



Threadneedle
Managed Income Fund

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Introduction

This Annual Report and Accounts for the Threadneedle Managed Income Fund reviews the performance of the Fund and the stock market over the 12 months to 25th February 2011.

The UK equity market delivered a healthy return over the 12 months under review, with sentiment buoyed by the growth of company profits. Additionally, the market was underpinned by attractive equity valuations and ongoing merger and acquisition activity. Companies with exposure to fast-growing international markets performed particularly well. Corporate bonds also posted positive returns, given the continuing recovery in the global economy and the strength of company earnings.

We hope that you find the report informative. If you would like further information regarding any aspect of your investment, or about other Threadneedle products, please either contact us directly or speak to your financial adviser. Alternatively, you may find it helpful to visit Threadneedle.com for further information about Threadneedle.

Thank you for your continued support.

Manager's Report

Investment Objective and Policy

The Fund's investment objective and investment policy is to provide a growing income with capital growth prospects from investment in regulated collective investment schemes operated, managed or advised by Threadneedle Investment Services Limited or any company within the Group of which it is a member. The Fund may invest internationally.

This report covers the period from 26th February 2010 to 25th February 2011.

Performance

Over the twelve months to 25th February 2011, the offer price of Class A units for the Threadneedle Managed Income Fund has risen from 56.41p to 62.21p.

Over the same period, the offer price of Class B units has risen from 55.23p to 61.05p.

Looking at performance within its peer group, the total return on the Fund for the period ending 28th February 2011, including net reinvested income, is 16.09% as compared to a median return of 13.39% over the same period. (For information the FTSE All-Share Total Return Index returned 17.02%, whereas the FTA Government All Stocks Index returned 5.59% over the same period.)

In view of the nature of the Fund and its investment remit, there is no directly comparable market index.

The requirement to maintain a good level of income for investors means that a significant proportion of the portfolio continues to be held in funds with exposure to bonds.

Fund Manager's Report

Equity markets continued to make good progress over the 12 months under review, reflecting gradually improving global economic growth and corporate profitability. However, not surprisingly given the ongoing frailty of western governments' finances, there were periods of notable weakness, particularly between April and June.

During the second half of the year, equities and corporate bonds performed well. This partly reflected the attractive valuations that had been reached in the summer after the earlier sell-off on the eurozone debt crisis and more sluggish economic data. However, a key driver of the strength in markets over the last six months has been the decision by the US Federal Reserve to instigate a second round of quantitative easing, in order to try to stimulate economic growth as a way of reducing the national debt. We remain wary of the implications of this policy measure. It has helped to inflate asset prices but is arguably contributing to the hard and soft commodity price inflation pressures being seen globally. In the faster growing emerging economies, we have started to see a tightening in monetary policy. In the UK, the Bank of England has held interest rates at 0.5% throughout the year, seeking to support the economic recovery. However, we are likely to see rates start to rise from these very low levels later this year.

A turn in the inflation cycle and rising interest rates could create a more challenging investment environment. In particular, we continue to regard government bonds as being unattractively valued and not as much of a safe haven as widely perceived. Within the Fund, we have maintained a clear preference for equities, supplemented by some corporate bonds. Not surprisingly, with growing evidence of inflation, bond yields have started to rise from the multi-year lows reached in the summer.

The Fund's performance over the past year has benefited from this bias towards equities over bonds. Within the underlying equity funds, performance has gained from a significant exposure to industrial companies, such as IMI and GKN, which have experienced a rapid recovery in profits. Other successful stock picks include BT and Legal & General, where dividend yields remain attractive, even after a strong share price performance.

We remain positive on the Fund's holdings in the underlying equity income funds. We are now at an inflection point and expect to see healthy growth in dividends across the market in the coming year, after three years of cuts. This reflects the success companies have had in strengthening their balance sheets, and managements are now more confident in increasing the proportion of recovered profits that can be distributed to shareholders.

Despite the encouraging returns from equities over the last six months, we continue to find good value and prospects for dividend growth across a number of different industries. For instance, within the underlying portfolios we have recently added to positions in legal and scientific publisher Reed Elsevier, food services firm Compass, and defence technology company Cobham, as well as Unilever and Morrisons.

