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The Rathbone Luxembourg Funds SICAV Product brochure

For investments in:

The Rathbone SICAV Ethical Bond Fund

This brochure includes:

Ethical process and systems

Ethical criteria

Investment strategy

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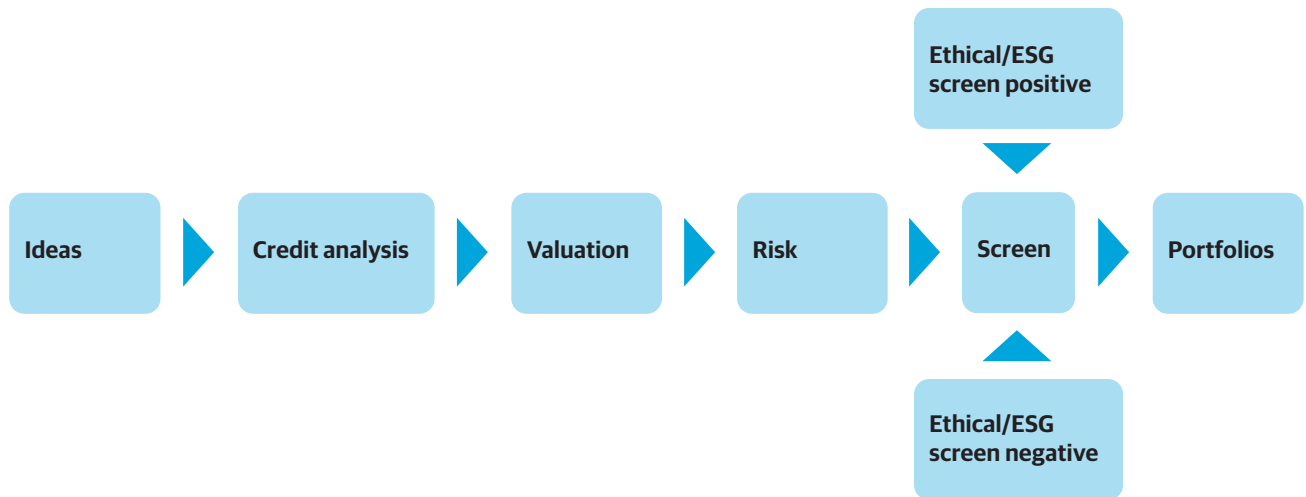
Investment objective and process

High level definition of the product

- Quality investment-grade bonds
- Average risk.

The process has various layers to achieve superior results:

- Theme based investment-idea generation (macro, sector, regional, supply, regulation, interest rates)
- Credit analysis – the four C's PLUS model
- Valuation – relative value
- Evaluation of risk
- Ethical/ESG screen.



Investment strategy

1. Macroeconomics – interest rate risk

The major risk a bond fund will face is a change in monetary policy and thus interest rates. Any change of interest rates has an inverse impact on the price of a bond. The sensitivity of a particular bond to changes in interest rates is known as its *modified duration*.

If the manager expects a general rise in interest rates, it is likely he will structure the portfolio so that the average modified duration is less than that of the FTSE Actuaries All-Stocks Gilt index. In this way, the manager will hope to limit any fall in prices. The manager may also invest a proportion of the fund in *floating rate securities*. These instruments have a rate of interest which changes with base rates.

If interest rates are expected to fall, then the manager may structure the portfolio with an average modified duration that is more than that of FTSE Actuaries All-Stocks Gilt index. The manager believes this should lead to an out-performance in terms of price during falling interest rates.

2. Asset allocation

The overall credit quality of the fund will be the weighted average of the credit rating of each security within the fund. The manager will choose a portfolio that will reduce the overall credit risk of the fund during periods when the economy is expected to contract. During these times, it is likely that individual issuers will face downgrades to their credit rating to reflect the deteriorating trading environment in which they are operating. When the manager expects the economy to be expanding, he will seek, through the selection of securities, to optimise the potential of credit upgrades.

3. Selection of individual securities

Decisions are made using a top-down meets bottom-up approach. In-depth analysis of the current macro environment provides a view on the likely direction of future economic growth, inflation, and interest rates. This helps the selection of the overall *maturity, duration* and *credit quality* of the fund.

We then examine each individual issuer using the four C's approach to credit analysis.

