

IMPORTANT: IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS PROSPECTUS YOU SHOULD CONSULT YOUR PROFESSIONAL ADVISER.

Threadneedle Investment Services Limited, the authorised corporate director of the Company, is the person responsible for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained herein does not contain any untrue or misleading statement or omit any matters required by the Collective Investment Schemes Sourcebook to be included in it. Threadneedle Investment Services Limited accepts responsibility accordingly.

PROSPECTUS
OF
THREADNEEDLE INVESTMENT FUNDS IV ICVC

**(An open-ended investment company with variable
capital incorporated with limited liability
and registered in England and Wales
under registered number IC678)**

This document constitutes the Prospectus for Threadneedle Investment Funds IV ICVC which has been prepared in accordance with the Collective Investment Schemes Sourcebook of the Financial Services Authority.

This Prospectus is dated, and is valid as at 1 November 2011

Copies of this Prospectus have been sent to the FSA and the Depositary.

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PROSPECTUS FOR THE THREADNEEDLE INVESTMENT FUNDS IV ICVC

This document constitutes a Prospectus for Threadneedle Investment Funds IV ICVC (formerly known as LV= Investment Funds III ICVC), which has been prepared in accordance with the terms of the rules contained in the COLL Sourcebook published by the Financial Services Authority as part of their Handbook of rules made under the Financial Services and Markets Act 2000.

The Prospectus is dated and is valid as at 1 November 2011.

Copies of this Prospectus have been sent to the FSA and the Depositary.

If you are in any doubt about the contents of this Prospectus you should consult your professional adviser.

The Prospectus is based on information, law and practice at the date hereof. The Company is not bound by any out of date prospectus when it has issued a new prospectus and potential investors should check that they have the most recently published version.

Threadneedle Investment Services Limited, the ACD of the Company, is the person responsible for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information herein does not contain any untrue or misleading statement or omit any matters required by the FSA Rules to be included in it.

No person has been authorised by the Company to give any information or to make any representations in connection with the offering of Shares other than those contained in the Prospectus and, if given or made, such information or representations must not be relied on as having been made by the Company. The delivery of this Prospectus (whether or not accompanied by any reports) or the issue of Shares shall not, under any circumstances, create any implication that the affairs of the Company have not changed since the date hereof.

The distribution of this Prospectus and the offering of Shares in certain jurisdictions may be restricted. Persons into whose possession this Prospectus comes are required by the Company to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The Shares have not been and will not be registered under the United States Securities Act of 1933, as amended. They may not be offered or sold in the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia or offered or sold to US Persons. The Company has not been and will not be registered under the United States Investment Company Act of 1940, as

amended. The ACD has not been registered under the United States Investment Advisers Act of 1940.

Potential investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of Shares.

The provisions of the Instrument of Incorporation (a summary of which is included in this Prospectus) are binding on each of the Shareholders. A copy of the Instrument of Incorporation is available on request.

This Prospectus has been issued for the purpose of section 21 of the Financial Services and Markets Act 2000 by Threadneedle Investment Services Limited.

The distribution of this Prospectus in certain jurisdictions may require that this Prospectus is translated into the official language of those countries. Should any inconsistency arise between the translated version and the English version, the English version shall prevail.

1. DEFINITIONS

Accumulation Shares	Shares in respect of which income is accumulated and added to the capital property of a Fund;
ACD	Threadneedle Investment Services Limited, as the authorised corporate director of the Company;
ACD Agreement	an agreement between the Company and the ACD as amended from time to time, setting out the terms of appointment of the ACD;
Act	the Financial Services and Markets Act 2000, as amended from time to time;
Administrator	HSBC Bank plc, or whoever is appointed from time to time to provide administration and fund accounting services to the Company;
Approved Bank	in relation to a bank account opened by the Company: <ul style="list-style-type: none">(a) if the account is opened at a branch in the United Kingdom:<ul style="list-style-type: none">(i) the Bank of England; or(ii) the central bank of a member state of the OECD; or(iii) a bank as defined in the FSA Rules; or(iv) a bank or a building society which offers, unrestrictedly, banking services; or(v) a bank which is supervised by the central bank or other banking regulator of a member state of the OECD; or(b) if the account is opened elsewhere:<ul style="list-style-type: none">(i) a bank in (a); or(ii) a credit institution established in an EEA State other than in the United Kingdom and duly authorised by the relevant Home State Regulator; or(iii) a bank which is regulated in the Isle of

	Man or the Channel Islands; or
	(iv) a bank supervised by the South African Reserve Bank;
Auditor	Ernst & Young LLP, or whoever is appointed from time to time to act as auditor to the Company;
COLL	refers to the appropriate chapter or rule in the COLL Sourcebook;
COLL Sourcebook	the Collective Investment Schemes Sourcebook issued by the FSA as amended from time to time;
Company	Threadneedle Investment Funds IV ICVC;
Dealing Day	Monday to Friday excluding UK public and bank holidays and any day on which the London Stock Exchange plc is not open for the normal full duration of its trading hours. If there is a holiday elsewhere or other reason which impedes the calculation of a fair market value of the Company's investments or a significant portion thereof, the ACD may decide that any Dealing Day shall not be a Dealing Day;
Depository	HSBC Bank plc, or whoever is from time to time appointed as the depository of the Company;
Depository Agreement	an agreement between the Company, the ACD and the Depository, as amended from time to time, setting out the terms of appointment of the Depository;
Director or Directors	the directors of the Company from time to time (including the ACD);
EEA State	a member state of the European Union and any other state which is within the European Economic Area;
Eligible Institution	one of certain eligible institutions as defined in the glossary of definitions in the FSA Rules;
Efficient Portfolio Management or EPM	<p>the use of techniques and instruments which relate to transferable securities and approved money-market instruments and which fulfil the following criteria:</p> <p>(a) they are economically appropriate in that they are realised in a cost effective way;</p> <p>(b) they are entered into for one or more of the following specific aims:</p> <p>(i) reduction of risk;</p> <p>(ii) reduction of cost;</p> <p>(iii) generation of additional capital or income for the scheme with a risk level which is consistent with the</p>

risk profile of the scheme and the diversification rules laid down in COLL;

FSA	the Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS;
FSA Rules	the FSA Handbook of Rules and Guidance as amended from time to time made under the Act including the COLL Sourcebook but excluding, for the avoidance of doubt, any guidance or evidential provisions;
Fund or Funds	a sub-fund or sub-funds of the Company. Each Fund forms part of the property of the Company but is pooled separately and is invested in accordance with the investment objective applicable to that Fund. For the purposes of sections 3.6 and 23 of this Prospectus, sub-funds of any other Threadneedle OEIC;
Income Shares	shares in respect of which income is distributed to Shareholders;
Threadneedle ISA	an ISA, the account manager of which is Threadneedle Investment Services Limited;
Threadneedle OEIC	the Company or any other OEIC managed by the ACD, further details of which are set out in Appendix II of this Prospectus (as amended from time to time);
Threadneedle Regular Savings Facility	a regular savings facility offered by the ACD through which Retail Shares may be purchased including a savings facility within a Threadneedle ISA;
Instrument of Incorporation	the instrument of incorporation of the Company as amended from time to time;
Investment Manager	Threadneedle Asset Management Limited, the investment manager of the ACD in respect of the Company;
ISA	an individual savings account under the Individual Savings Accounts Regulations 1998 (as amended from time to time);
Larger Denomination Share	a Share issued by the Company as a larger denomination share;
Net Asset Value or NAV	the value of the scheme property of the Company or of a Fund (as the context may require) less the liabilities of the Company (or of the Fund concerned) as calculated in accordance with the Instrument of Incorporation;

Non-UCITS retail scheme	a scheme which is not constituted in accordance with the UCITS directive (a European Directive relating to undertakings for collective investment in transferable securities which has been adopted in the UK) but which is authorised by the FSA and which is available to retail investors;
OECD	the Organisation for Economic Co-operation and Development;
OEIC	a company incorporated under the OEIC Regulations;
OEIC Regulations	the Open-Ended Investment Companies Regulations 2001 (as amended from time to time);
Registrar	International Financial Data Services (UK) Limited, or whoever is from time to time appointed as the registrar of the Company;
Regulated Activities Order	the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 SI 2001/544;
the Regulations	the OEIC Regulations and the FSA Rules;
SDRT	stamp duty reserve tax;
Share or Shares	a share or shares in the Company (including Larger Denomination Shares and Smaller Denomination Shares);
Share Class or Class of Shares or Class	all of the Shares issued by the Company or a particular class of Shares relating to a single Fund (according to the context);
Shareholder	a holder of Shares in the Company;
Smaller Denomination Share	a Share carrying one thousandth of the rights of a Larger Denomination Share;
UK	United Kingdom of Great Britain and Northern Ireland;
Valuation Point	the point, whether on a periodic basis or for a particular valuation, decided by the ACD, at which the ACD carries out a valuation of the property of the Company or a Fund (as the case may be) for the purpose of determining the price at which Shares of a Class may be issued, cancelled, sold or redeemed. The current Valuation Point is 14:00 on each Dealing Day;
VAT	value added tax.

