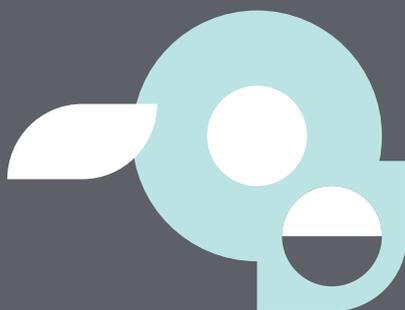


# Rathbones

Look forward

## Rathbone Ethical Bond Fund

Annual report for the year ended 30 September 2018



# Rathbone Ethical Bond Fund

## **Authorised Fund Manager (the Manager)**

Rathbone Unit Trust Management Limited  
8 Finsbury Circus  
London EC2M 7AZ  
Telephone 020 7399 0399  
Facsimile 020 7399 0057

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

## **Dealing office**

DST Financial Services Europe Limited  
DST House  
St Nicholas Lane  
Basildon  
Essex SS15 5FS  
Telephone 0330 123 3810  
Facsimile 0330 123 3812

## **Registrar**

DST Financial Services International Limited  
DST House  
St Nicholas Lane  
Basildon  
Essex SS15 5FS  
Telephone 0330 123 3810  
Facsimile 0330 123 3812

**Authorised and regulated by the  
Financial Conduct Authority**

## **Independent Auditor**

Deloitte LLP  
Statutory Auditor  
110 Queen Street  
Glasgow G1 3BX

## **Directors**

**PL Howell** – Chairman  
**MM Webb** – Chief Executive Officer  
**JR Chillingworth** – Chief Investment Officer  
**JM Ardouin** – Finance Director  
**CRC Hexton**  
**RP Lanyon**  
**CR Stick**  
**JG Thomson**  
**BN Jones**

## **Administrator**

HSBC Securities Services  
1-2 Lochside Way  
Edinburgh Park  
Edinburgh EH12 9DT  
**Authorised and regulated by the  
Financial Conduct Authority**

## **Trustee**

The National Westminster Bank Plc  
Trustee and Depositary Services  
280 Bishopsgate  
London EC2M 4RB  
**Authorised and regulated by the  
Financial Conduct Authority**

## Manager's report for the year ended 30 September 2018

In the year 30 September 2018, the FTSE Actuaries UK Conventional Gilts 5-15 Years index returned 0.30%. The iBoxx UK Sterling Non-Gilts 5-15 Years index made 0.40% over that time, while the IA Sterling Corporate Bond sector eked out just 0.10%. Our fund returned 0.54% over the period. At the beginning of October 2017, 10-year gilts yielded 1.37%; they closed on 30 September at 1.57%.

There were quite a number of large, sudden changes in UK yields over the past year. The 10-year yield jumped about 50 basis points between December and February and again between August and early October. The Bank of England (BoE) raised interest rates to 0.75% in early August amid stubbornly high inflation and deflated economic growth. Consumer Price Index (CPI) has since fallen rapidly toward the bank's 2% target, while Gross Domestic Product (GDP) expansion has brightened slightly.

We tactically adjusted our duration, or interest rate sensitivity, throughout the period by buying and selling the European Investment Bank 6% 2028 and the European Investment Bank 3.875% Bonds 8/06/2037 as yields fluctuated. We bought and sold Kreditanstalt für Wiederaufbau 5.75% Bonds 2032 the same way. After selling them in December when gilt yields fell to 1.14%. We then bought them back in February when yields had risen again. Finally, we sold them in May and replaced them with the Santander UK Floating Rate Senior 27/02/2020, which offers less interest rate risk as global yields continue to rise. We sold the ASB Finance Floating Rate Note 22/05/2020, a bond whose coupons rise and fall with interest rates, to increase our portfolio's duration.

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 bonds are likely to be bought back soon because their coupons are high enough to encourage their issuers to refinance. These include the Lloyds Bank 13% Variable Subordinated 21/07/Perpetual-29 and the HBOS Sterling Financial 7.881% Variable 2049-31 (now owned by Lloyds Banking Group), both of which we bought more of during the past year.

Following September's end, interest rates had a punchy few weeks. US 10-year yields shot up to 3.25% in short order, disconcerting many investors worldwide. More US rate hikes are pencilled in over the coming six months so this excitement is likely to linger too.

Also hanging around is the bad smell caused by the new radical Italian coalition government. It's playing chicken with the EU over its first Budget and rattling Italian bond markets. The effects are mostly contained in the country, but big moves are creating small spill-overs into the wider European debt market. Meanwhile, all is not well in the UK retail space. Despite relatively strong UK retail sales growth, several stores have run into trouble lately. John Lewis's profits virtually vanished overnight and House of Fraser has been shuttering stores across the country in a bid to stay afloat.

Quantitative tightening is well and truly underway, and it feels a lot like the effects are now starting to feed through to the economy and debt markets. Monetary policy takes a good few months – and sometimes years – to be felt in the real economy. For about a year now, the Fed has been reducing the huge stack of bonds it bought up after the global financial crisis. And recently the European Central Bank has lessened the number of bond purchases it makes for its QE programme.

Brexit looms large, as much as we are all sick of hearing all the squabbling about it. One day – probably close to or soon after the 29 March deadline – a decision will be made. When it comes it will create waves in the currency markets, which will have big consequences for bond investors. So as dull and mind numbing as the back and forth of negotiations can be, we're stapling our eyes open to ensure we're as prepared as we can be.

**Bryn Jones**  
Fund Manager  
31 October 2018

**Noelle Cazalis**  
Fund Manager

## Ethical report for the year ended 30 September 2018

During the period since the half-year report in March 2018, the fund invested in new bonds issued by the following organisations whose products and services provide benefits to society or the environment.

### Social housing

The fund invested in three non-profit housing association groups involved in the provision of social housing during the period:

**Bromford Housing Group** was formed in 1963 to meet growing demand for housing across the West Midlands. Its primary housing association subsidiary, which is a charitable community benefit society, operates a non-profit registered provider of shared ownership properties and a development and construction company offering services to other parts of the group. It also provides related services aimed at reducing welfare dependency and generating social value in employment, education, health and community safety. Following the completion of its merger with Merlin Housing Society (based in Chipping Sodbury, near Bristol) in July 2018, the group now owns and manages some 40,000 homes, providing services for 90,000 residents and customers. A further merger, with Severn Vale Housing in Gloucestershire, is due to complete in early 2019 and will add 4,000 more homes. The new group is committed to delivering one of largest housing association-led new homes programmes throughout south-west England and the Midlands with planned investment of £1.5bn in 14,000 new homes over next decade.

**Longhurst Group** was originally formed in 2001 to facilitate the transfer of council housing stock in East Northamptonshire. It now owns and manages over 22,500 homes across the Midlands and eastern England, predominantly in Birmingham, Peterborough, Northamptonshire and Lincolnshire. The group comprises four registered providers of

social housing (Axiom, Friendship Care & Housing, Longhurst & Havelok Homes and Spire Housing) and a property development company (Keystone). Longhurst generates 80% of its turnover from social housing, mainly from general housing but also from supported housing and housing for older people, low-cost home ownership and care homes. In early 2018, Longhurst increased its number of properties with the transfer of some 450 units from fellow housing associations Hyde and Paragon Asra.

**Peabody Capital** provides finance for the growth and development activities of Peabody Trust and its subsidiaries. The company operates as a subsidiary of Peabody Trust, one of London's oldest and largest housing associations. Founded in 1862 by American banker George Peabody, the trust is a charitable community benefit society. Following its merger with Family Mosaic in July 2017, the Peabody Group now owns and manages more than 55,000 homes across London (where it is a 'top three' landlord in one-third of boroughs) and south-east England, housing over 111,000 residents; it also provides care and support for 8,000 customers. Peabody also acts as an urban regeneration agency and provides an extensive range of community programmes.

