SHINING A LIGHT ON……
RATHBONE ETHICAL BOND FUND

Update….

In the latest update on the Rathbone Ethical Bond Fund we considered briefly the macro picture, performance, liquidity and screening.

Bryn (fund manager) started the update by explaining that globally there are two opposing monetary policies in play. On one side there is a rising rate environment (UK &US), and then on the other side you have QE (Japan and Europe) and devaluation (China). What seems to be happening is that people ignore one and focus on the other whereas both should be seen together.

Effectively the fund is therefore positioned to counter both risks on each side.

Turning to performance and interest rates Bryn feels you can make returns in a rising interest rate environment because they will be small increases and protracted. However, he does feel that initially the bond market could see negative returns although on a 3 to 5-year timeframe there should still be healthy returns (whatever this is!).

The fund is delivering a healthy income of currently 4.5% so investors are being paid to wait. His greatest fear is deflation and that could have a negative impact on returns.

Liquidity is a topical point of discussion and Bryn explained that this is a corporate bond fund and his focus is on investment grade. Although the liquidity is tighter it is still there.

His concern is in high yield and there are a number of worries that he has. Generally, the market for high yield has deteriorated with default rates going up, leverage increasing, interest coverage falling and investors not being compensated for the additional risk. In fact, in the UK 19% of the market will provide investors with nothing on default, and in Europe 6% (and this is increasing). At the same time liquidity is being squeezed in high yield.

Turning to the ethical slant we raised the question as to whether investors were compromising returns and Bryn felt actually this was a positive slant because the fund is about focusing on the sustainability of income. And yes it means that certain sectors like tobacco are excluded but there is plenty for the fund to focus on.

In summary this was a whistle stop overview and doesn’t really change our view that this is a well-run fund which continues to perform well. There remains a debate as to how the fund will perform in a rising interest rate environment but that is something for investors to consider. If they feel bonds remain a good investment, then this may be a fund for consideration.

Fund performance

Performance vs iShares £ Corporate Bond from 2010 to 30 September 2015 is shown below:

	2010	2011	2012	2013	2014	2015
Rathbone Ethical Bond Fund	16.11%	3.08%	19.09%	5.95%	12.03%	1.15%
iShares £ Corporate Bond ex-Financials ETF	8.69%	10.73%	9.24%	0.17%	13.23%	-1.87%

	1 Year	3 Years	5 Years
Rathbone Ethical Bond Fund	4.12%	24.97%	43.92%
iShares £ Corporate Bond ex-Financials ETF	2.77%	11.57%	31.16%

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 Rathbone and is correct as at October 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.