1. **Character:** An assessment is made of a company's management quality and their ability to meet their own and the market's expectations. The extra policing provided by the ethical research team in Bristol is particularly useful here.
2. **Capacity:** The ability of an issuer to repay its debts. In-depth analysis of the cashflow in a business is key to this part of the overall approach.
3. **Collateral:** The quality of the assets of any company is of paramount importance. Tangible assets can always be sold, whereas in-tangibles cannot. 'Real' assets are good sources of cashflow during good and bad times.
4. **Covenants:** These are the terms and conditions detailed in the bond prospectus that govern the way the management may operate the business. At times, they can restrict managements' options. A covenant default can often be the first warning sign of impending trouble. Covenants play an important role in minimising investor risk when lending to corporates.

Depending on credit quality (indicated by the rating), there are limits for each individual issuer in terms of the size of the holding as a percentage of the whole fund.

S&P credit rating definition:

AAA = Issuer has an extremely strong capacity to meet its financial commitments.

AA = Issuer has a very strong capacity to meet its financial commitments.

A = Issuer has a strong capacity to meet its financial commitments.

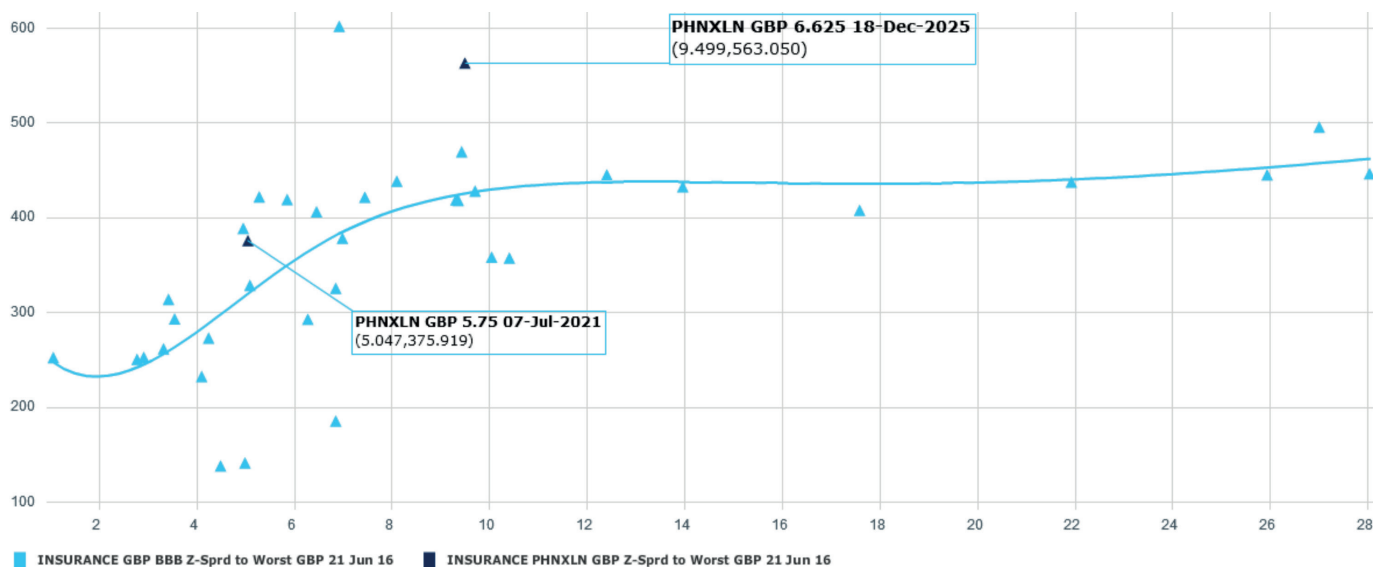
BBB = Issuer has adequate capacity to meet its financial commitments.



