

Rathbones

Look forward

Rathbone Ethical Bond Fund

Interim report for the half year ended 31 March 2018



Rathbone Ethical Bond Fund

Authorised Fund Manager (the Manager)

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**A member of the Rathbone Group
Authorised and regulated by the
Financial Conduct Authority and member
of The Investment Association**

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Independent Auditor

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Statutory Auditor
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Directors

PL Howell – Chairman
MM Webb – Chief Executive Officer
JR Chillingworth – Chief Investment Officer
JM Ardouin – Finance Director
CRC Hexton
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Administrator

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Financial Conduct Authority**

Manager's report for the half year ended 31 March 2018

In the six months ended 31 March 2018, the FTSE Actuaries UK Conventional Gilts 5-15 Years index returned 0.52%. The iBoxx UK Sterling Non-Gilts 5-15 Years index made 0.58% over that time, while the IA Sterling Corporate Bond sector made 0.48%. Our fund returned 0.99% over the period. At the beginning of October 2017, 10-year gilts yielded 1.37%; they closed on 31 March at 1.35%.

Yields oscillated throughout the period, as the expected paths of growth, inflation and interest rates adjusted. After falling to a low of 1.15% in December, 10-year gilt yields rose swiftly to a peak of 1.65% in mid-February. The Bank of England (BoE) is expected to raise interest rates to 0.75% in May and there could be another hike later this year. Inflation remains stubbornly high, forcing the BoE's hand, while economic growth has continued to decelerate.

Many of our trades over the last six months were due to tactical changes in portfolio duration (sensitivity to interest rates).

We added to our duration in October by buying the European Investment Bank 6% 2028. However, we sold them in early March when the 10 year hit 1.47%, which we believe meant it was technically overbought. Throughout the period, we bought and sold the European Investment Bank 3.875% Bonds 8/06/2037 as a way of adjusting the fund's duration.

We sold Kreditanstalt für Wiederaufbau 5.75% Bonds 2032 in December when gilt yields fell to 1.14%. We then bought them back in February when yields had risen again.

Similarly, we sold the low duration, low credit risk Bank of Montreal Floating Rate Note 2020 in early February as gilt yields rose and we wanted to return to higher-yielding securities. We sold the Bank of Montreal 1.375% Senior 2021 at the same time, but have since repurchased them following the period end.

We sold the Nationwide Building Society 3% Bond 2026 during the period after its spread fell to a point where we felt it was prudent to take profits.

Our fund continues to receive strong inflows, which we have used to add to existing holdings. Much of these additions have been to the subordinated financial space. Some are likely to be bought back soon because their coupons are high enough to encourage their issuers to refinance. This includes the HBOS Sterling Financial 7.881% Variable 2049-31 (now owned by Lloyds Banking Group), which we have been adding to. We also bought the Korea Development Bank 1.75% Bonds 2022 because we felt it offered an attractive valuation.

With the spread between 10-year and 5-year US treasury yields falling to an extremely flat 20 basis points in January, we took the opportunity to wager that it would rise from there. Yield inversion – when longer-term debt yields less than short-term – almost always signals a recession; however, we think the world is not on the verge of a downturn. Economic growth (UK excepted) is strong and improving, while business and consumer sentiment is buoyant. Therefore, we bought the RBC Leveraged 3 Year Yield Spread Steepener. This structured product is capital protected and pays a multiple of the change in yield spread between the 5-year and 10-year US treasury. We will benefit from any “steepening” in the US yield curve.

We have been slowly taking risk off the table for a few months now. Valuations are getting stretched and a dearth of sterling bond issues isn't helping the supply and demand dynamic either.

Despite the bellicose tariff threats from the US and China that have been hanging in the air for the past couple of months, global economic growth is ticking along well. Some data in the US, Europe and here at home were slightly down because of disruption caused by the soggy end to winter. We will be watching carefully to make sure this is just the one-off bump we think it is.

Manager's report for the half year ended 31 March 2018 *(continued)*

If China and America are unable to agree on a trade compromise, a trade war could be on the cards. It's difficult to determine how much real risk there is of this happening. We are all aware of how low-detail President Donald Trump's public statements can be. It's also nigh-on-impossible to tell what is a negotiating red line and what is simply being hammed up for the fans.

As things stand, we think the world is in a good – albeit noisy – place. Economic data and sentiment are strong from America to Europe and Asia. Borrowing costs for businesses are starting to rise, however. We are comfortable with market conditions for now, but as mentioned earlier, we are dialling back the risk we are taking.

