

Rathbones

Look forward

Rathbone Income Fund

Annual report for the year ended 30 September 2018



Rathbone Income Fund

Authorised Fund Manager (the Manager)

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of The Investment Association**

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PL Howell – Chairman
MM Webb – Chief Executive Officer
JR Chillingworth – Chief Investment Officer
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Administrator

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Manager's report for the year ended 30 September 2018

As 2018 enters its final throes, investors are wondering whether the bull market in global equities that has been galloping ahead since the lows of March 2009 is finally running out of steam.

The political mood music is certainly less conducive to further advances, and in the UK, the March 2019 deadline for our exit from the European Union is beginning to resemble an abyss for many businesses. Companies that have hitherto made somewhat oblique references to Brexit are now specifically blaming it for their reticence to make investment decisions. They are also finally recognising the not-inconsiderable cost impact that it will have, whether in terms of labour, raw materials or fractured supply chains. There is simply less certainty in the future. Looking further afield, the threat of increased tariffs and a burgeoning global trade war, combined with a more general trend towards populism and the unilateralism that it engenders, is slowly sapping investors' confidence. The result is that uncertainty abounds, and we are positioned accordingly.

Performance

Progress has been slow, but we are beginning to see an improvement in relative performance. In the 12 months ended 30 September, our fund (I-class accumulation units excluding distributions) edged ahead 2.5%, versus a rise in the IA UK Equity Income sector of 3.4% and a return from the FTSE All-Share Index of 5.9%. Much of our underperformance hails from a difficult first half. In the latter six months, your fund generated a return of 8.0%, versus a sector average of 6.9% and an index return of 8.3%.

We intend to pay a final distribution of 25.31p (per I-class unit), an increase of 0.7% on last year's final payment. Distributions for the whole year total 38.21p, an increase of 1.2%. While these raises may seem parsimonious, they do follow an abnormally strong 2017 year, so there has been a degree of normalisation.

Over the year, the biggest positive contributors to performance have been our core positions in some of the largest global businesses listed in the UK, across the commodity and pharmaceutical industries. Last summer (August 2017) we elected to establish a position in BP, predicated on the thesis

of improving cash flows supporting a high dividend yield. The rising oil price has been a boon, and the subsequent market-beating returns from both BP and Royal Dutch Shell, another large holding, have empowered our returns.

We also prospered on the back of our exposure to two global pharmaceutical companies. AstraZeneca has performed well, bolstered by a series of positive drug data. GlaxoSmithKline (GSK) has been more of a recovery play, but investors were enthused by its decisions to acquire the share of the consumer health joint venture that it did not own from Novartis and to walk away from bidding for Pfizer's consumer health business, which would have demanded a very large price tag. We think the company made two eminently sensible capital allocation decisions. By avoiding taking on more debt, GSK has further supported the dividend.

In the final quarter of 2017, mining stocks were very strong. We are very underweight the sector versus the index, which explains a modicum of our early underperformance. Nevertheless, we did benefit from our position in Rio Tinto. The negative side of the performance equation reflects some more stock-specific situations. The calendar year started badly, with a profit warning from Micro Focus International, deriving in part from operational issues following the huge Hewlett Packard Enterprises acquisition. We made more detailed reference to this in our interim report. Since April there has been an improvement and our confidence has increased, making us buyers out of choice.

British American Tobacco (BAT) is more troubling, as the share price weakness has been less one-off fall, more insidious fragility. Although the company is leading the charge in developing new products, such as "heat-not-burn" and e-cigarettes, the wider industry is in a state of flux. New rivals are joining the market and the regulatory environment, especially in the US, is challenging. Shares in BAT have been very strong for many years, but there has been a steady volte-face over the last 15 months, which does perturb us. On the other hand, if markets do wobble more consistently in the future, the sector in general – and BAT in particular – may prove, at current prices, to be a harbour in the storm.

UK insurer and travel hybrid Saga and Danish lender Danske Bank have had their own tribulations. Saga warned on profits in November 2017, while Danske had to answer very troubling money laundering charges. We have sold all our shares in both companies. Finally, utility business SSE has been weak, despite the Competition and Markets Authority approving a spin-off of its retail business. The biggest issue remains politics: the threat, however unlikely, of Labour renationalising utilities. Akin to BAT, we maintain a good position, believing that its defensive characteristics will come to the fore over the next 12 months.

Trading review

Frustratingly, Danske Bank was a new addition to the fund. We started buying the shares in January 2018, but had completed our exit by the end of September. It was a mistake and we made a quick decision to exit. We bought it as an alternative to Lloyds Banking Group, the latter being one of our principal sales in the period, albeit we still retain a small holding.

Having sold Imperial Brands back in March 2017 at a good price, we plunged back into the shares 12 months later. In this case we have been lucky, selling when the price was high, and buying back in when the price was low. In difficult markets this new position has held up well. Another new holding is Big Yellow Group, the self-storage property company. It has a unique set of assets, predominantly in inner cities where space is scarce, and is therefore a more structural hold for us. We have also added to existing holdings in BP and Legal & General.

Our biggest sale during the period was the divestment of Coca-Cola. Our argument for holding this business was established on two points: a defensive earnings stream; and management change, engineering greater discipline in what had become a complacent business. Over time, a more negative view regarding sugary drinks has tempered the reliable earnings, while the slow manifestation of change in the company's culture has dampened our enthusiasm in management. We sold. Elsewhere, profit-taking has dominated, with money taken off the table from our large positions in Rio Tinto, Royal Dutch Shell and AstraZeneca. Of the three, Rio Tinto has been the most heavily trimmed.

Outlook

Throughout 2018, we have been consistent in our messaging. We believe that we are positioned to benefit, in relative terms, if there is a correction in equity markets. We argue that the pre-existing conditions of high asset prices, low interest rates and low volatility will not continue. Indeed, change is already afoot.

We are not in the business of making predictions, but we do believe in clarity. So we prefer businesses with predictable, sustainable and visible earnings streams. We are biased towards late-cycle and recessionary industrial trends, so we're happy with our weightings in oil and gas, pharmaceuticals, consumer staples and utility-style businesses.

We are looking for value, which has drawn us back into mid-cap UK-consumer-oriented names, despite the Brexit noise and uncertainty. Global investors hate this area, so value does abound, but there is business risk. Finally, we have a short shopping list of growth stocks that may prove very attractive if equity markets do correct. We will not buy them all, maybe two or three, but if they go on sale, we will pick and choose.

