

## Key Features

Actively managed, research driven bottom-up approach

High conviction yet well-diversified portfolio with efficient risk management

Multi-disciplinary investment team with extensive experience of UK equities

Draws on collective expertise of Threadneedle Investments' idea generating investment floor

A proven track record of long-term outperformance and high risk adjusted returns

## UK Equity Alpha strategy

### Key facts\*

**Lead portfolio manager:** Simon Brazier

**Benchmark:** FTSE All Share Index

**Investment objective:** The strategy aims to maximise total returns by investing primarily in large and mid cap companies domiciled in the UK

**Investment universe:** Quoted UK companies, predominantly those within the benchmark. The strategy typically holds a minimum of 50% in FTSE100 companies and has a maximum small cap exposure of 10%. Up to 10% may be held in non-benchmark companies

**Performance target:** To outperform the benchmark by 3% per annum (gross of fees) over rolling 3-year periods

**Expected tracking error:** c.3-7%

**Typical stock weightings:** Up to 5%

**Typical sector weightings:** +/-8% versus benchmark

**Typical number of holdings:** 50-90

**Total AUM managed in all UK equity strategies:** GBP 13.6 billion

### Performance returns

	1 year	3 years	5 years	Inception <sup>1</sup>
Composite	6.06%	19.83%	5.29%	5.79%
Benchmark <sup>2</sup>	1.39%	18.85%	1.82%	4.38%
<b>Value added</b>	<b>+4.67%</b>	<b>+0.98%</b>	<b>+3.47%</b>	<b>+1.41%</b>

\*Source: Threadneedle Investments. Annualised performance as at 31.03.2012 is shown gross of management fees in GBP. Past performance is not a guide to future performance. See the composite presentations and disclosures in the appendix at the end of this profile for more information on performance, calculation methodology and benchmarks.

<sup>1</sup>Inception of the UK Equity Alpha strategy is 31.03.2001. <sup>2</sup>Benchmark is FTSE All share Index.

### Investment philosophy

- Fundamental, bottom-up stock selection is the key driver of performance.
- Top-down economic and thematic inputs provide us with a perspective advantage.
- Firm-wide co-operation and debate strengthen investment conclusions.

\*All information as at 31 March 2012. Where references are made to portfolio guidelines and features, these may be subject to change over time and prevailing market conditions. Actual investment parameters will be agreed and set out in the prospectus or formal investment management agreement. Sector weightings refer to the ICB Sector classifications. Please note that the performance target may not be attained.

### Investment team

Our 12-strong UK Equity team has broad and deep expertise of managing UK equities, with an average of 14 years' experience. These complementary strengths and our collegiate approach ensure our UK equity portfolios benefit from a wide range of investment ideas. Key members with responsibility for our UK Equity Alpha strategy include:



**Simon Brazier**  
Head of UK Equities  
14 years' experience



**Mark Westwood**  
Fund Manager  
14 years' experience

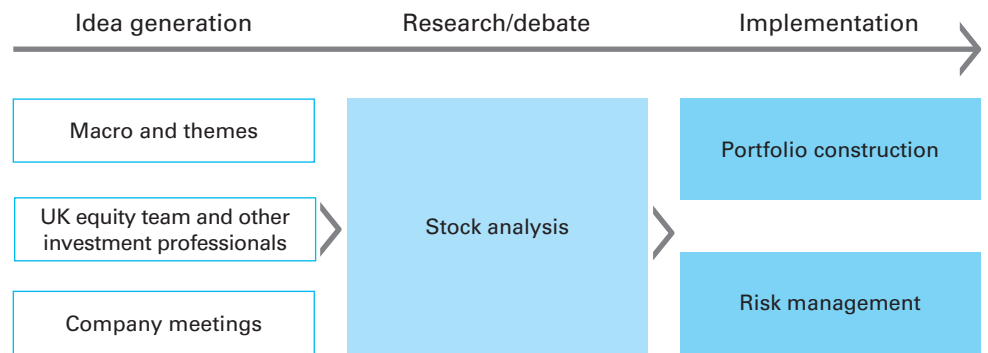


**Blake Hutchins**  
Fund Manager  
5 years' experience

### Investment process

We add value for our clients by building portfolios from the bottom up, combining our investment knowledge and experience and drawing on the insights that come from our macroeconomic and thematic analysis.