### Elder care

Established in 1991, **Belong** is a charitable organisation providing accommodation and care services to older people. It operates seven care villages across north-west England, each of which comprises a mix of accommodation types to meet different care needs. Belong also provides domiciliary, day and respite care for individuals living in the community, as well as for carers and families of those suffering from dementia. It creates an additional positive impact by fully integrating service users into decision-making processes and tailoring services to meet their needs.

## Renewable energy

**Burnham and Weston Energy CIC** owns one of the largest community solar farms in the UK. The 9.3MW Wick Farm Community Solar Project comprises 36,000 solar panels and has been in operation since June 2016, generating electricity equivalent to the annual consumption of around 2,000 homes. Proceeds from the bond issue will be used to repay an existing short-term loan and fund the ongoing project. The solar farm benefits from a 20-year feed-in tariff and generates over £1m in revenue each year. Surplus income generated by the project will be used to provide funding for community organisations and projects in the local area, and to support local households struggling with energy debt and fuel poverty. The surplus over the solar farm's projected 23-year life is expected to be around £3m, equivalent to an average of £130k per annum. When the £4m bond offer closed successfully in September 2018, an initial community fund payment of £50,000 was made, to be split between The Sunshine Fund, a new grant fund for local projects to be managed by Somerset Community Foundation, and Bristol-based charity Centre for Sustainable Energy, which provides a fuel poverty advice service to households struggling to pay their energy bills.

**Coigach Community CIC** is a community interest company that is wholly owned by local charity Coigach Community Development Company (CCDC). It owns and operates a single wind turbine on Coigach, a remote peninsula in the north-west Highlands of Scotland. The turbine was installed not only to provide a source of renewable energy, but also to ensure a stream of regular income to support the local community, which comprises 260 residents. Over the next 20 years, it expects to generate surpluses of around £4.4m (after operating and finance costs), all of which will be donated to the CCDC fund; this equates to

around £850 per resident per annum. Coigach faces many of the challenges common to remote communities including a lack of affordable housing, decreasing levels of health provision and a fragile economy over-reliant on the traditional industries of crofting, fishing and seasonal tourism. The investment specifically seeks to meet the needs of this underserved group by helping to develop affordable housing, bring employment into the area, develop transport links and conserve the natural environment. The bond issue enabled the CIC to refinance its original debt on more favourable terms, allowing a greater proportion of revenue to be retained as profit to be spent on community projects. The fund's subscription anchored this bond issue, signalling to other investors that the proposed deal would definitely proceed.

## Responsible business

**Metro Bank** is a UK challenger bank, founded in 2010, to provide banking services to individual and business customers. The group is focused on delivering a high level of customer service and styles its 40 branches as 'stores' to reflect this. Metro Bank operates primarily within London and the surrounding area, although it also offers internet banking services to its 780,000 customers. In addition to current and savings accounts, mortgages and loans for individual customers, Metro Bank offers commercial mortgages, asset finance and business credit for small and medium-sized enterprises (SMEs).

### Portfolio ethical and sustainability characteristics

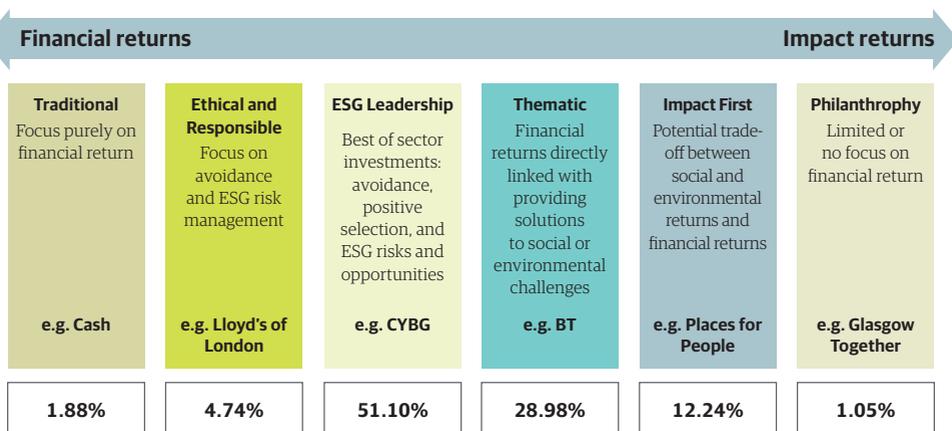
Various different terms are used to describe responsible, sustainable and impact investment approaches, with no universally accepted definition or terminology for each.

The fund's style would typically be described as 'ethically balanced', applying both positive and negative screening criteria; it is not primarily focused on companies addressing sustainability or impact issues.

Definitions of different types of investment have been adapted from the taxonomy outlined in [Bridges Spectrum of Capital](#).

The fund is active across five of the categories below: Financial Only, Ethical and Responsible, ESG Leadership, Thematic and, to a lesser extent, Impact First. In practice, the boundaries between the different approaches are gradual rather than clearly delineated.

### Spectrum of capital



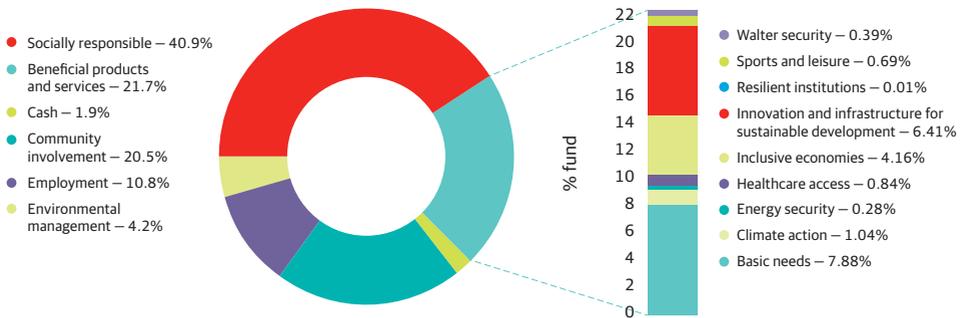
Source: Graphic modified from Spectrum of Capital <http://www.bridgesfundmanagement.com/publications/bridges-spectrum-capital-define-sustainable-impact-investment-market/>

The positive element of the fund’s ethical research process does, however, also recognise key global sustainable development trends and identifies investee companies’ exposure to these. Many of these overlap, but can be broadly divided into two groups: environmental sustainability and social development.

The chart below sets out the portion of the fund’s exposure to companies offering solutions to various sustainability challenges (“Beneficial products and services”) as well as the primary ethical attributes of the remaining portion of the fund’s portfolio.

While not directly linked to sustainability solutions via the products and services they provide, many have significant positive attributes associated with the way in which they operate, and match the requirements of the fund’s positive criteria (those classified as “Socially responsible” match more than one positive aspect).

**Ethical and sustainability characteristics**



Perry Rudd  
16 November 2018

## Net asset value per unit and comparative tables

### R-Class income units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	94.88p	93.42p	89.28p
Return before operating charges*	1.16p	6.68p	6.12p
Operating charges	(1.23p)	(1.23p)	(0.51p)
Return after operating charges*	(0.07p)	5.45p	5.61p
Distributions on income units	(3.81p)	(3.99p)	(1.47p)
Closing net asset value per unit	91.00p	94.88p	93.42p
*after direct transactions costs <sup>1</sup> of:	0.00p	0.00p	0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	(0.07%)	5.83%	6.28%
----------------------	---------	-------	-------

### Other information

Closing net asset value	£8,827,773	£9,909,648	£10,729,737
Closing number of units	9,701,103	10,443,863	11,485,129
Operating charges	1.29%	1.30%	1.31%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

Highest unit price	99.21p	98.75p	96.98p
Lowest unit price	91.90p	90.96p	89.45p

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

### R-Class accumulation units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	196.04p	185.03p	174.03p
Return before operating charges*	2.34p	13.93p	12.71p
Operating charges	(2.57p)	(2.47p)	(0.99p)
Return after operating charges*	(0.23p)	11.46p	11.72p
Distributions on accumulation units	(7.99p)	(8.47p)	(3.59p)
Retained distributions on accumulation units	7.99p	8.02p	2.87p
Closing net asset value per unit	195.81p	196.04p	185.03p
*after direct transactions costs <sup>1</sup> of:	0.00p	0.00p	0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	(0.12%)	6.19%	6.73%
----------------------	---------	-------	-------