Carl Stick

26 October 2018

Net asset value per unit and comparative tables

R-Class income units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	921.12p	886.89p	846.03p
Return before operating charges*	30.68p	84.29p	86.04p
Operating charges	(14.05p)	(14.26p)	(12.67p)
Return after operating charges*	16.63p	70.03p	73.37p
Distributions on income units	(35.94p)	(35.80p)	(32.51p)
Closing net asset value per unit	901.81p	921.12p	886.89p
*after direct transactions costs ¹ of:	0.56p	0.94p	1.13p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges	1.81%	7.90%	8.67%
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Other information

Closing net asset value	£122,151,497	£138,941,422	£151,741,858
Closing number of units	13,545,156	15,083,992	17,109,488
Operating charges	1.54%	1.54%	1.54%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	967.84p	1,015.91p	941.17p
Lowest unit price	845.18p	846.20p	771.79p

Net asset value per unit and comparative tables *(continued)*

R-Class accumulation units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,540.81p	1,427.94p	1,314.92p
Return before operating charges*	52.91p	136.06p	132.75p
Operating charges	(23.72p)	(23.19p)	(19.73p)
Return after operating charges*	29.19p	112.87p	113.02p
Distributions on accumulation units	(60.79p)	(58.23p)	(50.95p)
Retained distributions on accumulation units	60.79p	58.23p	50.95p
Closing net asset value per unit	1,570.00p	1,540.81p	1,427.94p
*after direct transactions costs ¹ of:	0.94p	1.53p	1.77p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges	1.89%	7.90%	8.60%
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Other information

Closing net asset value	£105,321,024	£119,832,019	£128,651,224
Closing number of units	6,708,339	7,777,189	9,009,575
Operating charges	1.54%	1.54%	1.54%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	1,642.46p	1,659.18p	1,482.45p
Lowest unit price	1,418.47p	1,366.63p	1,201.03p

Net asset value per unit and comparative tables *(continued)*

I-Class income units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	968.53p	926.05p	879.17p
Return before operating charges*	31.85p	87.99p	87.70p
Operating charges	(7.66p)	(7.74p)	(6.77p)
Return after operating charges*	24.19p	80.25p	80.93p
Distributions on income units	(38.21p)	(37.77p)	(34.05p)
Closing net asset value per unit	954.51p	968.53p	926.05p
*after direct transactions costs ¹ of:	0.59p	1.00p	1.18p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges	2.50%	8.67%	9.21%
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Other information

Closing net asset value	£282,533,398	£455,051,927	£414,865,393
Closing number of units	29,599,756	46,983,866	44,799,281
Operating charges	0.79%	0.79%	0.79%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	1,004.69p	1,046.40p	964.28p
Lowest unit price	898.23p	890.44p	807.17p

Net asset value per unit and comparative tables *(continued)*

I-Class accumulation units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,589.37p	1,462.29p	1,337.81p
Return before operating charges*	54.09p	139.37p	134.85p
Operating charges	(12.64p)	(12.29p)	(10.37p)
Return after operating charges*	41.45p	127.08p	124.48p
Distributions on accumulation units	(63.21p)	(60.10p)	(52.18p)
Retained distributions on accumulation units	63.21p	60.10p	52.18p
Closing net asset value per unit	1,630.82p	1,589.37p	1,462.29p

*after direct transactions costs¹ of: 0.98p 1.58p 1.81p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges 2.61% 8.69% 9.30%

Other information

Closing net asset value	£483,463,460	£499,086,184	£454,366,377
Closing number of units	29,645,474	31,401,487	31,072,292
Operating charges	0.79%	0.79%	0.79%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	1,669.78p	1,671.88p	1,485.65p
Lowest unit price	1,474.38p	1,406.66p	1,228.75p

Net asset value per unit and comparative tables *(continued)*

S-Class income units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	985.13p	939.41p	889.45p
Return before operating charges*	32.53p	89.37p	89.06p
Operating charges	(5.23p)	(5.27p)	(4.62p)
Return after operating charges*	27.30p	84.10p	84.44p
Distributions on income units	(38.92p)	(38.38p)	(34.48p)
Closing net asset value per unit	973.51p	985.13p	939.41p
*after direct transactions costs ¹ of:	0.60p	1.01p	1.20p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges	2.77%	8.95%	9.49%
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Other information

Closing net asset value	£105,845,411	£112,940,743	£95,157,176
Closing number of units	10,872,591	11,464,511	10,129,482
Operating charges	0.53%	0.53%	0.53%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	1,024.24p	1,063.42p	978.11p
Lowest unit price	914.94p	903.90p	817.57p

Net asset value per unit and comparative tables *(continued)*

S-Class accumulation units

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,604.52p	1,472.35p	1,343.63p
Return before operating charges*	54.73p	140.47p	135.77p
Operating charges	(8.56p)	(8.30p)	(7.05p)
Return after operating charges*	46.17p	132.17p	128.72p
Distributions on accumulation units	(63.90p)	(60.60p)	(52.46p)
Retained distributions on accumulation units	63.90p	60.60p	52.46p
Closing net asset value per unit	1,650.69p	1,604.52p	1,472.35p

*after direct transactions costs¹ of: 0.99p 1.60p 1.82p

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges 2.88% 8.98% 9.58%

Other information

Closing net asset value	£92,733,171	£99,157,703	£85,182,808
Closing number of units	5,617,856	6,179,890	5,785,516
Operating charges	0.53%	0.53%	0.53%
Direct transaction costs	0.06%	0.10%	0.13%

Prices

Highest unit price	1,689.39p	1,686.28p	1,495.55p
Lowest unit price	1,490.37p	1,417.06p	1,235.21p

Net asset value per unit and comparative tables *(continued)*

X-Class income units**

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	104.98p	100.00p	n/a
Return before operating charges*	3.45p	9.00p	n/a
Operating charges	(0.04p)	(0.04p)	n/a
Return after operating charges*	3.41p	8.96p	n/a
Distributions on income units	(4.15p)	(3.98p)	n/a
Closing net asset value per unit	104.24p	104.98p	n/a
*after direct transactions costs ¹ of:	0.06p	0.11p	n/a

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges	3.25%	8.96%	n/a
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Other information

Closing net asset value	£5,533,842	£5,633,212	n/a
Closing number of units	5,308,861	5,366,228	n/a
Operating charges	0.04%	0.04%	n/a
Direct transaction costs	0.06%	0.10%	n/a

Prices

Highest unit price	109.40p	113.07p	n/a
Lowest unit price	97.67p	95.83p	n/a

**X-Class income was introduced on 17 October 2016.

Net asset value per unit and comparative tables *(continued)*

X-Class accumulation units***

	30.09.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
Change in net assets per unit			
Opening net asset value per unit	108.96p	100.00p	n/a
Return before operating charges*	3.75p	9.00p	n/a
Operating charges	(0.04p)	(0.04p)	n/a
Return after operating charges*	3.71p	8.96p	n/a
Distributions on accumulation units	(4.35p)	(4.01p)	n/a
Retained distributions on accumulation units	4.35p	4.01p	n/a
Closing net asset value per unit	112.67p	108.96p	n/a

*after direct transactions costs¹ of: 0.07p 0.11p n/a

¹ Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

Performance

Return after charges 3.40% 8.96% n/a

Other information

Closing net asset value	£501,118	£174,622	n/a
Closing number of units	444,769	160,268	n/a
Operating charges	0.04%	0.04%	n/a
Direct transaction costs	0.06%	0.10%	n/a

Prices

Highest unit price	115.29p	114.40p	n/a
Lowest unit price	101.44p	95.83p	n/a

***X-Class accumulation was introduced on 17 October 2016.

Risk and reward profile as published in the fund's most recent Key Investor Information Document



Lower potential risk/reward
(Not risk-free)

Higher potential risk/reward

This indicator is a measure of the fund's past volatility (the extent and rapidity of up-and-down movements of the value of an investment). It may not be a reliable indication of the fund's future risk. The risk category shown is not a target or a guarantee and may change over time.