2. **THE COMPANY**

- 2.1 The Company is an open-ended investment company with variable capital. The Company is incorporated in England and Wales with registered number IC678 and is authorised pursuant to Regulation 14 of the OEIC Regulations. The Company is a scheme complying with chapter 5 of the COLL Sourcebook and the operation of the company is governed by the OEIC Regulations, the FSA Rules, its Instrument of Incorporation and this Prospectus. The effective date of the authorisation order made by the FSA was 23 July 2008.
- 2.2 The minimum share capital of the Company shall be £1 and the maximum share capital shall be £6 billion (£6,000,000,000). The base currency for the Company is pounds sterling. The Shareholders are not responsible for the debts of the Company.
- 2.3 The Company is a Non-UCITS Retail Scheme under the FSA Rules and is in the category of an Umbrella Company, as defined in the OEIC Regulations.
- 2.4 The Company consists of the following Funds:
- Threadneedle Diversified Income Fund
 - Threadneedle Managed Portfolio 3
 - Threadneedle Managed Portfolio 4
 - Threadneedle Managed Portfolio 5
 - Threadneedle Managed Portfolio 6
 - Threadneedle Managed Portfolio 7
- 2.5 Subject to the FSA Rules, the OEIC Regulations and the Instrument of Incorporation, the ACD may establish additional Funds from time to time.
- 2.6 The address in the UK for service on the Company of Notices or other documents required or authorised to be served on the Company is 60 St Mary Axe, London EC3A 8JQ.
- 2.7 The Company will not have any interest in any immovable property or tangible movable property.
- 2.8 Each Fund has a specific portfolio to which that Fund's assets and liabilities are attributable. So far as the Shareholders are concerned each Fund is treated as a separate entity.
- 2.8.1 Creditors of the Company may nevertheless look to all the assets of the Company for payment regardless of the Fund in respect of which that creditor's debt has arisen. Assets

may be re-allocated to and from other Funds of the Company (but not of any other Threadneedle OEIC) in the unlikely event that a Fund's assets are insufficient to meet its liabilities. In the event that any assets are so reallocated, the ACD will advise Shareholders in the next succeeding annual or half yearly report to Shareholders.

2.8.2 Subject to the above, each Fund will be charged with the liabilities, expenses, costs and charges of the Company attributable to that Fund and within the Funds charges will be allocated between Classes in accordance with the terms of issue of Shares of those Classes. Any assets, liabilities, expenses, costs or charges not attributable to a particular Fund may be allocated by the ACD in a manner which it believes is fair to the Shareholders generally. This will normally be pro rata to the Net Asset Value of the relevant Funds.

2.9 **Changes to the Company**

Where any changes are proposed to be made to the Company or a Fund the ACD will assess whether the change is fundamental, significant or notifiable in accordance with COLL 4.3. If the change is regarded as fundamental, Shareholder approval will be required. If the change is regarded as significant, 60 days' prior written notice will be given to Shareholders. If the change is regarded as notifiable, Shareholders will receive suitable notice of the change.

3. **AUTHORISED CORPORATE DIRECTOR**

3.1 The ACD of the Company is Threadneedle Investment Services Limited, a private company limited by shares incorporated in England and Wales on 26 January 1999 under the Companies Act 1985. Its registered office is situated at 60 St Mary Axe, London EC3A 8JQ. It has an issued and fully paid-up share capital of 17.02 million ordinary shares of £1 each. The ACD's principal activity is acting as the authorised fund manager for regulated collective investment schemes.

3.2 The ultimate holding company of Threadneedle Investment Services Limited is Ameriprise Financial Inc., a corporation incorporated in Delaware, USA.

3.3 The ACD is authorised and regulated by the FSA.

The directors of the ACD are:
Mr Crispin Henderson,
Mr Nick Ring,
Mr Campbell Fleming,

Mr Tim Gillbanks,
Mr Philip Reed.

The directors act as directors of companies other than the ACD (including companies that are within the same group of companies as the ACD) but do not engage in business activities that are not connected with the Company that would be "significant" to the Company's business in terms of the FSA Rules.

3.4 The ACD may delegate its management and administration functions to third parties including associates, subject to the provisions of the FSA Rules. Please see Sections 5 and 8 below.

3.5 **Other Funds**

The ACD is also the authorised corporate director, or authorised fund manager as appropriate, of the OEICS and authorised unit trusts set out in Appendix II.

3.6 **ACD Agreement**

The ACD Agreement is dated 1 November 2011 and provides that the appointment of the ACD is for an initial period of three years and thereafter may be terminated upon 12 months' written notice by either the ACD or the Company, although in certain circumstances the agreement may be terminated forthwith by notice in writing by the ACD to the Company or the Depositary, or by the Depositary or the Company to the ACD. Termination cannot take effect until the FSA has approved the change of the ACD.

The ACD is entitled to its pro rata fees and expenses to the date of termination and any additional expenses necessarily realised in settling or realising any outstanding obligations. No compensation for loss of office is provided for in the agreement. The ACD Agreement provides indemnities to the ACD other than for matters arising by reason of its negligence, default, breach of duty or breach of trust in the performance of its duties and obligations.

The ACD is under no obligation to account to the Depositary or the Shareholders for any profit it makes on the issue or re-issue of Shares or cancellation of Shares, which it has redeemed. The ACD is under no obligation to account to the Depositary or the Shareholders for any profit it makes on the issue or re-issue of Shares or cancellation of Shares, which it has redeemed. The fees to which the ACD is entitled are set out in the section 'Charges payable to the ACD'. To the extent permitted by the FSA Rules, the Company has agreed to indemnify the ACD against all losses and liabilities incurred in acting as the ACD of the Company other than where

there has been negligence, wilful default or fraud on the part of the ACD.

The Company has no other directors. The specific functions the ACD has delegated are set out in sections 4 to 8 below.

4. THE DEPOSITARY

4.1 The Depositary of the Company is HSBC Bank plc, a public company incorporated in England and Wales under the Companies Act 1985. Its registered office and head office are situated at 8 Canada Square, London E14 5HQ.

4.2 The principal business activity of the Depositary is banking.

4.3 The Depositary is authorised and regulated by the FSA.

4.4 The Depositary is responsible for the safe-keeping of all the Funds' property and for fulfilling other duties specified in the FSA Rules which include the taking of reasonable care to ensure that the Company is managed in accordance with those parts of the FSA Rules that concern pricing and dealing in the Shares, allocation of income and compliance with the investment and borrowing powers laid down in the FSA Rules.

4.5 Depositary Agreement

The Depositary provides its services under the terms of the Depositary Agreement between the Company, the ACD and the Depositary which may be terminated by either party giving to the other not less than six months' written notice provided that no such notice shall take effect until the appointment of a successor to the Depositary.

To the extent permitted by the FSA Rules, the Company will indemnify the Depositary, its directors, officers and employees against charges, losses and liabilities suffered or incurred in the proper execution or exercise, or in the purported execution or exercise reasonably, and in good faith, of the Depositary's duties, powers and authorities except in the case of failure to exercise due care and diligence. The Depositary will also act as the Custodian.

The Depositary is entitled to receive remuneration out of the property of the Funds for its services and this is detailed in Section 20 of this Prospectus headed "Depositary's Remuneration and Expenses".

5. THE INVESTMENT MANAGER

5.1 The ACD has appointed Threadneedle Asset Management Limited whose registered and head office is at 60 St Mary Axe, London EC3A 8JQ as its Investment Manager by the Investment Management Agreement dated 1

November 2011.

5.2 As with the ACD, the Investment Manager is a member of the Threadneedle group of companies. Its principal activity is acting as an investment manager and adviser. The Investment Manager is an Associate (as defined in the Glossary to the FSA Handbook) of the ACD.

5.3 The Investment Manager is authorised and regulated by the FSA.

5.4 **Investment Management Agreement**

The Investment Management Agreement may be terminated on 12 months' written notice by the Investment Manager or the ACD. It may also be terminated by the Company or the ACD with immediate effect if this is in the best interest of the shareholders.

Subject to the overall policies, directions and control of the ACD, all relevant laws and regulations, this Prospectus, the Instrument of Incorporation and all proper directions of the Depositary, the Investment Manager has complete discretion to take all day to day investment decisions and to deal in investments in relation to the investment management of the Company, without prior reference to the ACD.

Under the Investment Management Agreement the ACD provides indemnities to the Investment Manager (except in the case of any matter arising as a direct result of its fraud, negligence, default or bad faith). The ACD may be entitled under the indemnities in the ACD Agreement to recover from the Company amounts paid by the ACD under the indemnities in the Investment Management Agreement.

The Investment Manager also acts as the Investment Manager of a number of other collective investment schemes and segregated accounts.

Threadneedle Asset Management Limited is in the same group of companies as the ACD. Its registered office is at 60 St Mary Axe, London EC3A 8JQ. The principal activity of the Investment Manager is acting as an investment manager and adviser.

6. **THE AUDITOR**

The auditor of the Company is Ernst & Young LLP of 1 More London Place, London SE1 2AF.

7. **THE REGISTRAR**

The ACD has appointed International Financial Data Services (UK) Limited to carry out the registration functions of the Company. The register of holders (the

“Register”) in the Funds of the Company is kept at the offices of the Registrar at IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS and may be inspected at that address during ordinary office hours. The Registrar will also keep at that address, and make available for inspection as required by the Regulations, plan registers for any Threadneedle ISA in which Shares are held.

8. **THE ADMINISTRATOR**

The ACD has delegated its administration functions to HSBC Bank plc whose registered office is at 8 Canada Square, London E14 5HQ. The Administrator provides fund accounting and administration services to the Company. The mandate with the Administrator permits the ACD to give further instructions.

9. **THE FUNDS AND THEIR INVESTMENT OBJECTIVES AND POLICIES**

9.1 **Threadneedle Diversified Income Fund**

The objective of the Fund is to achieve income with long-term growth potential.

The policy of the Fund is to invest primarily through equity and fixed interest exposure using collective investments mainly operated by other fund managers.

Investment may occur in regulated and unregulated collective investment schemes and also in other transferable securities, money market instruments, deposits, cash and near cash, derivative instruments and forward transactions when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivatives may also be used for investment purposes on not less than 60 days’ notice to investors.**

9.2 **Threadneedle Managed Portfolio 3**

The objective of the Fund is to generate income with the potential for some long-term capital growth.