Bryn Jones
Fund Manager
17 April 2018

Noelle Cazalis
Assistant Fund Manager

Net asset value per unit and comparative tables

R-Class income units

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	94.88p	93.42p	89.28p	92.40p
Return before operating charges*	1.41p	6.68p	6.12p	1.45p
Operating charges	(0.62p)	(1.23p)	(0.51p)	(1.19p)
Return after operating charges*	0.79p	5.45p	5.61p	0.26p
Distributions on income units	(1.84p)	(3.99p)	(1.47p)	(3.38p)
Closing net asset value per unit	93.83p	94.88p	93.42p	89.28p
*after direct transactions costs ¹ of:	0.00p	0.00p	0.00p	0.00p

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

Performance

Return after charges	0.83%	5.83%	6.28%	0.28%
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Other information

Closing net asset value	£9,137,801	£9,909,648	£10,729,737	£10,943,426
Closing number of units	9,738,736	10,443,863	11,485,129	12,257,697
Operating charges	1.29%	1.30%	1.31%	1.31%
Direct transaction costs	0.00%	0.00%	0.00%	0.00%

Prices

Highest unit price	99.21p	98.75p	96.98p	94.53p
Lowest unit price	94.30p	90.96p	89.45p	86.93p

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

R-Class accumulation units

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	196.04p	185.03p	174.03p	173.48p
Return before operating charges*	2.88p	13.93p	12.71p	4.42p
Operating charges	(1.29p)	(2.47p)	(0.99p)	(2.26p)
Return after operating charges*	1.59p	11.46p	11.72p	2.16p
Distributions on accumulation units	(3.83p)	(8.47p)	(3.59p)	(8.05p)
Retained distributions on accumulation units	3.83p	8.02p	2.87p	6.44p
Closing net asset value per unit	197.63p	196.04p	185.03p	174.03p

*after direct transactions costs¹ of: 0.00p 0.00p 0.00p 0.00p

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

Performance

Return after charges 0.81% 6.19% 6.73% 1.25%

Other information

Closing net asset value	£20,002,911	£18,386,028	£17,543,599	£18,032,871
Closing number of units	10,121,382	9,378,567	9,481,654	10,362,059
Operating charges	1.29%	1.30%	1.31%	1.31%
Direct transaction costs	0.00%	0.00%	0.00%	0.00%

Prices

Highest unit price	205.32p	201.48p	189.90p	177.53p
Lowest unit price	196.13p	180.15p	174.37p	167.89p

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

I-Class income units

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	98.78p	96.64p	92.11p	94.73p
Return before operating charges*	1.46p	6.93p	6.32p	1.49p
Operating charges	(0.33p)	(0.66p)	(0.27p)	(0.64p)
Return after operating charges*	1.13p	6.27p	6.05p	0.85p
Distributions on income units	(1.93p)	(4.13p)	(1.52p)	(3.47p)
Closing net asset value per unit	97.98p	98.78p	96.64p	92.11p
*after direct transactions costs ¹ of:	0.00p	0.00p	0.00p	0.00p

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

Performance

Return after charges	1.14%	6.49%	6.57%	0.90%
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Other information

Closing net asset value	£408,091,524	£325,349,629	£220,827,427	£178,428,506
Closing number of units	416,514,901	329,369,970	228,509,298	193,708,334
Operating charges	0.67%	0.68%	0.68%	0.69%
Direct transaction costs	0.00%	0.00%	0.00%	0.00%

Prices

Highest unit price	102.31p	101.63p	99.19p	95.88p
Lowest unit price	98.40p	94.20p	92.30p	89.60p

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

I-Class accumulation units

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	201.96p	189.42p	177.70p	176.04p
Return before operating charges*	2.96p	14.33p	12.98p	4.51p
Operating charges	(0.69p)	(1.32p)	(0.53p)	(1.21p)
Return after operating charges*	2.27p	13.01p	12.45p	3.30p
Distributions on accumulation units	(3.96p)	(8.70p)	(3.66p)	(8.18p)
Retained distributions on accumulation units	3.96p	8.23p	2.93p	6.54p
Closing net asset value per unit	204.23p	201.96p	189.42p	177.70p

*after direct transactions costs¹ of: 0.00p 0.00p 0.00p 0.00p

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

Performance

Return after charges	1.12%	6.87%	7.01%	1.87%
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Other information

Closing net asset value	£553,927,467	£396,094,620	£260,995,823	£204,736,313
Closing number of units	271,230,636	196,127,720	137,784,527	115,214,200
Operating charges	0.67%	0.68%	0.68%	0.69%
Direct transaction costs	0.00%	0.00%	0.00%	0.00%

Prices

Highest unit price	209.64p	205.29p	192.29p	179.36p
Lowest unit price	202.05p	184.64p	178.05p	171.26p

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

X-Class income units**

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	106.89p	103.93p	100.00p	n/a
Return before operating charges*	1.58p	7.47p	5.23p	n/a
Operating charges	(0.02p)	(0.05p)	(0.02p)	n/a
Return after operating charges*	1.56p	7.42p	5.21p	n/a
Distributions on income units	(2.09p)	(4.46p)	(1.28p)	n/a
Closing net asset value per unit	106.36p	106.89p	103.93p	n/a
*after direct transactions costs ¹ of:	0.00p	0.00p	0.00p	n/a