Net asset value per unit and comparative tables *(continued)*

Discrete annual performance, quarter ending 30 September*

	2014	2015	2016	2017	2018
R-Class units	8.51%	5.91%	10.38%	8.64%	1.77%
I-Class units	9.33%	6.71%	11.22%	9.45%	2.53%
S-Class units	9.23%	6.98%	11.50%	9.74%	2.80%
IA UK Equity income sector	7.60%	3.54%	11.39%	10.59%	3.43%

* Source performance data Financial Express, bid to bid, net income re-invested.

Past performance should not be seen as an indication of future performance.

The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Portfolio and net other assets as at 30 September 2018

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Oil and Gas (30.09.17: 7.16%)		
9,000,000 BP	53,037,000	4.43
1,900,000 Royal Dutch Shell 'B'	51,091,000	4.26
	104,128,000	8.69
Mining (30.09.17: 2.91%)		
580,000 Rio Tinto	22,504,000	1.88
Aerospace and Defence (30.09.17: 7.25%)		
5,300,000 BAE Systems	33,379,400	2.79
90,000 Lockheed Martin	23,873,931	1.99
7,000,000 Senior	21,854,000	1.82
	79,107,331	6.60
Industrial Engineering (30.09.17: 2.28%)		
495,000 DCC	34,476,750	2.88
Construction and Materials (30.09.17: 2.59%)		
575,000 Berkeley	21,148,500	1.77
Real Estate (30.09.17: 0.00%)		
1,600,000 Big Yellow Group	14,688,000	1.23
Support Services (30.09.17: 2.38%)		
1,550,000 Bunzl	37,401,500	3.12
Food Producers (30.09.17: 4.60%)		
1,270,000 Unilever	53,543,200	4.47
Household Goods (30.09.17: 4.80%)		
2,850,000 Headlam	13,494,750	1.13
750,000 Reckitt Benckiser	52,620,000	4.39
	66,114,750	5.52
Tobacco (30.09.17: 4.78%)		
525,000 Altria	24,280,319	2.03
1,100,000 British American Tobacco	39,429,500	3.29
600,000 Imperial Brands	16,026,000	1.34
	79,735,819	6.66

Portfolio and net other assets as at 30 September 2018 *(continued)*

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Pharmaceuticals and Biotechnology (30.09.17: 11.00%)		
725,000 AstraZeneca	43,224,500	3.61
650,000 Dechra Pharmaceuticals	14,144,000	1.18
3,500,000 GlaxoSmithKline	53,788,000	4.49
90,000 Roche	16,794,683	1.40
	127,951,183	10.68
Food and Drug Retailers (30.09.17: 2.08%)		
2,500,000 UDG Healthcare	17,012,500	1.42
General Retailers (30.09.17: 2.86%)		
7,750,000 Halfords	24,521,000	2.05
Media (30.09.17: 7.42%)		
2,300,000 Daily Mail & General Trust	16,146,000	1.35
16,500,000 ITV	26,045,250	2.17
2,300,000 RELX	37,133,500	3.10
5,000,000 Tarsus	14,000,000	1.17
	93,324,750	7.79
Travel and Leisure (30.09.17: 6.99%)		
700,000 Carnival	33,348,000	2.78
5,000,000 Greene King	24,505,000	2.04
9,000,000 Restaurant Group	26,766,000	2.23
	84,619,000	7.05
Electricity (30.09.17: 1.76%)		
2,400,000 SSE	27,504,000	2.29
Gas, Water and Multiutilities (30.09.17: 4.22%)		
4,000,000 National Grid	31,652,000	2.64
650,000 WEC Energy	33,276,331	2.78
	64,928,331	5.42
Banks (30.09.17: 5.30%)		
120,000 Close Brothers	1,898,400	0.16
4,750,000 HSBC (London listed)	31,815,500	2.65
27,500,000 Lloyds Banking Group	16,299,250	1.36
	50,013,150	4.17

Portfolio and net other assets as at 30 September 2018 *(continued)*

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Non-Life Insurance (30.09.17: 1.34%)		
1,400,000 Hiscox	23,016,000	1.92
General Financial (30.09.17: 8.40%)		
5,500,000 Aviva	26,922,500	2.25
6,200,000 Hansteen REIT	5,998,500	0.50
1,500,000 Jupiter Fund Management	6,079,500	0.51
15,900,000 Legal & General	41,689,800	3.48
550,000 Sampo Oyj	21,838,752	1.82
	102,529,052	8.56
Software and Computer Services (30.09.17: 2.16%)		
1,400,000 Micro Focus International	19,992,000	1.67
200,000 Sage	1,172,800	0.10
	21,164,800	1.77
Total value of investments (30.09.17: 93.82%)	1,149,431,616	95.94
Net other assets (30.09.17: 6.18%)	48,651,305	4.06
Total value of the fund as at 30 September 2018	1,198,082,921	100.00

Sectors eliminated since the beginning of the year:

Beverages (30.09.17: 1.52%)

Electronic and Electrical Equipments (30.09.17: 0.02%)

Statement of total return for the year ended 30 September 2018

	Note	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
Income					
Net capital (losses)/ gains	2		(12,490,799)		70,397,535
Revenue	3	52,458,084		54,721,837	
Expenses	4	(11,695,484)		(12,531,035)	
Interest payable and similar charges		—		(11)	
Net revenue before taxation		40,762,600		42,190,791	
Taxation	5	(665,309)		(756,201)	
Net revenue after taxation			40,097,291		41,434,590
Total return before distributions			27,606,492		111,832,125
Distributions	6		(51,564,417)		(53,759,828)
Change in net assets attributable to unitholders from investment activities			(23,957,925)		58,072,297

Statement of change in net assets attributable to unitholders for the year ended 30 September 2018

	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
Opening net assets attributable to unitholders		1,430,817,832		1,329,964,836
Amounts receivable on issue of units	37,599,690		121,597,187	
Amounts payable on cancellation of units	(273,232,188)		(105,721,022)	
		(235,632,498)		15,876,165
Change in net assets attributable to unitholders from investment activities (see Statement of total return above)		(23,957,925)		58,072,297
Retained distributions on accumulation units		26,844,936		26,884,128
Unclaimed distributions		10,576		20,406
Closing net assets attributable to unitholders		1,198,082,921		1,430,817,832

Balance sheet as at 30 September 2018

	Note	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
Assets					
Fixed assets:					
Investments			1,149,431,616	1,342,407,308	
Current assets:					
Debtors	7	6,235,568		3,417,562	
Cash and bank balances		63,679,274		108,532,279	
Total current assets			69,914,842	111,949,841	
Total assets			1,219,346,458	1,454,357,149	
Liabilities					
Creditors:					
Other creditors	8	(7,616,596)		(5,067,674)	
Distribution payable on income units		(13,646,941)		(18,471,643)	
Total liabilities			(21,263,537)	(23,539,317)	
Net assets attributable to unitholders			1,198,082,921	1,430,817,832	

Notes to the financial statements

1 Accounting policies

a) Basis of accounting

The annual financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (SORP) for Financial Statements of UK Authorised Funds issued by The Investment Association in May 2014.

