Rathbone Income vs Norwich Union UK Equity Income

Advisers are spoilt for choice when it comes to the UK Equity Income sector but despite our panel's prodding and probing this week's funds both appear able to hold their own in this competitive arena.

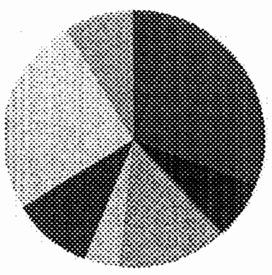
Rathbone Income

What *New Model Adviser®* says:

The fund is run by Rathbone Unit Trust Management. Its objective is to achieve above average and maintainable income but without neglecting capital security and growth. It aims to do this through the purchase of ordinary shares with an above average yield. There is no restriction on the economic sectors or geographic areas in which the fund may invest. The fund may also invest in other transferable securities, money market instruments, warrants and cash.

What Rathbone says:

'Activity in the fund has been driven by our desire to maintain a focused list of investments in which we have full confidence' says the fund's manager Carl Stick. 'We believe this is particularly important in light of the uncertain economic outlook that businesses are currently facing. Over the last few months we have been adding to companies offering us good earnings visibility, particularly at the larger end of the market where we have seen more value. Weakness over the summer is now also presenting us with specific opportunities to buy smaller businesses with a record of steady, consistent creation of shareholder value, but now on more attractive ratings.'



Fund size £870 million

Oil & Gas	5.2%
Basic Materials	3.5%
Industrials	22%
Consumer Goods	7.1%
Health Care	0.6%
Consumer Services	13%
Telecommunications	4.2%
Utilities	10%
Financials	25%
Cash	8.4%

What the advisers say:

Paul Ilott
Head of communications
Bates Investment Services

Not all income fund managers have a specific mandate to grow a fund's dividend stream, but in this case Carl Stick does. The portfolio has provided investors with rising dividend pay-outs in each of the past 10 calendar years and is one of only a handful of funds in this sector to grow its income in each of the past five years. Unlike some managers who use convertibles or preference shares to boost income, Stick adopts a more traditional style, concentrating mainly on higher yielding medium and smaller sized companies. Stocks are screened using four criteria: valuation; dynamics; fundamental analysis, and price action.

Together with the yield requirement, this combination gives the fund its value-driven principles and explains why it has been such a consistent outperformer during periods when the FTSE All Share index has posted poor returns. **Hold**, both for income seekers and those looking to reinvest for growth.

Peter Chadborn
Principal
CBK

This portfolio's objectives and geographical and economic restrictions are similar to the other fund under review this week, although the overall performance is markedly different. Carl Stick has been in charge of this fund for more than six years and in that time the fund has been top quartile over the last six months, one, three and five years. Performance over the last 12 months is 22.4% against the FTSE All Share benchmark of 16.8%.

Consistently good performance is what IFAs look for and this fund fits the bill. The UK Equity Income sector is strong with many good fund managers and this fund ranks among the best over one and three years. **Hold.**

Philippa Gee
Investments director
Torquil Clark

Although both are classified as income funds, that is where the similarity ends for the two portfolios under review this week – in terms of their composition at any rate. Under Carl Stick this fund has achieved incredible consistency, alpha and performance over several years (returned 72% to end of August 2006 compared with a sector average of 42%). With around half of the fund invested in FTSE 100 stocks and the rest from the mid and small-cap sectors, the composition of the portfolio lends itself to greater volatility. But with a maximum holding per stock limited to 3% of the overall portfolio the fund actually takes smaller bets than the other fund in focus this week. **Hold.**

Norwich Union UK Equity Income

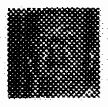
What *New Model Adviser®* says:

The objective of the fund is to provide an income level above that of the overall UK stockmarket by investing in UK shares. The benchmark for the fund is the FTSE All Share index.

What Norwich Union says:

'I focus on identifying valuation anomalies, companies that look good value based on what I deem to be a sustainable level of returns,' says Daniel Roberts, manager of the Norwich UK Equity Income fund. 'In doing this I am happy to take a contrarian approach, picking stocks the market dislikes. Fundamental analysis is a cornerstone of the process, crucial in gaining an understanding of the company and the competitive environment it operates in. The portfolio is not formed around macro themes, but is built from bottom-up stock selection. Turnover was low through August although we did add to our stake in Unilever.'

