# SHINING A LIGHT ON……
# RATHBONE ETHICAL BOND FUND

**At a glance**

There are mixed views on fixed interest (bond) funds, on one hand they are seen as low to medium risk with low volatility and on the other hand there is a fear that when interest rates rise these funds will struggle to make any real returns. Without being able to see into the future (which no-one can) it is very hard to predict what will happen. One thing that is certain is that returns will not be at the same level as they have been over the past decade.

We recently had a meeting with Bryn Jones who manages the Rathbone Ethical Bond Fund. A perception from the past is that Ethical investing tends to compromise performance and therefore with lower returns this type of fund may not be the best option for investors looking for a corporate bond fund.

However, early into the meeting it was clear that although this is an ethical fund the performance is not compromised and it is one of the top 5 corporate bond funds over 5 years.

For investors wanting to invest in bonds with a high yield this fund may be an interesting option to consider.

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

The fund is managed by Bryn Jones who joined Rathbones in November 2004 having previously worked for Merrill Lynch.

He is well respected in the industry being voted one of 20 of the globe's fixed income rising Stars by II News and regularly appearing on CNBC and Bloomberg TV.

**Fund highlights?**

The primary objective is to identify good investments first and then apply the ethical screening towards the end of the process. The fund aims to deliver a target yield of between 5% to 7% which is attractive for those seeking income, or alternatively it can be re-invested to provide growth. The later may be important if growth is restricted when interest rates rise.

It is theme driven, an example we discussed was in 2006 where it became clear that Real Estate Agents were desperate to sell properties and as a result the fund started to sell down exposure to the US on the basis that any crash would be US centric. Although partially right the contagion spread globally but the fund was partially protected by this move.

This interested me because when he is out he is watching what is happening on the ground and looking for opportunities or risks. Another example we discussed was a business trip to Kent via train which was a quarter of the price vs driving. Austere UK population knows this and therefore in theory we should be seeing increase demand.

Some bonds in the rail sector were overpriced but three were cheap. There was also low correlation with other assets within the fund. The Ethical Screening was then placed over the proposed investment. On the positive side train will significantly reduce C02 emissions compared to both car and flight.

We talked about energy firms and although some have issued green bonds like EDF they invest in Nuclear Energy which is a negative screening so very few energy firms would pass the screen test.

The fund favours financials; it recently sold Old Mutual over fears around Emerging Markets and in particular South Africa but holds Coventry Building Society Bond. Coventry Building Society was not drawn into the financial crash and has no direct exposure to either sovereign debt or banks in Portugal, Ireland, Italy, Greece or Spain.

The fund holds 34.46% in Banks, 7.70% in Financial Services and 23.15% in Insurance.

The fund holds around 11% in social housing. One example would be Places for People, one project was to rebuild 159 units of 1 to 4 bedroom mixed tenure homes but more importantly a community centre was built as part of the project to include education, community and sporting events. These types of projects are about social development and environmental development and not just building homes.

There remains a concern around the impact of interest rate rises however the yield should provide some protection. For those seeking income and growth there may need to be some compromise in the future. The investments are high quality bonds and the ethical screening doesn't compromise returns. For investors looking for a well-run corporate bond this could be a good option for them. One additional concern is that Rathbones are a boutique and should the manager leave investors would need to consider carefully what impact this would have on the fund over the long term.

**Fund performance**

The table below shows performance since 2009 against the iShares £ Corporate Bond Fund:

| | 2009 | 2010 | 2011 | 2012 | **2013** | 2014 |
|---|---|---|---|---|---|---|
| Rathbone Ethical Bond Fund | 20.81% | 16.11% | 3.08% | 17.66% | 4.91% | 4.16% |
| iShares £ Corporate Bond ETF | 6.34% | 5.92% | 8.23% | 12.69% | 0.20% | 3.81% |

*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.*

**Conclusion**

For those investors looking for a corporate bond fund this option is well managed and has delivered significant out performance compared to a fund which tracks the index. The Ethical Screening helps to ensure that only high quality investments are held which should provide added protection for investors. The fund does have a question mark around what will happen when interest rates rise but all funds in this sector have the same question.

*The source of information in this note has been provided by Rathbone and is correct as at May 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.*