

Rathbones
Look forward

Rathbone Income Fund

Annual report for the year ended 30 September 2020



Rathbone Income Fund

Authorised Fund Manager (the Manager)

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RP Stockton – Chairman
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JR Chillingworth – Chief Investment Officer
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MS Warren – Non-Executive Director
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Manager's report for the year ended 30 September 2020

As 2020 rumbles towards an uncertain, and perhaps volatile conclusion, we look back upon an extraordinary 12 months for UK markets and our fund.

The decisive general election of early December 2019 had calmed the toxic atmosphere at Westminster. While there was still much to do, a constitutional crisis had been averted and UK markets could now begin to price in a little more certainty. Three and half years of Brexit squabbling had left UK equity valuations attractive and we entered 2020 with a degree of optimism.

This optimism was, of course, short-lived. In late February/early March, the COVID-19 pandemic abruptly and violently left its mark on UK markets. The novelty and severity of the pandemic and the ensuing lockdown had left investors with few way markers to guide a path forward. This vacuum resulted in the FTSE 100 Index falling by 25% in the first quarter, its biggest quarterly fall for more than 30 years. Were it not for the extraordinary monetary and fiscal support put in place, it's hard to believe that the declines would have ended there.

Thankfully though, by early April markets across the world began to recover. However, unlike in most recoveries, it was not the worst hit stocks which bounced back the most. Instead, momentum stayed with the previous winners, helped by ever lower interest rates buoying faster-growing stocks. The UK's minimal exposure to the soaring technology sector and preponderance of 'old economy' oil, financial and tobacco stocks meant that, even in recovery, the UK suffered versus many of its global peers.

Against this backdrop, in the year ended 30 September 2020, our fund's total return was -17.5%. This compared to a 16.6% fall in the FTSE All-Share Index and placed the fund in the second quartile of our IA UK Equity Income peer group.

Our fund's aim of generating an attractive and growing income stream was also upended by the pandemic. The extraordinary level of uncertainty from February onwards pushed many companies into cash conservation mode. Growth projects were shelved, bank credit lines drawn down and shareholder returns axed. Dividend payments

from FTSE All-Share companies fell by almost a half in Q2 and Q3 2020. The widely followed Link Asset Services UK Dividend Monitor expects FTSE All-Share dividends to fall by 39% in 2020.

While our fund navigated the dividend drought relatively well, it was not immune. Our full-year dividend fell 20.5% on the previous year. We take our commitment to delivering a rising dividend very seriously, so rebasing the distribution is disappointing. However, we believe the fund's 4.4% dividend yield remains attractive in today's low-yield world. More importantly, we believe our current dividend is sustainable, providing a firm foundation for future growth.

Performance review

The fortunes of our holdings varied wildly over the year. While defensive names such as Reckitt Benckiser, Bunzl and Roche performed well in both absolute and relative terms, others were hit hard by the pandemic and/or ongoing Brexit uncertainty.

Energy names BP and Royal Dutch Shell struggled to cope with a combination of collapsing demand brought on by lockdowns and rising supply from a fracturing OPEC alliance. In addition, as the period progressed, investors became increasingly sceptical about the oil majors' ability to successfully transition their business models away from fossil fuels and toward more sustainable forms of energy production.

Economically sensitive names suffered as markets ground to a halt in the second quarter. Profits at Lloyds Banking Group and Close Brothers were depleted as large provisions were taken in anticipation of loans turning sour as government support schemes wind down into the year-end.

Travel, leisure and retail stocks were amongst the most visible losers from the lockdown and the changing consumer behaviour it engendered. While our only retail holding, Halfords, performed well – boosted by cycling sales during lockdown and beyond – cruise operator Carnival and casual dining chain The Restaurant Group struggled as sales fell precipitously. We sold the latter two holdings, along with commercial airline parts manufacturer Senior, as the economic impact of the pandemic and lockdowns became clear.

Principal trades in the period

Early in the period, we introduced a new holding into the fund, Irish paper and packaging business Smurfit Kappa. We felt that it was attractively valued and would benefit from the consumer goods industry's take-up of more sustainable forms of packaging.

We started a new holding in BHP Group and topped up our position in fellow Anglo-Australian miner, Rio Tinto. The mining giants have excellent positions in the large, well-structured iron ore market, as well as smaller growth opportunities in key markets essential for the energy transition. Although the mining industry remains highly cyclical, the stocks have performed relatively well this year as buoyant demand from China boosted commodity prices, cash flows and dividends.

Shares of US utility WEC Energy recovered well, leading us to trim the position as its price continued to rise (at prices close to all-time highs).

Following the UK election in December, there was a relief rally for utility companies that had been in the crosshairs of the Labour Party's nationalisation policies. We used this strength to sell all of our holding in water company United Utilities, believing its shares to be fully valued.

As part of a general tilt towards value stocks during Q2, we trimmed exposure to defensive holdings such as Reckitt Benckiser, GlaxoSmithKline and Roche. We reinvested most of the cash into existing holdings which we felt had better risk/reward characteristics.