All fund managers within the UK equity team work off a common investment process, as shown below:



## Idea generation

The UK equity team focusses on generating differentiated insights and value creating ideas. We filter stocks based on a qualitative approach that leverages the team's size and breadth and depth of experience, prioritising the opportunities we identify from a fundamental and valuation standpoint. We firmly believe that portfolios need diverse sources of alpha to outperform consistently, and that this is best achieved by being open-minded and responsive to a variety of ideas. Therefore, we consider a number of different sources, but the key inputs into idea generation are Threadneedle's macroeconomic, thematic and sector views, and company meetings.

The perspective advantage gained from a thorough understanding of the global economic and market environment, and key global investment themes, enables us not only to identify areas of the market likely to be a good source of stock opportunities, but also to identify the potential risks that could impact both financial markets and portfolios. The team draws upon the research, knowledge and experience of all of Threadneedle's investment professionals to develop broad thematic and macroeconomic views – this also crucially allows us to look at UK equity investment opportunities in a global context, which is key given the UK market's significant exposure to overseas earnings.

Meeting companies is a fundamental part of our research effort. Threadneedle has the benefit of being a well-established manager of UK equities, providing us with almost unrivalled access to the management of UK domiciled companies. The significant resource we have as a team enables us to hold in excess of 800 company meetings per year across the UK equity desk. This not only gives us valuable insight into company strategy and the key factors driving profitability, but also helps generate additional ideas through company management's knowledge of industry developments, competitors, suppliers and customers.

## Research/debate

As bottom up stock pickers, we believe in the value of proprietary research as the major source of outperformance, with a focus on valuation based on fundamental analysis. The team uses a fund manager-analyst model whereby all team members have analyst coverage over at least one sector.

Our approach to valuing businesses is not dogmatic, and we do not restrict ourselves to any one valuation tool. We use a wide range of book value, earnings, cash flow and returns based valuation metrics, varying methods to best reflect the economic and financial reality specific to a stock and industry.

When assessing companies, we look in particular for the following:

- Strong company management who can allocate capital appropriately.
- A sustainable franchise and robust business model for generating profit.
- A sound financial model with strong balance sheet and cash flow generation.
- An attractive valuation compared to the company's peers and history.

Research ideas are subject to a formal review using a standard template that covers, in detail, the company's fundamentals, divisional breakdown, a Porter's 5-forces analysis, risks and sensitivities, key financial data, management structure, valuation analysis and a company specific assessment by our Governance and Responsible Investment team.

All research ideas are graded A-D relative to the index and assigned a price target – the UK team has a weekly review meeting where stock reviews are challenged and debated by the whole team. This provides a formal peer review of all stock opportunities, drawing on the team's diverse strengths and perspectives, enhancing the quality of our conclusions.

## Implementation

Portfolio construction is driven by stock selection, with a focus on risk and reward. Reward is derived from valuation and profit opportunity. In terms of risk, it is the level of business risk rather than index weight that determines position size in portfolios. We also aim to minimise portfolio risk through diversification. Overall our objective is to construct a portfolio that maximises risk-adjusted returns within stated objectives, guidelines and constraints, reflecting Threadneedle's top-down strategic and thematic views as well as our bottom up sector and stock research.

All holdings are monitored carefully on an on-going basis. As new information becomes available that either strengthens or weakens an investment case or alters our macroeconomic perspective, the portfolio manager takes appropriate action to ensure that capital is continuously deployed in the highest conviction opportunities.

Risk management supports and enhances the portfolio manager's decision-making, with an integrated framework that combines both investment and non-investment risk. The portfolio managers continuously reassess business risk, benchmark risk and portfolio risk when constructing portfolios and have a regular dialogue with our independent risk team that includes a more formal quarterly review. Our risk team produces daily reports on every portfolio we manage, using a proprietary risk system that provides comprehensive risk analytics. We use these to understand and assess where risks are assumed and to ensure that their direction and extent is appropriate for each portfolio, and that the portfolio is adequately diversified.