C J Henderson

N J Ring

25th March 2011

The information at the back of this Annual Report and Accounts forms part of the Manager's Report.

Directors' Statement

In accordance with the requirements of the Financial Services Authority's Collective Investment Schemes (COLL) Sourcebook, we hereby certify the Annual Report & Accounts on behalf of the Directors of Threadneedle Investment Services Limited.

C J Henderson

N J Ring

25th March 2011

STATEMENT OF TOTAL RETURN

for the accounting period 26th February 2010 to 25th February 2011

	Notes	2011 £000	2010 £000
Income			
Net capital gains	2	9,356	17,946
Revenue	3	4,797	5,275
Expenses	4	(246)	(240)
Finance costs: Interest	6	(5)	(2)
Net revenue before taxation		4,546	5,033
Taxation	5	(244)	(357)
Net revenue after taxation		4,302	4,676
Total return before distributions		13,658	22,622
Finance costs: Distributions	6	(4,466)	(4,833)
Change in net assets attributable to unitholders from investment activities		9,192	17,789

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the accounting period 26th February 2010 to 25th February 2011

	2011 £000	2010 £000
Opening net assets attributable to unitholders	94,257	83,229
Movement due to sales and repurchases of units:		
Amounts receivable on the issue of units	3,385	4,210
Amounts payable on the cancellation of units	(10,309)	(10,957)
	(6,924)	(6,747)
Stamp duty reserve tax	(18)	(23)
Change in net assets attributable to unitholders from investment activities (see statement of total return above)	9,192	17,789
Unclaimed distributions	12	9
Closing net assets attributable to unitholders	96,519	94,257

BALANCE SHEET

as at 25th February 2011

	Notes	2011 £000	2010 £000
Assets			
Investment assets		97,491	95,306
Debtors	7	1,058	1,221
Total other assets		1,058	1,221
Total assets		98,549	96,527
Liabilities			
Creditors	8	(364)	(1,056)
Bank overdrafts		(431)	(99)
Distribution payable on income units		(1,235)	(1,115)
Total liabilities		(2,030)	(2,270)
Net assets attributable to unitholders		96,519	94,257

DISTRIBUTION TABLE

for the accounting period 26th February 2010 to 25th February 2011

Dividend distribution in pence per unit

Class A Units		Gross Revenue		Tax Credit		Net Revenue		Equalisation		Distribution Paid/Payable		Distribution Paid	
Distribution Period	Net Income	Revenue	Revenue	Credit	Credit	Revenue	Revenue	Revenue	Revenue	2010/2011	2010/2011	2009/2010	2009/2010
Group 1													
26/02/10 to 25/03/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/03/10 to 25/04/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/04/10 to 25/05/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/05/10 to 25/06/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/06/10 to 25/07/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/07/10 to 25/08/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/08/10 to 25/09/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/09/10 to 25/10/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/10/10 to 25/11/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/11/10 to 25/12/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/12/10 to 25/01/11		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/01/11 to 25/02/11		0.8343	0.8343	0.0834	0.0834	0.7509	0.7509	0.7509	0.7509	0.7509	0.7509	0.6294	0.6294
Total distributions in the period										2.6209	2.6209	2.6094	2.6094
Class B Units													
Distribution Period	Net Income	Gross Revenue	Gross Revenue	Tax Credit	Tax Credit	Net Revenue	Net Revenue	Equalisation	Equalisation	Distribution Paid/Payable	Distribution Paid/Payable	Distribution Paid	Distribution Paid
Group 1													
26/02/10 to 25/03/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/03/10 to 25/04/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/04/10 to 25/05/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/05/10 to 25/06/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/06/10 to 25/07/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/07/10 to 25/08/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/08/10 to 25/09/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/09/10 to 25/10/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/10/10 to 25/11/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/11/10 to 25/12/10		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/12/10 to 25/01/11		0.1889	0.1889	0.0189	0.0189	0.1700	0.1700	0.1700	0.1700	0.1700	0.1700	0.1800	0.1800
26/01/11 to 25/02/11		0.8929	0.8929	0.0893	0.0893	0.8036	0.8036	0.8036	0.8036	0.8036	0.8036	0.6777	0.6777
Total distributions in the period										2.6736	2.6736	2.6577	2.6577