### Other information

Closing net asset value	£17,227,929	£18,386,028	£17,543,599
Closing number of units	8,798,462	9,378,567	9,481,654
Operating charges	1.29%	1.30%	1.31%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

Highest unit price	205.32p	201.48p	189.90p
Lowest unit price	195.69p	180.15p	174.37p

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

### I-Class income units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	98.78p	96.64p	92.11p
Return before operating charges*	1.19p	6.93p	6.32p
Operating charges	(0.66p)	(0.66p)	(0.27p)
Return after operating charges*	0.53p	6.27p	6.05p
Distributions on income units	(3.99p)	(4.13p)	(1.52p)
Closing net asset value per unit	95.32p	98.78p	96.64p
*after direct transactions costs <sup>1</sup> of:	0.00p	0.00p	0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	0.54%	6.49%	6.57%
----------------------	-------	-------	-------

### Other information

Closing net asset value	£392,185,352	£325,349,629	£220,827,427
Closing number of units	411,423,568	329,369,970	228,509,298
Operating charges	0.67%	0.68%	0.68%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

Highest unit price	102.31p	101.63p	99.19p
Lowest unit price	96.27p	94.20p	92.30p

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

### I-Class accumulation units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	201.96p	189.42p	177.70p
Return before operating charges*	2.40p	14.33p	12.98p
Operating charges	(1.37p)	(1.32p)	(0.53p)
Return after operating charges*	1.03p	13.01p	12.45p
Distributions on accumulation units	(8.27p)	(8.70p)	(3.66p)
Retained distributions on accumulation units	8.27p	8.23p	2.93p
Closing net asset value per unit	202.99p	201.96p	189.42p
*after direct transactions costs <sup>1</sup> of:	0.00p	0.00p	0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	0.51%	6.87%	7.01%
----------------------	-------	-------	-------

### Other information

Closing net asset value	£578,028,086	£396,094,620	£260,995,823
Closing number of units	284,763,141	196,127,720	137,784,527
Operating charges	0.67%	0.68%	0.68%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

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

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

### S-Class income units

	<b>30.09.18</b> <b>pence per unit**</b>	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	100.00p	n/a	n/a
Return before operating charges*	(0.14p)	n/a	n/a
Operating charges	(0.25p)	n/a	n/a
Return after operating charges*	(0.39p)	n/a	n/a
Distributions on income units	(2.04p)	n/a	n/a
Closing net asset value per unit	97.57p	n/a	n/a
*after direct transactions costs <sup>1</sup> of:	0.00p	n/a	n/a

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	(0.39%)	n/a	n/a
----------------------	---------	-----	-----

### Other information

Closing net asset value	£61,423,979	n/a	n/a
Closing number of units	62,955,219	n/a	n/a
Operating charges	0.53%	n/a	n/a
Direct transaction costs	0.00%	n/a	n/a

### Prices

Highest unit price	101.54p	n/a	n/a
Lowest unit price	98.52p	n/a	n/a

\*\* The S-Class launched on 5 April 2018.

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

### S-Class accumulation units

	<b>30.09.18</b> pence per unit**	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	100.00p	n/a	n/a
Return before operating charges*	(0.13p)	n/a	n/a
Operating charges	(0.26p)	n/a	n/a
Return after operating charges*	(0.39p)	n/a	n/a
Distributions on accumulation units	(2.05p)	n/a	n/a
Retained distributions on accumulation units	2.05p	n/a	n/a
Closing net asset value per unit	99.61p	n/a	n/a
*after direct transactions costs <sup>1</sup> of:	0.00p	n/a	n/a

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	(0.39%)	n/a	n/a
----------------------	---------	-----	-----

### Other information

Closing net asset value	£1,056,034	n/a	n/a
Closing number of units	1,060,215	n/a	n/a
Operating charges	0.53%	n/a	n/a
Direct transaction costs	0.00%	n/a	n/a

### Prices

Highest unit price	101.61p	n/a	n/a
Lowest unit price	99.54p	n/a	n/a

\*\* The S-Class launched on 5 April 2018.

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

### X-Class income units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	106.89p	103.93p	100.00p
Return before operating charges*	1.28p	7.47p	5.23p
Operating charges	(0.04p)	(0.05p)	(0.02p)
Return after operating charges*	1.24p	7.42p	5.21p
Distributions on income units	(4.32p)	(4.46p)	(1.28p)
Closing net asset value per unit	103.81p	106.89p	103.93p
*after direct transactions costs <sup>1</sup> of:	0.00p	0.00p	0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges	1.16%	7.14%	5.21%
----------------------	-------	-------	-------

### Other information

Closing net asset value	£147,813,549	£138,093,469	£29,838,284
Closing number of units	142,381,993	129,191,019	28,710,908
Operating charges	0.04%	0.05%	0.06%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

Highest unit price	110.78p	109.84p	106.53p
Lowest unit price	104.82p	101.41p	99.02p

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

### X-Class accumulation units

	<b>30.09.18</b> pence per unit	30.09.17 pence per unit	30.09.16 pence per unit
<b>Change in net assets per unit</b>			
Opening net asset value per unit	112.89p	105.22p	100.00p
Return before operating charges*	1.34p	7.98p	5.59p
Operating charges	(0.05p)	(0.05p)	(0.02p)
Return after operating charges*	1.29p	7.93p	5.57p
Distributions on accumulation units	(4.63p)	(4.85p)	(1.73p)
Retained distributions on accumulation units	4.63p	4.59p	1.38p
Closing net asset value per unit	114.18p	112.89p	105.22p

\*after direct transactions costs<sup>1</sup> of: 0.00p 0.00p 0.00p

<sup>1</sup> Transaction costs include dealing costs, broker commission, stamp duty and other explicit investment costs.

### Performance

Return after charges 1.14% 7.54% 5.57%

### Other information

Closing net asset value	£20,119,330	£13,362,211	£5,678,520
Closing number of units	17,620,356	11,836,046	5,396,627
Operating charges	0.04%	0.05%	0.06%
Direct transaction costs	0.00%	0.00%	0.00%

### Prices

Highest unit price	117.49p	114.81p	106.88p
Lowest unit price	112.95p	102.67p	99.02p

### 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 2018

	2014	2015	2016	2017	2018
R-Class units	9.15%	3.06%	8.57%	5.71%	-0.08%
I-Class units	10.63%	5.19%	3.35%	11.28%	0.54%
IA Sterling Corporate Bond sector	6.42%	2.81%	12.22%	0.61%	0.10%