As stated in the Statement of the Manager's responsibilities in relation to the report and accounts of the Company on page 32, the Manager continues to adopt the going concern basis in the preparation of the financial statements of the fund.

b) Recognition of revenue

All dividends on investments marked ex-dividend up to the accounting date are included in revenue inclusive of any tax deducted at source and net of attributable tax credits. Bank and other interest receivable is accrued up to the accounting date, and this forms part of the distribution.

c) Treatment of scrip and special dividends

Any stock received in lieu of cash dividends is credited to capital in the first instance, followed by a transfer to revenue of the cash equivalent being offered, and this forms part of the distribution made by the fund.

Special dividends are treated as revenue or capital depending on the facts of each particular case.

d) Treatment of expenses

All expenses are charged against capital.

e) Distribution policy

Revenue arising from the fund's investments accumulates during each accounting period. If, at the end of the accounting period, revenue exceeds expenses, the net revenue of the fund is available to be distributed to unitholders.

For the purpose of calculating the distribution available to unitholders, the fund's expenses are taken from the capital of the fund.

A reconciliation of the net distribution to the net revenue of the fund as reported total return is shown in note 6.

In order to conduct a controlled dividend flow to unitholders, interim distributions will be made at the Managers' discretion, up to a maximum of the distributable revenue available for the year. All remaining revenue is distributed in accordance with the regulations.

f) Basis of valuation of investments

The quoted investments of the fund have been valued at the closing bid-market prices excluding any accrued interest in the case of debt securities ruling on the principal markets on which the stocks are quoted on the last business day of the accounting year. If no market price is available we use two different vendors (at least one being independent) to obtain a price and verify it against.

If the Stock Exchange quotation of an investment has been suspended, and in the opinion of the Manager, it is unlikely to be reinstated, this has been indicated in the portfolio of investments. Suspended investments are valued based on the latest financial statements of the respective company and agreed with the Trustee.

g) Exchange rates

Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting year are translated into Sterling at the closing mid exchange rates ruling on that date.

h) Taxation/Deferred Tax

i) Corporation tax is provided for at 20% on taxable revenue, after deduction of expenses.

ii) Where overseas tax has been deducted from taxable overseas revenue, that tax can, in some instances, be set off against the corporation tax payable by the fund, by way of double taxation relief.

iii) The charge for deferred tax is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided using the liability method on all timing differences, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax assets can be offset. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

i) Unit classes rights on termination, allocation of tax and distributable income

The fund may be terminated if an order declaring the fund to be an authorised unit trust scheme is revoked, or the Financial Conduct Authority (FCA) determines to revoke the order at the request of the Trustee or the Manager. In the case of a reconstruction or an amalgamation of the fund with another body or trust, on the passing of an extraordinary resolution of holders of units approving the amalgamation. The Trustee shall wind up the fund in accordance with that resolution.

On the termination of the fund in any other case, the Trustee shall sell the investments, and out of the proceeds of the sale shall settle the fund's liabilities and pay the costs and expenses of the winding up before distributing the proceeds of the realisation to unitholders and the Manager proportionally to their respective interests in the fund. Any unclaimed proceeds or cash held by the Trustee after the expiration of 12 months from the date on which the same became payable shall be paid by the Trustee into court subject to the Trustee having a right to retain any expenses incurred by it in making such payment into court. On the completion of the winding-up the trustee must notify the FCA to revoke the relevant authorisation order.

Allocation of tax and distributable income is done proportionally to the unitholders respective interests in the fund.

Notes to the financial statements *(continued)*

2 Net capital gains (losses)/gains

	30.09.18 £	30.09.17 £
The net capital (losses)/gains during the year comprise:		
Non-derivative securities	(12,286,730)	70,700,722
Currency losses	(200,720)	(301,068)
Transaction charges	(3,349)	(2,119)
Net capital (losses)/gains	(12,490,799)	70,397,535

3 Revenue

	30.09.18 £	30.09.17 £
Dividends – UK Ordinary	43,983,929	45,088,066
– Overseas	7,670,673	8,606,271
– Property income distributions	607,600	1,027,500
Bank interest	195,882	–
Total revenue	52,458,084	54,721,837

4 Expenses

	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
Payable to the Manager, associates of the Manager and agents of either of them:				
Manager's periodic charge		11,193,563		11,969,346
Payable to the Trustee, associates of the Trustee and agents of either of them:				
Trustee's fees	288,250		335,030	
Safe custody and other bank charges	110,456		111,709	
		398,706		446,739
Other expenses:				
Administration fees	6,380		6,188	
Audit fee*	9,600		10,190	
FCA fee	356		356	
Printing and publication costs	(1,675)		6,995	
Registration fees	85,102		87,769	
Listing fee	3,452		3,452	
		103,215		114,950
Total expenses		11,695,484		12,531,035

*Audit fees paid in the year were £8,000 (30.09.17: £7,800) excluding VAT.

5 Taxation

	30.09.18 £	30.09.17 £
a) Analysis of charge in the year		
Irrecoverable income tax	665,309	756,201
Total tax charge for the year (note 5b)	665,309	756,201

b) Factors affecting current tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an Authorised Unit Trust (20%) (30.09.17: 20%). The differences are explained below:

	30.09.18 £	30.09.17 £
Net revenue before taxation	40,762,600	42,190,791
Corporation tax at 20%	8,152,520	8,438,158
Effects of:		
Revenue not subject to taxation	(10,330,921)	(10,738,867)
Current year expenses not utilised	2,178,401	2,300,709
Corporate tax charge	—	—
Irrecoverable income tax	665,309	756,201
Total tax charge for the year (note 5a)	665,309	756,201

c) Deferred tax

At the year end the fund had surplus management expenses of £130,276,901 (30.09.17: £119,384,898). It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these expenses and, therefore, a deferred tax asset of £26,055,380 (30.09.17: £23,876,979) has not been recognised in the financial statements.