Group 2: units purchased during a distribution period

Notes to the financial statements

for the accounting period 26th February 2010 to 25th February 2011

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (the "SORP") for Financial Statements of Authorised Funds issued by the Investment Management Association (IMA) in October 2010. Previously the requirements of the SORP for Authorised Funds issued by the IMA in November 2008 had been applied. The adoption of the new SORP has led to no significant changes in accounting policies or presentational changes to the financial statements.

(b) Recognition of revenue

Revenue is included in the Statement of Total Return on the following bases:

Dividends, interest and other revenue receivable includes any withholding taxes but excludes any other taxes such as attributable tax credits.

Dividends are recognised when the security is quoted ex-dividend. Equalisation on distributions received is treated as a repayment of capital and deducted from the cost of the investment.

Interest on bank and short-term deposits is recognised on an earned basis.

(c) Treatment of expenses

All expenses, other than those relating to the purchase and sale of investments, are included in expenses in the Statement of Total Return.

Expenses are recognised on an accruals basis and include irrecoverable VAT where appropriate.

Registration Fee Rebate

In addition to any direct charge for registration fees within the Fund, there would occur, in the absence of a rebate mechanism, an indirect charge for registration fees in respect of investments in other Threadneedle funds. Any such target funds themselves bear a registration fee, which reduces the values of those funds from what they otherwise would be. The rebate mechanism operates to ensure that investors in the Fund bear only the registration fee validly applicable to them. The registration fee rebates are netted off against the registration fee expenses within the accounts.

(d) Allocation of revenue and expenses to multiple unit classes

The allocation of revenue and expenses to each unit class is based upon the proportion of the Fund's capital net assets attributable to each unit class, on the day the revenue is earned or the expense is suffered. Annual management charges and registration expenses are specific to each unit class.

(e) Distribution policy

Annual management charges are transferred to the capital of the Fund and therefore disregarded in determining the revenue available for distribution.

Where distributions are unclaimed for a period of six years these are brought back into the Fund as capital.

(f) Basis of valuation of investments

The investments of the Fund are valued using the single price at 12 noon (UK time), being the valuation point on the last working day of the accounting period. The single price may include an adjustment to cover dealing costs in the underlying funds.

(g) Exchange rates

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at 12 noon (UK time), being the valuation point on the last working day of the accounting period. Revenue and expenses denominated in foreign currency are translated into sterling at the exchange rates ruling at the date of the transaction.

(h) Deferred tax

Deferred tax liabilities are provided in full, and deferred tax assets are recognised to the extent that they are considered recoverable, in respect of all items for which recognition falls in different accounting periods for accounting and taxation purposes.

2 NET CAPITAL GAINS

Net capital gains during the period comprise:

	2011 £000	2010 £000
Non-derivative securities	9,360	17,950
Transaction costs	(4)	(4)
Net capital gains	9,356	17,946

3 REVENUE

	2011 £000	2010 £000
UK franked dividends	3,328	3,248
UK unfranked dividends	1,463	2,020
Bank interest	6	7
Total revenue	4,797	5,275

4 EXPENSES

	2011 £000	2010 £000
Payable to the Manager or associate of the Manager and the agents of either of them:		
Annual management charge	(205)	(196)
Registration fees	(20)	(22)
	(225)	(218)
Payable to the trustee or associate of the trustee and the agents of either of them:		
Trustee's fees	(14)	(13)
Safe custody fees	-	(1)
	(14)	(14)
Other expenses:		
Audit fee	(7)	(8)
	(7)	(8)
*Total expenses	(246)	(240)

*Including irrecoverable VAT where applicable.