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 (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
<b>Bonds (30.09.17: 93.63%)</b>		
<b>Mortgage Bonds (30.09.17: 3.61%)</b>		
£500,000 Eurohome UK Mortgages 2044	151,285	0.01
£750,000 Eurohome UK Mortgages 2044	682,980	0.06
£3,500,000 Eurohome UK Mortgages 2044	1,080,704	0.09
£10,523,625 Finance for Residential Social Housing 8.369% 2058	12,637,103	1.03
\$1,000,000 Hero Funding Trust 3.19% 2048	660,847	0.05
\$500,000 Hero Funding Trust 3.28% 2048	310,236	0.03
\$2,000,000 Indian Railway Finance 3.835% 2027	1,402,860	0.11
£14,600,000 Korea Development Bank 1.75% 2022	14,449,620	1.18
£500,000 Mansard Mortgages FRN 2049	280,133	0.02
£1,849,000 Mansard Mortgages FRN 2049	1,707,564	0.14
£400,000 Newgate Funding FRN 2050	377,310	0.03
£1,500,000 Newgate Funding FRN 2050	994,818	0.08
£1,200,000 RMAC Securities FRN 2044	686,602	0.06
£7,700,000 RMAC Securities FRN 2044	4,673,511	0.38
	<b>40,095,573</b>	<b>3.27</b>
<b>Supranational Bonds (30.09.17: 3.10%)</b>		
2,379,000 EIB 0% 2028	1,959,945	0.16
£1,390,000 EIB 2.65% Index-Linked 2020	2,457,061	0.20
£4,500,000 EIB 3.875% 2037	5,730,357	0.47
£1,400,000 EIB 5.5% 2025	1,733,667	0.14
£10,000,000 EIB 6% 2028	13,794,085	1.12
	<b>25,675,115</b>	<b>2.09</b>
<b>Corporate Bonds (30.09.17: 86.92%)</b>		
£9,508,000 3i 5.75% 2032	11,744,872	0.96
£5,011,000 A2D Funding 4.5% 2026	5,471,691	0.45
£5,854,000 A2D Funding 4.75% 2022	6,317,286	0.51
£3,434,000 A2D Housing Group 3.5% 2028	3,445,575	0.28
£2,475,000 Aggregate Micro Power Infrastructure 8% 2036^	2,475,000	0.20
£2,907,000 AMP Group Finance 6.875% 2022	3,129,734	0.25
£8,950,000 Assicurazioni Generali 6.269% perp	9,086,487	0.74
£1,000,000 Assicurazioni Generali 6.416% VRN perp	1,028,750	0.08
£6,700,000 Aster Treasury 4.5% 2043	8,119,780	0.66
£12,759,000 Aviva 4.375% VRN 2049	11,977,712	0.98
£2,881,000 Aviva 5.125% VRN 2050	2,836,078	0.23
£10,198,000 Aviva 5.9021% VRN perp	10,505,907	0.86
£9,680,000 Aviva 6.125% 2036	10,561,033	0.86

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
£9,290,000 Aviva 6.125% VRN perp	10,067,490	0.82
£4,210,000 Aviva 6.875% VRN perp	4,375,303	0.36
£10,800,000 Aviva 6.875% VRN 2058	12,640,775	1.03
£17,537,000 AXA SA 5.625% VRN 2054	18,411,439	1.50
£20,691,000 AXA SA 5.453% VRN perp	21,940,219	1.79
£11,763,000 AXA SA 6.6862% VRN perp	13,408,840	1.09
\$2,700,000 BAC Capital Trust 4% VRN perp	1,752,448	0.14
£7,000,000 Bank of Montreal 1.375% 2021	6,932,065	0.56
£3,250,000 Bank of Scotland 7.281% VRN perp	3,753,750	0.31
£4,330,000 Bank of Scotland 9.375% 2021	5,088,726	0.41
£10,789,000 Barclays Bank 3.25% 2027	10,453,109	0.85
£9,000,000 Barclays Bank 3.25% 2033	8,122,557	0.66
£1,644,000 Barclays Bank 6.3688% VRN perp	1,697,292	0.14
£51,000 Barclays Bank 7.125% VRN perp	54,570	0.00
£14,850,000 Barclays Bank 10% 2021	17,550,257	1.43
£6,200,000 Barclays Bank 14% VRN perp	6,690,420	0.55
£5,000,000 Bazalgette Finance 2.375% 2027	4,868,956	0.40
\$3,950,000 Beazley 5.875% 2026	3,010,094	0.25
£18,300,000 BPCE SA 5.25% 2029	20,724,841	1.69
£2,000,000 BPHA Finance 4.816% 2044	2,503,600	0.20
£3,333,000 British Telecom 3.125% 2031	3,229,610	0.26
£3,299,000 British Telecom 3.5% Index-Linked 2025	6,839,157	0.56
£6,000,000 British Telecom 3.625% 2047	5,709,870	0.47
£2,700,000 Bromford Housing Group 3.125% 2048	2,635,955	0.21
£1,389,900 Bruntwood 6% 2020	1,442,479	0.12
£2,192,000 BUPA Finance 5% 2023	2,357,881	0.19
£4,950,000 BUPA Finance 5% 2026	5,306,616	0.43
£2,709,000 BUPA Finance 6.125% VRN perp	2,864,768	0.23
£300,000 Burnham And Weston Energy CIC 5% Index-Linked 2036	300,000	0.02
£3,448,000 Canal and River Trust 2.85% Series A Senior 2043	3,448,000	0.28
£5,000,000 Channel Link FRN 2050	3,385,681	0.28
£11,250,000 Channel Link 3.043% VRN 2050	10,992,375	0.90
£1,100,000 Clerical Medical Finance 7.375% VRN perp	1,133,638	0.09
£7,684,000 Close Brothers Group 2.75% 2023	7,648,968	0.62
£14,625,000 Close Brothers Group 4.25% 2027	15,148,575	1.23
£175,000 Coigach Community CIC 5% Index-Linked 2030	175,000	0.01
£4,350,000 Coventry Building Society 1.875% 2023	4,244,621	0.35
£2,500,000 CPUK Finance 3.588% 2042	2,602,250	0.21
€4,000,000 Credit Agricole 4.5% VRN perp	3,806,849	0.31
£2,250,000 CYBG 3.125% VRN 2025	2,160,360	0.18

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
\$1,000,000 DNB Bank Asa FRN perp	537,528	0.04
£5,176,000 DXC Technology 2.75% 2025	5,130,595	0.42
£200,000 Ellenbrook Developments 3.3894% Index-Linked 2032	127,295	0.02
£2,000,000 Eversholt Funding 3.529% 2042	1,892,570	0.15
£2,250,000 Experian Finance 2.125% 2024	2,228,834	0.18
£7,820,000 Fidelity International 7.125% 2024	9,397,677	0.77
£2,200,000 Finance for Residential Social Housing 8.569% 2058	2,288,558	0.19
£700,000 Finance For Residential Social Housing 8.569% 2058	783,567	0.06
£130,000 Glasgow Together 4% 2020	93,600	0.01
£4,000,000 Goldman Sachs 3.125% 2029	3,905,589	0.32
£3,500,000 Goldman Sachs 4.25% 2026	3,788,908	0.31
£4,153,000 Grainger 3.375% 2028	4,087,481	0.33
£1,500,000 Great Rolling 6.875% 2035	1,451,744	0.12
£1,600,000 Greater Gabbard 4.137% 2032	1,545,862	0.13
£2,500 Greenwich 5% 2018	212,500	0.02
£1,000,000 Guinness Partner 4% 2044	1,126,899	0.09
£6,730,000 Hastings Group Finance 3% 2025	6,585,339	0.54
£15,241,000 HBOS Sterling Finance (Jersey) 7.881% VRN perp	21,789,143	1.78
£2,916,000 Hiscox 2% 2022	2,888,254	0.24
£16,183,000 Hiscox 6.125% VRN 2045	17,214,666	1.40
£2,130,000 HSBC Bank 5.375% 2033	2,539,943	0.21
£19,041,000 HSBC Bank 5.844% VRN perp	22,790,173	1.86
£1,493,000 Intermediate Capital Group 5% 2023	1,555,318	0.13
£11,700,000 Investec Bank 4.25% VRN 2028	11,461,198	0.93
£13,354,000 Investec Bank 4.5% 2022	14,144,045	1.15
£4,065,000 John Lewis 4.25% 2034	3,728,825	0.30
£5,661,000 John Lewis 6.125% 2025	6,372,588	0.52
£5,550,000 Just Group 3.5% 2025	4,982,235	0.41
£9,000,000 Just Group 9% 2026	10,293,750	0.84
£10,663,000 Leeds Building Society 3.75% VRN 2029	10,018,955	0.82
£7,930,000 Legal & General 5.375% VRN 2045	8,389,187	0.68
£8,337,000 Legal & General 5.875% VRN perp	8,430,124	0.69
£2,000,000 Libra Longhurst Group Treasury 3.25% 2043	1,954,322	0.16
£12,618,000 Liverpool Victoria Friendly Society 6.5% VRN 2043	13,625,461	1.11
£7,000,000 Lloyds Banking Group 2.25% 2024	6,717,160	0.55
£2,000,000 Lloyds Banking Group 5.75% 2025	2,109,747	0.17
£8,150,000 Lloyds Banking Group 7.625% 2025	10,260,104	0.84
£11,615,000 Lloyds Banking Group 13% Var perp	19,718,437	1.61
£7,000,000 London and Quadrant Housing Trust 2.25% 2029	6,642,699	0.54