## GIPS – UK Equity Alpha Composite

Year End	Composite Total Return Gross %	Primary Benchmark %	Composite 3-Yr St Dev %	Benchmark 3-Yr St Dev %	Number of Portfolios	Composite Dispersion	AUM Composite (millions)	AUM Firm (millions)	%age of firm assets
2001 (since 31-Mar-01)	-2.91	-5.31	N/A	N/A	1	N/A	59.12	47,596.1	0.1
2002	-20.91	-22.68	N/A	N/A	2	N/A	203.49	44,643.6	0.5
2003	17.74	20.86	N/A	N/A	4	N/A	522.2	55,874.3	0.9
2004	10.92	12.84	14.40	15.65	8	N/A	987.4	62,759.0	1.6
2005	21.82	22.04	10.55	10.48	8	0.3	1,300.0	69,965.3	1.9
2006	14.30	16.75	8.53	7.40	6	1.6	987.0	72,159.1	1.4
2007	15.91	5.32	9.24	8.51	3	N/A	359.9	67,689.7	0.5
2008	-28.87	-29.93	15.98	15.45	3	N/A	216.4	50,753.4	0.4
2009	27.85	30.12	17.73	18.71	3	N/A	204.7	60,485.5	0.3
2010	17.08	14.51	19.68	20.46	4	N/A	1,353.9	67,670.8	2.0
2011	-1.57	-3.46	15.81	16.52	3	N/A	1,111.2	73,041.6	1.5
YTD	9.47	6.10			3		1,224.3	77,039.6	1.6
3 Months	9.47	6.10			3				
Rolling 1 Year	6.06	1.39			3	N/A			
Rolling 3 Year	72.06	67.87			3				
Annualised	19.83	18.85				N/A			
Rolling 5 Years	29.39	9.45			3				
Annualised	5.29	1.82				N/A			
Rolling 10 Years	86.99	65.47			3				
Annualised	6.46	5.16				N/A			
Since Inception (31/03/2001)	85.68	60.23			3				
Annualised	5.79	4.38				N/A			

The 'Firm' is defined as all portfolios managed by Threadneedle Asset Management Limited and Threadneedle International Limited since 01/01/2000 excluding directly invested property portfolios. In 2009 Threadneedle acquired the Standard Chartered World Express SICAV business with a value of \$2.38bn. The funds have been incorporated into the composites according to GIPS standards. Subadvisors are used to manage some of these portfolios.(Threadneedle Asset Management Limited and Threadneedle International Limited are authorised and regulated in the UK by the Financial Services Authority. In addition, Threadneedle International Limited is registered with the Securities and Exchange Commission (SEC) in the United States as an investment adviser under the US Investment Advisers Act of 1940). This composite comprises all discretionary accounts managed according to the Firm's UK Equities (High Alpha) strategy. Threadneedle Asset Management 'the Firm' claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS Standards. Threadneedle Asset Management has been independently verified by Ernst & Young LLP for the periods 1st January 2000 to 30th June 2011. The verification reports are available upon request. Verifications assesses whether the firm has complied with all composite construction requirements of the GIPS Standards on a firm wide basis and that the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. Verification does not ensure the accuracy of any specific composite presentation. The portfolio returns used in composites are calculated using daily authorised global close valuations with cash flows at start of the day. Returns are net of non-recoverable withholding tax, whilst any recoverable tax is included on a cash basis. Composite returns are calculated by using underlying portfolio beginning of period weights and monthly returns. Periodic returns are geometrically linked to produce longer period returns. Additional information regarding policies for calculation and reporting of returns is available on request. Composite performance results are presented gross of management fees and custodian fees but after deduction of trading expenses. The representative fee scale for this composite is 0.65% per annum. The dispersion of annual returns is measured by the asset weighted standard deviation of portfolio returns represented within the composite for the full year. Dispersion is only shown in instances where there are five or more portfolios throughout the entire reporting period. The primary benchmark for this composite is the FTSE All Share. Derivative instruments may be used for efficient portfolio management and currency management. The primary use of derivatives is not designed to create a highly leveraged investment position. The three-year annualised standard deviation measures the variability of the composite and the benchmark returns over the preceding 36 month period. A full list of composites is available upon request.

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