Rathbone High Quality Bond Fund Value assessment

Accounting year end at 30 April 2023

Rathbones
Look forward

Dear Investor,

We continue to see the effects of volatile markets on our funds which, over the past 15 months, have resulted in some funds delivering short-term outcomes which are below their benchmarks. In those cases, we have increased monitoring to ensure that the funds are performing as one would expect, given the market backdrop, and that the long-term strategy of the funds remains appropriate.

We are long-term investors; this means we do not chop and change the investments in our funds in response to sudden moves in volatile markets. This takes investment discipline in turbulent times, but history tells us that sticking by our principles should provide good outcomes over the long run. This does also mean in times of market stress, our funds may underperform their benchmarks in the short term. This is why we have a recommended holding period (the absolute minimum term you should consider investing in our funds) of 5 years for the majority of our fund range, except where noted.

This does not make it any more comfortable if you have experienced short-term losses on your investments. If you are feeling anxious about your current investments, we would recommend you contact a financial adviser to help you understand your investment position. If you are not able to do this, the UK government (www.moneyhelper.org.uk has also published some very useful help sheets.

Further, we are working on a refresh of our value assessments, where we will be aiming to bring you the same breadth of information in a more concise, digestible format at the beginning of 2024. One document will be produced annually to consolidate the Value Assessments for all our fund ranges. It's important to us that these documents remain useful to you, our investors, and we welcome any feedback you may have on how we could best achieve this. If you have any recommendations, please send them to rutm@rathbones.com.

Thank you for your continued support.

Yours faithfully,

Mike Webb
CEO, Rathbone Unit Trust Management

Who are Rathbones?

We have been in business since 1742 and are listed on the FTSE 250 Index. 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 £60.9 billion of clients' funds, of which £10.88 billion is managed by Rathbone Unit Trust Management (as at 31 March 2023).

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 seven 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:

Assessment criteria which are fund specific:

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. In a period of rapidly rising rates (which result in bond values falling) it is no surprise that this Fund also has fallen in value, albeit less than the market as it is defensively positioned. We have a new manager, Stuart Chilvers, in place and he continues to reduce the volatility of the Fund. We are confident that these steps should see the Fund deliver against its long-term objective going forward.

1. 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.
- Hybrid working. We, alongside our third parties, have successfully adapted to hybrid working, enabling us to continue to deliver the service you expect.
- Professional development. The average number of hours our staff undertake continuous professional development (CPD) greatly exceeds the regulatory requirement. Over the last year, 32 Rathbone Unit Trust Management certified individuals have completed over 1,536 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 conducted 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.

2. 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.

For illustrative purposes we also measure our fund's performance against a 'cash' return 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. Cash in a bank account does of course have a very different risk profile to equity or bond investments and so is not directly comparable.

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.

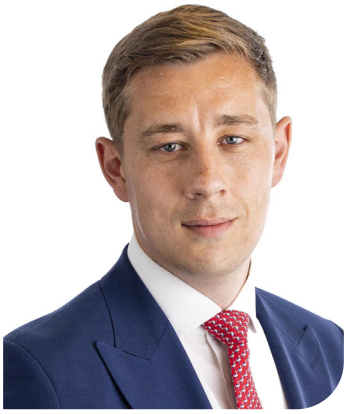
Our assessment is based on several factors. We assess the fund against its objective while considering the prevailing economic and market backdrop, how the fund manager's investment philosophy and process should have performed, and how we believe the fund may perform in the future.

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?



Stuart Chilvers
Fund Manager

Stuart is the lead fund manager of the Rathbone High Quality Bond Fund. He works with our head of fixed income, Bryn Jones, assisting in the management of the Rathbone Ethical Bond Fund and the Rathbone Strategic Bond Fund as well. Stuart joined Rathbones in September 2017 and was made an Assistant Fund Manager in January 2020, then Fund Manager in January 2022. Previously, he gained three years' industry experience at Brown Shipley. He graduated from Bath University with a first-class Bachelor's degree in Mathematics. He is a CFA Charterholder and also holds the CISI Chartered Wealth Manager qualification, having won the CISI Financial Markets & CISI Chartered Wealth Manager Qualification awards at the annual CISI awards in 2016 & 2017 respectively. He was named in the 2018 Citywire Top 30 under 30 investment management awards.

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 2023, the fund's benchmark returned 6.22% whereas the fund returned -1.62%. This means the fund has underperformed its targeted return for this 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 last 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. Stuart Chilvers recently assumed management of the Fund and he continues to work on reducing the volatility of the Fund which should help it in meeting the objectives going forward.

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 3.93% or £39.30. If you had invested £1,000 in our fund, you would have lost 1.69% or -£16.90 (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. With new management focused on reducing volatility we would expect this Fund to deliver against its long-term objectives as the period of rapid interest rate rises approaches a conclusion.

3. 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

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).

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. An example of this is £1,000 x a cost of 0.50% per annum = £5 per annum.

If you invest in funds using the services of a financial adviser or through an investment platform, they will also charge you additional costs 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 as we know it can be useful, we've broken it down below.

The cost of investing in a fund		Which can be compared to...	The cost of running a football club	
Annual management charge (AMC)	This is the fee you pay us to pick the best investments for the job and manage your money.	→	**Football manager's salary**	This is the salary the club pays the football manager to develop strategy and pick the best players for the job.
Other costs	These are the fees you pay for services used to run the fund such as auditor's and trustee's fees. Some fund managers charge a fixed fee. We only charge you for services used to run the fund you invested in. We pay a number of costs on behalf of our funds. For example, in 2021 we paid £1,042,698 for external research to support our fund managers in making investment decisions.	→	**Cost of running the football club**	This is the cost of maintaining the football club's arena (such as maintaining the pitch and printing tickets).
Transaction costs	These are the costs you pay when our fund managers buy and sell investments in the fund on your behalf. These include: – **explicit** transaction costs (such as tax and broker commission); and – **implicit** transaction costs (which are intangible and represent the opportunity gained or lost when the price of an investment moves whilst a fund manager is trying to buy that investment).	→	**Cost of buying and selling football players**	This is the commission the club pays to an agent for organising the sale and purchase of a football player. It is also the % difference in cost between the price for which bidding to buy a player starts, and the price you eventually end up paying. For example, you start bidding for a player at £1,000,000 and end up paying £1,100,000. Your implicit transaction cost would be 10%.

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 transaction costs, or in our example, the cost of buying and selling football players. UCITS costs do not include transaction costs unless they are “material”, which ours are not. 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 High Quality Bond Fund (basing the analysis on the cost of the S-Class as this is the largest share class in this fund) are as follows:

Cost	UCITS costs	MiFID II costs
AMC	0.20%	0.20%
Other costs	0.05%	0.05%
Transaction costs	–	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 performance, all charges are reasonable, with several initiatives in the business being established to actively reduce other costs and transaction costs.

4. 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. If a fund is small, we may choose to pay some of these charges on behalf of our investors. We do this to make the funds' annual management charge more affordable and to attract more investment into the fund. As the fund grows, all investors benefit from paying proportionally less fees.

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.

Assessment outcome

The costs charged to run our funds are periodically benchmarked against the industry and renegotiated on your behalf. The last renegotiation, conducted in 2022, reduced costs across our fund range by almost £1 million per annum. Our board of directors concluded that these economies of scale have been passed on to you, Rathbone High Quality Bond Fund investors.

5. 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 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% (OCF)	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 when reviewed against the Rathbone High Quality Bond Fund's performance, it offers good value for money.

6. 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 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 acknowledged that all investors are in the appropriate share class.

7. 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

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