We started a new holding in NatWest Group (formerly known as RBS). Like the rest of its sector, the bank faces significant headwinds from low interest rates, weak economic growth and rising unemployment. However, NatWest is incredibly well capitalised. We believe its provisioning for potential loan losses is prudent and its valuation highly attractive. While we acknowledge the stock is not without risk, we believe it offers excellent income and capital growth potential as we emerge from the pandemic.

In mid-2020 we reduced our position in housebuilders Bellway and Berkeley Group in order to buy Persimmon. We did this because we wanted to increase our exposure to the UK housebuilding sector, yet with greater diversification among the companies we hold.

Outlook

Markets are currently stuck in a tight trading range. However, a number of potential catalysts – which could drive markets higher or lower – are on the horizon: the US election, the outcome of UK/EU trade talks, and the path of COVID-19.

The pandemic has exacerbated the long-standing outperformance of stocks with above average growth rates. While interest rates plumbing new depths explain much of the move, we worry that many of these names now require a continuation of this trend simply to justify their current share price.

The high growth winners list includes technology titans, work-from-home winners and ESG (environmental, social, governance) champions. The losers include the "old economy dinosaurs"; oils, tobaccos and banks. For many investors no price is too low for these businesses. While we agree that their sales growth outlook looks unappealing, our job isn't to find the fastest growers, but to assess how future cash profits stack up versus the current share price. On this metric, it is in the "dinosaurs" where we see most upside.

We could be wrong, however. We recognise that. So we are careful not to bet the fund on a red or black outcome. As always, we build our portfolio with reference to our Trinity of Risk framework, which balances business, financial and price risk. While this balanced investment approach means the fund is unlikely to shoot higher with a single twist or turn of the market. But, if we execute it successfully, it should continue to provide reliable results over the medium to long-term.

UK markets and the equity income style of investment have performed poorly over recent years but, given where valuations lie, we are cautiously optimistic that a solid base has now been set for future growth. Further, while dividend cuts have been brutal this year, we believe they are now largely in the past. Our fund yields over 4%, in our view an attractive level compared with many alternatives. More importantly we believe the recent rebase has provided a firm foundation for increasing our dividend over time. We approach the future with optimism.

Carl Stick
Fund Manager
21 October 2020

Alan Dobbie
Fund Manager

Net asset value per unit and comparative tables

R-class income units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	872.21p	901.81p	921.12p
Return before operating charges*	(148.36p)	21.57p	30.68p
Operating charges	(11.97p)	(13.25p)	(14.05p)
Return after operating charges*	(160.33p)	8.32p	16.63p
Distributions on income units	(29.92p)	(37.92p)	(35.94p)
Closing net asset value per unit	681.96p	872.21p	901.81p
*after direct transactions costs ¹ of:	0.77p	0.68p	0.56p

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

Performance

Return after charges	(18.38%)	0.92%	1.81%
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Other information

Closing net asset value	£58,522,091	£85,923,816	£122,151,497
Closing number of units	8,581,509	9,851,278	13,545,156
Operating charges	1.53%	1.53%	1.54%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	917.35p	929.72p	967.84p
Lowest unit price	591.16p	792.58p	845.18p

** These prices may have been calculated on a different basis to the closing net asset value per unit shown in the comparative table, this may result in the closing net asset value per unit being higher or lower than the published highest or lowest prices for the year.

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

R-class accumulation units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,589.49p	1,570.00p	1,540.81p
Return before operating charges*	(268.77p)	42.78p	52.91p
Operating charges	(22.06p)	(23.29p)	(23.72p)
Return after operating charges*	(290.83p)	19.49p	29.19p
Distributions on accumulation units	(55.04p)	(66.79p)	(60.79p)
Retained distributions on accumulation units	55.04p	66.79p	60.79p
Closing net asset value per unit	1,298.66p	1,589.49p	1,570.00p

*after direct transactions costs¹ of: 1.42p 1.19p 0.94p

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

Performance

Return after charges (18.30%) 1.24% 1.89%

Other information

Closing net asset value	£57,171,363	£86,639,150	£105,321,024
Closing number of units	4,402,339	5,450,735	6,708,339
Operating charges	1.53%	1.53%	1.54%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	1,671.74p	1,621.23p	1,642.46p
Lowest unit price	1,077.30p	1,385.10p	1,418.47p

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

I-class income units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	937.54p	954.51p	968.53p
Return before operating charges*	(160.01p)	30.90p	31.85p
Operating charges	(6.60p)	(7.25p)	(7.66p)
Return after operating charges*	(166.61p)	23.65p	24.19p
Distributions on income units	(32.29p)	(40.62p)	(38.21p)
Closing net asset value per unit	738.64p	937.54p	954.51p
*after direct transactions costs ¹ of:	0.83p	0.73p	0.59p

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

Performance

Return after charges	(17.77%)	2.48%	2.50%
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Other information

Closing net asset value	£208,227,849	£296,405,206	£282,533,398
Closing number of units	28,190,591	31,615,327	29,599,756
Operating charges	0.78%	0.78%	0.79%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	987.94p	974.66p	1,004.69p
Lowest unit price	637.73p	847.29p	898.23p