The policy of the Fund is to invest mainly through a portfolio of fixed interest exposure, together with some equity and property exposure to complement this, using collective investments mainly operated by other fund managers.

Investment may occur in regulated and unregulated collective investment schemes and also in transferable securities, money market instruments, deposits, cash and near cash when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivatives may**

also be used for investment purposes on not less than 60 days' notice to investors.

9.3 **Threadneedle Managed Portfolio 4**

The objective of the Fund is to achieve long term capital growth and income generation.

The policy of the Fund is to invest primarily through a portfolio of equity and fixed interest exposure using collective investments mainly operated by other fund managers. The Fund may also obtain an exposure to property.

Investment may occur in regulated and unregulated collective investment schemes and also in transferable securities, money market instruments, deposits, cash and near cash when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivatives may also be used for investment purposes on not less than 60 days' notice to investors.**

9.4 **Threadneedle Managed Portfolio 5**

The objective of the Fund is to achieve long term capital growth with some income generation.

The policy of the Fund is to invest primarily in global stock markets using collective investments mainly operated by other fund managers, with flexibility to gain exposure to fixed interest investments and property.

Investment may occur in regulated and unregulated collective investment schemes and also in transferable securities, money market instruments, deposits, cash and near cash, when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivatives may also be used for investment purposes on not less than 60 days' notice to investors.**

9.5 **Threadneedle Managed Portfolio 6**

The objective of the Fund is to achieve long term capital growth.

The policy of the Fund is to invest primarily in global stock markets using collective investments mainly operated by other fund managers, with flexibility to gain a minority exposure to fixed interest investments and property.

Investment may occur in regulated and unregulated collective investment schemes and also in transferable securities, money market instruments, deposits, cash and near cash when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivative may also be used for investment purposes on not less than 60 days' notice to investors.**

9.6 **Threadneedle Managed Portfolio 7**

The objective of the Fund is to achieve significant long term capital growth.

The policy of the Fund is to invest principally in global stock markets using collective investments mainly operated by other fund managers.

Investment may occur in regulated and unregulated collective investment schemes and also in transferable securities, money market instruments, deposits, cash and near cash when deemed appropriate.

The Fund may from time to time use derivatives and forward transactions for the purposes of efficient portfolio management and hedging only. **Derivatives may also be used for investment purposes on not less than 60 days' notice to investors.**

10. **ELIGIBLE MARKETS**

All the Funds may deal through markets established in an EEA State on which transferable securities and money market instruments admitted to official listing in the EEA State are dealt in or traded.

Each Fund may also deal through the securities markets and derivatives markets as set out in Appendix IV below.

11. **INDIVIDUAL SAVINGS ACCOUNTS**

In accordance with the Individual Savings Account Regulations 1998 as amended, Shares in all of the Funds are eligible for investment in a Stocks and Shares ISA.

12. **DISTRIBUTION OF INCOME**

- 12.1 The Company's annual accounting period ends on 31 March in each year, with its half-yearly accounting period ending on 30 September in each year. Notwithstanding these dates, under the FSA Rules the ACD may, with the agreement of the Depositary, elect that a particular accounting period shall end on a day which is not more than seven days after or before the day on

which the period would otherwise end. References to the above dates and the dates of income allocation periods and of publication of the yearly and half yearly report of the Company should be read accordingly.

- 12.2 Allocation of income to holders of Income Shares will be paid directly into the Shareholder's bank account on or before the relevant allocation dates set out in paragraph 27.2 below. Where such Shareholders have not provided bank account details, income will be reinvested in new Shares until such bank account details have been received by the ACD. Alternatively, Shareholders may request that the income distributions attributable to Income Shares be used to purchase additional Income Shares for holders free of the initial charge.
- 12.3 Included in the price of Shares will be an income equalisation amount representing the value of income attributable to the Share in question accrued since the end of the last accounting period (interim or final as the case may be).
- 12.4 In the event that the Company issues Accumulation Shares in the future, allocation of income to holders of such Accumulation Shares will be transferred to the capital property of each Fund at the end of the income allocation period and be reflected in the value of Shares on the first business day following the end of that income allocation period.
- 12.5 Grouping for equalisation is permitted under the Instrument of Incorporation and arises during the allocation period relevant to each Fund. Shares purchased during the allocation period will carry an entitlement to equalisation which is the amount arrived at on an average basis of the accrued net income per Share included in the price of Shares issued or re-issued during the allocation period. An equalisation amount may be included as part of any income allocation to Shareholders and represents a return of capital rather than income.
- 12.6 Any distribution of income that is unclaimed for a period of six years after having become due for payment shall be forfeited and shall revert to the Fund to which such distribution relates.

13. HOW DISTRIBUTABLE INCOME IS DETERMINED

- 13.1 The income available for distribution or accumulation in relation to a Fund is determined in accordance with the FSA Rules. In general terms, the income comprises all the sums deemed by the Company, after consultation with the Auditor, to be income in nature and received or receivable by the Company and attributable to that Fund in respect of the accounting period concerned, after deducting charges and expenses paid or payable out of such income and after making such adjustments in relation to taxation and other

matters. The allocation of income to each Share Class is made after allowing for the effect, including attributable taxation, of any charges or expenses made on bases which vary by Share Class.

13.2 Income relating to a Fund is allocated at each Valuation Point among Classes of Shares linked to that Fund in proportion to the value of each Share Class relative to the value of the entire Fund as at the immediately preceding Valuation Point including any Share Class creation and cancellation movements applied at the immediately preceding Valuation Point.

14. CHARACTERISTICS OF SHARES

14.1 Classes of Shares

Several Classes of Share may be issued in respect of each Fund, distinguished by their criteria for subscription and fee structure. All Classes are denominated in Sterling.

Retail share class	£1,000 minimum initial investment and £500 minimum subsequent investment.
And	
Second Retail share class	Shareholders must maintain a minimum holding of £500 in any one Fund. For investors via a Threadneedle Regular Savings Plan the minimum initial and subsequent investment is £100 per month. The minimum amount that may be redeemed at any one time is £500 subject to the minimum holding.
Institutional share class	£500,000 minimum initial investment and £50,000 minimum subsequent investment. Shareholders must maintain a minimum holding of £50,000 in any one Fund. The minimum amount that may be redeemed at any one time is £50,000 subject to the minimum holding.

In addition, each Class may be made available in both Income Shares and Accumulation Shares. **The Classes of Share presently available for each Fund are set out in Section 14.3 below.**

The limits for minimum initial investment, minimum subsequent investment and

minimum holding of shares may be waived at the discretion of the ACD.

14.2 **Classes of Shares**

All references in this Prospectus to Income Shares and Accumulation Shares are to both net Income and net Accumulation Shares and gross Income and gross Accumulation Shares unless otherwise stated.

The Instrument of Incorporation allows gross Income and gross Accumulation Shares to be issued as well as net Income and net Accumulation Shares. Net Shares are Shares in respect of which income allocated to them is distributed periodically to the relevant Shareholders (in the case of Income Shares) or credited periodically to capital (in the case of Accumulation Shares), in either case in accordance with relevant tax law, net of any tax deducted or accounted for by the Company. Gross Shares are Income or Accumulation Shares where, in accordance with relevant tax law, distribution or allocation of income is made without any tax being deducted or accounted for by the Company.

Where a Fund has different Classes, each Class may attract different charges and so monies may be deducted from Classes in unequal proportions. In these circumstances the proportionate interests of the Classes within a Fund will be adjusted accordingly.

14.2.1 **Accumulation Shares**

Holders of Accumulation Shares are not entitled to be paid the income attributed to such Shares, but that income is automatically transferred to (and retained as part of) the capital assets of the relevant Fund on the relevant interim and/or annual accounting dates. This is reflected in the price of an Accumulation Share.

14.2.2 **Income Shares**

Holders of Income Shares are entitled to be paid the distributable income attributed to such Shares.

14.3 **Available Classes of Shares**

The Classes of Shares currently available in the Funds are set out below.

Name of Fund	Share Class (Sterling (£) unless otherwise specified)
Threadneedle Diversified Income Fund	Retail Income Shares
	Second Retail Income Shares
Threadneedle Managed Portfolio 3	Retail Income Shares
	Second Retail Income Shares
Threadneedle Managed Portfolio 4	Retail Income Shares
	Second Retail Accumulation Shares

Threadneedle Managed Portfolio 5	Retail Income Shares
	Second Retail Accumulation Shares
Threadneedle Managed Portfolio 6	Retail Income Shares
	Second Retail Accumulation Shares
Threadneedle Managed Portfolio 7	Retail Income Shares
	Second Retail Accumulation Shares

Please note that for holders of Income Shares in the Threadneedle Diversified Income Fund, income will be distributed to Shareholders on a quarterly basis, unless the holder requests otherwise.

For holders of Income Shares in Threadneedle Managed Portfolio 3, Threadneedle Managed Portfolio 4, Threadneedle Managed Portfolio 5, Threadneedle Managed Portfolio 6 and Threadneedle Managed Portfolio 7, income will be distributed to Shareholders twice yearly, unless the holder requests otherwise.

Please see Section 27.2 for details of the relevant income allocation dates for each Fund.

14.4 **Bearer Shares**

The Instrument of Incorporation does not permit the Company to issue bearer shares. The Company will issue registered shares only.

14.5 **Title to Shares**

The title to Shares is evidenced by entries on the Register of Shareholders. Certificates for Shares will not be issued.

14.6 **Shares to Different Denominations**

In order to calculate fractional entitlements of less than one Larger Denomination Share, Shares are expressed in two denominations - Larger Denomination Shares and Smaller Denomination Shares.

14.6.1 The Smaller Denomination Shares are whole Shares which carry a fraction of one thousandth of the rights of a Larger Denomination Share.