The fund is actively managed

4. Valuation – an example

Phoenix Group



Source: Barclays Capital Live Curve

Valuation model

Name	Cpn	Maturity	Yield	Duration	YC score	Rating	Rank	6m Vol	1y Vol	6m R/A yield	1y R/A yield
TSB Banking Group Plc	5.75	06/05/2021	6.38	2.22	2.31	BBB3	T2	2.01	1.80	3.18	3.54
Paragon Banking Group Plc	6	28/08/2024	4.79	4.65	1.88	BBB2	SENR	3.59	3.58	1.33	1.34
Cybg Plc	3.125	22/06/2024	4.63	5.36	1.68	BBB2	SENR	3.61	3.35	1.28	1.38
Phoenix Group Holdings	6.625	18/12/2025	5.82	5.61	1.68	BBB2	SUB	3.03	3.05	1.92	1.91
Lloyds Bank plc	13	22/01/2029	6.34	7.16	1.67	BB1	T1	2.25	1.97	2.82	3.22
Places for People Fin	4.25	15/12/2023	3.71	4.38	1.61	A2	SENR	1.00	0.98	3.71	3.79
Investec Plc	4.5	05/05/2022	3.06	2.99	0.85	BBB1	SENR	1.45	1.68	2.10	1.82
AXA	6.686	06/07/2026	4.77	5.59	0.71	BBB2	JSUB	2.55	2.72	1.87	1.75
Skipton Building Society	1.75	30/06/2022	2.95	3.30	0.68	BBB1	SENR	1.74	1.88	1.69	1.57

Source: Bloomberg and Rathbones, as at 21.01.2019

YC score

A valuation measure based on the excess yield a bond provides relative to a Rathbones fair value yield curve model. Fair value yield curves are determined by bonds with similar characteristics – i.e. credit rating, subordination and currency.

Risk adjusted yield

This measure calculates how much yield a bond provides per unit of risk. By looking at daily pricing data for a bond, we calculate standard deviations (risk) over 6 months, 1 year and 3 year time horizons. We then divide a bond's current yield by its risk to provide a measure similar to a Sharpe ratio for each bond.

Ethical processes and systems

Who provides ethical screening for the fund?

The ethical research for the fund is provided by Rathbone Greenbank Investments, the specialist ethical, sustainable and impact research investment unit of Rathbone Investment Management Limited (part of Rathbones Group Plc). The team at Rathbone Greenbank has been at the forefront of developments in the ethical investment industry since 1992, launching one of the first bespoke ethical portfolio services.

Since 1997, when the team joined Rathbones, Rathbone Investment Management has offered a dedicated responsible investment service.

In 2004, this unit was formally rebranded as Rathbone Greenbank Investments and now works with around 1,900 clients across the UK and overseas, managing in excess of £1.6 billion (as at 31 December 2019).

Rathbones is a signatory to, and participant in, the Carbon Disclosure Project (CDP), as well as being a signatory to the UN-backed Principles for Responsible Investment.

Rathbone Greenbank is a longstanding member of both UKSIF (the UK Sustainable Investment and Finance Association) and the Ecumenical Council for Corporate Responsibility (ECCR). It is also a member of CDP and the Institutional Investors Group on Climate Change (IIGCC).

How does Rathbone Unit Trust Management work with Rathbone Greenbank?

To make sure that investments are suitable for the fund, we have access to a dedicated ethical, sustainable and impact research team. Rathbone Greenbank's research team works with the manager of the fund to make sure that investments are only made in bonds issued by approved organisations. They are responsible for the daily monitoring of corporate news on environmental and social matters. As companies change their activities, merge with others, or develop new policies and practices, their suitability and risks will alter.

The team also undertakes special research and engagement projects on key issues. You can find out more at rathbonegreenbank.com.

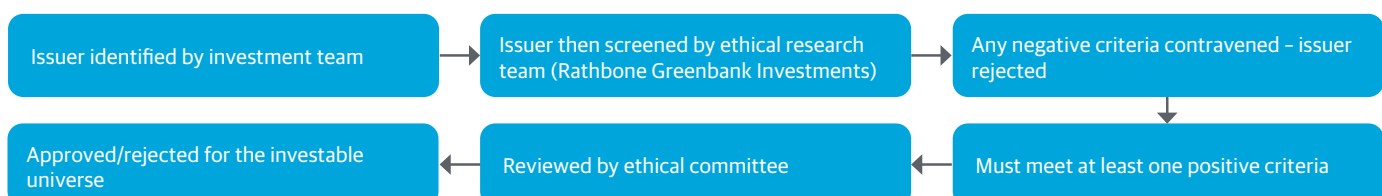
Our process - overview

Issue selection and approval

1. The fund manager will first identify corporate bonds that represent an attractive investment proposition.
2. Organisations issuing these bonds will then be investigated by Rathbone Greenbank's ethical researchers.
3. Issuers involved in any activities that fall into the categories outlined by the fund's published negative criteria will not be considered for inclusion in the fund universe.
4. Issuers demonstrating well-developed policies and practices in at least one positive area will be included in the fund universe, provided they are not involved in any areas of negative concern.
5. Issuers identified as suitable at this stage will then be subject to approval by a member of the fund's ethical committee. This is made up of three senior members of Rathbone Greenbank Investments: John David (investment director, head of Rathbone Greenbank), Elizabeth Haigh (investment director, co-founder of Rathbone Greenbank) and Perry Rudd (head of Rathbone Greenbank's ethical, sustainable and impact research team).