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets	
£3,889,000	London and Quadrant Housing Trust 2.625% 2028	3,842,012	0.31
£500,000	London and Quadrant Housing Trust 3.75% 2049	540,353	0.04
£3,390,000	London Merchant Securities 6.5% 2026	4,210,340	0.34
\$4,700,000	Marks & Spencer 7.125% 2037	3,856,016	0.31
\$590,000	MDIF Media Finance 4% 2023	175,609	0.01
£15,000,000	Metro Bank 5.5% VRN 2028	14,371,500	1.17
£1,000,000	Metropolitan Funding 4.125% 2048	1,133,100	0.09
£2,500,000	Morgan Stanley 2.625% 2027	2,438,588	0.20
£200,000	Motability Operations Group 2.375% 2032	192,860	0.02
£1,000,000	Myriad Capital 4.75% 2043	1,229,700	0.10
£5,432,000	National Capital Trust 5.62% VRN perp	5,470,024	0.45
£8,000,000	Nationwide Building Society 3.25% 2028	8,268,320	0.67
£1,128,097	Nationwide Building Society 3.875% Index-Linked 2021	3,701,681	0.30
\$2,000,000	Nationwide Building Society 4.125% VRN 2032	1,406,567	0.11
£3,850,000	Nationwide Building Society 5.769% perp	4,063,136	0.33
£1,784,000	Nationwide Building Society 6.25% VRN perp	1,975,730	0.16
£66,000	Nationwide Building Society 10.25% VRN perp	9,903,960	0.81
£1,000,000	NatWest Markets 3.9% VRN 2022	1,064,600	0.09
£2,750,000	NatWest Markets 6.875% 2025	3,430,350	0.28
£1,304,000	Notting Hill Housing 3.75% 2032	1,385,968	0.11
£4,500,000	Orbit Capital 3.375% 2048	4,455,795	0.36
£1,600,000	Orbit Capital 3.5% 2045	1,611,763	0.13
£440,000	Our Power Social Purpose 6.5% 2021	440,000	0.04
£632,000	Paragon 6% 2020	657,734	0.05
£5,665,000	Paragon 6% 2024	6,102,052	0.50
£1,991,000	Paragon 6.125% 2022	2,080,202	0.17
£4,900,000	Partnership Life Assurance 9.5% 2025	5,266,177	0.43
£4,000,000	Peabody Capital No 2 3.25% 2048	3,885,200	0.32
£650,000	Peabody Capital 5.25% 2043	846,625	0.07
£11,775,000	PGH Capital 4.125% 2022	11,861,119	0.97
£16,038,000	PGH Capital 6.625% 2025	17,123,239	1.40
\$1,800,000	Phoenix 5.375% 2027	1,269,559	0.10
£2,727,000	Phoenix 5.75% VRN perp	2,401,942	0.20
£2,150,000	Places for People Finance 4.25% 2023	2,192,828	0.18
£1,485,900	Places for People Homes 1% Index-Linked 2022	1,789,113	0.15
£10,000,000	Places for People Homes 3.625% 2028	10,022,724	0.82
£6,585,000	Places for People Treasury 2.875% 2026	6,395,638	0.52
£1,006,000	Primary Health Properties 5.375% 2019	1,018,072	0.08
£10,000,000	Principality Building Society 2.375% 2023	9,774,743	0.80

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
£3,500,000 Prudential 5% VRN 2055	3,655,432	0.30
£11,122,000 Prudential 5.625% VRN 2051	11,220,986	0.91
£5,000,000 Prudential 6.25% VRN 2068	5,089,000	0.41
\$4,000,000 QBE Insurance 5.25% VRN perp	2,826,579	0.23
£1,060,000 Quadrant Housing 7.93% 2033	1,432,120	0.12
£3,636,000 Rabobank Capital Funding Trust 5.556% VRN perp	3,760,452	0.31
£14,145,000 Rabobank Nederland 4.625% 2029	15,441,234	1.26
£5,307,000 Rabobank Nederland 5.25% 2027	6,054,013	0.49
£17,100,000 Rabobank Nederland 6.91% VRN perp	24,610,970	2.01
£634,600 Retail Charity Bonds 3.9% 2029	648,136	0.05
£1,527,000 Retail Charity Bonds 4% 2029	1,524,480	0.12
£2,770,000 Retail Charity Bonds 4.25% 2026	2,796,176	0.23
£2,250,000 Retail Charity Bonds 4.25% 2026	2,333,767	0.19
£250,000 Retail Charity Bonds 4.375% 2021	262,957	0.02
£1,000,000 Retail Charity Bonds 4.4% 2027	1,030,940	0.08
£1,834,000 Retail Charity Bonds 4.5% 2026	1,859,988	0.15
£1,537,800 Retail Charity Bonds 5% 2026	1,703,898	0.14
£500,000 RHP Finance 3.25% 2048	487,450	0.04
£400,000 Riverside Finance 3.875% 2044	439,593	0.04
£21,744,000 RL Finance Bonds 6.125% 2028	23,118,682	1.88
£17,376,000 RL Finance Bonds 6.125% VRN 2043	18,955,324	1.55
£20,000,000 Rothesay Life 6.875% VRN perp	19,746,000	1.61
£12,460,000 Rothesay Life 8% 2025	14,861,540	1.21
£11,639,000 Rothschild 9% perp	14,485,653	1.18
£20,000,000 Royal & Sun Alliance 5.125% VRN 2045	21,013,402	1.71
£3,564,000 Sainsburys Bank 6% VRN 2027	3,649,892	0.30
£6,500,000 Santander UK FRN 2021	6,487,962	0.53
£10,000,000 Santander UK 2.92% VRN 2026	9,722,111	0.79
£5,464,000 Santander UK 3.625% 2026	5,566,020	0.45
£1,050,000 Santander UK 5.875% 2031	1,238,309	0.10
£990,000 Santander UK 6.5% 2030	1,207,247	0.10
£10,350,000 Scottish Widows 5.5% 2023	11,293,301	0.92
£2,000,000 Segro 2.375% 2029	1,903,616	0.16
£2,100,000 Skipton Building Society 1.75% 2022	2,053,291	0.17
£22,053,000 Standard Life Aberdeen 6.75% VRN perp	29,426,972	2.40
£1,850,000 Society Lloyds 4.75% 2024	1,950,487	0.16

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
£1,760,000 Society Lloyds 4.875% VRN 2047	1,787,846	0.15
£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	1,206,178	0.10
\$3,300,000 Standard Life Aberdeen 4.25% VRN 2048	2,406,073	0.20
£10,869,000 Standard Life Aberdeen 5.5% VRN 2042	11,913,636	0.97
£8,744,000 Standard Life Aberdeen 6.546% VRN perp	9,240,222	0.75
£2,000,000 Svenska Handelsbanken 1.625% 2022	1,982,573	0.16
£1,842,000 Swan Housing Capital 3.625% 2048	1,864,187	0.15
£5,930,000 Telereal Securitisation FRN 2031	5,753,545	0.47
£100,000 Thera Trust 5.5% 2020	100,000	0.01
£500,000 Thera Trust 5.5% 2024	500,000	0.04
£179,143 THFC 5.65% Index-Linked 2020	69,925	0.01
£750,000 Thrive Renewables 5% 2024	750,000	0.06
£10,471,000 TP ICAP 5.25% 2024	10,427,609	0.85
\$900,000 Trilinic FRN 5.44% 2020	676,354	0.06
£13,840,000 TSB Banking 5.75% VRN 2026	14,416,249	1.18
£500,000 Vodafone 3% 2056	419,387	0.03
£2,300,000 Welltower 4.5% 2034	2,519,768	0.21
£800,000 Welltower 4.8% 2028	895,105	0.07
£9,020,000 Wods Transmission 3.446% 2034	8,653,917	0.71
£16,491,000 Yorkshire Building Society 3.375% VRN 2028	15,364,252	1.25
£9,265,000 Yorkshire Building Society 4.125% VRN 2024	9,463,503	0.77
	<b>1,135,453,737</b>	<b>92.56</b>
<b>Total Bonds</b>	<b>1,201,224,425</b>	<b>97.92</b>