14.6.2 Whenever the number of any such Smaller Denomination Shares shall reach one thousand, the ACD shall consolidate the Smaller Denomination Shares into one Larger Denomination Share of the same class.

14.7 **Investor Profile**

Each of the Funds are marketable to retail and institutional investors. The ACD always recommends that investors seek professional advice before making any investment decisions.

A detailed profile for each Fund is set out below:

Threadneedle Diversified Income Fund is designed for an investor whose primary objective is to receive income along with potential to grow capital over the longer term.

The Managed Portfolio sub-funds aim to provide opportunities for investment dependant upon attitude to risk ("risk profiles"). The Company aims to cater for those with a relatively low risk profile via Threadneedle Managed Portfolio 3 and cater for those with progressively higher risk profiles through to Threadneedle Managed Portfolio 7. *There is no guarantee these aims will be met.*

Threadneedle Managed Portfolio 3 is designed for an investor who wants a relatively stable income, and who is only prepared to accept a relatively low risk to capital. This Fund is invested mainly in fixed interest funds, but will also have some equity and property exposure.

Threadneedle Managed Portfolio 4 is designed for an investor who wants a relatively stable return and is prepared to accept some risk to capital. This Fund is invested in equity and fixed interest funds and has some property exposure.

Threadneedle Managed Portfolio 5 is designed for an investor who wants a relatively stable return but is prepared to accept more risk to capital. This Fund invests principally in equity and fixed interest funds, but has more exposure to equities than Threadneedle Managed Portfolio 4.

Threadneedle Managed Portfolio 6 is designed for an investor who is prepared to be fully exposed to the risk of stock markets through a diverse portfolio spread across different asset types and markets.

Threadneedle Managed Portfolio 7 is designed for an investor who is prepared to take more risk in order to improve the opportunity for capital growth. This Fund is principally invested in equities.

15. **SHAREHOLDER MEETINGS AND VOTING RIGHTS**

- 15.1 The ACD has elected to dispense with the holding of the Company's Annual General Meeting pursuant to the OEIC Regulations. Copies of contracts of service between the Company and the ACD and any other directors (if any) are available to shareholders on request.
- 15.2 The ACD may requisition a general meeting at any time.
- 15.3 Shareholders may also requisition a general meeting of the Company. A requisition by Shareholders must state the objects of the meeting, be dated, be signed by Shareholders who, at the date of the requisition, are registered as holding not less than one tenth in value of all Shares then in issue and the requisition must be deposited at the head office of the Company. The ACD must convene a general meeting no later than eight weeks after receipt of such requisition.
- 15.4 In certain circumstances, the FSA Rules require that a resolution be passed as an extraordinary resolution, which is a resolution passed by a majority of not less than three-quarters of the votes validly cast (whether on a show of hands or on a poll) for and against the resolution. In other cases, a resolution may be passed by a simple majority of the votes validly cast for and against the resolution.

- 15.5 The duly authorised representative of the ACD as nominated by the Depositary will preside as chairman at general meetings of the Company. If the representative is not present or declines to take the chair, the Shareholders may choose one of their number to be chairman.
- 15.6 The chairman of any quorate general meeting may with the consent of the general meeting, adjourn the meeting from time to time (or without specifying date) and from place to place, and if he is directed by the general meeting to adjourn he must do so. No business can be transacted at an adjourned general meeting which might not lawfully have been transacted at the meeting from which the adjournment took place.
- 15.7 At any meeting of Shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands) demanded by the Chairman, by the Depositary or, by at least two Shareholders present in person or by proxy or, in the case of a body corporate, by a duly authorised representative.
- 15.8 On a show of hands every Shareholder who (being an individual) is present in person or by proxy shall have one vote.
- 15.9 On a poll every Shareholder who is present in person or by proxy shall have one vote for every Larger Denomination Share and a further one thousandth of one vote for every Smaller Denomination Share of which he is a holder.
- 15.10 The quorum at a meeting of Shareholders shall be two Shareholders present in person or by proxy. The quorum for an adjourned meeting is one entitled to be counted in a quorum.
- 15.11 A corporation being a Shareholder may authorise such person as it thinks fit to act as its representative at any meeting of Shareholders and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Shareholder.
- 15.12 The ACD shall be entitled to receive notice of and attend at any such meeting but shall not be entitled to vote or be counted in the quorum thereof and accordingly, the Shares held or deemed to be held by the ACD shall not be regarded as being in issue.
- 15.13 Any associate of the ACD shall not be entitled to vote at any such meeting except in respect of Shares which he holds on behalf of a person who, if himself the registered holder, would be entitled to vote, and from whom he has received voting instructions.

- 15.14 In the case of joint Shareholders the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint Shareholders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Shareholders.
- 15.15 "Shareholders" in this context means Shareholders entered on the register at a time to be determined by the ACD and stated in the notice of the meeting which must not be more than 48 hours before the time fixed for the meeting.

16. **CLASS RIGHTS**

The rights attached to a Class of Shares may only be amended by a class meeting of Shareholders of that Class of Shares. Any amendment to the Instrument of Incorporation that relates to a particular Class or Classes of Shares and does not prejudice the Shareholders of any other Share Class may be made by an extraordinary resolution passed at a class meeting.

The provisions regarding the conduct of meetings set out above shall apply to meetings of a Fund or a Share Class within a Fund, but by reference to the Shares of the Fund or Share Class concerned and the prices of Shares in such Fund or Share Class.

17. **VALUATION**

- 17.1 The property of each Fund is valued daily at the Valuation Point on each Dealing Day in order to determine the price at which Shares in the Funds may be purchased from or redeemed by the ACD and created or cancelled by the Company.
- 17.2 The ACD reserves the right to carry out an additional valuation to the property of a Fund if it considers it desirable to do so. The ACD shall inform the Depositary of any decision to carry out an additional valuation.
- 17.3 An outline of the basis on which the property of each Fund is valued is as follows:
- 17.3.1 Units or shares in a collective investment scheme:
 - 17.3.1.1 if a single price for buying and redeeming units or shares is quoted, at that price; or
 - 17.3.1.2 if separate buying and redemption prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the redemption price

has been increased by any exit or redemption charge attributable thereto.

- 17.3.2 Transferable securities are valued at their quoted price or if the investment is one for which different prices are quoted according to whether it is being bought or sold then it will be valued at its mid-market price.
- 17.3.3 Any fiscal charges or commissions or other charges that have been paid or are payable on the acquisition or disposal of the investments above are excluded from their value.
- 17.3.4 Cash is valued at its nominal value.
- 17.3.5 Any other property of a Fund will be valued at what the ACD considers a fair value.
- 17.3.6 Deductions are made for anticipated tax liabilities and for an estimated amount in respect of other liabilities payable out of a Fund.
- 17.3.7 Contingent liability transactions will be valued using a method agreed between the ACD and the Depositary.
- 17.3.8 An amount is added in respect of estimated recoverable tax and any other amounts due to be paid into the Fund.

- 17.4 Where the ACD has reasonable grounds to believe that the price obtained is unreliable or the most recent price available does not reflect the ACD's best estimate of the value of the relevant investment at the relevant Valuation Point or no price or no recent price exists, the ACD may use a price which, in the opinion of the ACD reflects a fair and reasonable price for that investment (the fair value price).
- 17.5 The proportionate interests of each Share Class in the assets and income of a Fund shall be determined by the ACD as the proportion of the property of that Fund that is held by that Share Class at the end of the previous business day.
- 17.6 The proportion of assets and income allocated to each Share Class is made after allowing for the effect, including attributable taxation, of any charges and expenses made on bases which vary by Share Class.
- 17.7 The price per Share at which Shares are bought or are redeemed is the Net Asset Value per Share. Any initial charge, redemption charge or stamp duty reserve tax provision is payable in addition to that price.

18. FAIR VALUE PRICING

- 18.1 Where the ACD has reasonable grounds to believe that:
- (a) no reliable price for the property in question exists; or
 - (b) such price, if it does exist, does not reflect the ACD's best estimate of the value of such property,
- it may value the Scheme Property or any part of Scheme Property at a price which, in its opinion, reflects a fair and reasonable price for that property ("fair value pricing").
- 18.2 The ACD is permitted to use fair value pricing in specific circumstances and pursuant to processes and methodologies that it must have notified to the Depositary. Examples of the circumstances in which the ACD might consider using fair value pricing where the Company's Valuation Point is set during the time when markets in which its portfolio is invested are closed for trading include:
- (a) market movements above a pre-set trigger level in other correlated open markets;
 - (b) war, natural disaster, terrorism;
 - (c) government actions or political instability;

- (d) currency realignment or devaluation;
- (e) changes in interest rates;
- (f) corporate activity;
- (g) credit default or distress; or
- (h) litigation.

18.3 Even if the Company's Valuation Point is set during the time other markets are open for trading, other scenarios might include:

- (a) failure of a pricing provider;
- (b) closure or failure of a market;
- (c) volatile or "fast" markets;
- (d) markets closed over national holidays;
- (e) stale or unreliable prices; and
- (f) listings, suspensions or de-listings.

19. FEES AND EXPENSES

All fees and expenses payable out of the property of the Company or by Shareholders are set out in this Section, Section 20 and Section 21.

19.1 Charges payable to the ACD

19.1.1 Initial charge

The ACD is permitted to make an initial charge on the sale of Shares to an investor, all or part of which may be waived at the discretion of the ACD. The percentage rates of charge are shown in the table below.

Fund	Initial Charge as a Percentage of the Price of a Share		
	Retail Shares	2 nd Retail Shares	Institutional Shares
Threadneedle Diversified Income Fund	5%	4%	5%
Threadneedle Managed Portfolio 3	5%	4%	5%

Threadneedle Managed Portfolio 4	5%	4%	5%
Threadneedle Managed Portfolio 5	5%	4%	5%
Threadneedle Managed Portfolio 6	5%	4%	5%
Threadneedle Managed Portfolio 7	5%	4%	5%

The ACD may not increase the initial charge unless it does so in accordance with the FSA Rules.