5 TAXATION

	2011 £000	2010 £000
a) Analysis of charge in period		
Corporation tax	(244)	(357)
Total current tax (note 5b)	(244)	(357)
Total tax charge for period	(244)	(357)
b) Factors affecting taxation charge for period		
Net revenue before taxation	4,546	5,033
Net revenue before taxation multiplied by the standard rate of corporation tax of 20%	(909)	(1,006)
Effects of:		
Revenue not subject to taxation	666	649
*Revenue taxable in other periods	(1)	-
Current tax charge for period (note 5a)	(244)	(357)
c) Deferred tax		
Provision at start of period	(7)	(7)
Provision at end of period	(7)	(7)

*Authorised funds are not subject to taxation or tax relief on these items.

Notes to the financial statements

(continued)

6 FINANCE COSTS

Distributions and Interest

The distribution takes account of revenue received on the creation of units and revenue deducted on the cancellation of units and comprises:

	2011 £000	2010 £000
Interim	3,158	3,642
Final	1,235	1,115
	4,393	4,757
Add: Revenue deducted on cancellation of units	106	125
Deduct: Revenue received on creation of units	(33)	(49)
Net distribution for the period	4,466	4,833
Interest	5	2
Total finance costs	4,471	4,835
Net revenue after taxation	4,302	4,676
Annual management charge to capital	205	196
Tax thereon	(41)	(39)
Net distribution for the period	4,466	4,833

Details of the distribution per unit are set out in the table on page 4.

7 DEBTORS

	2011 £000	2010 £000
Amounts receivable for the issue of units	7	4
Sales awaiting settlement	600	630
Accrued revenue	159	181
United Kingdom income tax recoverable	292	406
Total debtors	1,058	1,221

8 CREDITORS

	2011 £000	2010 £000
Amounts payable for the cancellation of units	(86)	(664)
Accrued expenses	(8)	(10)
Amounts payable to the Manager	(19)	(18)
Deferred taxation	(7)	(7)
Taxation payable	(244)	(357)
Total creditors	(364)	(1,056)

9 UNITHOLDER FUNDS

The underlying funds suffer a management fee in the range of 0.5% - 1.5%.

Managed Income Fund currently has two unit classes; Class A and Class B units. The charges on each unit class are as follows:

Annual management charge	
Class A units	0.25%
Class B units	-
Registration fees	
Class A units	£7.50 per unitholder
Class B units	0.020%

The net asset value of each unit class, the net asset value per unit, and the number of units in each class are given in the comparative table on page 12. The distribution per unit class is given in the distribution table on page 4. Both classes have the same rights on winding up.

10 RELATED PARTY TRANSACTIONS

Threadneedle Investment Services Limited, a related party, acts as principal in respect of all transactions of units in the Fund.

The aggregate monies received through creations and paid on cancellations are disclosed in the Statement of Change in Net Assets attributable to Unitholders. The amount due to Threadneedle Investment Services Limited in respect of unit transactions at the end of the accounting period is disclosed in Notes 7 and 8.

Amounts payable to Threadneedle Investment Services Limited in respect of Fund management and registration services are disclosed in Note 4. A balance of £17,762 (2010 – £17,194), in respect

of annual management service charge and £812 (2010 – £993) in respect of registration fees are due at the end of the accounting period.

Amounts payable to J.P. Morgan Trustee and Depository Company Limited, a related party, in respect of trustee services and safe custody charges are disclosed in Note 4. A balance of £1,191 (2010 – £1,153), in respect of trustee services and £73 (2010 – £74) in respect of safe custody are due at the end of the accounting period. The Fund receives and pays interest on deposits held with J.P. Morgan Trustee and Depository Company as disclosed in Notes 3 and 6. A balance of £66 (2010 – £58) is receivable at the end of the accounting period. Cash and bank balances at the end of the accounting period are disclosed in the Balance Sheet. The Fund invests in a number of sub-funds of Threadneedle Investment Funds ICVC and the Threadneedle Specialist Investment Funds ICVC, all transactions in respect of which are transacted with Threadneedle Investment Services Limited. Details of the investments are shown in the Portfolio Statement. Details of revenue received from the sub-funds are shown in Note 3 and amounts receivable at the end of the accounting period in Note 7. The Manager, or associate of the Manager acted as principal in all investment transactions.