What the advisers say:



Paul Ilott
Head of communications
Bates Investment Services

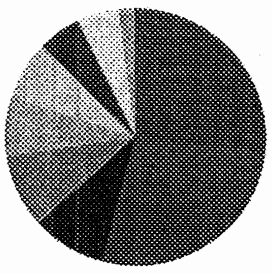
Dan Roberts took over the reins on this fund and now runs around £2 billion worth of value-oriented mandates for Norwich Union. Unlike Carl Stick, who limits individual stock weightings to a maximum of around 4%, even for the UK's largest companies, Roberts is prepared to take on slightly greater stock-specific risk and currently holds four companies that each represent more than 4.5% of the fund.

Holdings tend to fall into one of two camps. Higher dividend paying shares tend to represent a greater proportion of the fund during periods of stockmarket pessimism along with shares in companies that have the potential to grow their dividends from a relatively low base. Roberts is keen to avoid companies that might cut dividend payments and the higher yielding shares are generally those he believes that have the potential to sustain their delivery of income. Growing dividend potential is then demanded from the lower yielding shares.

Performance has so far been good under his management and I would describe the fund as a **hold** but not a buy at present.

Philippa Gee
Investments director
Torquil Clark

There is nothing much wrong with this fund even if by being more oriented to large cap stocks you could describe it as the slightly duller of the two portfolios. It certainly does what it says on the tin so perhaps Norwich Union could be doing more to promote the fund. It does not crop up in many multi-manager portfolios and while you would not describe it as a particularly unique fund it would still be a **hold**.



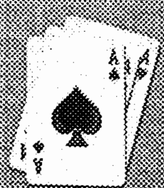
Fund size £416 million

Financials	27%
Consumer Goods	14%
Consumer Services	13%
Health Care	9.1%
Oil & Gas	9.1%
Utilities	7.5%
Industrials	7.3%
Telecommunications	5.4%
Basic Materials	5.2%
Technology	1.8%

Peter Chadborn
Principal,
CBK

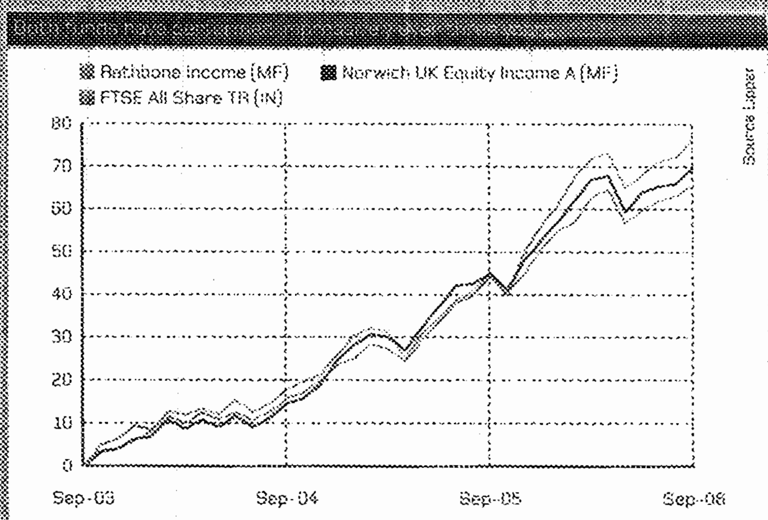
The increased popularity of fund platforms and wraps among forward thinking IFAs means that the bar has been raised for traditional life office funds. Based upon the performance of a few years ago, this fund would be seen as barely keeping pace with its peers, but there have been some improvements over recent years. The last three years cumulative performance of 64.7% gives it a top quartile position against the sector average of 58% yet a beta of 1.0 has seen negligible deviation from the FTSE All Share benchmark. The fund would not rank as a buy but I would class it as a **hold**.

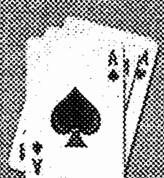
New Model Adviser's verdict



Rathbone Income fund

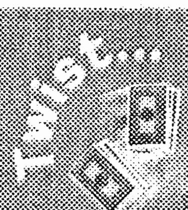
Consistent, above average returns means this fund received a unanimous round of applause from our panel. **Hold**





Norwich Union UK Equity Income fund

A different type of income fund but another one where the advisers could not find many faults. **Hold**



Two holds means there's no need to twist. But one of this week's advisers is also a fan of Neptune's Income fund.