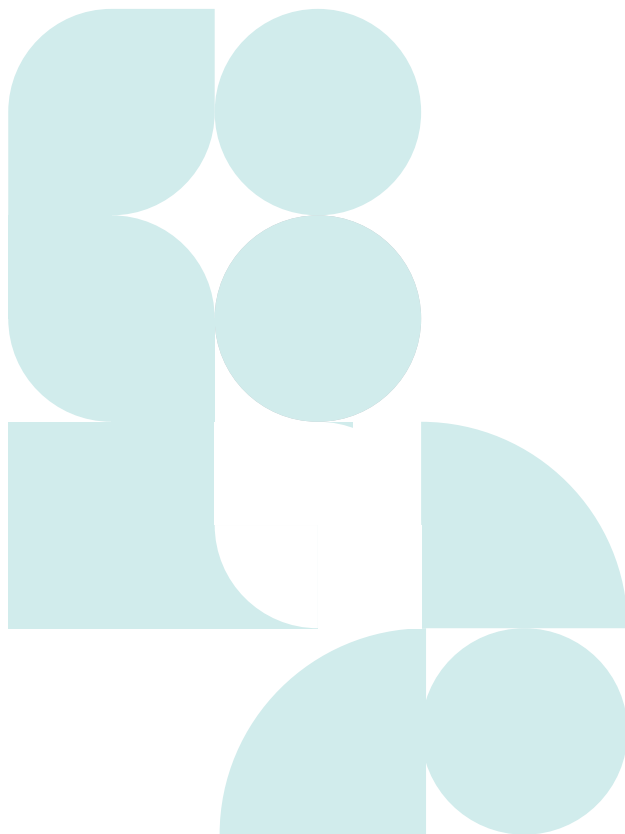
The Rathbone Strategic Bond Fund aims to deliver a greater total return than the Investment Association (IA) Sterling Strategic Bond sector, after fees, over any rolling five-year period.

Whilst the fund is performing behind a five-year objective, it outperformed most of the period analysed, and is in line with investment style/strategy. The fund was consistently meeting its objective until the end of 2021. 2022 has clearly seen very significant and unusual moves in bond markets which have impacted the short-term performance of the fund. We are confident that the process and strategy of the fund will see the performance recover to bring it back in line with expectations.

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. In the five years ending 30 June 2022, if you had invested £1,000 in a UK bank account, you would have received 0.40% or £4.00. If you had invested £1,000 in our fund, you would have received 2.22% or £22.20.

Assessment outcome

Our board of directors concluded that the Rathbone Strategic Bond Fund offers value for money.



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

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

Cost	UCITS costs	MiFID II costs
AMC	0.50%	0.50%
Other costs	0.30%	0.30%
Transaction costs	—	0.06%
Total cost of investment	0.80% (OCF)	0.86%

This means if you invested £1,000 for one year, you would be charged £8.00 (calculated using the UCITS total cost of investment).

Assessment outcome

Our board of directors concluded that, when reviewed against the Rathbone Strategic Bond Fund's performance, whilst the OCF is currently above average, there have been several initiatives in the business identified and established to actively reduce other costs and transaction costs.

Investing in third party funds, where we do not have in-house expertise, is the main driver of the 'other costs' within this fund. Over the last few months, we have expanded the team which will allow us to begin to invest directly in areas where we previously used third party funds. This will reduce the level of 'other costs' on the fund over the next 12 months.



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 Strategic Bond Fund have been assessed to determine if all available benefits from economies of scale were passed on to you, our investors.

Assessment outcome

Our board of directors concluded all available economies of scale have been passed on to you, Rathbone Strategic Bond Fund's 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.

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 Rathbones provides and the prevailing economic and market backdrop.

Assessment summary

We based our analysis on the cost of the 'I'-class, as this is the only share class in this fund.

Share class	Total UCITS costs	Total MiFID II costs
'I'-class	0.80%	0.86%

The costs for the Rathbone Strategic Bond Fund are above the median of its peer group and sector. Whilst the OCF is currently above average, there have been several initiatives in the business identified and established to actively reduce other costs and transaction costs. However, when its risk-adjusted 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, based on the proposed actions the Rathbone Strategic Bond Fund's cost represents value for money but merits further monitoring.



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 like 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 board acknowledged that the Rathbone Strategic Bond Fund has only one share class.

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?

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).

Assessment summary

The Rathbone Strategic Bond Fund does not have any comparable services.

Assessment outcome

Our board of directors acknowledged that the 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
OCF	Ongoing Charges Figure
UCITS	Undertakings for the Collective Investments in Transferable Securities

Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

Authorised and regulated by the
Financial Conduct Authority
A member of the
Investment Association
A member of the Rathbones Group.
Registered No. 02376568

Rathbones
Look forward