6 Distributions

The distributions take account of amounts received on the issue of units and amounts deducted on the cancellation of units, and comprise:

	30.09.18	30.09.17
	£	£
Interim	15,984,507	17,693,931
Final	32,593,099	36,614,116
	48,577,606	54,308,047
Add: Amounts deducted on cancellation of units	3,313,568	1,059,449
Deduct: Amounts received on issue of units	(326,757)	(1,607,668)
Net distribution for the year	51,564,417	53,759,828

Reconciliation of net distribution for the year to net revenue after tax:

Net distribution for the year	51,564,417	53,759,828
Expenses charged to capital:		
Administration fees	(6,380)	(6,188)
Audit fee	(9,600)	(10,190)
FCA fee	(356)	(356)
Listing fee	(3,452)	(3,452)
Manager's periodic charge	(11,193,563)	(11,969,346)
Printing and publication costs	1,675	(6,995)
Registration fees	(85,102)	(87,769)
Safe custody and other bank charges	(110,456)	(111,709)
Trustee's fees	(288,250)	(335,030)
Equalisation on conversions	68,921	472
Tax relief on expenses	160,696	205,498
Balance brought forward	(6,199)	(6,372)
Balance carried forward	4,940	6,199
Net revenue after taxation	40,097,291	41,434,590

7 Debtors

	30.09.18	30.09.17
	£	£
Amounts receivable for issue of units	226,999	1,176,364
Sales awaiting settlement	3,499,446	—
Accrued revenue	1,965,921	1,863,125
Taxation recoverable	543,202	378,073
Total debtors	6,235,568	3,417,562

8 Other creditors

	30.09.18 £	30.09.17 £
Amounts payable for cancellation of units	1,651,157	517,283
Purchases awaiting settlement	4,990,619	3,435,101
Accrued expenses	129,075	117,351
Accrued manager's periodic charge	845,745	997,939
Total other creditors	7,616,596	5,067,674

9 Reconciliation of units

	R-Class income	R-Class accumulation	I-Class income	I-Class accumulation
Opening units issued at 01.10.17	15,083,992	7,777,189	46,983,866	31,401,487
Unit movements 01.10.17 to 30.09.18				
Units issued	244,435	3,635	1,967,275	601,116
Units cancelled	(3,247,733)	–	(23,468,597)	–
Units converted	1,464,462	(1,072,485)	4,117,212	(2,357,129)
Closing units issued at 30.09.18	13,545,156	6,708,339	29,599,756	29,645,474

	S-Class income	S-Class accumulation	X-Class income	X-Class accumulation
Opening units issued at 01.10.17	11,464,511	6,179,890	5,366,228	160,268
Unit movements 01.10.17 to 30.09.18				
Units issued	353,458	98,818	1,328,817	399,567
Units cancelled	(1,015,332)	(688,796)	(1,386,184)	(115,066)
Units converted	69,954	27,944	–	–
Closing units issued at 30.09.18	10,872,591	5,617,856	5,308,861	444,769

10 Related party transactions

Management fees paid to Rathbone Unit Trust Management Limited (the Manager) are disclosed in note 4 and amounts outstanding at the year end in note 8.

Details of units created and cancelled by the Manager are shown in the Statement of Change in Net Assets Attributable to Unitholders and note 6.

There were no commissions paid to stockbroking of the Manager in respect of dealings in the investments of Rathbone Income during the year (30.09.17: nil).

All other amounts paid to or received from the related parties, together with the outstanding balances are disclosed in the financial statements.

At the year end there were no significant unitholders (30.09.17: nil).

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.09.17: nil).

12 Risk disclosures on financial instruments

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations, for example, in respect of sales and purchases awaiting settlement, amounts receivable for creations and payable for liquidations and debtors for accrued revenue.

There is little exposure to credit or cash flow risk. There are no net borrowings and little exposure to liquidity risk because assets can be readily realised to meet redemptions.

The fund does not make use of derivatives.

The main risks arising from the financial instruments are:

(i) **Foreign currency risk**, being the risk that the value of investments will fluctuate as a result of exchange rate movements. The value of the fund's underlying investments will be affected by movements in exchange rate against sterling, in respect of non-sterling denominated rates.

The table below shows the foreign currency risk profile at the balance sheet date:

	30.09.18	30.09.17
	£	£
Currency:		
Euro	21,838,752	36,987,300
Swiss franc	16,794,683	22,841,191
US dollar	81,873,816	108,407,204
Pound sterling	1,077,032,468	1,262,204,064
	1,197,539,719	1,430,439,759
Other net assets not categorised as financial instruments	543,202	378,073
Net assets	1,198,082,921	1,430,817,832

If GBP to foreign currency exchange rates had increased by 10% as at the balance sheet date, the net asset value of the fund would have decreased by £10,955,205 (30.09.17: £15,294,154). If GBP to foreign currency exchange rates had decreased by 10% as at the balance sheet date, the net asset value of the fund would have increased by £13,389,695 (30.09.17: £18,692,855). These calculations assume all other variables remain constant.

12 Risk disclosures on financial instruments *(continued)*

(ii) **Interest rate risk**, being the risk that the value of investments will fluctuate as a result of interest rate changes.

The table below shows the interest rate risk profile at the balance sheet date:

	30.09.18	30.09.17
	£	£
Floating rate assets:		
Pound sterling	63,679,274	108,532,279
Assets on which no interest is paid:		
Euro	21,838,752	36,987,300
Swiss franc	16,794,683	22,841,191
US dollar	81,873,816	108,407,204
Pound sterling	1,034,616,731	1,177,211,102
	1,155,123,982	1,345,446,797
Liabilities on which no interest is paid:		
Pound sterling	(21,263,537)	(23,539,317)
	(21,263,537)	(23,539,317)
Other net assets not categorised as financial instruments	543,202	378,073
Net assets	1,198,082,921	1,430,817,832

Due to the proportion of interest bearing assets held within the portfolio, no sensitivity analysis has been prepared illustrating the impact changes in yields would have on the value of the fund's portfolio.

The floating rate financial assets and liabilities comprise bank balances, that earn or pay interest at rates linked to the UK base rate or its international equivalents.

There are no material amounts of non-interest bearing financial assets and liabilities, other than equities and collective investment schemes, which do not have maturity dates.

(iii) **Market price risk**, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than currency or interest rate movements.

The investment portfolio is exposed to market price fluctuations which are monitored by the Manager in pursuance of the investment objective and policy set out in the Prospectus. Adherence to investment guidelines and to investment and borrowing powers set out in the Trust Deed and Prospectus and the rules of the FCA's Collective Investment Scheme Sourcebook mitigates the risk of excessive exposure to any particular type of security or issuer.

If market prices had increased by 10% as at the balance sheet date the net asset value of the fund would have increased by £114,943,162 (30.09.17: £134,240,731). If market prices had decreased by 10% as at the balance sheet date the net asset value of the fund would have decreased by £114,943,162 (30.09.17: £134,240,731). These calculations assume all other variables remain constant.

12 Risk disclosures on financial instruments *(continued)*

(iv) **Counterparty risk**, being the risk that the counterparty will not deliver the investments for a purchase, or the cash for a sale after the fund has fulfilled its responsibilities.

(v) **Fair value**. There is no material difference between the carrying value and fair value of the financial instruments disclosed in the balance sheet.

(vi) **Leverage**. In accordance with the IA SORP issued in May 2014 we are required to disclose any leverage of the fund. There is no significant leverage in the Rathbone Income Fund which would increase its exposure.