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

I-class accumulation units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,670.86p	1,630.82p	1,589.37p
Return before operating charges*	(283.53p)	52.49p	54.09p
Operating charges	(11.88p)	(12.45p)	(12.64p)
Return after operating charges*	(295.41p)	40.04p	41.45p
Distributions on accumulation units	(58.07p)	(69.97p)	(63.21p)
Retained distributions on accumulation units	58.07p	69.97p	63.21p
Closing net asset value per unit	1,375.45p	1,670.86p	1,630.82p

*after direct transactions costs¹ of: 1.50p 1.25p 0.98p

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

Performance

Return after charges (17.68%) 2.46% 2.61%

Other information

Closing net asset value	£285,016,845	£428,636,984	£483,463,460
Closing number of units	20,721,707	25,653,643	29,645,474
Operating charges	0.78%	0.78%	0.79%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	1,760.67p	1,687.84p	1,669.78p
Lowest unit price	1,136.55p	1,448.01p	1,474.38p

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

S-class income units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	958.75p	973.51p	985.13p
Return before operating charges*	(163.81p)	31.67p	32.53p
Operating charges	(4.52p)	(4.94p)	(5.23p)
Return after operating charges*	(168.33p)	26.73p	27.30p
Distributions on income units	(33.06p)	(41.49p)	(38.92p)
Closing net asset value per unit	757.36p	958.75p	973.51p
*after direct transactions costs ¹ of:	0.85p	0.74p	0.60p

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

Performance

Return after charges	(17.56%)	2.75%	2.77%
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Other information

Closing net asset value	£71,089,586	£106,460,656	£105,845,411
Closing number of units	9,386,441	11,104,098	10,872,591
Operating charges	0.52%	0.52%	0.53%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	1,011.08p	996.33p	1,024.24p
Lowest unit price	652.98p	864.82p	914.94p

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

S-class accumulation units

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	1,695.60p	1,650.69p	1,604.52p
Return before operating charges*	(288.07p)	53.35p	54.73p
Operating charges	(8.07p)	(8.44p)	(8.56p)
Return after operating charges*	(296.14p)	44.91p	46.17p
Distributions on accumulation units	(59.00p)	(70.93p)	(63.90p)
Retained distributions on accumulation units	59.00p	70.93p	63.90p
Closing net asset value per unit	1,399.46p	1,695.60p	1,650.69p

*after direct transactions costs¹ of: 1.52p 1.27p 0.99p

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

Performance

Return after charges (17.47%) 2.72% 2.88%

Other information

Closing net asset value	£69,444,322	£103,737,328	£92,733,171
Closing number of units	4,962,209	6,118,018	5,617,856
Operating charges	0.52%	0.52%	0.53%
Direct transaction costs	0.10%	0.08%	0.06%

Prices**

Highest unit price	1,788.13p	1,712.08p	1,689.39p
Lowest unit price	1,154.82p	1,466.64p	1,490.37p

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

X-class income units[†]

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	n/a	104.24p	104.98p
Return before operating charges*	n/a	(1.10p)	3.45p
Operating charges	n/a	(0.02p)	(0.04p)
Return after operating charges*	n/a	(1.12p)	3.41p
Distributions on income units	n/a	0.00p	(4.15p)
Redemption price	n/a	(103.12p)	–
Closing net asset value per unit	n/a	–	104.24p
*after direct transactions costs ¹ of:	n/a	0.02p	0.06p

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

Performance

Return after charges	n/a	(1.07%)	3.25%
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Other information

Closing net asset value	n/a	–	£5,533,842
Closing number of units	n/a	–	5,308,861
Operating charges	n/a	–	0.04%
Direct transaction costs	n/a	0.02%	0.06%

Prices**

Highest unit price	n/a	105.59p	109.40p
Lowest unit price	n/a	92.70p	97.67p

[†] X-class income was terminated on 22 March 2019.

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

X-class accumulation units[†]

	30.09.20 pence per unit	30.09.19 pence per unit	30.09.18 pence per unit
Change in net assets per unit			
Opening net asset value per unit	n/a	112.67p	108.96p
Return before operating charges*	n/a	(1.23p)	3.75p
Operating charges	n/a	(0.02p)	(0.04p)
Return after operating charges*	n/a	(1.25p)	3.71p
Distributions on accumulation units	n/a	(0.00p)	(4.35p)
Retained distributions on accumulation units	n/a	0.00p	4.35p
Redemption price	n/a	(111.42p)	–
Closing net asset value per unit	n/a	–	112.67p
*after direct transactions costs ¹ of:	n/a	0.02p	0.07p

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

Performance

Return after charges	n/a	(1.11%)	3.40%
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Other information

Closing net asset value	n/a	–	£501,118
Closing number of units	n/a	–	444,769
Operating charges	n/a	–	0.04%
Direct transaction costs	n/a	0.02%	0.06%

Prices**

Highest unit price	n/a	114.05p	115.29p
Lowest unit price	n/a	100.19p	101.44p

[†] X-class accumulation was terminated on 22 March 2019.

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

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.

Discrete annual performance, quarter ending 30 September 2020

	2016	2017	2018	2019	2020
R-class units	10.38%	8.64%	1.77%	1.80%	-18.08%
I-class units	11.22%	9.45%	2.53%	2.54%	-17.46%
S-class units	11.50%	9.74%	2.80%	2.80%	-17.24%
IA UK Equity income sector	11.39%	10.59%	3.43%	-0.17%	-17.24%

Source performance data Financial Express, mid to mid, net income reinvested.