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

Holding (Bonds unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
<b>Equities</b> (30.09.17: 0.14%)		
1,303,237    Greencoat Renewables**	<b>1,183,992</b>	<b>0.10</b>
<b>Alternatives</b> (30.09.17: 0.00%)		
\$20,000,000    RBC Capital Market 2021*	<b>14,741,766</b>	<b>1.20</b>
<b>Forward Foreign Exchange Contracts</b> (30.09.17: 0.01%)		
Buy £4,551,969, Sell €5,018,719	55,761	0.00
Buy £31,177,734, Sell \$40,540,595	332,846	0.03
	<b>388,607</b>	<b>0.03</b>
<b>Total value of investments</b> (30.09.17: 93.78%)	1,217,538,790	99.25
<b>Net other assets</b> (30.09.17: 6.22%)	9,143,242	0.75
<b>Total value of the fund as at 30 September 2018</b>	<b>1,226,682,032</b>	<b>100.00</b>

\* Structured product

\*\* Equity Security

^ Suspended security

## Summary of portfolio investments

	Value £	Percentage of total net assets
Bonds	1,201,224,425	97.92
Equities	1,183,992	0.10
Structured Products	14,741,766	1.20
Forwards	388,607	0.03
<b>Total value of investments</b>	<b>1,217,538,790</b>	<b>99.25</b>

## Statement of total return for the year ended 30 September 2018

	Note	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
<b>Income</b>					
Net capital (losses)/gains	2		<b>(40,517,283)</b>		15,583,685
Revenue	3	<b>46,608,010</b>		29,786,083	
Expenses	4	<b>(6,673,522)</b>		(4,266,662)	
Interest payable and similar charges		<b>(11,668)</b>		(4,669)	
Net revenue before taxation		<b>39,922,820</b>		25,514,752	
Taxation	5	<b>(9,126)</b>		—	
Net revenue after taxation			<b>39,913,694</b>		25,514,752
<b>Total return before distributions</b>			<b>(603,589)</b>		41,098,437
Distributions	6		<b>(46,107,472)</b>		(29,407,019)
<b>Change in net assets attributable to unitholders from investment activities</b>			<b>(46,711,061)</b>		11,691,418

## 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 £
<b>Opening net assets attributable to unitholders</b>		<b>901,195,605</b>		545,613,390
Amounts receivable on issue of units	<b>444,985,678</b>		345,939,927	
Amounts payable on cancellation of units	<b>(96,650,318)</b>		(16,745,591)	
		<b>348,335,360</b>		329,194,336
Change in net assets attributable to unitholders from investment activities (see Statement of total return above)		<b>(46,711,061)</b>		11,691,418
Retained distributions on accumulation units		<b>23,861,725</b>		14,696,142
Unclaimed distributions		<b>403</b>		319
<b>Closing net assets attributable to unitholders</b>		<b>1,226,682,032</b>		901,195,605

## Balance sheet as at 30 September 2018

	Note	30.09.18 £	30.09.18 £	30.09.17 £	30.09.17 £
<b>Assets</b>					
<b>Fixed assets:</b>					
Investments			<b>1,217,538,790</b>		845,114,088
<b>Current assets:</b>					
Debtors	7	<b>30,119,119</b>		29,431,088	
Cash and bank balances		<b>11,124,259</b>		35,126,896	
Total current assets			<b>41,243,378</b>		64,557,984
<b>Total assets</b>			<b>1,258,782,168</b>		909,672,072
<b>Liabilities</b>					
<b>Creditors:</b>					
Other creditors	8	<b>(25,713,871)</b>		(3,733,099)	
Distribution payable on income units		<b>(6,386,265)</b>		(4,743,368)	
<b>Total liabilities</b>			<b>(32,100,136)</b>		(8,476,467)
<b>Net assets attributable to unitholders</b>			<b>1,226,682,032</b>		901,195,605

# 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 42, 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.

Revenue on debt securities has been accounted for on an effective interest method.

### 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 (other than management fees and direct costs of purchase and sale of investments) are charged against revenue.

### 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 Manager's charge is deducted from capital, offsetting expenses against capital may constrain future growth in revenue and capital.

For the purpose of calculating the distribution available to unitholders, revenue on debt securities is computed as the higher of the amount determined on an accrual of coupon basis and on an effective yield basis. 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.

During the year the fund entered into derivative transactions in the form of forward foreign currency contracts. For forward foreign currency contracts, market value is determined by reference to forward currency exchange rates at the year end.

Unquoted investments are valued at fair value, which represents the ACD's view of the amount for which an asset could be exchanged between knowledgeable and willing parties in an arm's length transaction. This does not assume that the underlying business is saleable at the reporting date or that its current shareholders have an intention to sell their holding in the near future.

The unquoted investments are valued by the ACD based upon information from an independent valuation firm, taking into account, where appropriate, latest dealing prices, achievement or not of key milestones, valuations from reliable sources, financial performance, and other relevant factors.

## 1 Accounting policies *(continued)*

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.

Structured products are valued based upon available market data.

During the year the fund entered into derivative transactions in the form of forward foreign currency contracts. For forward foreign currency contracts, market value is determined by reference to forward currency exchange rates at the year end.

### 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 (losses)/gains

	30.09.18 £	30.09.17 £
The net capital (losses)/gains during the year comprise:		
Non-derivative securities	<b>(39,309,718)</b>	15,557,474
Currency gains/(losses)	<b>452,805</b>	(2,314)
Forward currency contracts	<b>(1,653,103)</b>	32,553
Transaction charges	<b>(7,267)</b>	(4,028)
<b>Total net capital (losses)/gains</b>	<b>(40,517,283)</b>	15,583,685

### 3 Revenue

	30.09.18 £	30.09.17 £
Dividends	<b>64,370</b>	—
Interest on debt securities	<b>46,483,475</b>	29,786,081
HMRC repayment	—	2
Bank interest	<b>60,165</b>	—
<b>Total revenue</b>	<b>46,608,010</b>	29,786,083

### 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		<b>6,210,714</b>		3,937,168
Payable to the Trustee, associates of the Trustee and agents of either of them:				
Trustee's fees	<b>244,830</b>		159,801	
Safe custody and other bank charges	<b>137,308</b>		75,166	
		<b>382,138</b>		234,967
Other expenses:				
Administration fees	<b>13,174</b>		11,479	
Audit fee*	<b>10,200</b>		16,055	
FCA fee	<b>356</b>		356	
Printing and publication costs	<b>3,881</b>		9,142	
Registration fees	<b>53,059</b>		57,495	
		<b>80,670</b>		94,527
<b>Total expenses</b>		<b>6,673,522</b>		4,266,662

\*Audit fees paid in the year were £8,500 (30.09.17: £8,500) excluding VAT.

## 5 Taxation

	<b>30.09.18</b>	30.09.17
	<b>£</b>	£
a) Analysis of charge in the year		
Irrecoverable overseas tax	<b>9,126</b>	–
<b>Total tax charge for the year (note 5b)</b>	<b>9,126</b>	–

### 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:

	<b>30.09.18</b>	30.09.17
	<b>£</b>	£
Net revenue before taxation	<b>39,922,820</b>	25,514,752
Corporation tax at 20%	<b>7,984,564</b>	5,102,950
Effects of:		
Revenue not subject to taxation	<b>(12,874)</b>	(33,671)
Tax deductible interest distribution	<b>(7,971,690)</b>	(5,069,279)
Irrecoverable overseas tax	<b>9,126</b>	–
<b>Total tax charge for the year (note 5a)</b>	<b>9,126</b>	–

### c) Deferred tax

At the year end the fund had no surplus management expenses (30.09.17 : £nil) and no deferred tax asset has been recognised.