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

Performance

Return after charges	1.46%	7.14%	5.21%	n/a
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Other information

Closing net asset value	£150,345,173	£138,093,469	£29,838,284	n/a
Closing number of units	141,356,144	129,191,019	28,710,908	n/a
Operating charges	0.04%	0.05%	0.06%	n/a
Direct transaction costs	0.00%	0.00%	0.00%	n/a

Prices

Highest unit price	110.78p	109.84p	106.53p	n/a
Lowest unit price	106.73p	101.41p	99.02p	n/a

** X-Class was launched on 20 May 2016 at 100.00p (X-Class Income) and 100.00p (X-Class Accumulation).

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

X-Class accumulation units**

	31.03.18 pence per unit	30.09.17 pence per unit	30.09.16 pence per unit	30.04.16 pence per unit
Change in net assets per unit				
Opening net asset value per unit	112.89p	105.22p	100.00p	n/a
Return before operating charges*	1.66p	7.98p	5.59p	n/a
Operating charges	(0.03p)	(0.05p)	(0.02p)	n/a
Return after operating charges*	1.63p	7.93p	5.57p	n/a
Distributions on accumulation units	(2.21p)	(4.85p)	(1.73p)	n/a
Retained distributions on accumulation units	2.21p	4.59p	1.38p	n/a
Closing net asset value per unit	114.52p	112.89p	105.22p	n/a
*after direct transactions costs ¹ of:	0.00p	0.00p	0.00p	n/a

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

Performance

Return after charges	1.44%	7.54%	5.57%	n/a
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Other information

Closing net asset value	£15,114,161	£13,362,211	£5,678,520	n/a
Closing number of units	13,197,520	11,836,046	5,396,627	n/a
Operating charges	0.04%	0.05%	0.06%	n/a
Direct transaction costs	0.00%	0.00%	0.00%	n/a

Prices

Highest unit price	117.49p	114.81p	106.88p	n/a
Lowest unit price	112.95p	102.67p	99.02p	n/a

** X-Class was launched on 20 May 2016 at 100.00p (X-Class Income) and 100.00p (X-Class Accumulation).

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 share and comparative tables *(continued)*

Discrete annual performance, quarter ending 31 March 2018

	2014	2015	2016	2017	2018
R-Class units	5.09%	10.15%	-1.32%	9.24%	4.61%
I-Class units	5.76%	0.84%	-0.69%	9.92%	5.26%
IA Sterling Corporate Bond sector	1.31%	10.61%	-1.03%	8.88%	1.70%

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 31 March 2018

Holding (Bonds unless otherwise stated)	Value £	Percentage of total net assets
Bonds (30.09.17: 93.63%)		
Mortgage Bonds (30.09.17: 3.61%)		
£7,000,000 ASB Finance FRN 2020	7,011,970	0.61
£3,500,000 Eurohome UK Mortgages 2044	1,166,968	0.10
£500,000 Eurohome UK Mortgages 2044	171,851	0.01
£750,000 Eurohome UK Mortgages 2044	655,246	0.06
£10,523,625 Fresh Finance for Residential Social Housing 8.369% 2058	13,131,577	1.14
\$1,000,000 Hero Funding Trust 3.19% 2048	680,585	0.06
\$500,000 Hero Funding Trust 3.28% 2048	322,279	0.03
\$2,000,000 Indian Railway Finance 3.835% 2027	1,364,414	0.12
£14,600,000 Korea Development Bank 1.75% 2022	14,369,320	1.24
£500,000 Mansard Mortgages FRN 2049	293,706	0.03
£1,849,000 Mansard Mortgages FRN 2049	1,749,524	0.15
£400,000 Newgate Funding FRN 2050	376,288	0.03
£1,500,000 Newgate Funding FRN 2050	1,055,859	0.09
£1,200,000 RMAC Securities FRN 2044	735,286	0.06
£7,700,000 RMAC Securities FRN 2044	4,961,085	0.43
	48,045,958	4.16
Supranational Bonds (30.09.17: 3.10%)		
£2,379,000 EIB 0% 2028	1,958,543	0.17
£1,390,000 EIB 2.65% Index-Linked 2020	2,459,160	0.21
£11,000,000 EIB 3.875% 2037	14,487,864	1.25
£10,000,000 EIB 6% 2028	14,099,878	1.22
	33,005,445	2.85
Corporate Bonds (30.09.17: 86.92%)		
£9,508,000 3i 5.75% 2032	12,017,989	1.04
£2,800,000 3i 6.875% 2023	3,371,547	0.29
£5,011,000 A2D Funding 4.5% 2026	5,522,312	0.48
£5,854,000 A2D Funding 4.75% 2022	6,364,820	0.55
£3,434,000 A2D Housing Group 3.5% 2028	3,489,794	0.30
£2,475,000 Aggregate Micro Power Infrastructure 8% 2036^	2,475,000	0.21
£2,807,000 AMP Group Finance 6.875% 2022	3,102,577	0.27
£12,950,000 Assicurazioni Generali 6.269% perp	14,074,114	1.22
£1,000,000 Assicurazioni Generali 6.416% VRN Perp	1,066,250	0.09
£800,000 Aster Treasury 4.5% 2043	1,016,817	0.09
£10,000,000 Australia and New Zealand Banking FRN 2021	9,982,540	0.86
£10,330,000 Aviva 4.375% VRN 2049	10,365,652	0.90
£2,881,000 Aviva 5.125% VRN 2050	3,054,124	0.26