11 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

In pursuing its investment objective set out on page 3, the Threadneedle Managed Income Fund may hold the following financial instruments:

- Funds of the Threadneedle Investment Funds ICVC and the Threadneedle Specialist Investment Funds ICVC of which a maximum of 20% of the value of the property of the Fund may be invested in any one fund within this range of investment funds;
- Cash, liquid resources and short term debtors and creditors that arise directly from its operations;
- Unitholders' funds which represent investors monies which are invested on their behalf;
- Borrowing used to finance investment activity; and
- Derivative transactions to manage the currency and market risks arising from the Fund's investment activities.

Throughout the period under review, it has been the policy of the Fund to buy and sell financial instruments for the purpose of investment rather than trading.

The main risks arising from the Fund's financial instruments are market price, foreign currency, interest rate, liquidity and credit risk. The policies for managing each of these risks are reviewed regularly and agreed with the Trustee of the Fund and they are summarised below. These policies have remained unchanged since the beginning of the period to which these financial statements relate and are consistently applied throughout the period under review.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. This means the value of an investor's holding may go down as well as up and an investor may not recover the amount invested.

The Fund's investment portfolios are exposed to market price fluctuations, which are monitored by the Manager as per the policies as set out in the Prospectus. The investment guidelines and investment and borrowing powers set out in the Instrument of Incorporation, the Prospectus and in the Financial Services Authorities Collective Investment Schemes Sourcebook describe the nature of the market price risk to which the Fund will be exposed.

Liquidity risk

Liquidity risk is the risk that the Fund cannot raise sufficient cash to meet its liabilities when due. One of the key factors influencing this will be the ability to sell investments at, or close to, the fair value without a significant loss being realised.

Under normal circumstances, the Fund will remain close to fully invested. However, where circumstances require: either because a view of illiquid securities markets or high levels of redemptions in the Fund, the Fund may hold cash and/or more liquid assets. Temporary higher liquidity levels may also arise during the carrying out of a change in asset allocation policy, or following a large issue of units.

Notes to the financial statements

(continued)

The Manager manages the Fund's cash to ensure it can meet its liabilities. The Manager receives daily reports of subscriptions and redemptions enabling the Manager to raise cash from the Fund's portfolio in order to meet redemption requests. In addition the Manager monitors market liquidity of the investment portfolio to ensure the Fund maintains sufficient liquidity to meet known and potential redemption activity. Fund cash balances are monitored daily by the Manager and Administrator. Where investments cannot be realised in time to meet any potential liability, the Fund may borrow up to 10% of its value to ensure settlement. All of the Fund's financial liabilities are payable on demand or in less than one year.

Credit risk

Credit risk arises from three main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, for asset backed investments (including FRNs) there is the possibility of default of the issuer and default in the underlying assets meaning that the Fund may not receive back the full principal originally invested. Thirdly, there is counterparty risk, which is the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its responsibilities, which could result in the funds suffering a loss.

In order to manage credit risk the Fund and underlying investments are subject to investment limits for issuers of securities. Issuer credit ratings are evaluated periodically and an approved issuer list is maintained and monitored. In addition the underlying Funds only buy and sell investments through brokers which have been approved by the Manager as an acceptable counterparty and limits are set and monitored to cover the exposure to any individual broker. Changes in broker's financial ratings are periodically reviewed.

Interest rate risk

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of changes in interest rates.

The Fund has holdings in other funds with significant interest rate exposure. The income of these funds may be affected by changes in interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of fixed interest securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

Foreign currency risk

Foreign currency risk is the risk that the value of the Funds' investments will fluctuate as a result of changes in foreign currency exchange rates.

The capital values of the Fund's underlying investments can be affected by currency translation movements where the assets are denominated in currencies other than sterling, which is the Fund's principal currency.