## 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 £
First Interim	<b>10,582,439</b>	5,679,775
Second Interim	<b>11,153,762</b>	7,119,391
Third Interim	<b>13,233,286</b>	7,763,596
Final	<b>12,763,740</b>	8,981,368
UK income tax withheld	—	1,386,031
	<b>47,733,227</b>	30,930,161
Add: Amounts deducted on cancellation of units	<b>660,960</b>	124,049
Deduct: Amounts received on issue of units	<b>(2,286,715)</b>	(1,647,191)
Net distribution for the year	<b>46,107,472</b>	29,407,019

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

Net distribution for the year	<b>46,107,472</b>	29,407,019
Expenses charged to capital:		
Manager's periodic charge	<b>(6,210,714)</b>	(3,937,168)
Equalisation on conversions	<b>35,561</b>	5,317
Balance brought forward	<b>(51,728)</b>	(12,144)
Balance carried forward	<b>33,103</b>	51,728
Net revenue after taxation	<b>39,913,694</b>	25,514,752

## 7 Debtors

	30.09.18 £	30.09.17 £
Amounts receivable for issue of units	<b>3,734,137</b>	10,022,650
Sales awaiting settlement	<b>25,644</b>	24,214
Accrued revenue	<b>26,350,378</b>	19,380,621
Prepaid expenses	<b>180</b>	—
Taxation recoverable	<b>8,780</b>	3,603
Total debtors	<b>30,119,119</b>	29,431,088

## 8 Other creditors

	30.09.18 £	30.09.17 £
Amounts payable for cancellation of units	<b>283,509</b>	56,352
Purchases awaiting settlement	<b>24,734,532</b>	3,197,933
Accrued expenses	<b>552,797</b>	395,992
Accrued manager's periodic charge	<b>143,033</b>	82,822
<b>Total other creditors</b>	<b>25,713,871</b>	3,733,099

## 9 Reconciliation of units

	R-Class income	R-Class accumulation	I-Class income	I-Class accumulation
Opening units issued at 01.10.17	10,443,863	9,378,567	329,369,970	196,127,720
Unit movements 01.10.17 to 30.09.18				
Units issued	2,775,399	1,116,418	161,169,600	103,288,821
Units cancelled	(5,804,991)	—	(53,228,199)	—
Units converted	2,286,832	(1,696,523)	(25,887,803)	(14,653,400)
Closing units issued at 30.09.18	9,701,103	8,798,462	411,423,568	284,763,141

	S-Class income	S-Class accumulation	X-Class income	X-Class accumulation
Opening units issued at 01.10.17	—	—	129,191,019	11,836,046
Unit movements 01.10.17 to 30.09.18				
Units issued	8,631,801	434,672	43,435,977	10,724,363
Units cancelled	(1,742,514)	—	(30,245,003)	(4,940,053)
Units converted	56,065,932	625,543	—	—
Closing units issued at 30.09.18	62,955,219	1,060,215	142,381,993	17,620,356

## 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 Ethical Bond Fund 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.

## 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.

The fund is exposed to credit risk as a result of its investment in bonds. There are no net borrowings and little exposure to liquidity risk because assets can be readily realised to meet redemptions. Details of the fund's portfolio and exposure to credit risk are set out on pages 16 to 22.

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:

	<b>30.09.18</b>	30.09.17
	<b>£</b>	£
Currency:		
Euro	<b>5,200,691</b>	5,355,848
US dollar	<b>35,698,485</b>	18,484,793
Pound sterling	<b>1,185,773,896</b>	877,351,361
	<b>1,226,673,072</b>	901,192,002
Other net assets not categorised as financial instruments	<b>8,960</b>	3,603
Net assets	<b>1,226,682,032</b>	901,195,605

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 £3,718,107 (30.09.17: £2,167,331). 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 £4,544,353 (30.09.17: £2,648,960). 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:

	<b>30.09.18</b>	30.09.17
	<b>£</b>	£
Fixed rate assets:		
US dollar	<b>11,899,103</b>	9,819,655
Pound sterling	<b>625,004,728</b>	462,254,816
	<b>636,903,831</b>	472,074,471
Floating rate assets:		
Euro	<b>3,806,849</b>	3,886,222
US dollar	<b>8,391,667</b>	8,413,784
Pound sterling	<b>563,246,337</b>	394,549,321
	<b>575,444,853</b>	406,849,327
Assets on which no interest is paid:		
Euro	<b>1,393,842</b>	1,469,626
US dollar	<b>15,407,715</b>	251,354
Pound sterling	<b>29,622,967</b>	29,023,691
	<b>46,424,524</b>	30,744,671
Liabilities on which no interest is paid:		
Pound sterling	<b>(32,100,136)</b>	(8,476,467)
	<b>(32,100,136)</b>	(8,476,467)
Other net assets not categorised as financial instruments	<b>8,960</b>	3,603
<b>Net assets</b>	<b>1,226,682,032</b>	901,195,605

If interest rates had increased by 10% as at the balance sheet date, the net asset value of the fund would have decreased by £53,586,011 (30.09.17: £59,546,634). If interest rates had decreased by 10% as at the balance sheet date, the net asset value of the fund would have increased by £53,586,011 (30.09.17: £59,546,634). These calculations assume all other variables remain constant.

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

**12 Risk disclosures on financial instruments** *(continued)*

(ii) Interest rate risk *(continued)*

	30.09.18		30.09.17	
	Value (note 1f) £	Percentage of total net assets	Value (note 1f) £	Percentage of total net assets
<b>Bond credit ratings*</b>				
Investment grade	<b>898,501,689</b>	<b>73.21</b>	646,828,927	71.80
Below investment grade	<b>302,722,736</b>	<b>24.71</b>	196,967,975	21.83
<b>Total Bonds</b>	<b>1,201,224,425</b>	<b>97.92</b>	843,796,902	93.63

\*Source: Standard & Poor's

Currency	Fixed rate financial assets			
	Weighted average redemption yield rate 30.09.18	30.09.17	Weighted average period for which rate is fixed 30.09.18	30.09.17
Pound sterling	<b>3.87%</b>	12.49%	<b>10.32 years</b>	10.27 years
US dollar	<b>6.38%</b>	5.38%	<b>13.57 years</b>	15.61 years

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 £121,753,879 (30.09.17: £84,511,409). If market prices had decreased by 10% as at the balance sheet date the net asset value of the fund would have decreased by £121,753,879 (30.09.17: £84,511,409). These calculations assume all other variables remain constant.

(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 Rathbone Ethical Bond Fund which would increase its exposure.

(vi) **Liquidity risk**, being the risk that the value of the investment portfolio is adversely affected by the illiquid nature of certain debt securities. The investment portfolio may consist of a substantial number of fixed debt securities assets in below investment grade fixed interest securities. Such securities are generally not regularly traded on secondary markets. 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 liquidity risk.

### 13 Portfolio transaction cost

For the year ended 30 September 2018

#### Analysis of total purchases costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Bond transactions	751,335,596	—	—	—	—
Corporate actions	47,885	—	—	—	—
Total purchases before transaction costs	751,383,481	—		—	
Total purchases including commission and taxes	751,383,481				

#### Analysis of total sales costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Bond transactions	277,696,213	—	—	—	—
Corporate actions	57,669,844	—	—	—	—
Total sales including transactions costs	335,366,057	—		—	
Total sales net of commission and taxes	335,366,057				

The fund had paid £nil as commission on purchases and sale derivative transactions for the year ended 30.09.2018.

Commissions and taxes as % of average net assets

Commissions 0.00%

Taxes 0.00%

**13 Portfolio transaction cost** *(continued)*

**For the year ended 30 September 2017**

**Analysis of total purchases costs**

	Value	Commissions		Taxes	
	£	£	%	£	%
Equity transactions	1,151,043	—	—	—	—
Bond transactions	469,512,539	—	—	—	—
Total purchases before transaction costs	470,663,582	—		—	
Total purchases including commission and taxes	470,663,582				

**Analysis of total sales costs**

	Value	Commissions		Taxes	
	£	£	%	£	%
Bond transactions	92,351,779	—	—	—	—
Corporate actions	78,740,727	—	—	—	—
Total sales including transactions costs	171,092,506	—		—	
Total sales net of commission and taxes	171,092,506				

The fund had paid £nil as commission on purchases and sale derivative transactions for the year ended 30.09.17.