Ongoing governance and stakeholder engagement

6. An annual review meeting for the Rathbone SICAV Ethical Bond Fund will be held involving the researchers, the fund managers and representatives from Rathbone Greenbank Investments and Rathbone Unit Trust Management. This meeting takes place before the Annual Report is made available. The portfolio, criteria, investment process and research process are all reviewed.
7. The Annual Report of the fund will contain details of the portfolio and an ethical report. This will include details of any proposed amendments to ethical criteria or to the screening process. You are welcome to give comments and feedback on any aspect of the fund.
8. If any proposed changes attract significant comment, an ad-hoc meeting can be called to review comments and determine action. Any changes are confirmed in the Annual Report (if appropriate).



Communications

You can find fund manager names and contact details in our supporting literature, available on request and on our website rathbonefunds.com. You can find fund factsheets (including fund sizes) and investment reports detailing the fund's performance history at our website under the 'Our Funds' section.

How do we communicate with investors?

Monthly: The Rathbone SICAV Ethical Bond Fund factsheet summarises fund performance for the period, sector asset allocation, ten largest holdings and credit quality and maturity distribution.

Bi-annual: The Rathbone SICAV Ethical Bond Fund Interim and Annual (April & October) reports. These are published alternately every six months. Contents include a manager's report; an ethical report and a full list of holdings.

An archive of all reports is available at rathbonefunds.com and/or by calling 020 7399 0399.

What are our corporate responsibility policies?

Rathbones has implemented corporate responsibility policies relating to the Group's environmental impacts, employee welfare and benefits and community involvement. Progress is reported annually in the Group's report and accounts and via the 'Investor Relations' part of the website rathbones.com

"We believe that the fund offers the opportunity to invest in a fixed income fund with high quality investment grade bonds whilst applying a broad range of both positive and negative screening criteria that will appeal to consumers with ethical concerns."

Ethical and ESG criteria

How do we define SRI?

In general terms, for the fund, we define socially responsible investment as an investment strategy in which we believe long-term growth can be achieved by companies which conduct their business and apply capital responsibly, giving full consideration to a range of social, environmental and ethical issues as they might affect concerned parties (employees, customers, shareholders, etc.) as well as wider society.

Specifically, the fund applies key negative exclusion criteria to issuers of corporate bonds before ensuring that any issuers not in breach of these satisfy at least one of the fund's positive activity requirements.

The fund's ethical and ESG criteria are defined on page 8 of this document.

How are the criteria defined?

The criteria were developed prior to the launch of the fund in May 2002 with significant guidance from Rathbone Greenbank Investments (as was later branded). Representatives of Rathbone Greenbank sit on the fund's ethical committee.

By whom are the criteria reviewed?

The criteria continue to be defined with reference to the ethical committee which meets once a year as part of the fund's annual review process.

How frequently are the SRI criteria defined?

Changes to the criteria are expected to be infrequent. Any proposed changes would be published in the subsequent Annual Report. The last significant revision to the fund's ethical criteria took place in April 2017.

How are criteria changes communicated to investors?

Any changes to the fund's ethical criteria will be communicated through the Annual Report and via our Distribution team to advisers.

Research process

What is the ESG research methodology and process?

The fund's ethical investment criteria are applied by Rathbone Greenbank's ethical research team. It maintains a database of company profiles covering the FTSE 350 index and selected FTSE SmallCap and overseas stocks. Companies are assessed against a number of positive and negative top-level social and environmental criteria, comprising over a hundred distinct sub-criteria respectively.

Companies are assessed on both a bottom-up (looking in detail at the specific merits of their individual activities and how they address corporate responsibility issues) and a top-down approach (evaluating this performance in comparison to their peers in terms of the range of corporate responsibility issues covered and quality of response).