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 2020

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Oil and Gas (30.09.19: 9.30%)		
9,120,000 BP	20,538,240	2.74
2,050,000 Royal Dutch Shell 'B'	19,267,950	2.57
	39,806,190	5.31
Mining (30.09.19: 1.27%)		
1,600,000 BHP Group	26,460,800	3.53
540,000 Rio Tinto	25,137,000	3.35
	51,597,800	6.88
Aerospace and Defence (30.09.19: 3.24%)		
4,000,000 BAE Systems	19,280,000	2.57
Industrial Engineering (30.09.19: 3.11%)		
427,500 DCC	25,675,650	3.43
Construction and Materials (30.09.19: 4.07%)		
610,000 Bellway	14,341,100	1.91
385,000 Berkeley	16,270,100	2.17
	30,611,200	4.08
Real Estate (30.09.19: 1.59%)		
1,400,000 Big Yellow Group	14,560,000	1.94
Support Services (30.09.19: 2.67%)		
1,330,000 Bunzl	33,343,100	4.45
100,000 Ferguson Newco	7,810,000	1.04
	41,153,100	5.49
Food Producers (30.09.19: 3.02%)		
565,000 Unilever	26,984,400	3.60
Household Goods (30.09.19: 5.74%)		
1,788,676 Headlam	4,793,652	0.64
750,000 Persimmon	18,547,500	2.47
320,000 Reckitt Benckiser	24,185,600	3.23
	47,526,752	6.34

Portfolio and net other assets as at 30 September 2020 *(continued)*

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Tobacco (30.09.19: 6.85%)		
522,156 Altria	15,598,441	2.08
1,045,000 British American Tobacco	29,019,650	3.87
1,320,000 Imperial Brands	18,051,000	2.41
	62,669,091	8.36
Pharmaceuticals and Biotechnology (30.09.19: 7.98%)		
386,000 Dechra Pharmaceuticals	12,398,320	1.65
1,800,000 GlaxoSmithKline	26,136,000	3.49
125,000 Novartis	8,409,738	1.12
55,000 Roche	14,593,226	1.95
	61,537,284	8.21
Food and Drug Retailers (30.09.19: 1.63%)		
2,000,000 UDG Healthcare	15,410,000	2.06
Beverages (30.09.19: 1.75%)		
430,000 Anheuser Busch	18,029,452	2.41
General Retailers (30.09.19: 1.23%)		
7,933,209 Halfords	14,374,975	1.92
Media (30.09.19: 7.40%)		
16,000,000 ITV	10,819,200	1.44
1,180,000 Relx	20,360,900	2.72
2,200,000 WPP	13,376,000	1.79
	44,556,100	5.95
Electricity (30.09.19: 2.68%)		
2,000,000 SSE	24,160,000	3.22
Gas, Water and Multiutilities (30.09.19: 7.19%)		
3,050,000 National Grid	27,126,700	3.62
Banks (30.09.19: 4.59%)		
1,500,000 Close Brothers	15,315,000	2.04
17,500,000 Natwest Group	18,550,000	2.48
45,000,000 Lloyds Banking Group	11,859,750	1.58
	45,724,750	6.10

Portfolio and net other assets as at 30 September 2020 *(continued)*

Holding (Ordinary shares unless otherwise stated)	Value (note 1f) £	Percentage of total net assets
Non-Life Insurance (30.09.19: 2.09%)		
1,392,415 Hiscox	12,439,836	1.66
General Financial (30.09.19: 8.83%)		
6,600,000 Aviva	18,856,200	2.52
5,300,000 Jupiter Fund Management	11,872,000	1.58
14,390,088 Legal & General	27,103,731	3.62
750,000 Sampo Oyj	23,041,652	3.07
	80,873,583	10.79
General Industrials (30.09.19: 0.00%)		
310,000 Smurfit Kappa	9,424,000	1.26
Software and Computer Services (30.09.19: 1.15%)		
2,519,602 Micro Focus International	6,200,740	0.83
Total value of investments (30.09.19: 94.12%)	719,721,603	96.03
Net other assets (30.09.19: 5.88%)	29,750,453	3.97
Total value of the fund as at 30 September 2020	749,472,056	100.00
Sectors eliminated since the beginning of the year:		
Travel and Leisure	6.74%	

Summary of portfolio investments

	Value £	Percentage of total net assets
Equity Securities	719,721,603	96.03
Total value of investments	719,721,603	96.03

Statement of total return for the year ended 30 September 2020

	Note	30.09.20 £	30.09.20 £	30.09.19 £	30.09.19 £
Income					
Net capital losses	2		(213,232,459)		(17,763,746)
Revenue	3	36,305,492		50,394,757	
Expenses	4	(7,908,205)		(9,860,194)	
Net revenue before taxation		28,397,287		40,534,563	
Taxation	5	(478,777)		(482,262)	
Net revenue after taxation			27,918,510		40,052,301
Total return before distributions			(185,313,949)		22,288,555
Distributions	6		(35,704,852)		(49,740,677)
Change in net assets attributable to unitholders from investment activities			(221,018,801)		(27,452,122)