**Commissions and taxes as % of average net assets**

Commissions	0.00%
Taxes	0.00%

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 0.74% (30.09.17: 0.80%).

#### 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.

#### For the year ended 30 September 2018

Category	1	2	3	Total
	£	£	£	£
<b>Investment assets</b>				
Equities	1,183,992	—	—	1,183,992
Bonds	—	1,188,464,880	12,759,545	1,201,224,425
Structures product	—	14,741,766	—	14,741,766
Derivatives	—	388,607	—	388,607
	1,183,992	1,203,595,253	12,759,545	1,217,538,790

#### For the year ended 30 September 2017

Category	1	2	3	Total
	£	£	£	£
<b>Investment assets</b>				
Equities	1,217,253	—	—	1,217,253
Bonds	—	828,554,331	15,242,571	843,796,902
Derivatives	—	99,933	—	99,933
	1,217,253	828,654,264	15,242,571	845,114,088

#### 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	92.04p	91.19p
R-Class accumulation	195.99p	196.23p
I-Class income	96.42p	95.60p
I-Class accumulation	203.17p	203.58p
S-Class income	98.68p	97.87p
S-Class accumulation	99.69p	99.91p
X-Class income	104.99p	104.19p
X-Class accumulation	114.28p	114.60p

## Distribution tables for the year ended 30 September 2018

### Distribution tables (pence per unit)

#### First 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 December 2017

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

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

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

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

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

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

## Distribution tables for the year ended 30 September 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

<b>R-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.05.18</b>	<b>Paid 31.05.17</b>
Group 1	0.91	—	0.91	1.06
Group 2	0.38	0.53	0.91	1.06

<b>R-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.05.18</b>	<b>Accumulated 31.05.17</b>
Group 1	1.90	—	1.90	2.12
Group 2	0.86	1.04	1.90	2.12

<b>I-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.05.18</b>	<b>Paid 31.05.17</b>
Group 1	0.95	—	0.95	1.11
Group 2	0.47	0.48	0.95	1.11

<b>I-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.05.18</b>	<b>Accumulated 31.05.17</b>
Group 1	1.96	—	1.96	2.18
Group 2	0.88	1.08	1.96	2.18

<b>X-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.05.18</b>	<b>Paid 31.05.17</b>
Group 1	1.03	—	1.03	1.19
Group 2	0.47	0.56	1.03	1.19

<b>X-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.05.18</b>	<b>Accumulated 31.05.17</b>
Group 1	1.09	—	1.09	1.21
Group 2	0.78	0.31	1.09	1.21

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

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

#### Third Interim

Group 1 – Units purchased prior to 1 April 2018

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

<b>R-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.08.18</b>	<b>Paid 31.08.17</b>
Group 1	1.02	–	1.02	1.06
Group 2	0.40	0.62	1.02	1.06
<b>R-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.08.18</b>	<b>Accumulated 31.08.17</b>
Group 1	2.13	–	2.13	2.14
Group 2	1.10	1.03	2.13	2.14
<b>I-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.08.18</b>	<b>Paid 31.08.17</b>
Group 1	1.06	–	1.06	1.09
Group 2	0.50	0.56	1.06	1.09
<b>I-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.08.18</b>	<b>Accumulated 31.08.17</b>
Group 1	2.21	–	2.21	2.19
Group 2	1.08	1.13	2.21	2.19
<b>S-Class income* units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.08.18</b>	<b>Paid 31.08.17</b>
Group 1	1.02	–	1.02	n/a
Group 2	0.50	0.52	1.02	n/a
<b>S-Class accumulation* units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.08.18</b>	<b>Accumulated 31.08.17</b>
Group 1	1.02	–	1.02	n/a
Group 2	0.95	0.07	1.02	n/a
<b>X-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Paid 31.08.18</b>	<b>Paid 31.08.17</b>
Group 1	1.15	–	1.15	1.18
Group 2	0.61	0.54	1.15	1.18
<b>X-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Accumulated 31.08.18</b>	<b>Accumulated 31.08.17</b>
Group 1	1.24	–	1.24	1.23
Group 2	0.49	0.75	1.24	1.23

\*S-Class was launched on 5 April 2018 at 100.00p (S-Class Income) and 100.00p (S-Class Accumulation).

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

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

Final

Group 1 – Units purchased prior to 1 July 2018

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

<b>R-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Payable 30.11.18</b>	<b>Paid 30.11.17</b>
Group 1	0.95	—	0.95	0.96
Group 2	0.45	0.50	0.95	0.96
<b>R-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Allocated 30.11.18</b>	<b>Accumulated 30.11.17</b>
Group 1	2.03	—	2.03	1.95
Group 2	1.07	0.96	2.03	1.95
<b>I-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Payable 30.11.18</b>	<b>Paid 30.11.17</b>
Group 1	1.00	—	1.00	0.99
Group 2	0.52	0.48	1.00	0.99
<b>I-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Allocated 30.11.18</b>	<b>Accumulated 30.11.17</b>
Group 1	2.10	—	2.10	2.00
Group 2	1.05	1.05	2.10	2.00
<b>S-Class income* units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Payable 30.11.18</b>	<b>Paid 30.11.17</b>
Group 1	1.02	—	1.02	n/a
Group 2	0.56	0.46	1.02	n/a
<b>S-Class accumulation* units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Allocated 30.11.18</b>	<b>Accumulated 30.11.17</b>
Group 1	1.03	—	1.03	n/a
Group 2	0.48	0.55	1.03	n/a
<b>X-Class income units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Payable 30.11.18</b>	<b>Paid 30.11.17</b>
Group 1	1.08	—	1.08	1.07
Group 2	0.59	0.49	1.08	1.07
<b>X-Class accumulation units</b>	<b>Income</b>	<b>Equalisation</b>	<b>Allocated 30.11.18</b>	<b>Accumulated 30.11.17</b>
Group 1	1.18	—	1.18	1.12
Group 2	0.55	0.63	1.18	1.12

\*S-Class was launched on 5 April 2018 at 100.00p (S-Class Income) and 100.00p (S-Class Accumulation).

## 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	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**                      **JR Chillingworth**  
for Rathbone Unit Trust Management Limited  
Manager of Rathbone Ethical Bond Fund  
*2 January 2019*

## Statement of the Manager's responsibilities in relation to the annual report and accounts of the Rathbone Ethical Bond Fund

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. follow UK generally accepted accounting principles, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice: 'Financial Statements of UK Authorised Funds' issued by The Investment Association in May 2014;
5. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the fund will continue in operation; and
6. keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Scheme and 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 Company 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 Ethical Bond Fund (the Scheme) for the year 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:

1. 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
2. has observed the investment and borrowing powers and restrictions applicable to the Scheme.

**National Westminster Bank Plc**  
Trustee of Rathbone Ethical Bond Fund  
*2 January 2019*

# Independent Auditor's Report to the unitholders of Rathbone Ethical Bond 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 the Rathbone Ethical Bond 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 Rathbone Ethical Bond Fund (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 Ethical Bond 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: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 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.

# Independent Auditor's Report to the unitholders of Rathbone Ethical Bond Fund *(continued)*

## **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  
*2 January 2019*

## 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
<b>Total for the Manager</b>	<b>3,181</b>	<b>5,272</b>	<b>8,453</b>	<b>41</b>

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 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](http://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. 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.

## General information *(continued)*

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](http://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

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, 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 Limited, DST House, St Nicholas Lane, Basildon, Essex SS15 5FS.

Further copies of this report are available upon request, free of charge, from Client Services Department, Rathbone Unit Trust Management Limited, 8 Finsbury Circus, London EC2M 7AZ.

If you have any queries or complaints about the operation of the fund you should put them 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](http://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 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](http://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

[rutm@rathbones.com](mailto:rutm@rathbones.com)

[rutm.com](http://rutm.com)

Authorised and regulated by the  
Financial Conduct Authority

A member of The  
Investment Association

A member of the Rathbone Group.  
Registered No. 02376568