13 Portfolio transaction cost

For the year ended 30 September 2018

Analysis of total purchases costs

	Value £	Commissions £	%	Taxes £	%
Equity transactions	136,286,292	93,873	0.07%	524,953	0.39%
Total purchases before transaction costs	136,286,292	93,873		524,953	
Total purchases including commission and taxes	136,905,118				

Analysis of total sales costs

	Value £	Commissions £	%	Taxes £	%
Equity transactions	298,063,088	187,934	0.06	1,013	0.00%
Corporate actions	19,719,939	–	–	–	–
Total sales including transactions costs	317,783,027	187,934		1,013	
Total sales net of commission and taxes	317,594,080				

Commissions and taxes as % of average net assets

Commissions	0.02%
Taxes	0.04%

13 Portfolio transaction cost *(continued)*

For the year ended 30 September 2017

Analysis of total purchases costs

	Value £	Commissions £	%	Taxes £	%
Equity transactions	235,237,084	291,215	0.12%	904,622	0.38%
Total purchases before transaction costs	235,237,084	291,215		904,622	
Total purchases including commission and taxes	236,432,921				

Analysis of total sales costs

	Value £	Commissions £	%	Taxes £	%
Equity transactions	219,357,969	225,196	0.10%	1,479	0.00%
Corporate actions	2,352,416	—	—	—	—
Total sales including transactions costs	221,710,385	225,196		1,479	
Total sales net of commission and taxes	221,483,710				

Commissions and taxes as % of average net assets

Commissions	0.04%
Taxes	0.06%

In the case of share, commissions and taxes are paid by the fund on each transaction. In addition, there is a dealing spread between the buying and selling prices of the underlying investments. Unlike shares, other types of investments (such as bonds, money market instruments, derivatives) have no separately identifiable transaction costs; these costs form part of dealing spread. Dealing spreads vary considerably depending on the transaction value and market sentiment. At the balance sheet date the dealing spread was 0.08% (30.09.17: 0.10%).

14 Fair value of investments

The fair value of investments has been determined using the following hierarchy:

- Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

14 Fair value of investments *(continued)*

For the year ended 30 September 2018

Category	1	2	3	Total
Investment assets	£	£	£	£
Equities	1,149,431,616	–	–	1,149,431,616
	1,149,431,616	–	–	1,149,431,616

For the year ended 30 September 2017

Category	1	2	3	Total
Investment assets	£	£	£	£
Equities	1,342,407,308	–	–	1,342,407,308
	1,342,407,308	–	–	1,342,407,308

15 Unit price movement since the balance sheet date

Subsequent to the year end, the net asset value per unit of the fund has increased using the unit prices at the year end date compared to 13 November 2018. This movement takes into account routine transactions but also reflects the market movements of recent months. There are no post balance sheet events which require adjustments.

Unit Type	29.09.18 bid price	13.11.18 bid price
R-Class income	917.83p	853.30p
R-Class accumulation	1,562.40p	1,491.07p
I-Class income	979.34p	911.33p
I-Class accumulation	1,630.30p	1,557.36p
S-Class income	998.95p	929.89p
S-Class accumulation	1,650.19p	1,576.89p
X-Class income	106.81p	99.62p
X-Class accumulation	112.61p	107.67p

Distribution tables for the year ended 30 September 2018

Distribution tables (pence per unit)

Interim

Group 1 – Units purchased prior to 1 October 2017

Group 2 – Units purchased on or after 1 October 2017 and on or before 31 March 2018

R-Class income units	Net Income	Equalisation	Paid 31.05.18	Paid 31.05.17
Group 1	12.25	–	12.25	12.00
Group 2	6.67	5.58	12.25	12.00
R-Class accumulation units	Net Income	Equalisation	Accumulated 31.05.18	Accumulated 31.05.17
Group 1	17.70	–	17.70	19.35
Group 2	6.38	11.32	17.70	19.35
I-Class income units	Net Income	Equalisation	Paid 31.05.18	Paid 31.05.17
Group 1	12.90	–	12.90	12.64
Group 2	6.83	6.07	12.90	12.64
I-Class accumulation units	Net Income	Equalisation	Accumulated 31.05.18	Accumulated 31.05.17
Group 1	17.81	–	17.81	19.94
Group 2	7.46	10.35	17.81	19.94
S-Class income units	Net Income	Equalisation	Paid 31.05.18	Paid 31.05.17
Group 1	13.10	–	13.10	12.83
Group 2	6.26	6.84	13.10	12.83
S-Class accumulation units	Net Income	Equalisation	Accumulated 31.05.18	Accumulated 31.05.17
Group 1	17.90	–	17.90	20.09
Group 2	7.17	10.73	17.90	20.09
X-Class income*	Net Income	Equalisation	Paid 31.05.18	Paid 31.05.17
Group 1	1.53	–	1.53	1.27
Group 2	0.69	0.84	1.53	1.27
X-Class accumulation*	Net Income	Equalisation	Accumulated 31.05.18	Accumulated 31.05.17
Group 1	1.59	–	1.59	1.27
Group 2	0.81	0.78	1.59	1.27

*X-Class was introduced on 17 October 2016.

Distribution tables for the year ended 30 September 2018 *(continued)*

Distribution tables (pence per unit) *(continued)*

Final

Group 1 – Units purchased prior to 1 April 2018

Group 2 – Units purchased on or after 1 April 2018 and on or before 30 September 2018

R-Class income units	Net Income	Equalisation	Payable 30.11.18	Paid 30.11.17
Group 1	23.69	–	23.69	23.80
Group 2	9.12	14.57	23.69	23.80
R-Class accumulation units	Net Income	Equalisation	Allocated 30.11.18	Accumulated 30.11.17
Group 1	43.09	–	43.09	38.88
Group 2	17.95	25.14	43.09	38.88
I-Class income units	Net Income	Equalisation	Payable 30.11.18	Paid 30.11.17
Group 1	25.31	–	25.31	25.13
Group 2	11.02	14.29	25.31	25.13
I-Class accumulation units	Net Income	Equalisation	Allocated 30.11.18	Accumulated 30.11.17
Group 1	45.40	–	45.40	40.16
Group 2	18.57	26.83	45.40	40.16
S-Class income units	Net Income	Equalisation	Payable 30.11.18	Paid 30.11.17
Group 1	25.82	–	25.82	25.55
Group 2	11.82	14.00	25.82	25.55
S-Class accumulation units	Net Income	Equalisation	Allocated 30.11.18	Accumulated 30.11.17
Group 1	46.00	–	46.00	40.51
Group 2	20.14	25.86	46.00	40.51
X-Class income units	Net Income	Equalisation	Payable 30.11.18	Paid 30.11.17
Group 1	2.62	–	2.62	2.71
Group 2	1.07	1.55	2.62	2.71
X-Class accumulation units	Net Income	Equalisation	Allocated 30.11.18	Accumulated 30.11.17
Group 1	2.76	-	2.76	2.74
Group 2	1.38	1.38	2.76	2.74

Distribution tables for the year ended 30 September 2018 *(continued)*

Notes for corporate unitholders

Corporate unitholders should read the important information on the reverse of the tax voucher in respect of this distribution. The relevant information required by a corporate unitholder is as follows:

Franked investment income	100.00%
Unfranked investment income	0.00%
Depository net liability to corporation tax	Nil pence per unit

Equalisation

Equalisation applies only to units purchased during the distribution period (Group 2 units). It represents the accrued revenue included in the purchase price of the units. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the units for Capital Gains Tax purposes.