Portfolio and net other assets as at 31 March 2018 *(continued)*

Holding (Bonds unless otherwise stated)	Value £	Percentage of total net assets
£5,906,000 Aviva 5.9021% VRN perp	6,179,041	0.53
£9,680,000 Aviva 6.125% 2036	11,160,000	0.96
£9,290,000 Aviva 6.125% VRN perp	10,217,839	0.88
£6,800,000 Aviva 6.875% VRN 2058	8,862,539	0.77
£4,170,000 Aviva 6.875% VRN perp	4,402,284	0.38
£14,016,000 AXA SA 5.453% VRN perp	15,172,787	1.31
£17,537,000 AXA SA 5.625% VRN 2054	19,675,016	1.70
£8,752,000 AXA SA 6.6862% VRN perp	10,185,431	0.88
\$2,700,000 BAC Capital Trust 4% VRN perp	1,670,081	0.14
£5,000,000 Bank of Montreal 1.375% 2021	4,949,470	0.43
£4,330,000 Bank of Scotland 9.375% 2021	5,225,882	0.45
£10,789,000 Barclays Bank 3.25% 2027	10,791,130	0.93
£6,000,000 Barclays Bank 3.25% 2033	5,787,231	0.50
£1,644,000 Barclays Bank 6.3688% VRN perp	1,728,995	0.15
£51,000 Barclays Bank 7.125% VRN perp	56,156	0.00
£14,850,000 Barclays Bank 10% 2021	18,060,111	1.56
£6,200,000 Barclays Bank 14% VRN perp	6,993,600	0.60
£5,000,000 Bazalgette Finance 2.375% 2027	4,903,747	0.42
\$3,950,000 Beazley 5.875% 2026	2,947,633	0.25
£18,300,000 BPCE SA 5.25% 2029	21,567,194	1.86
£2,000,000 BPHA Finance 4.816% 2044	2,636,800	0.23
£3,333,000 British Telecom 3.125% 2031	3,289,707	0.28
£1,901,000 British Telecom 3.5% Index-Linked 2025	3,924,614	0.34
£6,000,000 British Telecom 3.625% 2047	6,082,906	0.52
£1,389,900 Bruntwood 6% 2020	1,463,334	0.13
£7,192,000 BUPA Finance 5% 2023	7,888,294	0.68
£4,950,000 BUPA Finance 5% 2026	5,504,692	0.48
£3,709,000 BUPA Finance 6.125% VRN perp	3,987,608	0.34
£3,448,000 Canal and River Trust 2.85% Series A Senior 2043	3,448,000	0.30
£8,250,000 Channel Link 3.043% VRN 2050	8,169,150	0.71
\$12,294,000 Chubb 6.375% VRN 2067	8,761,272	0.76
£1,100,000 Clerical Medical Finance 7.375% VRN perp	1,158,135	0.10
£3,830,000 Close Brothers Finance 2.75% 2026	3,878,840	0.34
£14,625,000 Close Brothers Group 4.25% 2027	15,185,138	1.31
£519,000 CLS Holdings 5.5% 2019	536,163	0.05
£5,900,000 CNP Assurances 7.375% VRN 2041	6,743,405	0.58
£4,350,000 Coventry Building Society 1.875% 2023	4,276,951	0.37
£2,500,000 CPUK Finance 3.588% 2042	2,639,750	0.23
€4,000,000 Credit Agricole 4.5% VRN perp	3,862,522	0.33
£1,000,000 Credit Suisse 3% 2022	1,035,739	0.09