In addition to the reporting outputs of companies themselves, the ethical research team accesses a variety of sources (industry groups, non-governmental organisations, sell-side analysts, external research bodies, specialist SRI conferences, financial news monitoring, SRI media publications) to arrive at a balanced view of companies' overall performance.

Research is also conducted on a thematic basis and has examined such topics as: climate change, clean energy, human rights, community investment and employee welfare.

Given the significant overlap between constituents of this database and the fund's investable universe (defined as the constituents of the iBoxx index of Sterling-denominated corporate bonds), this research is applicable in the context of the fund's ethical criteria as well.

Where bond issuers are not covered by the equity research, separate investigation is carried out in the same way to determine whether it is appropriate for issuers to be approved for inclusion in the fund's universe. Since June 2015, Rathbone Greenbank's ethical research team has subscribed to MSCI ESG Manager to reinforce this process.

Do we use an in-house research team and/or an external research team?

The fund manager uses Rathbone Greenbank's in-house research team.

This team of three research professionals maintains a bespoke database of company ethical profiles. The fund manager can access this database at all times, and may purchase a bond from a company which has been previously reviewed and approved.

Is there an external control or external verification process in place for the research process?

The fund does not have an external committee or verification process; it believes this control is provided by accountability to investors and public scrutiny. The complete portfolio is published in the Interim and Annual Reports. Unitholders and

others are encouraged to comment on the fund's holdings and how they view the application of its ethical criteria.

The research process does not include stakeholder consultation or the option for companies to review analysis on them. The research process is reviewed annually at a formal meeting.

What research findings are disclosed to the public?

The ten largest holdings are disclosed monthly and a full list of holdings is published in the fund's Interim and Annual Reports. A limited number of brief "case studies" for selected holdings are published as part of the fund's literature.

Evaluation and implementation

What internal or external measures are in place to ensure portfolio holdings comply with ESG criteria?

At the time of investment, the fund manager is required to have clear approval from the ethical committee. This is complemented by a full review of all holdings and the fund's eligible investment universe ahead of, and at the annual review meeting. The portfolio is open to public scrutiny: comments and questions are invited on any of the holdings in the portfolio.

The fund's holdings are monitored by Rathbone Greenbank's ethical research team regularly and reviewed in the light of any relevant news, merger and acquisition activity or findings from ongoing company analysis.

What is the policy and procedure for divestments on SRI grounds?

Divestments are very uncommon. If the activities of an issuer change, so that a bond is no longer suitable for the fund, the fund manager would normally seek to sell the holding within three months. If the bond is particularly illiquid and selling is difficult, the manager can take up to six months. If the bond is within two years of redemption, it can be held to maturity if the fund manager believes selling it earlier would be prejudicial to the overall performance of the fund.

Are investors informed about divestments on SRI grounds (if so, how often and by what means)?

Any divestments, or proposed divestments, made on SRI grounds, would be mentioned in the ethical report section of the Annual Report.

We do not inform companies of portfolio exclusions or divestments due to non-compliance with its SRI policy and criteria.

Engagement approach

What is our approach to engagement for this fund?

As the fund is a corporate bond fund and voting rights do not usually attach to its underlying holdings, the fund itself does not have a formal engagement policy as part of its strategy. However the ethical research team of Rathbone Greenbank, which provides ethical screening services for the fund, regularly engages with companies on a variety of issues.

Whilst this activity is primarily undertaken on behalf of Rathbone Greenbank's private clients, where corporate bond holdings in the fund overlap with Rathbone Greenbank's equity holdings, the team will engage with companies on behalf of all concerned parties.

Whilst we will engage with stocks within the portfolio where required (for example, in the case of a takeover), the fund is not an 'engagement' fund – in the sense that it will not invest in companies which contravene the exclusion criteria purely on the premise that we are trying to encourage behavioural change.

What are the aims of Rathbone Greenbank's engagement policy?

Engagement forms a key part of Rathbone Greenbank's approach to responsible investment. It is used in the following ways:

1. To address direct concerns about a specific company issue or area of performance;
2. To encourage best practice, providing internal momentum for positive change within companies;
3. In the context of a 'best of sector' investment strategy, to encourage companies within controversial or high environmental impact sectors (e.g. oil and gas, pharmaceuticals) towards more positive behaviour or better disclosure.