Two principal areas where foreign currency risk could impact the fund are:

- Where movements in rates affect the value of the underlying investments; the Fund may hedge the initial investment;
- Where movements in rates affect the revenue received from the underlying investments; the Fund does not hedge or otherwise seek to avoid rate movement risk on revenue accrued but not received.

There is no direct foreign currency exposure within the Fund at the balance sheet date. However, a large proportion of the Fund's underlying investments have significant currency exposure since their assets are denominated in currencies other than sterling, with the effect that their balance sheets and total returns can be affected by currency movements. Investee Fund's significant exposure to non-sterling currencies, based on their most recent published financial statements are as follows:

- Threadneedle Global Equity Income Fund's principal exposures are to the Euro and US Dollar.
- Threadneedle Pan European Equity Dividend Fund's principal exposures are to the Euro and Swiss Franc.

Fair value of financial assets and financial liabilities

All of the financial assets of the Fund are valued using the single price, which is deemed to be fair value.

The primary financial liability is the Fund's liability to redeem units issued to finance its operations. These are held at book value and the difference from fair value is deemed to be immaterial.

There are no material amounts of non interest-bearing financial assets.

Cash balances are held in floating rate accounts where interest is calculated with reference to prevailing market rates.

12 CONTINGENT LIABILITIES AND COMMITMENTS

There are no contingent liabilities and commitments outstanding (2010: Nil).

13 PORTFOLIO TRANSACTION COSTS

The total cost of purchases during the period was £1,854,184 and proceeds received from sales were £9,029,162.

The purchases and sales are not subject to portfolio transaction costs.

Statement of Manager's Responsibilities in relation to the Financial Statements of the Scheme

The Financial Services Authority's Collective Investment Schemes Sourcebook as amended ("the Regulations") requires the Manager to prepare financial statements for each annual accounting period which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the financial position of the Scheme and of its net revenue/(expenses) and the net gains/(losses) on the property of the Scheme for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records, which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation for the foreseeable future.

The Manager is required to keep proper accounting records and to manage the Scheme in accordance with the Collective Investment Schemes Sourcebook, the Trust Deed and the Prospectus. The Manager is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Trustee to the Unitholders of the Threadneedle Managed Income Fund

The Trustee is responsible for the safekeeping of all of the property of the Scheme (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed by the Authorised Fund Manager in accordance with the Financial Services Authority's Collective Investment Schemes Sourcebook ("the COLL Sourcebook") and the Scheme's Trust Deed and Prospectus, as appropriate, in relation to the pricing of, and dealings in, units in the Scheme; the application of revenue of the Scheme; and the investment and borrowing powers of 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 Authorised Fund Manager:

- (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 revenue in accordance with the COLL Sourcebook and, where applicable, the Scheme's Trust Deed and Prospectus; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme.

J.P. Morgan Trustee and Depositary Company Limited
Bournemouth
25th March 2011

Independent Auditors' Report to the Unitholders of the Threadneedle Managed Income Fund ("the Fund")

We have audited the financial statements of Threadneedle Managed Income Fund for the year ended 25th February 2011 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the related notes and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of Authorised Fund Manager and Auditors

As explained more fully in the Statement of Manager's Responsibilities the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Fund's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Fund at 25th February 2011 and of the net revenue and the net gains of the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Fund have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

London
25th March 2011

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

The financial statements are published at threadneedle.co.uk, which is a website maintained by Threadneedle Investment Services Limited. The maintenance and integrity of the website maintained by Threadneedle Investment Services Limited, so far as it relates to Threadneedle Managed Income Fund, is the responsibility of Threadneedle Investment Services Limited. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Portfolio statement