Portfolio and net other assets as at 31 March 2018 *(continued)*

Holding (Bonds unless otherwise stated)	Value £	Percentage of total net assets	
£2,250,000	CYBG 3.125% VRN 2025	2,242,796	0.19
£5,176,000	DXC Technology 2.75% 2025	5,170,824	0.45
£200,000	Ellenbrook Developments 3.3894% Index-Linked 2032	230,521	0.02
£2,000,000	Eversholt Funding 3.529% 2042	1,992,713	0.17
£7,820,000	Fidelity International 7.125% 2024	9,602,396	0.83
£2,200,000	Finance for Residential Social Housing 8.569% 2058	2,352,882	0.20
£700,000	Finance for Residential Social Housing 8.569% 2058	806,283	0.07
£130,000	Glasgow Together 4% 2020	93,600	0.01
£3,500,000	Goldman Sachs 4.25% 2026	3,885,972	0.34
£1,500,000	Great Rolling 6.875% 2035	1,532,608	0.13
£1,600,000	Greater Gabbard 4.137% 2032	1,602,537	0.14
£2,500	Greenwich 5% 2018	212,500	0.02
£1,000,000	Guinness Partner 4% 2044	1,187,617	0.10
£12,241,000	HBOS Sterling Finance (Jersey) 7.881% VRN Perp	17,796,211	1.54
£2,916,000	Hiscox 2% 2022	2,909,879	0.25
£17,583,000	Hiscox 6.125% VRN 2045	20,381,334	1.76
£16,088,000	HSBC Bank 5.844% VRN perp	20,200,495	1.75
£800,000	Intermediate Capital Group 5% 2023	854,434	0.07
£600,000	Intu (SGS) Finance 3.875% 2023	638,480	0.06
£1,100,000	Intu (SGS) Finance 4.25% 2035	1,228,120	0.11
£13,354,000	Investec Bank 4.5% 2022	14,355,802	1.24
£7,955,000	Investec Bank 9.625% 2022	9,674,325	0.84
£4,065,000	John Lewis 4.25% 2034	4,148,333	0.36
£5,661,000	John Lewis 6.125% 2025	6,637,523	0.57
£5,550,000	Just Group 3.5% 2025	5,509,485	0.48
£9,000,000	Just Group 9% 2026	11,525,400	1.00
£7,930,000	Legal & General 5.375% VRN 2045	8,693,787	0.75
£3,337,000	Legal & General 5.875% VRN perp	3,439,991	0.30
£12,618,000	Liverpool Victoria Friendly Society 6.5% VRN 2043	13,960,459	1.21
£7,000,000	Lloyds Banking Group 2.25% 2024	6,850,706	0.59
£2,000,000	Lloyds Banking Group 5.75% 2025	2,154,651	0.19
£8,150,000	Lloyds Banking Group 7.625% 2025	10,583,200	0.91
£7,000,000	London and Quadrant Housing Trust 2.25% 2029	6,684,501	0.58
£3,889,000	London and Quadrant Housing Trust 2.625% 2028	3,859,833	0.33
£500,000	London and Quadrant Housing Trust 3.75% 2049	566,500	0.05
£3,390,000	London Merchant Securities 6.5% 2026	4,272,269	0.37
£2,700,000	Marks & Spencer 3% 2023	2,745,843	0.24
£2,750,000	Marks & Spencer 4.75% 2025	3,016,555	0.26
\$5,700,000	Marks & Spencer 7.125% 2037	4,569,845	0.40
\$590,000	MDIF Media Finance 4% 2023	118,810	0.01

Portfolio and net other assets as at 31 March 2018 *(continued)*

Holding (Bonds unless otherwise stated)	Value £	Percentage of total net assets
£1,000,000 Metropolitan Funding 4.125% 2048	1,189,509	0.10
£2,500,000 Morgan Stanley 2.625% 2027	2,471,227	0.21
£200,000 Motability Operations Group 2.375% 2032	193,684	0.02
£1,000,000 Myriad Capital 4.75% 2043	1,278,290	0.11
£5,432,000 National Capital Trust 5.62% VRN perp	5,543,899	0.48
£6,000,000 Nationwide Building Society 3.25% 2028	6,390,323	0.55
£1,128,097 Nationwide Building Society 3.875% Index-Linked 2021	3,691,021	0.32
\$2,000,000 Nationwide Building Society 4.125% VRN 2032	1,355,202	0.12
£3,850,000 Nationwide Building Society 5.769% perp	4,157,345	0.36
£1,784,000 Nationwide Building Society 6.25% VRN perp	2,035,344	0.18
£60,000 Nationwide Building Society 10.25% VRN perp	9,360,000	0.81
£1,304,000 Notting Hill Housing 3.75% 2032	1,420,735	0.12
£12,452,000 Old Mutual 8% 2021	14,079,476	1.22
£440,000 Our Power Social Purpose 6.5% 2021	440,000	0.04
£632,000 Paragon 6% 2020	660,094	0.06
£5,665,000 Paragon 6% 2024	6,117,792	0.53
£1,991,000 Paragon 6.125% 2022	2,091,424	0.18
£4,900,000 Partnership Life Assurance 9.5% 2025	5,514,901	0.48
£11,775,000 PGH Capital 4.125% 2022	12,205,961	1.06
£16,038,000 PGH Capital 6.625% 2025	18,524,424	1.60
\$1,800,000 Phoenix 5.375% 2027	1,283,954	0.11
£2,150,000 Places for People Finance 4.25% 2023	2,174,955	0.19
£1,485,900 Places for People Homes 1% Index-Linked 2022	1,801,639	0.16
£10,000,000 Places for People Homes 3.625% 2028	10,104,925	0.87
£4,585,000 Places for People Treasury 2.875% 2026	4,496,531	0.39
£1,006,000 Primary Health Properties 5.375% 2019	1,030,637	0.09
£8,334,000 Principality Building Society 2.375% 2023	8,261,157	0.71
£3,500,000 Prudential 5% VRN 2055	3,726,615	0.32
\$4,000,000 QBE Insurance 5.25% VRN perp	2,749,073	0.24
£1,060,000 Quadrant Housing 7.93% 2033	1,498,025	0.13
£3,636,000 Rabobank Capital Funding Trust 5.556% VRN perp	3,800,158	0.33
£13,445,000 Rabobank Nederland 4.625% 2029	15,152,686	1.31
£5,307,000 Rabobank Nederland 5.25% 2027	6,187,936	0.53
£15,050,000 Rabobank Nederland 6.91% VRN perp	22,007,164	1.90
£634,600 Retail Charity Bonds 3.9% 2029	645,071	0.06
£1,527,000 Retail Charity Bonds 4% 2029	1,536,131	0.13
£2,770,000 Retail Charity Bonds 4.25% 2026	2,778,116	0.24
£2,250,000 Retail Charity Bonds 4.25% 2026	2,299,680	0.20
£250,000 Retail Charity Bonds 4.375% 2021	266,413	0.02