Engagement will be guided by the following principles:

1. Rathbone Greenbank will seek open and constructive dialogue in a spirit of long-term partnership;
2. Engagement will be made on the basis of corroborated evidence or research which is of a rigorous and independent nature.

How does the fund prioritise with which companies it will engage?

Rathbone Greenbank favours engagement on those issues where it has particular expertise, or where positive outcomes are

clearly identifiable, in order to make most effective use of time and resources.

What methods of engagement are employed?

1. Formal and informal correspondence and/or meetings with company representatives;
2. Where appropriate, Rathbone Greenbank will seek to collaborate with other members of the SRI community as well as other fund managers within Rathbone Investment Management. When doing so, the principles stated above will guide the level of involvement and choice of partners.

How is the effectiveness of engagement activity monitored/ addressed?

In measuring the effectiveness of its engagement strategy, Rathbone Greenbank will:

1. Consider any material changes in company policy or performance achieved from year to year, (in the course of the ethical research team's regular updating of company profiles);
2. Aim to report at least once a year to clients the scope and number of engagement activities undertaken.

How, and how frequently, are engagement activities communicated to investors and other stakeholders?

Any engagement activity undertaken specifically with regard to holdings in the fund will be communicated through the Annual Report. The public disclosure of ethical criteria and regular reporting cycles ensures that fund holders are clear as to the policy and practice of the fund. Lines of communication are always open, but no formal engagement is undertaken with the client base.

What is our approach to voting on the holdings in the fund?

For general corporate governance issues, voting is decided by Rathbone's Stewardship Committee in line with our policy and advice from an external consultant. However, since voting is managed internally by our corporate actions teams, we retain the ability to change our votes, or to open up the vote to splits according to fund manager (and hence client) preference.

This occurs formally only where there is overlap with the holdings of the wider Rathbone Unit Trust Management funds, since the Rathbone SICAV Ethical Bond Fund has no voting rights in any of the companies in which it holds debt.

A copy of our compliance with the UK Stewardship Code is available at rathbonefunds.com

For our latest Stewardship Report visit rathbonefunds.com

Ethical criteria

Exclusions

The fund applies negative screening criteria to exclude from its universe any issuers of corporate bonds in breach of any of the exclusion criteria, before ensuring that issuers satisfy at least one of the fund's positive criteria requirements.

The fund shall exclude bonds issued by organisations wholly or materially* involved in the following activities:

Alcohol

Manufacture of alcoholic beverages.

Animal welfare

Provision of animal testing facilities, or the use of animals in the discovery or development of pharmaceutical or healthcare products; manufacture or retail of cosmetic or household products without a fixed cut-off date policy for the testing of finished products (and their ingredients); production or retail of fur or fur products; rearing or processing of animals for food without evidence of policy, management or reporting on farm animal welfare.

Armaments

Manufacture or sale of strategic weapon systems, munitions or combat vehicles.

Environmental or high-carbon impact

Mineral or aggregate extraction, fossil fuel exploration and production, agrochemical production, production of genetically modified seeds or foodstuffs; unsustainable sourcing of commodities linked to habitat destruction; manufacture of vehicles based on hydrocarbon fuels. Also, issuers with convictions for serious or persistent pollution offences.

Gambling

Operation of betting or gaming facilities (including casinos, betting shops and internet-based services).

Human rights

Non-compliance with standards set by the International Labour Organization and United Nations Universal Declaration of Human Rights, including direct use of child, forced or bonded labour.

Nuclear power

Construction of nuclear power plants, generation of electricity from nuclear power, or handling or reprocessing of radioactive waste.

Pornography

Production or sale of pornographic material.

Predatory lending

Unfair lending practices imposing high-interest rates or fees.

Tobacco

Manufacture of tobacco or tobacco products.

Positive aspects

To qualify for inclusion in the fund's universe, issuers should demonstrate progressive or well-developed practice or policies in one of the following key areas:

Corporate community investment

Long-term involvement in programmes of benefit to the community, either via cash donations or gifts in kind (e.g. staff time, use of buildings or office facilities) or membership of corporate community investment benchmarking groups.

Employment

Commitment to workplace diversity and equal opportunities; additionally they could facilitate employee work/life balance by offering flexible working arrangements, carers' leave and/or childcare facilities.

