# SHINING A LIGHT ON……
# RATHBONE INCOME FUND

**At a glance**

There are over 400 UK Equity Growth and Income Funds; providing investors with access to many different investment styles. So choosing the right fund depends upon understanding their methods and aims.

Performance is part of the equation but equally the management team is crucial. We have met a number of talented Fund Managers, the likes of Standard Life Investments, Neptune, Schroders, Legal and General, Threadneedle and Liontrust (not all of these are in our portfolios).

We have recently been introduced to Carl Stick who manages the Rathbone income Fund. He is one of the longest standing income managers in the UK. The fund is a high conviction concentrated multi cap portfolio and may appeal to investors seeking a non-mainstream income fund.

**Who are the team behind the fund?**

Carl Stick joined Rathbones in 1996 and took over the management in January 2000. Over a ten year period he has outperformed his peer group six times. Our only concern would be the lack of a co-manager should he leave.

**What is the story behind the investment?**

Income funds traditionally avoid “growth stocks” in favour of those inclined to reward shareholders with regular dividend payments. For an investor seeking income from their investments these can be an attractive option.

Most income funds invest in the FTSE 100 and are highly concentrated around a core of companies (which includes GlaxoSmithKline, AstraZeneca, BAT, BT and Imperial Tobacco). Effectively they track an index.

Some managers who adopt a multi cap strategy can significantly out-perform other income funds whilst still delivering a sustainable yield.

**Fund highlights?**

We favour the Standard Life UK Equity Income Unconstrained Fund. However, this will not appeal to all investors. The key differences between the two are:

1. The Rathbone Fund is a concentrated Portfolio of 40 holdings whereas the Standard Life Fund has 60 holdings
2. The Rathbone Fund is multi cap and currently holds around 50% in the FTSE 100 and 30% in small and mid-cap stocks. Standard Life has nearly 70% in the small and mid-cap space
3. The Rathbone Fund has lower volatility at around 9.04% whereas Standard Life has volatility of 14.81%
4. The Rathbones Fund tracks the index whereas the Standard Life Fund significantly outperforms the index

5. The Rathbones Fund has delivered income of around 3.60% p.a. whereas Standard Life has delivered 3.54% p.a.

Listening to the manager, Carl Stick, his approach is to avoid losses for investors and he often refers to “winning without losing”. Therefore the fund will naturally appeal to a more conservative investor.

Carl blends high end quality stocks like Unilever, Diageo and BAT with contrarian value stocks. The high end quality are likely to be expensive however pay good dividend yields whereas the contrarian value stocks are likely to be self-help stories and cheap.

He feels at the moment parts of the market are fully valued but there are what he calls ‘ugly businesses’ which offer strong potential but can be purchased cheaply. The key message he kept repeating was management narrative.

Three examples where Rio Tinto, Barclays and Direct Line.

Rio Tinto has been going through cost efficiency measures which enabled Carl to purchase shares cheaply throughout 2013. Barclays has been shunned by the market and its rights issue announcement in 2013 gave an opportunity to invest, the management have indicated plans to go back to grass roots and while they are unloved the shares remain cheap. Finally Direct Line came to market 15 months ago and the management have indicated efficiency measures to drive down costs. Ultimately if these come through the shareholders will be rewarded.

The fund holds around 8% in cash which enables the manager to buy stock when he sees opportunities.

In summary this is different to other UK Income Funds however it doesn’t significantly outperform a tracker fund (iShares UK Dividend) and the yield is slightly less (iShares is paying 4.30%). Investors may prefer an actively managed fund however if yield is more important than the iShares ETF may be better.

**Fund performance**

Performance over the previous five years is shown below (comparing to IP Income Fund, SLI UK Equity Income Unconstrained Fund and iShares UK Dividend ETF).

| | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **Yield** |
|---|---|---|---|---|---|---|---|
| **Rathbone Income Fund** | 24.18% | 19.28% | 0.33% | 15.48% | 24.45% | 2.17% | 3.60% |
| **IP Income Fund** | 11.08% | 10.78% | 9.07% | 8.14% | 26.75% | 3.11% | 3.39% |
| **SLI UK Equity Income Unconstrained Fund** | 43.18% | 24.00% | -9.45% | 24.16% | 37.83% | 5.47% | 3.54% |
| **iShares UK Dividend** | 32.63% | 13.24% | -6.62% | 17.46% | 24.15% | 2.91% | 4.30% |

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced. Returns are based on the US share class.*

**Conclusion**

The fund manager is well respected however over the last couple of years the fund has closely tracked the index. Only in 2010 and 2011 did it outperform the index. Interestingly even the highly respected Neil Woodford tracked the index.

Investors need to decide whether the extra cost of investing in the fund equals the potential return and if not then an index tracker like iShares UK Dividend might be the better option.

*The source of information in this note has been provided by Rathbones and is correct as at February 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*