Statement of change in net assets attributable to unitholders for the year ended 30 September 2020

	30.09.20 £	30.09.20 £	30.09.19 £	30.09.19 £
Opening net assets attributable to unitholders		1,107,803,140		1,198,082,921
Amounts receivable on issue of units	20,434,546		31,279,397	
Amounts payable on cancellation of units	(176,148,690)		(164,276,053)	
In-specie transfer*	—		43,742,228	
		(155,714,144)		(89,254,428)
Change in net assets attributable to unitholders from investment activities (see Statement of total return above)		(221,018,801)		(27,452,122)
Retained distributions on accumulation units		18,392,217		26,415,394
Unclaimed distributions		9,644		11,375
Closing net assets attributable to unitholders		749,472,056		1,107,803,140

*In-specie transfer relates to the closure of the X classes on 22 March 2019.

Balance sheet as at 30 September 2020

	Note	30.09.20 £	30.09.20 £	30.09.19 £	30.09.19 £
Assets					
Fixed assets:					
Investments			719,721,603	1,042,697,401	
Current assets:					
Debtors	7	6,230,867		2,358,829	
Cash and bank balances		34,644,417		80,573,223	
Total current assets			40,875,284	82,932,052	
Total assets			760,596,887	1,125,629,453	
Liabilities					
Creditors:					
Other creditors	8	(2,624,408)		(3,576,774)	
Distribution payable on income units		(8,500,423)		(14,249,539)	
Total liabilities			(11,124,831)	(17,826,313)	
Net assets attributable to unitholders			749,472,056	1,107,803,140	

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, and as amended in June 2017.

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

b) Recognition of revenue

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

c) Treatment of scrip and special dividends

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

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

d) Treatment of expenses

All expenses (other than 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.

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

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

f) Basis of valuation of investments

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

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

All assets are recognised and derecognised on trade date. Any trades occurring between valuation point and close of business are included in the financial statements.

g) Exchange rates

The functional currency of the fund is pound sterling. 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

	30.09.20	30.09.19
	£	£
The net capital losses during the year comprise:		
Non-derivative securities	(213,370,058)	(18,485,119)
Capital special dividends	—	614,893
Currency gains	138,905	108,029
Transaction charges	(1,306)	(1,549)
Net capital losses	(213,232,459)	(17,763,746)

3 Revenue

	30.09.20	30.09.19
	£	£
Dividends – UK Ordinary	30,575,588	42,708,227
– Overseas	5,105,658	6,825,353
– Property income distributions	479,700	529,800
Bank interest	144,546	331,377
Total revenue	36,305,492	50,394,757

4 Expenses

	30.09.20	30.09.20	30.09.19	30.09.19
	£	£	£	£
Payable to the Manager, associates of the Manager and agents of either of them:				
Manager's periodic charge		7,597,504		9,499,067
Payable to the Trustee, associates of the Trustee and agents of either of them:				
Trustee's fees	149,528		171,603	
Safe custody and other bank charges	73,283		85,243	
		222,811		256,846
Other expenses:				
Administration fees	5,444		7,143	
Audit fee*	10,920		16,028	
FCA fee	—		(1,604)	
Listing fee	3,540		3,710	
Printing and publication costs	1,647		2,251	
Registration fees	66,339		76,753	
		87,890		104,281
Total expenses		7,908,205		9,860,194

*Audit fees for 2020 are £8,850 excluding VAT (30.09.19: £8,300 excluding VAT).

5 Taxation

	30.09.20 £	30.09.19 £
a) Analysis of charge in the year		
Irrecoverable overseas tax	417,851	482,262
Reclaimable tax writeoff	91,389	—
Windfall overseas tax recoveries	(30,463)	—
Total tax charge for the year (note 5b)	478,777	482,262

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%) (30.09.19: 20%). The differences are explained below.

	30.09.20 £	30.09.19 £
Net revenue before taxation	28,397,287	40,534,563
Corporation tax at 20%	5,679,457	8,106,913
Effects of:		
Revenue not subject to taxation	(7,136,249)	(9,906,716)
Current year expenses not utilised	1,456,792	1,799,803
Corporate tax charge	—	—
Irrecoverable overseas tax	417,851	482,262
Reclaimable tax writeoff	91,389	—
Windfall overseas tax recoveries	(30,463)	—
Total tax charge for the year (note 5a)	478,777	482,262

c) Deferred tax

At the year end the fund had surplus management expenses of £146,559,878 (30.09.19 : £139,275,918). It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these expenses and, therefore, a deferred tax asset of £29,311,975 (30.09.19: £27,855,183) has not been recognised in the financial statements.