19.1.2 Annual Management Charge

The ACD may make a periodic charge which shall be paid out of the property of the Funds monthly in arrears at the annual percentage rate shown in the table below. This is calculated and accrued daily, based on the value of the property of the Fund on the preceding business day.

This charge will be deducted from the income property of each Fund with the exception of the Threadneedle Diversified Income Fund, the Annual Management Charge for which will be charged to capital. Please see the relevant Risk Warning at paragraph 26.1.2.5 for further information.

Where the charge is normally deducted from the income of a Fund but the income generated is insufficient, the charge may then be deducted from the capital property of the Fund.

The percentage rate of the annual management charge permitted is shown below. The charges vary between the classes and are as follows:

Fund	Annual Management Charge as a Percentage of the Price of a Share		
	Retail Shares	2 nd Retail Shares	Institutional Shares
Threadneedle Diversified Income Fund	1.00%	1.50%	1.00%
Threadneedle Managed Portfolio 3	1.00%	1.50%	1.00%
Threadneedle Managed Portfolio 4	1.00%	1.50%	1.00%

Threadneedle Managed Portfolio 5	1.00%	1.50%	1.00%
Threadneedle Managed Portfolio 6	1.00%	1.50%	1.00%
Threadneedle Managed Portfolio 7	1.00%	1.50%	1.00%

The ACD may not increase any charge it takes from a Fund unless it does so in accordance with the FSA Rules.

The overall level of management fees that may be charged to a Fund, including the annual management fees of collective investment schemes in which that Fund invests will not exceed 3% of scheme property per annum.

19.1.3 Expenses

The Company will also pay to the ACD out of the scheme property any expenses incurred by the ACD or its delegates of the kinds described below under "Other payments out of the scheme property of the Company", including legal and professional expenses of the ACD and its delegates in relation to the proper performance of the ACD's duties under the ACD Agreement, or related to documents amending the ACD Agreement.

19.2 Switching Fee

The ACD may charge a switching fee of 2% when Shares of a Fund are switched for Shares in another Fund. Please see Section 23 for details.

19.3 Investment Manager's fee

The Investment Manager's fees and expenses (plus VAT thereon) for providing investment management services will be paid by the ACD out of its remuneration under the ACD Agreement. Further details of the Investment Management Agreement are summarised in Section 5.4.

19.4 General

In order to introduce a new category of remuneration for its services, the ACD would require the approval of an ordinary resolution of Shareholders at an Extraordinary General Meeting.

VAT is payable on charges and expenses mentioned above, as appropriate.

Where the Company invests in other funds operated by the ACD, the ACD will ensure that there is no double charging of fees.

19.5 Dilution Levy

The Company may suffer dilution (reduction) in the value of the Scheme Property as a result of the costs incurred in dealing in its investments and of any spread between the buying and selling prices of these investments. It is not, however, possible to predict accurately whether dilution will occur at any point in time.

In order to counter this, the ACD may require the payment of a dilution levy. In cases where a dilution levy is made the value of the capital of the scheme property will not be adversely affected by dilution. If charged, the dilution levy will be shown in addition to (but not part of) the price of Shares on their issue by the Company or sale by the ACD and as a deduction to the price of Shares on their cancellation by the Company or redemption by the ACD. The ACD has no entitlement to the dilution levy. It will either be paid into the Company, in the case of an issue of Shares by the Company or sale by the ACD, or retained in the Company in the case of a cancellation of Shares by the Company or a redemption by the ACD.

The need to charge a dilution levy will depend on the volume of net purchases or redemptions, as described below. The ACD may charge a dilution levy on any purchase or redemption of Shares if, in its opinion, the existing Shareholders (for purchases) or continuing Shareholders (for redemptions) might otherwise materially be adversely affected. A dilution levy must be imposed only in a manner, that so far as practicable, is fair to all Shareholders or potential Shareholders.

In particular, the dilution levy may be charged in the following circumstances:

- 19.5.1 if the Company is experiencing large levels of net purchases (i.e. purchases less redemptions) relative to its size;
- 19.5.2 if the Company is experiencing large levels of net redemptions (i.e. redemptions less purchases) relative to its size;
- 19.5.3 on "large deals". For these purposes, a large deal is defined

as a purchase or a redemption in excess of £1,000,000 or 2% or more of the value of the Company whichever shall be lower;

- 19.5.4 in any other case where the ACD is of the opinion that the interests of existing/continuing Shareholders and potential Shareholders require the imposition of a dilution levy.

In order to reduce the volatility in the rate of any dilution levy, the ACD may take account of the trend of the Company to expand or to contract; and the transactions in Shares at a particular Valuation Point.

19.6 Administrator's fee

The Administrator's fee for the provision of administration and fund accounting services will vary depending on trading volumes. On the basis of anticipated trading volumes, charges are expected to be in the range of £70,000 to £150,000. These charges are calculated according to a detailed tariff which charges for individual transactions and services undertaken and the tariff is therefore not directly related to the value of the Scheme Property.

Further details of the Administrator's Agreement are summarised in Section 8.

19.7 Registrar's fee

The Registrar for the Company will receive a fee for the provision of registrar and transfer agency services (including establishing and maintaining sub-registers, where applicable), which will be paid out of the scheme property of the Company. On the basis of anticipated trading volumes, charges are expected to be in the range of 0.03% to 0.07% of the net asset value of the scheme property of the Company. These charges are calculated according to a detailed tariff which charges for individual transactions and services undertaken and the tariff is therefore not directly related to the value of the Scheme Property.

The Registrar's fee is subject to VAT.

20. DEPOSITARY'S REMUNERATION AND EXPENSES

20.1 Periodic Charge

The remuneration of the Depositary will be paid out of the property of the Funds monthly in arrears and will consist of a periodic charge, calculated and accrued daily, based on the value of the property of the Fund on the preceding business day. The periodic charge will be at such annual percentage rate (before VAT) of the value of the property of the Fund as the ACD and Depositary may from time to time agree. The periodic charge is 0.015%.

All charges are subject to an addition for VAT.

20.2 The Depositary is also entitled to receive out of the property of each Fund remuneration for performing or arranging for the performance of the functions conferred on the Depositary by the Instrument of Incorporation or the FSA Rules. The Depositary's remuneration shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears on the next following date on which payment of the Depositary's periodic charge is to be made or as soon as practicable thereafter. Currently the Depositary does not receive any remuneration under this Section 20.2.

20.3 **Depositary's Expenses**

The Depositary will be reimbursed by the Company for expenses properly incurred in performing or arranging for the performance of functions conferred on it by the Regulations, the Instrument of Incorporation, the Prospectus, the FSA Rules, the Depositary Agreement or by general law. These functions may include (without limitation of the foregoing) custody, insurance, acquisition and dealing with assets of the Company; making deposits or loans, dealing with borrowings, effecting foreign currency dealings and effecting efficient portfolio management transactions, as permitted by the FSA Rules; collection of income or capital; submissions of tax returns and handling tax claims; preparation of the Depositary's annual report; calling Shareholders' meetings and communicating with Shareholders; preparing; clearing and despatching distribution warrants; obtaining professional advice; conducting legal proceedings; carrying out administration relating to the Company; supervision of certain of the activities of the ACD and such other duties as the Depositary is permitted or required by law to perform.

On the winding up of the Company, a Fund or the redemption and cancellation of a Class of Shares, the Depositary will be paid all accrued and owing fees, charges and reimbursement of expenses due up to the date of commencement of the winding up or due in relation to the redemption and cancellation of the relevant Class of Shares (as appropriate) and any additional expenses necessarily arising out of or in connection with its obligations under this Agreement

The Depositary will also act as the custodian ("the Custodian") of the property of the Company and is entitled to receive reimbursement of the Custodian's fees as an expense of the Company. The Depositary's remuneration for acting as Custodian is calculated at an ad valorem rate determined by the territory or country in which each Fund's assets are held.

The transaction and safekeeping fees for the principal investment markets of the Company as at the date of this Prospectus are as follows:

Country	Custody Charge Per Annum (in basis points)	Transaction Charge Per Trade (£)
Austria	5.00	45.00
Australia	3.00	30.00
Belgium	3.00	40.00
Canada	1.50	15.00
Clearstream	1.40	15.00
Denmark	2.50	45.00
Finland	4.00	40.00
France	2.50	35.00
Germany	2.50	35.00
Greece	10.00	40.00
Hong Kong	4.00	50.00
Italy	2.50	35.00
Japan	1.75	15.00
Netherlands	3.00	25.00
Portugal	8.00	45.00
Singapore	5.00	40.00
South Korea	9.00	45.00
Spain	5.00	35.00
Sweden	3.00	30.00
Switzerland	3.00	40.00
Taiwan	9.00	58.00
United States	1.30	15.00
UK-CREST	Line £48.00	10.00
UK-Non-CREST	Line £48.00	50.00

The Depositary is also entitled to be reimbursed out of the property of each Fund in respect of remuneration charged by the Custodian for such services as the ACD, the Depositary and the Custodian may from time to time agree, being

services delegated to the Custodian by the Depositary in performing or arranging for the performance of the functions conferred on the Depositary by the Instrument of Incorporation or FSA Rules. Remuneration charged under this paragraph shall accrue when the relevant transaction or other dealing is effected and shall be paid in arrears. Currently the Custodian does not receive any remuneration under this paragraph.