Portfolio and net other assets as at 31 March 2018 *(continued)*

Holding (Bonds unless otherwise stated)	Value £	Percentage of total net assets
£1,000,000 Retail Charity Bonds 4.4% 2027	1,038,810	0.09
£1,537,800 Retail Charity Bonds 5% 2026	1,713,002	0.15
£500,000 RHP Finance 3.25% 2048	519,300	0.04
£400,000 Riverside Finance 3.875% 2044	460,651	0.04
£17,244,000 RL Finance Bonds 6.125% 2028	19,884,079	1.72
£17,000,000 RL Finance Bonds 6.125% VRN 2043	19,145,378	1.66
£9,900,000 Rothesay Life 8% 2025	11,938,905	1.03
£11,557,000 Rothschild 9% perp	14,504,035	1.25
£15,934,000 Royal & Sun Alliance 5.125% VRN 2045	17,543,600	1.52
£1,000,000 Royal Bank of Scotland 3.9% VRN 2022	1,087,700	0.09
£3,564,000 Sainsburys Bank 6% VRN 2027	3,729,726	0.32
£4,000,000 Santander UK FRN 2020	4,010,040	0.35
£1,764,000 Santander UK 3.625% 2026	1,876,808	0.16
£1,050,000 Santander UK 5.875% 2031	1,257,255	0.11
£990,000 Santander UK 6.5% 2030	1,246,720	0.11
£10,350,000 Scottish Widows 5.5% 2023	11,425,270	0.99
£2,000,000 Segro 2.375% 2029	1,939,297	0.17
£8,396,000 Shaftesbury Chinatown 2.348% 2027	8,119,772	0.70
£2,100,000 Skipton Building Society 1.75% 2022	2,074,135	0.18
£4,520,000 Society Lloyds 4.75% 2024	4,979,328	0.43
£3,760,000 Society Lloyds 4.875% VRN 2047	4,122,454	0.36
£91,500 South Bristol Sports Centre 7% 2023	91,500	0.01
£148,800 St Johns School Bond 3.25% 2022	148,800	0.01
£1,178,500 St. Modwen Properties 6.25% 2019	1,228,929	0.11
\$10,300,000 Standard Life Aberdeen 4.25% VRN 2048	7,034,809	0.61
£12,869,000 Standard Life Aberdeen 5.5% VRN 2042	14,469,574	1.25
£8,744,000 Standard Life Aberdeen 6.546% VRN perp	9,378,231	0.81
£21,853,000 Standard Life Aberdeen 6.75% VRN perp	27,044,180	2.34
£1,842,000 Swan Housing Capital 3.625% 2048	1,998,611	0.17
£150,000 Telereal Securitisation 4.0902% VRN 2033	156,416	0.01
£200,000 Telereal Securitisation 6.1645% 2031	227,868	0.02
£5,930,000 Telereal Securitisation FRN 2031	5,410,935	0.47
£100,000 Thera Trust 3.5% 2018	100,000	0.01
£100,000 Thera Trust 5.5% 2020	100,000	0.01
£500,000 Thera Trust 5.5% 2024	500,000	0.04
£184,012 THFC 5.65% Index-Linked 2020	84,399	0.01
£750,000 Thrive Renewables 5% 2024	750,000	0.07
£12,971,000 TP ICAP 5.25% 2024	13,468,654	1.16