6 Distributions

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

	30.09.20	30.09.19
	£	£
Interim	14,849,568	16,134,382
Final	18,878,263	31,764,394
	33,727,831	47,898,776
Add: Amounts deducted on cancellation of units	2,186,619	2,208,110
Deduct: Amounts received on issue of units	(209,598)	(366,209)
Net distribution for the year	35,704,852	49,740,677

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

Net distribution for the year	35,704,852	49,740,677
Expenses charged to capital:		
Administration fees	(5,444)	(7,143)
Audit fee	(10,920)	(16,028)
FCA fee	—	1,604
Listing fee	(3,540)	(3,710)
Manager's periodic charge	(7,597,504)	(9,499,067)
Printing and publication costs	(1,647)	(2,251)
Registration fees	(66,339)	(76,753)
Safe custody and other bank charges	(73,283)	(85,243)
Trustee's fees	(149,528)	(171,603)
Equalisation on conversions	(279)	(480)
Tax relief on expenses	124,849	172,235
Balance brought forward	(5,003)	(4,940)
Balance carried forward	2,296	5,003
Net revenue after taxation	27,918,510	40,052,301

7 Debtors

	30.09.20	30.09.19
	£	£
Amounts receivable for issue of units	112,140	303,591
Sales awaiting settlement	4,373,427	—
Accrued revenue	665,747	1,265,548
Taxation recoverable	1,079,553	789,690
Total debtors	6,230,867	2,358,829

8 Other creditors

	30.09.20	30.09.19
	£	£
Amounts payable for cancellation of units	2,046,903	2,743,838
Purchases awaiting settlement	(8)	(8)
Accrued expenses	54,907	69,982
Accrued manager's periodic charge	522,606	762,962
Total other creditors	2,624,408	3,576,774

9 Reconciliation of units

	R-class income	R-class accumulation	I-class income	I-class accumulation
Opening units issued at 01.10.19	9,851,278	5,450,735	31,615,327	25,653,643
Unit movements 01.10.19 to 30.09.20				
Units issued	285,859	137,056	769,185	463,689
Units cancelled	(1,162,965)	(1,078,116)	(4,509,516)	(5,483,390)
Units converted	(392,663)	(107,336)	315,595	87,765
Closing units issued at 30.09.20	8,581,509	4,402,339	28,190,591	20,721,707

	S-class income	S-class accumulation
Opening units issued at 01.10.19	11,104,098	6,118,018
Unit movements 01.10.19 to 30.09.20		
Units issued	116,199	130,783
Units cancelled	(1,884,721)	(1,298,567)
Units converted	50,865	11,975
Closing units issued at 30.09.20	9,386,441	4,962,209

10 Related party transactions

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

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

There were no commissions paid to stockbroking of the Manager in respect of dealings in the investments of Rathbone Income Fund during the year (30.09.19: nil).

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

At the year end there were no significant unitholders (30.09.19: nil).

11 Contingent liabilities and commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.09.19: nil).

12 Risk disclosures on financial instruments

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

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

The fund does not make use of derivatives.

The main risks arising from the financial instruments are:

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

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

	30.09.20	30.09.19
	£	£
Currency:		
Danish krone	80,425	78,204
Euro	41,314,878	39,042,781
Swiss franc	23,758,319	24,220,760
US dollar	15,893,688	48,491,258
Pound sterling	667,345,193	995,180,447
	748,392,503	1,107,013,450
Other net assets not categorised as financial instruments	1,079,553	789,690
Net assets	749,472,056	1,107,803,140

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 £7,367,937 (30.09.19: £10,166,637). 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 £9,005,257 (30.09.19: £12,425,889). These calculations assume all other variables remain constant.

12 Risk disclosures on financial instruments *(continued)*

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

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

	30.09.20	30.09.19
	£	£
Floating rate assets:		
Pound sterling	34,644,417	80,573,223
Assets on which no interest is paid:		
Danish krone	80,425	78,204
Euro	41,314,878	39,042,781
Swiss franc	23,758,319	24,220,760
US dollar	15,893,688	48,491,258
Pound sterling	643,825,607	932,433,537
	724,872,917	1,044,266,540
Liabilities on which no interest is paid:		
Pound sterling	(11,124,831)	(17,826,313)
	(11,124,831)	(17,826,313)
Other net assets not categorised as financial instruments	1,079,553	789,690
Net assets	749,472,056	1,107,803,140

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

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

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

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

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

If market prices had increased by 10% as at the balance sheet date the net asset value of the fund would have increased by £71,972,160 (30.09.19: £104,269,740). If market prices had decreased by 10% as at the balance sheet date the net asset value of the fund would have decreased by £71,972,160 (30.09.19: £104,269,740). These calculations assume all other variables remain constant.

12 Risk disclosures on financial instruments *(continued)*

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

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

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

13 Portfolio transaction cost

For the year ended 30 September 2020

Analysis of total purchases costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Equity transactions	164,298,978	92,841	0.06	691,296	0.42
Total purchases before transactions costs	164,298,978	92,841		691,296	
Total purchases including commission and taxes	165,083,115				

Analysis of total sales costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Equity transactions	254,848,885	133,975	0.05	1,055	0.00
Corporate actions	19,975,000	—	—	—	—
Total sales including transactions costs	274,823,885	133,975		1,055	
Total sales net of commission and taxes	274,688,855				

Commissions and taxes as % of average net assets

Commissions 0.02%

Taxes 0.08%

13 Portfolio transaction cost *(continued)*

For the year ended 30 September 2019

Analysis of total purchases costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Equity transactions	168,828,986	97,277	0.06	632,838	0.37
In-specie transactions	46,337,718	—	—	—	—
Corporate actions	6,510,000	—	—	—	—
Total purchases before transactions costs	221,676,704	97,277		632,838	
Total purchases including commission and taxes	222,406,819				

Analysis of total sales costs

	Value	Commissions		Taxes	
	£	£	%	£	%
Equity transactions	282,584,257	165,692	0.06	680	—
In-specie transactions	5,848,285	—	—	—	—
Corporate actions	22,389,745	—	—	—	—
Total sales including transactions costs	310,822,287	165,692		680	
Total sales net of commission and taxes	310,655,915				

Commissions and taxes as % of average net assets

Commissions	0.02%
Taxes	0.06%

In the case of shares, 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 0.06% (30.09.19: 0.06%).