as at 25th February 2011

Holding	Investment	Value £000	% of Net Asset Value
COLLECTIVE INVESTMENT SCHEMES			
(101.01%, February 2010 – 101.11%)			
UK Equity – 66.23%			
(February 2010 – 69.05%)			
33,097,645	Threadneedle Monthly Extra Income Fund	18,617	19.29
33,108,040	Threadneedle UK Equity Alpha Fund	15,591	16.15
21,449,571	Threadneedle UK Equity Income Fund	14,195	14.71
27,156,276	Threadneedle UK Monthly Income Fund	15,520	16.08
	Total UK Equity	63,923	66.23
UK Bond – 18.09%			
(February 2010 – 17.49%)			
14,904,433	Threadneedle High Yield Bond Fund	6,664	6.90
20,675,216	Threadneedle UK Corporate Bond Fund	10,797	11.19
	Total UK Bond	17,461	18.09
Overseas Equity – 16.69%			
(February 2010 – 14.57%)			
5,805,434	Threadneedle Global Equity Income Fund	5,832	6.04
15,202,253	Threadneedle Pan European Equity Dividend Fund	10,275	10.65
	Total Overseas Equity	16,107	16.69
	Total Collective Investment Schemes	97,491	101.01
	Total Value of Investments	97,491	101.01
	Net Other Liabilities (February 2010 – (1.11%))	(972)	(1.01)
	Net Assets	96,519	100.00

The calculation of the % Net Asset Value may not sum to 100% due to rounding.

Comparative Tables

Fund Size

For the year ended	Net Asset Value of Unit Class £	Net Asset Value per Unit	Units in issue
25th February 2009			
Class A – Net income units	70,774,636	44.12p	160,419,759
Class B – Net income units	12,454,209	44.75p	27,833,237
25th February 2010			
Class A – Net income units	79,971,266	53.67p	149,006,902
Class B – Net income units	14,285,841	54.55p	26,190,519
25th February 2011			
Class A – Net income units	82,101,317	59.13p	138,848,364
Class B – Net income units	14,418,076	60.24p	23,932,788

Income and Price History

Calendar Year	Net income per unit p	Net income per £1,000 invested at 3rd January 2006 £	Highest offer price p	Lowest bid price p
2006				
Class A – Net income units	1.6865	27.90	67.17	56.79
Class B – Net income units	1.6340	27.89	65.32	57.29
2007				
Class A – Net income units	1.9285	31.91	69.87	60.98
Class B – Net income units	1.9527	33.33	67.98	61.68
2008				
Class A – Net income units	2.4421	40.41	69.16	44.13
Class B – Net income units	2.4633	42.05	67.39	44.75
2009				
Class A – Net income units	3.0876	51.09	57.19	41.87
Class B – Net income units	3.1332	53.49	55.96	42.47
2010				
Class A – Net income units	2.5094	41.52	62.49	51.52
Class B – Net income units	2.5577	43.66	61.29	52.41
2011				
†Class A – Net income units	0.9209	15.24	62.95	59.06
†Class B – Net income units	0.9736	16.62	61.77	60.21

† To 25th February 2011

Total Expense Ratio Summary

for the accounting period 26th February 2010 to 25th February 2011

Fund	Unit Class	2011	2010
Managed Income Fund	Class A – Net income units	1.82%	1.78%
	Class B – Net income units	1.56%	1.52%

A Total Expense Ratio is a figure representing all operating charges and expenses as a percentage of the Fund's value. It includes the annual management fee as well as all the administrative costs incurred by the Fund.

Where the Fund invests in other group funds, the calculation includes the Fund's share of the expenses of the underlying funds. The share of the costs of the underlying funds may fluctuate due to changes in investment decisions, which may be required as a result of changes in market conditions.

Further information

The Trust is an Authorised Unit Trust Scheme within Section 243 of the Financial Services and Markets Act 2000 and is constituted pursuant to the Financial Services Authority's Collective Investment Schemes Sourcebook (COLL), as amended from time to time. The Trust is a UCITS scheme for the purpose of COLL.

The Prospectus, which describes each of the funds in the Managed Funds range in detail, is available on request from Threadneedle Investment Services Limited at our Swindon address.

Charges and Prices

For the Threadneedle Managed Income Fund, two unit prices are quoted for each fund, the 'offer' price at which you buy units and the 'bid' price at which you sell them back to us. The difference between these two prices includes the initial charge and is called the bid/offer spread. The spread for all of the Threadneedle Managed Funds is 3.75% of the offer price. The fees and expenses of the Trustees, Registrars fees, Auditors fees and FSA authorisation fees are also payable by the fund.