Directors' statement

This report is approved in accordance with the requirements of the Financial Conduct Authority's Collective Investment Schemes Sourcebook.

MM Webb **JR Chillingworth**
for Rathbone Unit Trust Management Limited
Manager of Rathbone Income Fund
27 November 2018

Statement of the Manager's responsibilities in relation to the annual report and financial statements of the scheme

The Financial Conduct Authority's Collective Investment Schemes Sourcebook requires the Manager to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the fund and of the net revenue and of the net capital gains or losses on the property of the fund for that year. In preparing those financial statements, the Manager is required to:

1. select suitable accounting policies, as described in the attached financial statements, and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. comply with the disclosure requirements of the SORP relating to financial statements of authorised funds issued by the Investment Association;
4. The Financial Reporting Standard applicable in the UK and Republic of Ireland;
5. prepare the financial statements on a going concern basis unless it is inappropriate to presume that the fund will continue in operation; and
6. keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements.

The Manager is responsible for the management of the scheme in accordance with its Trust Deed, Prospectus and the Financial Conduct Authority's Collective Investment Schemes Sourcebook, and for the system of internal controls and for safeguarding of the assets of the scheme. The manager has general responsibility for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Manager is aware:

1. there is no relevant audit information of which the fund's auditor is unaware; and
2. the Manager has taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information; and
3. the Manager is of the opinion that it is appropriate to continue to adopt the going concern basis in the preparation of the financial statements as the assets of the fund consist predominantly of securities that are readily realisable and, accordingly, the fund has adequate resources to continue in operational existence for the foreseeable future.

Statement of the Trustee's responsibilities and report of the Trustee to the unitholders of Rathbone Income Fund (the Scheme) for the period ended 30 September 2018

The Trustee must ensure that the Scheme is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Financial Services and Markets Act 2000, as amended, (together the Regulations), the Trust Deed and Prospectus (together the Scheme documents) as detailed below.

The Trustee must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Scheme and its investors.

The Trustee is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Scheme in accordance with the Regulations.

The Trustee must ensure that:

1. the Scheme's cash flows are properly monitored and that cash of the Scheme is booked into the cash accounts in accordance with the Regulations;
2. the sale, issue, redemption and cancellation of units are carried out in accordance with the Regulations;
3. the value of units in the Scheme is calculated in accordance with the Regulations;
4. any consideration relating to transactions in the Scheme's assets is remitted to the Scheme within the usual time limits;
5. the Scheme's income is applied in accordance with the Regulations; and
6. the instructions of the Authorised Fund Manager (the AFM) are carried out (unless they conflict with the Regulations).

The Trustee also has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Scheme.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Scheme, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's income in accordance with the Regulations and the Scheme documents, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme.

National Westminster Bank Plc
Trustee and Depositary Services
Trustee of Rathbone Income Fund
27 November 2018

Independent Auditor's Report to the unitholders of Rathbone Income Fund

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the financial position of Rathbone Income Fund ('the fund') as at 30 September 2018 and of the net revenue and the net capital losses on the property of the fund for the year ended 30 September 2018 and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", the Statement of Recommended Practice "Financial Statements of UK Authorised Funds", the rules in the Collective Investment Schemes Sourcebook and the Trust Deed.

We have audited the financial statements of the fund which comprise:

- the statement of total return;
- the statement of change in net assets attributable to unitholders;
- the balance sheet;
- the related notes 1 to 15; and
- the distribution tables.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), the Statement of Recommended Practice: "Financial Statements of UK Authorised Funds" issued by the Investment Association in May 2014, the Collective Investment Schemes Sourcebook and the Trust Deed.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the manager's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent Auditor's Report to the unitholders of Rathbone Income Fund *(continued)*

Other information

The manager is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of trustee and manager

As explained more fully in the trustee's responsibilities statement and the manager's responsibilities statement, the trustee is responsible for the safeguarding the property of the fund and the manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the manager is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the manager either intends to liquidate the fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report to the unitholders of Rathbone Income Fund *(continued)*

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Collective Investment Schemes Sourcebook

In our opinion:

- proper accounting records for the fund have been kept and the financial statements are in agreement with those records;
- we have received all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit; and
- the information disclosed in the annual report for the year ended 30 September 2018 for the purpose of complying with Paragraph 4.5.9R of the Collective Investment Schemes Sourcebook is consistent with the financial statements.

Use of our report

This report is made solely to the fund's unitholders, as a body, in accordance with Paragraph 4.5.12R of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the fund's unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the fund and the fund's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Glasgow
27 November 2018

General information

UCITS Remuneration

In line with the requirements of the UCITS Directive, Rathbone Unit Trust Management Limited (the Manager) has adopted a remuneration policy which is consistent with the remuneration principles applicable to UCITS management companies. Its purpose is to ensure that the remuneration of the staff of the Manager is consistent with and promotes sound and effective risk management, does not encourage risk-taking which is inconsistent with the risk profiles of the Manager and the UCITS that it manages and does not impair the Manager's compliance with its duty to act in the best interests of the UCITS it manages. The remuneration policy applies to staff of the Manager whose professional activities have a material impact on the risk profile of the Manager or the UCITS that it manages (known as Remuneration Code Staff).

The aggregate remuneration paid by the Manager to its staff, and to those staff who are identified as Remuneration Code Staff, is disclosed below.

	Fixed remuneration £'000	Variable remuneration £'000	Total remuneration £'000	Headcount
Senior Management	1,048	2,971	4,019	5
Risk takers	1,226	1,907	3,133	13
Control functions	244	31	275	3
Other	106	115	221	1
Total remuneration code staff	2,624	5,024	7,648	22
Non-remuneration code staff	557	248	805	19
Total for the Manager	3,181	5,272	8,453	41

The variable remuneration disclosed in the table above is for the financial year ended 30 September 2018, which is the most recent period for which data are available. Variable remuneration is determined annually based on, inter alia, the results of the Manager and the investment performance of the UCITS that it manages for discrete annual periods ending on 31 December each year. Consequently, it is not possible to apportion the variable award between calendar years as the award for 2018 can not be known until after 31 December 2018 has passed.

Authorised status

The Rathbone Income Fund is an authorised unit trust scheme, established by a Trust Deed dated 12 February 1971 and launched in February 1971.

It is a 'UCITS Scheme' authorised under Section 243 of the Financial Services and Markets Act 2000, and the currency of the fund is pounds sterling.

Investment objective, policy and strategy

The objective of the fund is to achieve above average and maintainable income but without neglecting capital security and growth. The Manager intends to achieve the objective primarily through the purchase of ordinary shares with an above average yield.

There is no restriction on the economic sectors or geographical areas in which the fund may invest. However, investments will always be predominantly in the ordinary shares of UK companies.

To meet these objectives, the fund may also invest, at the Manager's discretion, in other transferable securities, money market instruments, warrants, cash and near cash, deposits and units in collective investment schemes. Use may be made of stocklending, borrowing, cash holdings, hedging and other investment techniques permitted by the FCA Rules.