The following further expenses may also be paid out of the property of the Company:

- 20.3.1 all charges imposed by, and expenses of, any agents appointed by the Depositary to assist in the discharge of its duties;
- 20.3.2 all charges and expenses incurred in connection with the collection and distribution of income;
- 20.3.3 all charges and expenses incurred in relation to the preparation of the Depositary's annual report to Shareholders;

Subject to current law and HM Revenue & Customs regulations, VAT at the prevailing rate may be payable in addition to the Depositary's remuneration, the Custodian's remuneration and the above expenses.

20.4 Increase in Depositary's remuneration and expenses

- 20.4.1 The rate of the Depositary's annual remuneration, or transaction charges or charges for custody services may be increased only in accordance with the FSA Rules.

21. OTHER PAYMENTS OUT OF THE FUND PROPERTY OF THE COMPANY

- 21.1 In accordance with the Regulations, the following payments may lawfully be made out of the property of the Funds:
 - 21.1.1 broker's commission, fiscal charges and other disbursements which it is necessary to incur in effecting transactions for the Funds concerned and which are normally shown in contract notes, confirmation notes and difference accounts, as appropriate;
 - 21.1.2 interest on borrowings permitted under the FSA Rules and charges incurred in effecting or terminating such borrowings or in negotiating or varying the terms of such borrowings;
 - 21.1.3 taxation and duties payable in respect of the property of the

Funds or in respect of the issue of Shares in a Fund, including stamp duties or other taxes or duties in relation to the transfer to the Company of assets acquired in exchange for the issue of Shares;

- 21.1.4 any costs incurred in modifying the Instrument of Incorporation, including costs incurred in respect of meetings of Shareholders convened for purposes which include the modification of the Instrument of Incorporation where the modification is necessary to implement changes in the law, or necessary as a direct consequence of any change in the law, or expedient having regard to any change in the law made by, or under, any fiscal enactment and which the ACD and the Depositary agree is in the interests of Shareholders, or to remove obsolete provisions from the Instrument of Incorporation;
- 21.1.5 any costs incurred in respect of meetings of Shareholders, or class meetings of Shareholders of a Fund, including meetings convened on a requisition by Shareholders or by the ACD;
- 21.1.6 liabilities arising on amalgamation or reconstruction of the Company or any of its constituent Funds;
- 21.1.7 the audit fee of the Auditors of the Company (and VAT thereon) and any proper expenses of such an auditor;
- 21.1.8 the periodical fees of the FSA in respect of the Company as may be prescribed under the Financial Services and Markets Act 2000 (as amended), or any relevant regulations made thereunder and any payments otherwise due by virtue of the FSA Rules or the corresponding fees of any regulatory authority in a country or territory outside the UK in which the Shares are or may be marketed;
- 21.1.9 any fees, expenses or disbursements of any investment, legal or other professional adviser of the Company and those of the Company's sub-advisers;
- 21.1.10 all fees and expenses incurred in relation to the addition and initial organisation of any new Funds, the listing of Shares on any stock exchange, any offer of Shares (including the preparation and printing of any prospectus) and the creation, conversion and cancellation of Shares;

21.1.11 any costs incurred in taking out and maintaining an insurance policy in respect of the ACD and the Company; and

21.1.12 any value added or similar tax relating to any charge or expense set out above.

21.2 **Allocation of Assets, Charges and Expenses to Funds**

All fees, duties, charges and expenses (other than any borne by the ACD) are charged to the Fund in which they were incurred. However, where they are not attributable to a particular Fund, they will be allocated among the Funds in a manner which the ACD considers is fair to the Shareholders generally. The costs of authorisation of any new Fund may be borne by that Fund at the discretion of the ACD.

22. **BUYING AND SELLING OF SHARES**

Shares in any of the Funds may be bought or sold on any Dealing Day between 8.00 am and 6.00 pm.

Shares may be bought and sold by telephone (0845 113 0273) or by written instructions. A purchase or sale of Shares in writing and/or by telephone is a legally binding contract.

Telephone calls will be recorded. The ACD may also, at its discretion, introduce further methods of dealing in Shares in the future.

Orders received and accepted by the ACD by the Valuation Point on a Dealing Day will be dealt with at the price calculated on that day. Orders received and accepted after that time will be dealt with at the price calculated on the next Dealing Day.

A contract note giving details and, where appropriate, a notice of the applicant's right to cancel the transaction will be issued on the business day following the purchase or sale. Certificates will not be issued in respect of Shares in a Fund as ownership is evidenced by an entry on the Register. In the case of a purchase of Shares, settlement will be required on receipt of the contract note. In the case of a redemption, the ACD will issue a settlement cheque within four working days of receipt of a form of renunciation (copies of which may be obtained from the ACD). Any form of renunciation must be signed by each of the holders of the relevant Shares.

Applications to purchase Shares, once made are, except in the case where cancellation rights are applied irrevocable. The ACD has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any

application for Shares in whole or part, and in this event the ACD will return any money sent, or the balance of such monies, at the risk of the applicant.

22.1 Regular Savings Facility

The ACD may make available certain Classes of Shares of any Fund through its Regular Savings Facility. Currently, only Retail Shares are available within this Facility. To invest in this way, Shareholders must complete and return to the ACD the relevant application form and direct debit mandate before contributions may begin. Monthly contributions may be increased, decreased (subject to maintaining the minimum level of contribution) or stopped at any time by notifying the ACD. If, however, payments are not made into the Regular Savings Facility for more than six months and the Shareholder holds less than the minimum holding for that Class, then the ACD reserves the right to redeem that Shareholder's entire holding in that Class.

Contributions to the Regular Savings Facility are collected on a monthly basis with Shares being allocated at the Share price ruling at the next following Valuation Point (subject to any applicable initial charge). Confirmations will not be issued to Shareholders investing through a Regular Savings Facility.

For Shares purchased through the Regular Savings Facility, the minimum monthly investment is stated in section 14.

Statements detailing all Share transactions will be sent out to all Monthly Savers at least on a six monthly basis.

22.2 Money Laundering

As a result of legislation in force in the UK to prevent money laundering, the ACD is responsible for compliance with anti money laundering regulations. In order to implement these regulations, in certain circumstances investors may be asked to provide proof of identity when buying or redeeming Shares. For this purpose, the ACD may use credit reference agencies (who will record that an enquiry has been made) and/or may check electronic databases. Until satisfactory proof of identity is provided, the ACD reserves the right to refuse to issue Shares, pay the proceeds of a redemption of Shares, or pay income on Shares to the investor. In the case of a purchase of Shares where the applicant is not willing or is unable to provide the information requested within a reasonable period, the ACD also reserves the right to sell the Shares purchased and return the proceeds to the account from which the subscription was made. These proceeds may be less than the original investment.

22.3 Late Settlement

If the purchase monies for Shares are received late, the ACD reserves the right to make an administration charge and/or at its sole discretion cancel the purchase of the Shares and recover any shortfall.

22.4 Market Timing

The ACD may refuse to accept a new investment if, in the opinion of the ACD, it has reasonable grounds for refusing to accept an investment. In particular, the ACD may exercise this discretion if it reasonably believes the Shareholder has been or intends to engage in market timing activities.

For these purposes, market timing activities include investment techniques which involve short term trading in and out of Shares generally to take advantages of variations in the price of Shares between the daily Valuation Points of the Fund. Short term trading of this nature may often be detrimental to long term Shareholders, in particular the frequency of dealing may lead to additional dealing costs which can affect long term performance.

Investments may be made into the Fund via nominee or similar omnibus accounts. For the purposes of monitoring and detecting potential market timing activity, the ACD's responsibilities will be restricted to the registered legal holder of Shares rather than any underlying beneficial holder. The ACD will co-operate in helping to deter any potential market timing activities that the registered legal holder has detected in his monitoring of his underlying beneficial holders.

22.5 Suspension of Dealing

The ACD may, with the prior agreement of the Depositary, and must without delay if the Depositary so requires, temporarily suspend the issue, cancellation, sale and redemption of Shares in any or all of the Funds where due to exceptional circumstances it is in the interests of all the Shareholders in the relevant Fund or Funds.

The ACD and the Depositary must ensure that the suspension is only allowed to continue for as long as is justified having regard to the interests of Shareholders.

The ACD will notify Shareholders as soon as is practicable after the commencement of the suspension, including details of the exceptional circumstances which have led to the suspension, in a clear, fair and not misleading way and giving Shareholders details of how to find further information about the suspensions.

Where such suspension takes place, the ACD will publish details on its website or other general means, sufficient details to keep Shareholders appropriately informed about the suspension, including, if known, its possible duration.

During the suspension none of the obligations in COLL 6.2 (Dealing) will apply but the ACD will comply with as much of COLL 6.3 (Valuation and Pricing) during the period of suspension as is practicable in light of the suspension.

Suspension will cease as soon as practicable after the exceptional circumstances leading to the suspension have ceased but the ACD and the Depositary will formally review the suspension at least every 28 days and will inform the FSA of the review and any change to the information given to Shareholders.

The ACD may, however, during the period in which the issue, redemption and switch of Shares is suspended, agree to issue, redeem or switch Shares at prices calculated by reference to the first Valuation Point after resumption of issue and redemption.

22.6 Pricing

The ACD deals on a forward pricing basis. A forward price is the price calculated at the next Valuation Point after receipt of a request for a purchase or sale.

The price of a Larger Denomination Share of any Class of Shares in a Fund shall be calculated by taking the proportion of the net asset value of all Shares of that Class (by reference to the most recent valuation of the scheme property) and dividing it by the number of Shares (expressed in terms of Larger Denomination Shares by aggregating every 1000 Smaller Denomination Shares into a Larger Denomination Share and, if appropriate, including any outstanding fractions of a Larger Denomination Share represented by any residual number of Smaller Denomination Shares) of the relevant Class in issue immediately before the relevant Valuation Point. The price will be expressed in pounds sterling and will be expressed to four significant figures. A Smaller Denomination Share will have a price which is one thousandth of the value of a Larger Denomination Share.