Human rights

Compliance with local and national standards in accordance with minimums set by the International Labour Organization and United Nations Universal Declaration of Human Rights. Alternatively, issuers may implement their own codes of conduct to ensure compliance with local laws covering child labour, working conditions and health and safety.

Management of environmental impacts

Publication of a clearly defined policy for managing environmental impacts. This should include monitoring and reporting on progress against key performance indicators in areas such as waste disposal and recycling, consumption of resources, emissions to air, and discharges to land and water.

Provision of beneficial products and services

Provision of products or services that offer social or environmental benefits. Such activities might include designing or implementing cleaner or more efficient industrial processes; enabling compliance with health and safety legislation; supplying educational products or services; providing waste recycling or acceptable forms of waste management; providing social housing; manufacturing, installing or operating renewable energy infrastructure; building or operating sustainable transport systems.

Green, climate, sustainability, social bonds

'Ringfenced' bonds, where proceeds are intended for a specific social or environmental purpose, will be approved subject to the following requirements: identifiable use of proceeds; third-party project evaluation; ongoing management of proceeds; and project reporting. Approval will be granted in the context of the specific use of proceeds rather than the issuer's principal activity.

Important notes

You should be aware that the criteria on this page may be subject to change. Criteria do not vary according to sector, geographical zone or type of issuer.

Explanatory screening notes

Please note, as part of the screening process, issuers are also vetted for exposure to other potentially material ESG risks beyond the headline exclusion criteria. Additional exclusions may therefore be applied by the fund's ethical committee where an issuer is considered to be unacceptable on other grounds.

- * The fund does not use absolute thresholds to determine whether an issuer is "materially" involved in a particular activity; this is for the following reasons:
1. Commonly used indicators of activity involvement (for example, the percentage of revenue derived) only represent a snapshot in time and can quickly become out of date.
 2. Falling fractionally on one side or other of an arbitrary cut-off point, where less than a certain percentage of revenue is acceptable and greater than is unacceptable, could mean that companies with little actual difference between them (for example, 9.99% versus 10.01%) are treated differently.
 3. In absolute monetary terms, 1% of a company's revenue could be significantly more (and have a greater negative impact) than 10% of another's.

This is why the fund considers all factors as well as any changes over time that may indicate a "direction of travel", that is, whether the proscribed activity is a strategic or growth part of a company or represents a declining legacy business.

As a starting point, the fund's criteria are intended to be absolute (0% threshold) to meet the requirements of its ethical clients.



Disclaimer – Eurosif does not accept responsibility or legal liability for errors, incomplete or misleading information provided by signatories in their responses to the European SRI Transparency Code. Eurosif does not provide any financial advice nor endorse any specific funds, organizations or individuals.

The European SRI Transparency logo signifies that Rathbone Unit Trust Management Limited commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund.

Detailed information about the European SRI Transparency Guidelines can be found on [eurosif.org](https://www.eurosif.org), and information of the SRI policies and practices of the Rathbone SICAV Ethical Bond Fund can be found at: [rathbonefunds.com](https://www.rathbonefunds.com).

The Transparency Guidelines are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.

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Investment manager:
Rathbone Unit Trust Management Limited
Authorised and regulated by the Financial
Conduct Authority

A member of the Investment Association
A member of the Rathbones Group.
Registered No. 02376568

Management company:
FundRock Management Company S.A.
Authorised in Luxembourg and regulated
by the Commission de Surveillance du
Secteur Financier

Rathbones
Look forward

Past performance does not predict future returns. For further information on risks and costs, please read the Prospectus and Key Investor Information Documents (KIIDs), available for free at rathbonefunds.com. 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.

Rathbone Greenbank Investments is a trading name of Rathbone Investment Management Limited, which is authorised and regulated by the UK's Financial Conduct Authority.

Rathbone Unit Trust Management meets the recommendations of the European SRI Transparency Guidelines excepting questions which we do not feel are appropriate for a fund of the type in question.

Please note that the Rathbone Luxembourg SICAV may decide to terminate the agreements made for the marketing of the fund pursuant to Article 93a of Directive 2009/65/EC. For a summary of investor rights and guidelines regarding an individual or collective action for litigation on a financial product at European Union level and in the respective country of residence of the investor, please refer to the following link: rathbonefunds.com. The summary is available in English or an authorised language in the investor's country of residence.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Please refer to the Prospectus of the UCITS and the KIID before making any final investment decisions.