Portfolio and net other assets as at 31 March 2018 *(continued)*

Holding (Bonds unless otherwise stated)		Value £	Percentage of total net assets
\$900,000	Trilinic FRN 5.44% 2020	628,743	0.05
£13,840,000	TSB Banking 5.75% VRN 2026	14,985,149	1.30
£500,000	Vodafone 3% 2056	433,192	0.04
£2,300,000	Welltower 4.5% 2034	2,622,612	0.23
£800,000	Welltower 4.8% 2028	917,599	0.08
£7,030,000	Whitbread Group 3.375% 2025	7,149,388	0.62
£2,120,000	Wods Transmission 3.446% 2034	2,112,644	0.18
£1,330,000	Workspace 6% 2019	1,368,743	0.12
£11,491,000	Yorkshire Building Society 3.375% VRN 2028	11,216,225	0.97
£2,410,000	Yorkshire Building Society 3.5% 2026	2,553,952	0.22
£9,265,000	Yorkshire Building Society 4.125% VRN 2024	9,564,852	0.83
		1,018,086,530	88.02
Government Bonds (30.09.17: 0.00%)			
£2,000,000	KfW 5.75% 2032	2,997,620	0.26
Total Bonds		1,102,135,553	95.29
Equities (30.09.17: 0.14%)			
1,303,237	Greencoat Renewables	1,176,839	0.10
Alternatives (30.09.17: 0.00%)			
\$20,000,000	RBC Capital Market 2021*	13,810,950	1.20
Forward Foreign Exchange Contracts (30.09.17: 0.01%)			
	Buy £4,684,981, Sell €5,224,817	78,661	0.01
	Buy £28,121,525, Sell \$39,148,678	400,313	0.03
		478,974	0.04
Total value of investments (30.09.17: 93.78%)		1,117,602,316	96.63
Net other assets (30.09.17: 6.22%)		39,016,721	3.37
Total value of the fund		1,156,619,037	100.00

*Structured product

^Suspended security

Summary of portfolio investments

	Value £	Percentage of total net assets
Investment grade	829,589,464	71.73
Below investment grade	272,546,089	23.56
Total Bonds	1,102,135,553	95.29
Equities	1,176,839	0.10
Structured Products	13,810,950	1.20
Forwards	478,974	0.04
Total value of investments	1,117,602,316	96.63

Statement of total return for the half year ended 31 March 2018

	31.03.18 £	31.03.18 £	31.03.17 £	31.03.17 £
Income				
Net capital (losses)/gains		(9,880,766)		3,099,367
Revenue	20,681,910		13,945,968	
Expenses	(3,111,621)		(1,920,848)	
Interest payable and similar charges	(2,303)		(4,669)	
Net revenue before taxation	17,567,986		12,020,451	
Taxation	(2,864)		–	
Net revenue after taxation		17,565,122		12,020,451
Total return before distributions		7,684,356		15,119,818
Distributions		(20,445,903)		(13,789,199)
Change in net assets attributable to unitholders from investment activities		(12,761,547)		1,330,619

Statement of change in net assets attributable to unitholders for the half year ended 31 March 2018

	31.03.18 £	31.03.18 £	31.03.17 £	31.03.17 £
Opening net assets attributable to unitholders		901,195,605		545,613,390
Amounts receivable on issue of units	277,495,267		85,232,557	
Amounts payable on cancellation of units	(20,238,040)		(11,151,216)	
		257,257,227		74,081,341
Change in net assets attributable to unitholders from investment activities (see Statement of total return above)		(12,761,547)		1,330,619
Retained distributions on accumulation units		10,927,482		6,537,121
Unclaimed distributions		270		–
Closing net assets attributable to unitholders		1,156,619,037		627,562,471

Balance sheet as at 31 March 2018

	31.03.18 £	31.03.18 £	30.09.17 £	30.09.17 £
Assets				
Fixed assets:				
Investments		1,117,602,316		845,114,088
Current assets:				
Debtors	26,763,652		29,431,088	
Cash and bank balances	24,569,034		35,126,896	
Total current assets		51,332,686		64,557,984
Total assets		1,168,935,002		909,672,072
Liabilities				
Creditors:				
Other creditors	(6,792,546)		(3,733,099)	
Bank overdrafts	(21,937)		—	
Distribution payable on income units	(5,501,482)		(4,743,368)	
Total liabilities		(12,315,965)		(8,476,467)
Net assets attributable to unitholders		1,156,619,037		901,195,605

Notes to the interim financial statements

Accounting policies

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

All accounting policies applied are consistent with those of the annual report for the year ended 30 September 2017 and are detailed in full in those financial statements.

Portfolio transaction costs

Total purchases and sales transactions for the half year ended 31 March 2018 were £364,134,967 and £78,090,003 respectively.