22.7 Publication of Prices of Shares

Prices of Shares are published daily on the Threadneedle website, www.threadneedle.com and are available by calling the Threadneedle Customer Services Team on 0845 113 0273.

22.8 In Specie Redemption

If a Shareholder requests the redemption or cancellation of Shares representing more than either 5 per cent of the value of the relevant Fund or £2 million (whichever is the greater), the ACD may, at its discretion, arrange that in lieu of payment of the price of the Shares in cash, the Company shall cancel the Shares and transfer to that Shareholder property of the Fund of the relevant value or, if required by the Shareholder, the net proceeds of the sale of the relevant property to him. The ACD must give written notice to the Shareholder

concerned of its decision to exercise these powers before the cash payment would otherwise be due. The Fund property to be transferred (or sold) will be selected by the ACD in consultation with the Depositary and with a view to achieving no more advantage or disadvantage to the Shareholder requesting redemption of his Shares than to continuing Shareholders. The Company may retain out of the Fund property to be transferred (or the proceeds of the sale) property or cash of a value or amount equivalent to any stamp duty reserve tax to be paid in relation to the redemption or cancellation of Shares.

22.9 Issue of Shares in exchange for in specie assets

The ACD may arrange for the Company to issue Shares in exchange for assets other than cash, but will only do so where the ACD and Depositary are satisfied that the acquisition of those assets in exchange for the Shares concerned by the Company is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders.

The ACD will ensure that the beneficial interest in the assets is transferred to the Company with effect from the issue of the Shares.

The ACD will not issue Shares in a Fund in exchange for assets the holding of which would be inconsistent with the investment objective of the Fund.

22.10 Restrictions, Compulsory Transfers and/or Redemption

The ACD may from time to time impose such restrictions as it may think necessary for the purpose of ensuring that no Shares in the Company are acquired or held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory, or which would (or would if other Shares were acquired or held in like circumstances) result in the Company incurring any liability to taxation which the Company would not be able to recoup itself or suffering any other adverse consequence (including a requirement to register under any securities or investment or similar laws or governmental regulation of any country or territory).

In this connection, the ACD may, inter alia, reject at its discretion any application for the purchase, redemption, transfer or switching of Shares.

If it comes to the notice of the ACD that any Shares ("affected Shares") are owned directly or beneficially in any of the circumstances set out above or if it reasonably believes this to be the case, the ACD may give notice to the holder(s) of the affected Shares requiring the transfer of such Shares to a person who is qualified or entitled to own them without causing the adverse consequences set out above or that a request in writing be given for the redemption of such Shares in accordance with the COLL Sourcebook.

If any person upon whom such a notice is served does not within thirty days after the date of such notice transfer his affected Shares to a person qualified to own them without causing the adverse consequences set out above or submit a written request for their redemption to the ACD or establish to the satisfaction of the ACD (whose judgement is final and binding) that he or any beneficial owner is qualified and entitled to own the affected Shares without causing the adverse consequences set out above, he shall be deemed upon the expiration of that thirty day period to have given a request in writing for the redemption or cancellation (at the discretion of the ACD) of all the affected Shares pursuant to the COLL Sourcebook.

This may include a situation in which a Shareholder has moved to a different jurisdiction which either does or may give rise to a situation described above.

It is not possible for the ACD to be fully informed of current law and regulations in every jurisdiction and accordingly in the interests of Shareholders and to be able to ensure no Shares are held or acquired by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) or any country or territory or which would result in the Fund incurring any liability to taxation which the Fund is not able to recoup itself or suffering any other adverse consequence. The ACD's policy will be to treat Share or Shareholders moving to jurisdictions other than EEA states as affected Share and may refuse to issue Shares to anyone resident outside of the jurisdictions.

A Shareholder who becomes aware that he has acquired or holds whether beneficially or otherwise affected Shares in any of the relevant circumstances set out above shall forthwith, unless he has already received a notice as mentioned above, either transfer all his affected Shares to a person qualified to own them without causing the adverse consequences set out above or give a request in writing to the ACD for the redemption of all his affected Shares.

23. SWITCHING BETWEEN FUNDS OR CLASSES

- 23.1 A Shareholder may give notice to the ACD, in such form as the ACD shall from time to time determine, that he wishes to exchange all or some of his Shares of one Class or Fund ("the Original Shares") for Shares of another Fund ("the New Shares"). Such switches can only take place if, following the switch, the Shareholder's holding of New Shares will satisfy the criteria and applicable minimum investment requirement of that Fund.
- 23.2 The ACD may impose restrictions on exchanges, but any restriction related to exchanges of Shares of different Funds must be on reasonable grounds relating to the circumstances of the Shareholder concerned.
- 23.3 The number of New Shares to be issued to the holder on a switch will be determined by reference to the respective prices of New Shares and Original Shares at the Valuation Point applicable at the time the Original Shares are redeemed and the New Shares are issued. The following formula will be applied:

$$N = O \times \frac{CP \times ER}{SP}$$

where:

- N is the number of new Shares to be issued or sold (rounded down to the nearest whole number of smaller denomination Shares);
- O is the number of original Shares specified (or deemed to be specified) in the switching notice which the holder has requested to switch;
- CP is the price at which a single original Share may be cancelled or redeemed as at the valuation point applicable to the cancellation or redemption as the case may be;
- ER is 1, where the original Shares and the new Shares are designated in the same currency and, in any other case, is the exchange rate determined by the ACD in its absolute discretion (subject to the FSA Rules) as representing the effective rate of exchange between the two relevant currencies as at the date the switching notice is received (or deemed to have been received) by the Company having adjusted such rate as may be necessary to reflect any costs incurred by the Company in making any transfer of assets as may be required as a consequence of such a switch being effected; and
- SP is the price at which a single new Share may be issued or sold as at the valuation point applicable to the cancellation or redemption as the case may be.

- 23.4 The ACD may adjust the number of New Shares to be issued to reflect the application of any charge on switching together with any other charges or levies in respect of the application for the New Shares or redemption of the Original Shares as may be permitted pursuant to the FSA Rules.
- 23.5 The ACD may at its discretion make a charge on the switching of Shares between Funds. Any such charge on switching will be deducted from the value of the Original Shares before the purchase of the New Shares but will not in any event exceed the amount of the initial charge at that date for the New Shares.

An exchange of Shares in one Fund for Shares in another Fund will be treated as a redemption and sale and will, for persons subject to UK taxation, be a realisation for the purposes of capital gains tax, which may give rise to a liability to tax, depending on the Shareholder's circumstances.

In no circumstances will a Shareholder who exchanges Shares in one Fund for Shares in another Fund be given a right by law to withdraw from, or cancel, the transaction. Shares cannot be converted during a period when dealings in Shares of the relevant Fund or Funds are suspended by the Company pursuant to the FSA Rules and the right of a Shareholder to convert during a period of suspension is similarly suspended.

24. **TAXATION**

The following is based on our understanding of current UK law and HM Revenue & Customs practice, as at the date of this Prospectus; changes can occur without warning. It does not describe the tax treatment of shareholders who are subject to special tax regimes or the detailed tax treatment of persons resident in jurisdictions other than the UK.

Shareholders are recommended to consult their professional adviser if they are in any doubt as to their individual tax position or if they may be subject to tax in a jurisdiction other than the UK.

24.1 **The Funds**

Each Fund is treated as a separate open-ended investment company for United Kingdom tax purposes.

The Funds may receive dividends in respect of investments in UK equities and dividend or interest distributions from UK collective investment schemes. The dividends and any part of the dividend distributions which relate to UK dividends are not subject to corporation tax in a Fund. Each Fund is liable to UK corporation tax at the current rate on any other types of income after deducting management expenses and charges.

From 1 July 2009 dividends received from UK and overseas companies are taxable when received by a Fund unless each dividend falls into one of five exemptions. The most relevant exemption will be that which exempts distributions in respect of portfolio holdings (holdings of 10% or less). It is anticipated that the majority of dividends will be exempt in the hands of the Funds. However, where the availability of treaty relief on withholding tax on overseas dividends from certain countries is unavailable because of a "subject to tax" clause in the relevant double tax treaty, a Fund may elect for dividends from these countries to be treated as taxable income. These dividends and all other income received by a Fund (e.g. interest income) will be subject to tax currently at 20% after relief for expenses. To the extent that a Fund receives income from, or realises a gain on investments issued in, foreign countries, it may be subject to foreign withholding or other tax in those jurisdictions. Credit or other relief will generally be available for foreign withholding or other foreign taxes suffered.

Each Fund will pay any distributable income as *dividend distributions* (which will be automatically retained in a Fund in the case of accumulation shares) on each relevant distribution date.

The Funds are exempt from UK corporation tax on capital gains realised on the disposal of investments (including interest-paying securities and derivatives) held within them. In some cases, gains realised on non-UK investments can be subject to tax.

24.2 Individual Shareholders

24.2.1 Dividend distributions to UK resident individuals

Dividend distributions will be received by UK resident individual taxpayers with a 10% tax credit.

Basic rate taxpayers will be liable to income tax on their dividend income at the rate of 10%. Therefore the 10% tax credit on dividend distributions will satisfy the liability to UK income tax of basic rate taxpayers. A basic rate taxpayer will have no further tax liability.

Shareholders liable to UK income tax at the higher or additional rate must account to HM Revenue & Customs for any further tax due on the gross amount of the income that is the distribution plus the tax credit.

Higher rate taxpayers will be liable to income tax on their grossed up dividend income of 32.5% but may offset the 10% tax credit against this liability. In other words, higher rate tax payers will be liable to pay income tax equivalent to 25% of their net receipt. Additional rate taxpayers are subject to income tax on their grossed up dividend

income at the rate of 42.5%, against which the tax credit can also be offset, therefore the income tax due will be equivalent to approximately 36% of the amount received.

