SHINING A LIGHT ON……
RATHBONE INCOME FUND

Update….

In 2014 we reviewed this fund and our conclusion was that although this was a well-managed fund over the last five years it had effectively tracked the index. So the question has to be why pay extra for something that just tracks the index?

A year on the fund is showing over 5 years plus it does outperform the index so clearly this is a fund that investors need to be prepared to sit and hold for the long term. The style of management may also appeal to investors. It is a concentrated portfolio of 46 holdings with a focus on large cap stocks (currently 60%) and on keeping volatility low.

In this update with Carl Stick we discussed the process and some of the key investments.

Carl started by explaining what makes this fund different and that is the trinity of risk which is central to everything that they do. So what is the price, financial risk and business risk? His approach is to avoid losses for investors and as he said before it is about "winning without losing".

He explained that to some extent he is constrained by the index so he has to invest in certain stocks to ensure that he delivers on the yield requirement. The big dividend payers are the likes of HSBC, Glaxo etc and therefore the fund will buy these companies but his argument is that it is also about getting the balance right.

Effectively this comes into the quality bias. So for example, can a company afford to pay the dividend from free cash flow? For this reason oil stocks are using capital to pay dividends rather than free cash flow and he is reducing exposure to these stocks whereas the likes of BHP and Rio are paying out of free cash flow. So for Carl it's about choosing the right stock with the right quality.

Other stocks he likes are Carnival which controls 50% of the cruise market and is currently paying a dividend of 2.5%, and Verizon paying a dividend of 4.5%.

He continues to like Aviva but may have to reduce down exposure with acquisition of Friends Life and Howdens which is a play on the improvement in the UK economy.

His concern is that with bond yields so low there is a thirst for dividend payers at any cost and he needs to navigate that to select what he feels are the best players. Carl repeated what he said a year ago, this is a blend of high quality benefits with contrarian value stocks but ultimately it is about controlling risk and avoiding losses.

The concern remains performance over the shorter term but longer term it has outperformed the index so for those looking for a low volatile income fund, which is cautiously positioned this remains a fund for consideration.

Fund performance

Performance over the last five years is shown below:

	2010	2011	2012	2013	2014	2015*
Rathbone Income Fund	19.19%	0.25%	15.49%	24.42%	6.52%	6.75%
iShares UK Dividend	13.34%	-6.62%	17.46%	24.15%	6.54%	7.97%
FTSE All Share Index	14.51%	-3.46%	12.30%	20.81%	1.18%	6.44%

1 January to 31 January 2015

	1 year	3 Years	5 Years	7 Years	10 Years	Since Start Date of Manager**
Rathbone Income Fund	11.29%	56.86%	95.86%	73.41%	124.59%	300.87%
iShares UK Dividend	11.79%	54.16%	80.54%	41.22%	N/A	N/A
FTSE All Share Index	5.56%	36.40%	62.05%	60.02%	112.60%	90.14%

**1 January 2000

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.

The source of information in this note has been provided by Rathbones and is correct as at February 2015. 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.