Distribution tables for the half year ended 31 March 2018

Distribution tables (pence per unit)

First Interim

Group 1 – Units purchased prior to 1 October 17

Group 2 – Units purchased on or after 1 October 17 and on or before 31 December 17

R-Class income units	Income	Equalisation	Paid 28.02.18	Paid 28.02.17
Group 1	0.93	–	0.93	0.91
Group 2	0.52	0.41	0.93	0.91

R-Class accumulation units	Income	Equalisation	Accumulated 28.02.18	Accumulated 28.02.17
Group 1	1.93	–	1.93	1.81
Group 2	0.86	1.07	1.93	1.81

I-Class income units	Income	Equalisation	Paid 28.02.18	Paid 28.02.17
Group 1	0.98	–	0.98	0.94
Group 2	0.49	0.49	0.98	0.94

I-Class accumulation units	Income	Equalisation	Accumulated 28.02.18	Accumulated 28.02.17
Group 1	2.00	–	2.00	1.86
Group 2	0.85	1.15	2.00	1.86

X-Class income units	Income	Equalisation	Paid 28.02.18	Paid 28.02.17
Group 1	1.06	–	1.06	1.02
Group 2	0.80	0.26	1.06	1.02

X-Class accumulation units	Income	Equalisation	Accumulated 28.02.18	Accumulated 28.02.17
Group 1	1.12	–	1.12	1.03
Group 2	0.63	0.49	1.12	1.03

Distribution tables for the half year ended 31 March 2018 *(continued)*

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

Second Interim

Group 1 – Units purchased prior to 1 January 2018

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

R-Class income units	Income	Equalisation	Payable 31.05.18	Paid 31.05.17
Group 1	0.91	—	0.91	1.06
Group 2	0.38	0.53	0.91	1.06

R-Class accumulation units	Income	Equalisation	Allocated 31.05.18	Accumulated 31.05.17
Group 1	1.90	—	1.90	2.12
Group 2	0.86	1.04	1.90	2.12

I-Class income units	Income	Equalisation	Payable 31.05.18	Paid 31.05.17
Group 1	0.95	—	0.95	1.11
Group 2	0.47	0.48	0.95	1.11

I-Class accumulation units	Income	Equalisation	Allocated 31.05.18	Accumulated 31.05.17
Group 1	1.96	—	1.96	2.18
Group 2	0.88	1.08	1.96	2.18

X-Class income units	Income	Equalisation	Payable 31.05.18	Paid 31.05.17
Group 1	1.03	—	1.03	1.19
Group 2	0.47	0.56	1.03	1.19

X-Class accumulation units	Income	Equalisation	Allocated 31.05.18	Accumulated 31.05.17
Group 1	1.09	—	1.09	1.21
Group 2	0.78	0.31	1.09	1.21

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	0.00%
Unfranked investment income	100.00%
Depository net liability to corporation tax	nil

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
for Rathbone Unit Trust Management Limited
Manager of Rathbone Ethical Bond Fund
17 May 2018

General information

Authorised status

The Rathbone Ethical Bond Fund is an authorised unit trust scheme, authorised by the Financial Conduct Authority on 29 October 2001 and launched in May 2002.

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 provide a regular, above average income through investing in a range of bonds and bond market instruments that meet a strict criteria both ethically and financially.

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

UCITS V Remuneration

The European Securities and Markets Authority (ESMA) published guidelines on sound remuneration policies under the UCITS V Directive in March 2016. As a result the ACD will be subject to the UCITS V remuneration guidelines from 1 January 2017.

In order for the Company to meet its obligations under the UCITS V Directive it will need to ensure that all information provided in the annual report is presented in a manner that provides materially relevant, reliable, comparable and clear information.

The Authorised Fund Manager is currently reviewing its remuneration policy as a result of the UCITS V remuneration rules and therefore does not believe that disclosing information for the current financial year would be relevant, comparable and clear. Based on the ESMA guidance published, the Company has omitted any information regarding remuneration at this stage since the first full performance year of the Authorised Fund Manager concludes on 31 December 2017.

The Authorised Fund Manager commits to full disclosure on remuneration for all periods beginning on or after 1 January 2017, when the full UCITS V remuneration rules apply to the Company.

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.

General information *(continued)*

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. Sales constituting a 'large deal' of £50,000 or more may receive a lower price than the published selling price.

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.

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 1%. There is no preliminary charge for I-Class units.

The Manager currently receives an annual remuneration for managing the R-Class property of the fund at the rate of 1.25%.

The Manager currently receives an annual remuneration for managing the I-Class property of the fund at the rate of 0.625%.

For more information on our charges, please visit the fund-specific pages of our website: rutm.com

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 31 March and 30 September, 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 units are available on request from the Manager.

Other information

You can see the Trust Deed, the Key Investor Information Document and Supplementary Information Document, the Prospectus and the most recent half yearly report of each fund by visiting the registered offices of the Manager. Copies of the Prospectus, 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 International Ltd, 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 revenue 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.

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 Fund for Charities
Rathbone Dragon Trust
Rathbone Global Opportunities Fund
Rathbone Heritage Fund
Rathbone Income Fund
Rathbone Spenser Fund
Rathbone Strategic Bond Fund
Rathbone UK Opportunities Fund

and the Authorised Corporate Director of:

Rathbone Global Alpha 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

If you do not wish to receive information on other products and services offered by the Rathbone Group, please write to us 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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Authorised and regulated by the
Financial Conduct Authority

A member of The
Investment Association

A member of the Rathbone Group.
Registered No. 02376568