SDRT Provision

Stamp Duty Reserve Tax (SDRT) is chargeable on the surrender (i.e. the redemption or switching) of units and on certain transfers of units in the fund.

The liability for SDRT is calculated weekly by reference to unit sales and repurchases in that and the following week. The Trustee meets the SDRT liability from the property of the fund.

SDRT liability is met directly by the fund

It is not the Manager's intention to require the payment of a further provision for SDRT, however they reserve the right to do so in respect of large deals (as set out in the Prospectus).

Equalisation

Equalisation applies only to units purchased during the distribution period (Group 2 units). It is the average amount of income included in the purchase price of all Group 2 units and is refunded to the holders of these units as a return of capital.

Being capital it is not liable to income tax but must be deducted from the cost of units for capital gains tax purposes. This deduction does not apply to units held within a Personal Equity Plan or an Individual Savings Account which are not subject to capital gains tax.

Individual Saving Accounts

Throughout the accounting period the fund has satisfied the requirements of the Individual Savings Account Regulations 1998.

It is the Manager's intention that the fund will be managed in such a way as to continue to meet this requirement.

UK Taxation

Equity dividends are paid with a 10% tax credit. This credit satisfies the tax liability of starter rate and basic rate taxpayers. Higher rate taxpayers may have an additional tax liability. Non-taxpayers cannot reclaim this tax credit.

The amount of the distribution allocated to a unitholder which is a company subject to UK tax is separated into a franked and unfranked component. The unfranked part is treated as an annual payment, paid after deduction of tax at 20%. The unitholder will be subject to tax on the grossed up amount but will be entitled to a credit for the tax treated as paid. Whilst the amount can be set off against the corporation tax liability of the unitholder, the maximum amount of tax which can be repaid by HM Revenue and Customs to the unitholder is shown on the voucher. The franked part will be treated as a UK dividend.

Interest distributions

Trusts may choose to make interest distributions or accumulations, where they have satisfied the qualifying investment test for a particular distribution period. For UK individuals and UK corporates, an interest distribution will usually have income tax taken at the savings rate when paying the interest distribution.

The total interest payment including any income tax will be subject to income tax or corporation tax. Corporate unitholders may be eligible for interest to be paid gross.

Lower rate and non-taxpayers should be able to make a reclaim to HM Revenue & Customs for tax withheld.

Directory

Manager and Registrar

Threadneedle Investment Services Limited

Registered Office

60 St Mary Axe,
London, EC3A 8JQ

Client Services

P.O. Box 1331, Swindon, SN38 7TA
Telephone: 0800 068 3000*

Chairman and Chief Executive

C J Henderson

Other Directors

J Devine (*Resigned – 1st December 2010*)
C D Fleming
T N Gillbanks
P J W Reed
N J Ring

Trustee

J.P. Morgan Trustee and Depositary Company Limited
(Authorised and regulated by the
Financial Services Authority (FSA))
Chaseside
Bournemouth
Dorset, BH7 7DA

Independent Auditors

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London, SE1 2RD

Investment Adviser

Threadneedle Asset Management Limited
(Authorised and regulated by the FSA)
60 St Mary Axe
London, EC3A 8JQ

Important Information

Unit Trusts should generally be regarded as long-term investments.

Charges to Capital: where the investment objective of a Trust is to treat the generation of income as a higher priority than the capital growth, or the generation of income and capital growth have equal priority, all or part of the Manager's fee as well as all or part of other fees of a Trust may be charged against capital instead of against income. Such fees and expenses will be charged to capital in order to manage the income generation of a Trust. This may erode capital or constrain capital growth.

The interest rate on most government and corporate bonds will not increase in line with inflation. Thus, over time, the real value of investor's income could fall.

These figures, while illustrating past performance, should not be taken as a guide to future performance. Different financial conditions will mean that future investment performance may be better or worse. Remember the price of units and the income from them can go down as well as up and you may not get back the amount you invested.

Exchange rate fluctuations may also cause the underlying value of investments to fluctuate.

*Calls will be recorded

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