14 Fair value of investments

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

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

14 Fair value of investments *(continued)*

For the year ended 30 September 2020

Category	1	2	3	Total
Investment assets	£	£	£	£
Equities	719,721,603	–	–	719,721,603
	719,721,603	–	–	719,721,603

For the year ended 30 September 2019

Category	1	2	3	Total
Investment assets	£	£	£	£
Equities	1,042,697,401	–	–	1,042,697,401
	1,042,697,401	–	–	1,042,697,401

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 17 November 2020. 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	30.09.20 bid price	17.11.20 mid price
R-class income	700.18p	748.68p
R-class accumulation	1,300.85p	1,425.72p
I-class income	758.51p	811.71p
I-class accumulation	1,377.77p	1,511.50p
S-class income	777.83p	832.57p
S-class accumulation	1,401.83p	1,538.41p

Distribution tables for the year ended 30 September 2020

Distribution tables (pence per unit)

Interim

Group 1 – Units purchased prior to 1 October 2019

Group 2 – Units purchased on or after 1 October 2019 and on or before 31 March 2020

R-class income units	Net income	Equalisation	Paid 29.05.20	Paid 31.05.19
Group 1	12.88	–	12.88	12.50
Group 2	5.80	7.08	12.88	12.50

R-class accumulation units	Net income	Equalisation	Accumulated 29.05.20	Accumulated 31.05.19
Group 1	22.56	–	22.56	21.90
Group 2	7.74	14.82	22.56	21.90

I-class income units	Net income	Equalisation	Paid 29.05.20	Paid 31.05.19
Group 1	13.70	–	13.70	13.30
Group 2	5.16	8.54	13.70	13.30

I-class accumulation units	Net income	Equalisation	Accumulated 29.05.20	Accumulated 31.05.19
Group 1	23.38	–	23.38	22.70
Group 2	7.07	16.31	23.38	22.70

S-class income units	Net income	Equalisation	Paid 29.05.20	Paid 31.05.19
Group 1	13.91	–	13.91	13.50
Group 2	3.99	9.92	13.91	13.50

S-class accumulation units	Net income	Equalisation	Accumulated 29.05.20	Accumulated 31.05.19
Group 1	23.54	–	23.54	22.85
Group 2	5.41	18.13	23.54	22.85

Distribution tables for the year ended 30 September 2020 *(continued)*

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

Final

Group 1 – Units purchased prior to 1 April 2020

Group 2 – Units purchased on or after 1 April 2020 and on or before 30 September 2020

R-class income units	Net income	Equalisation	Payable 30.11.20	Paid 29.11.19
Group 1	17.04	–	17.04	25.42
Group 2	8.23	8.81	17.04	25.42

R-class accumulation units	Net income	Equalisation	Allocated 30.11.20	Accumulated 29.11.19
Group 1	32.48	–	32.48	44.89
Group 2	19.07	13.41	32.48	44.89

I-class income units	Net income	Equalisation	Payable 30.11.20	Paid 29.11.19
Group 1	18.59	–	18.59	27.32
Group 2	9.39	9.20	18.59	27.32

I-class accumulation units	Net income	Equalisation	Allocated 30.11.20	Accumulated 29.11.19
Group 1	34.69	–	34.69	47.27
Group 2	17.32	17.37	34.69	47.27

S-class income units	Net income	Equalisation	Payable 30.11.20	Paid 29.11.19
Group 1	19.15	–	19.15	27.99
Group 2	9.07	10.08	19.15	27.99

S-class accumulation units	Net income	Equalisation	Allocated 30.11.20	Accumulated 29.11.19
Group 1	35.46	–	35.46	48.08
Group 2	16.90	18.56	35.46	48.08

Notes for corporate unitholders

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

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

Equalisation

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

Directors' statement

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

MM Webb **JR Chillingworth**
for Rathbone Unit Trust Management Limited
Manager of Rathbone Income Fund
11 December 2020

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

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

1. select suitable accounting policies, as described in the attached financial statements, and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. comply with the disclosure requirements of the SORP relating to financial statements of authorised funds issued by The Investment Association;
4. 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 a 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. The manager has general responsibility for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Manager is aware:

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

The Manager has considered the activities of the Scheme together with the factors likely to affect its future development, including those related to the COVID-19 pandemic. The assets of the Income Fund consist predominantly of cash and liquid securities that are readily realisable and therefore has adequate resources to continue in operational existence for the foreseeable future. The Manager has also considered the impact of the COVID-19 pandemic on the operations of the Manager and material third party service providers which continue to be maintained and fully functioning. Accordingly, the Manager continues to adopt the going concern basis in the preparation of the financial statements.