Valuation of the fund

The fund is valued on each business day at 12 noon for the purpose of determining prices at which units in the fund may be bought or sold. Valuations may be made at other times on business days with the Trustee's approval.

Stewardship code

Rathbone Unit Trust Management Limited fully supports the UK Stewardship Code sponsored by the Financial Reporting Council. Our statement on complying with the Code can be found on our website: rutm.com

Buying and selling of units

The Manager is available to receive requests for the buying and selling of units on normal business days between 9.00am and 5.00pm and transactions will be effected at prices determined by the next valuation. Application forms for the purchase of units (obtainable from the Manager) should be completed and sent to the Dealing Office. In respect of telephoned orders, remittances should be sent on receipt of the contract note. Contract notes confirming transactions will be issued by the close of business on the next business day after the dealing date. Purchasers of units are required to enter their registration details on the form supplied with their contract note. Once units are paid for, these details will be entered on the unit register.

Units can be sold by telephone, fax or letter followed by despatch to the Dealing Office of the authorisation to sell duly completed by all unitholders.

In the absence of clear written instructions signed by all the registered holders, a Form of Renunciation will be sent out together with the repurchase contract note. This will need to be signed by all registered holders, and returned to our Dealing Office before settlement can be made. Settlement will be made on whichever is the later of four business days after the dealing date or four days after the receipt of written confirmation.

Unitholders may sell units on submitting the purchase contract note and a duly executed Deed of Transfer. The issue and redemption of units will not take place if dealing in the units is suspended by operation of law or any statute for the time being in place. For R-Class units sales constituting a 'large deal' of £50,000 or more may receive a lower price than the published selling price.

General information *(continued)*

The minimum initial investment for R-Class units at present is to the value of £1,000 which may be varied by the Manager. The minimum initial investment for I-Class units is £1,000,000. The minimum initial investment for S-Class units is £100,000,000. Thereafter holders may invest additional amounts to the value of £500 or more from time to time as they wish. Any number of units may be subscribed, sold or transferred so long as transaction complies with applicable minimums.

The purchase price of R-Class units includes a preliminary charge of 2.5%. There is no preliminary charge for I-Class or S-Class units.

The Manager currently receives an annual remuneration for managing the R-Class property of the fund at the rate of 1.50%.

The Manager currently receives an annual remuneration for managing the I-Class property of the fund at the rate of 0.75%.

The Manager currently receives an annual remuneration for managing the S-Class property of the fund at the rate of 0.49%.

Statements

A distribution statement showing the rate per unit and your unit holding will be sent semi-annually on 31 May and 30 November.

The current value of your units is shown on a valuation statement, which shows the number of units bought over the previous six months, the total number of units in your account and their current value.

Twice yearly on 30 June and 31 December, unitholders will receive a consolidated statement showing, where applicable, their Unit Trust, ICVC and ISA holdings for each fund held.

Prices

The prices of R-Class units are published in the Financial Times under the heading Rathbone Unit Trust Management Limited. The associated cancellation price is available on request from the Manager. The prices for the I-Class and S-Class units are available on request from the Manager.

Other information

The Trust Deed, the Key Investor Information Document and Supplementary Information Document, the Prospectus and the most recent half yearly report of each fund may be inspected at the registered offices of the Manager. Copies of the Prospectus, the Key Investor Information Document and Supplementary Information Document and the most recent half yearly report of each fund may be obtained free of charge on application to the Manager.

The Register of Unitholders can be inspected during normal business hours at the office of the Registrar, DST Financial Services Europe Limited, DST House, St Nicholas Lane, Basildon, Essex SS15 5FS.

A copy of the Long Report is available upon request, free of charge, from Client Services Department, Rathbone Unit Trust Management Limited, 8 Finsbury Circus, London EC2M 7AZ.

Unitholders who have any queries or complaints about the operation of the fund should address them in the first instance to the Compliance Officer, Rathbone Unit Trust Management Limited, 8 Finsbury Circus, London EC2M 7AZ. Any complaint we receive will be handled in accordance with our internal complaint procedures. A copy of these are available from the Compliance Officer.

If you have occasion to complain, and in the unlikely event that you do not receive a satisfactory response, you may direct your complaint to the Financial Ombudsman Service at Exchange Tower, London E14 9SR. Further details about the Financial Ombudsman Service are available on their website at financial-ombudsman.org.uk.

ISA eligibility

The fund has been managed throughout the year to ensure that it is eligible to qualify and be included in an Individual Savings Account (ISA). The fund will at all times be invested in such a way that the units will constitute 'Qualifying Investments' for the purposes of the Individual Savings Account (ISA) Regulations 1998, as amended from time to time.

Risk factors

An investment in a unit trust should be regarded as a medium to long term investment. Investors should be aware that the price of units and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance should not be seen as an indication of future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable. Where periodic charge is wholly or partly taken out of the fund's capital, distributable income will be increased at the expense of capital which will either be eroded or future growth restrained.

Other funds

Rathbone Unit Trust Management Limited is also the Manager of the following funds:

Rathbone Active Income and Growth Fund
Rathbone Blue Chip Income and Growth Fund
Rathbone Core Investment for Charities Fund
Rathbone Dragon Trust
Rathbone Ethical Bond Fund
Rathbone Global Opportunities Fund
Rathbone Heritage Fund
Rathbone Spenser Fund
Rathbone Strategic Bond Fund
Rathbone UK Opportunities Fund

and the Authorised Corporate Director of:

Rathbone Global Alpha Fund
Rathbone Global Sustainability Fund
Rathbone Enhanced Growth Portfolio
Rathbone Strategic Growth Portfolio
Rathbone Strategic Income Portfolio
Rathbone Total Return Portfolio
Rathbone Pharaoh Fund
Rathbone Quercus Growth Fund
Rathbone Sherwood Fund
Rathbone Sussex Income Fund
Rathbone Sussex Growth Fund

Further details

Should you require further details of this fund or any of the other funds managed by Rathbone Unit Trust Management Limited, a Prospectus, Key Investor Information Document and Supplementary Information Document or an application form for the purchase of shares or units, please write to:

Client Services Department
Rathbone Unit Trust Management Limited
8 Finsbury Circus
London EC2M 7AZ

All literature is available free of charge. Information is also available on our website: rutm.com

Data protection

Where relevant, Rathbones' privacy notice for clients, together with our relevant terms of business, sets out how your personal data (as further detailed in the privacy notice) shall be processed by Rathbones. A copy of the privacy notice is available on request or on Rathbones' website.

From time to time Rathbone Unit Trust Management Limited may wish to communicate with you with information on other products and services offered by the Rathbone group. If you do not wish to receive these communications, please advise us in writing at the following address:

Data Protection Officer
Rathbone Unit Trust Management Limited
8 Finsbury Circus
London EC2M 7AZ

Rathbones

Look forward

Rathbone Unit Trust Management Limited

8 Finsbury Circus, London EC2M 7AZ

Tel 020 7399 0000

Fax 020 7399 0057

Information line

020 7399 0399

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Financial Conduct Authority

A member of The
Investment Association

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