In accordance with COLL 4.5.8 R, the Annual Report and the audited financial statements were approved by the board of directors of the Manager of the Scheme and authorised for issue on 11 December 2020.

Statement of the Trustee's responsibilities and report of the Trustee to the Unitholders of Rathbone Income Fund (the Scheme) for the period ended 30 September 2020

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

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

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

The Trustee must ensure that:

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

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

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

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

National Westminster Bank Plc
Trustee and Depositary Services
Trustee of Rathbone Income Fund
11 December 2020

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Rathbone Income Fund (the fund):

- give a true and fair view of the financial position of Rathbone Income Fund (the fund) as at 30 September 2020 and of the net revenue and the net capital losses on the property of the fund for the year ended 30 September 2020 and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', the Statement of Recommended Practice 'Financial Statements of UK Authorised Funds', the rules in the Collective Investment Schemes Sourcebook and the Trust Deed.

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

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

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

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

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of trustee and manager

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

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: 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 2020 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 Income 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, United Kingdom
11 December 2020

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	1,344	2,740	4,084	5
Risk takers	1,340	1,725	3,065	13
Control functions	268	40	308	3
Other	111	74	185	1
Total remuneration code staff	3,063	4,579	7,642	22
Non-remuneration code staff	968	279	1,247	23
Total for the Manager	4,031	4,858	8,889	45

The variable remuneration disclosed in the table above is for the financial year ended 31 December 2019, 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.

Authorised status

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

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

Investment objective, policy and strategy

The objective of the fund is to deliver an annual income that is in line with or better than that of the FTSE All-Share Index over any rolling three-year period. The fund also aims to increase income payments in line with the CPI measure of inflation over any rolling five-year period. The fund aims to generate a greater total return than the FTSE All-Share Index, after fees, over any five-year period. There is no guarantee that this investment objective will be achieved over five years, or any other time period. We use the FTSE All-Share Index as a target for our fund's return and the income we pay because we want to offer you a better income and higher returns than the UK stock market. Increasing your income payments at least in line with the CPI measure of inflation protects your future spending power.

To meet the objective, the fund manager will invest at least 80% of our fund in UK-listed shares, with the remainder in global shares, cash, short-term deposits and UK government debt. Derivatives may be used by the fund for the purposes of efficient portfolio management and hedging. The manager may use all investment powers as permitted by the prospectus, outside the ranges described above, to ensure the fund is managed in the best interest of investors in times of market irregularities or stress. The fund may invest at the fund manager's discretion in other transferable securities, money market instruments, warrants, cash and near cash and deposits and units in collective investment schemes. Use may be made of stock lending, borrowing, cash holdings, hedging and other investment techniques permitted by the FCA Rules.

This is a stock-picking fund, which means we invest in a small number of UK-listed stocks. We invest in businesses which offer the best investment opportunities at the most attractive prices. When choosing investments we use our own trinity of risk framework: price, business and financial. We look for businesses that offer good value and make strong and consistent profits with high quality earnings – those that are backed by real cash rather than accounting contrivance. Companies shouldn't have more debt than they can handle. We buy these companies because we believe they should grow generate good earnings backed by cash over many years. A healthy cash flow gives companies the flexibility to repay debts, reinvest in their businesses, and pay a dividend that increases over time.

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: rathbonefunds.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.

General information *(continued)*

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.

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

There is no preliminary charge for R-class, I-class or S-class units.

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

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

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

Statements

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

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

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

Prices

Prices are available on our website rathbonefunds.com

Other information

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

The Register of Unitholders can be inspected during normal business hours at the office of the Registrar, SS&C Financial Services Europe Limited, SS&C 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.

ISA eligibility

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

Risk factors

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

Value Assessment

Our regulator, the Financial Conduct Authority (FCA), has asked us to assess the value of our funds. Assessing value is much more than just looking at the fees you pay or the performance of your fund in isolation. Considering this, we have designed an assessment which looks at nine criteria.

We have also appointed an independent research firm, Square Mile Investment Consulting & Research, to provide an impartial report on the value our funds offer compared with the market.

It is the responsibility of our board of directors to consider the outcomes of these assessments, ensure they are clear and fair, and then communicate to you, our investors, if we have delivered value or, if not, where we need to improve.

You can view the value assessments for the Funds four months after their period end on our website rathbonefunds.com

Other funds

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

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

and the Authorised Corporate Director of:

Rathbone Defensive Growth Fund
Rathbone Dynamic Growth Fund
Rathbone Enhanced Growth Portfolio
Rathbone Global Alpha Fund
Rathbone Global Sustainability Fund
Rathbone High Quality Bond Fund
Rathbone Pharaoh Fund
Rathbone Quercus Growth Fund
Rathbone Sherwood Fund
Rathbone Strategic Growth Portfolio
Rathbone Strategic Income Portfolio
Rathbone Sussex Growth Fund
Rathbone Sussex Income Fund
Rathbone Total Return Portfolio

Further details

Should you need 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: rathbonefunds.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

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Information line

020 7399 0399

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Investment Association

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