Non-taxpayers may not reclaim the tax credits on dividend distributions paid.

24.2.2 **Dividend distributions to non-UK resident individuals**

Shareholders who are not resident in the UK will generally not be entitled to reclaim any part of the tax credit on a dividend distribution from HM Revenue & Customs although it will normally satisfy their UK tax liability on that income. They may also be able to offset the tax credit against their liability to tax in their own country. This will depend on their personal circumstances and the terms of any double taxation agreement between their country of residence and the UK, and is only likely to be the case where income is distributed, not accumulated.

24.2.3 **Capital gains of UK resident individuals**

Any gains arising on a disposal of shares by an individual shareholder who is resident or ordinarily resident in the UK are, depending on the shareholder's personal circumstances, subject to capital gains tax. Once an individual's aggregate chargeable gains for a tax year exceed the annual exempt amount for the year, the balance will be subject to capital gains tax at the applicable rate.

Part of any increase in value of accumulation Shares represents accumulated income (including income equalisation). These amounts may be added to the acquisition cost when calculating the capital gain realised on their disposal.

Individual Shareholders will find further information in the HM Revenue & Customs Help Sheets for the capital gains tax pages of their tax returns.

It is possible to check HM Revenue and Customs up-to-date figures on Capital Gains Tax rates at www.hmrc.gov.uk

24.2.4 **Exchange between Funds by UK resident individuals**

An exchange of shares in one Fund for shares in any other Fund is treated as a redemption and issue and will for persons subject to UK taxation be a realisation for the purposes of capital gains tax.

24.2.5 Exchange between shares classes of the same Fund by UK resident individuals

An exchange of one class of shares in one Fund for another class of shares in the same Fund will not constitute a realisation for the purposes of capital gains tax.

24.3 Corporate shareholders

24.3.1 Dividend distributions to UK resident companies

UK resident corporate shareholders who receive dividend distributions (whether or not they are accumulated) may have to divide them into two (in which case the division will be indicated on the tax voucher). Any part representing dividends received from a UK company will be treated as dividend income (that is, franked investment income) and no further tax will be due on it. The remainder will be received as an annual payment after deduction of income tax at the basic rate, and corporate Shareholders may, depending on their circumstances, be liable to tax on the grossed up amount, with the benefit of the income tax credit attached or to reclaim part of the tax credit as shown on the tax voucher.

24.3.2 Dividend distributions to non-UK resident companies

Non-UK resident corporate shareholders resident in certain jurisdictions and directly or indirectly holding over 10% of the voting power in the Company may be entitled, on receipt of dividend distributions, to payment of a very small tax credit by HM Revenue & Customs under an applicable double taxation agreement. In other cases, no tax credit will generally be due to the non-UK resident company.

24.3.3 Capital gains of UK resident companies

Any gains (after taking account of any indexation relief) arising to UK resident corporate shareholders on disposal of their shares will be subject to corporation tax.

24.3.4 Exchange between Funds by UK resident companies

An exchange of shares in one Fund for shares in any other Fund is treated as a redemption and issue and will for persons subject to UK taxation be a realisation for the purposes of capital gains tax.

24.3.5 **Exchange between share classes of the same Fund by UK resident companies**

An exchange of one class of shares in one Fund for another class of shares in the same Fund will generally not constitute a realisation for the purposes of capital gains tax.

24.4 **Non-Taxpayers**

24.4.1 **Individuals**

Individual non-taxpayers cannot reclaim the tax credit on dividend distributions.

24.4.2 **Pension funds**

Pension Funds cannot reclaim the tax credit on dividend distributions.

24.4.3 **Charities**

Charities are not entitled to claim tax credits on dividend distributions.

24.4.4 **ISAs**

The tax credit on dividend distributions is no longer repayable to ISA holders.

24.5 **Income equalisation**

Since each Fund operates equalisation, the first allocation made after the acquisition of Shares will include an amount of equalisation. This amount represents the ACD's best estimate of the income included in the price at which the Shares were acquired (subject to grouping where appropriate) and represents a capital repayment for UK tax purposes which should be deducted from the cost of the Shares in arriving at any capital gain realised on their subsequent disposal.

24.6 **Stamp duty reserve tax**

Each Fund will be liable for stamp duty reserve tax (SDRT) on surrenders and certain other transfers of shares of the Funds. The cost of any SDRT which needs to be paid will be met out of the property of each Fund.

24.7 **The SDRT System**

SDRT arises on the surrender (i.e. the redemption or switching) and certain transfers of Shares. The charge is 0.5% of the value of surrenders and transfers

in each Fund each week reduced proportionately to the extent that during that week and the following week the:

- (a) investments held by the Fund are exempt assets that is, broadly, any assets other than UK equities and holdings in collective investment schemes (other than those exempt from SDRT) (this would reduce the charge to nil if a Fund were invested entirely in exempt assets); and
- (b) purchases of Shares are less by number than surrenders of Shares.

With a view to protecting Shareholders from a resulting diminution in the value of Shares, an authorised corporate director of an OEIC is permitted to require the payment of an SDRT provision as an addition to (but not as part of) the price of Shares when they are issued or purchased, and as a deduction when they are cancelled or redeemed.

24.8 Surrender of Shares

The ACD has the discretion to charge the SDRT liability against the Scheme Property attributed to each Fund or Class, as appropriate, or to charge an SDRT "provision" to incoming Shareholders and/ or outgoing Shareholders by way of an entry or exit charge. The ACD will not retain any SDRT provision but will pay this into the property of the relevant Fund. The ACD also reserves the right to charge an SDRT provision to the transferee, in the case of third party transfers.

The ACD's policy is to charge SDRT to the relevant Fund which means that it has not and does not expect to levy an SDRT provision.

24.9 Transfers of Shares

Transfers of Shares from one Shareholder to another may be exempt from SDRT, depending on the circumstances. Shareholders transferring Shares should complete a stock transfer form and provide evidence of an exemption from SDRT with the transfer. In other cases, where SDRT applies to the transfer the ACD has decided that any SDRT triggered will be paid by the Fund.

24.10 Frequency of SDRT provision

The ACD's policy to charge SDRT to the relevant Fund in all cases means that it has not and does not expect to levy an SDRT provision.

25. **WINDING-UP AND TERMINATION**

25.1 **Termination of a Fund**

A Fund may be terminated:

- 25.1.1 if an extraordinary resolution of the Shareholders of such Fund is passed to that effect; or
- 25.1.2 on the date of effect stated in any agreement by the FSA to a request by the ACD for the termination of such Fund; or
- 25.1.3 by the ACD in its absolute discretion if one year from the date of the first issue of Shares relating to that Fund or at any date thereafter, the net asset value of that Fund is less than £10,000,000.

Eligible registered Shareholders will be informed in writing if a Fund is to be terminated or have its authorisation revoked by the FSA.

Termination of a Fund commences upon the later of the time for termination of a Fund determined in accordance with the above circumstances and the time at which the FSA, having been supplied with a statement confirming the solvency of the Fund, approves, pursuant to the OEIC Regulations, the necessary changes to the Instrument of Incorporation and this Prospectus which would result from the termination of the Fund.

On the termination of a Fund (other than in accordance with an approved scheme of amalgamation or reconstruction) the ACD is required as soon as practicable after the Fund falls to be terminated to realise the property of the Fund and pay the liabilities of the Fund out of the proceeds thereof.

Provided that there are sufficient liquid funds in the Fund property available after making adequate provision for the expenses of the termination and the discharge of the liabilities remaining to be discharged, the ACD may arrange for the Depositary to make one or more interim distributions out of the property of the Fund to the Shareholders proportionately to the right to participate in the Fund property attached to their respective Shares as at the date of the commencement of the termination.

When the ACD has caused all the Fund property to be realised and all of the liabilities known to the ACD to be met, the ACD shall arrange for the Depositary to make a final distribution, on or prior to the date on which the termination account is sent to Shareholders, of the balance remaining (net of a provision for any further expenses of the termination) to the Shareholders in the proportions stated above.

If the Fund is to be terminated in accordance with an approved scheme of amalgamation or reconstruction, the ACD is required to terminate the Fund in accordance with the resolution of holders approving such a scheme.

Where the Company and one or more Shareholders (other than the ACD) agree, the requirement to realise the property of the Fund shall not apply to that part of the property which is proportionate to the right of that or those Shareholders, and the ACD may distribute that part in the form of property, after making such adjustments or retaining such provision as appears appropriate to the ACD for ensuring that that or those Shareholders bear a proportionate share of the liabilities and expenses.

Where any sum of money (including unclaimed distributions) still stands to the account of the property of the Fund, the ACD shall instruct the Depositary to retain such sum in an account separate from any other part of the property of the Company in accordance with the FSA Rules. On a winding-up of the Company, the Depositary shall cease to hold those amounts as part of that account and they shall be paid by the Depositary into court in accordance with the OEIC Regulations.

25.2 Winding-up of the Company

The Company is to be wound-up:

- 25.2.1 if an extraordinary resolution of holders is passed to wind-up the Company; or
- 25.2.2 on the date of effect stated in any agreement by the FSA to a request by the ACD for the revocation of the authorisation order in respect of the Company, albeit that such agreement is subject to there being no material change in any relevant factor prior to the date of the revocation.

The Company may only be wound-up under the FSA Rules if the Company is solvent and there is no vacancy in the position of the ACD. If the Company is insolvent, or there is such a vacancy, the Company may only be wound-up under Part V of the Insolvency Act 1986 as an unregistered company.

On a winding-up (other than in accordance with an approved scheme of amalgamation or reconstruction) the ACD is required as soon as practicable after the time the Company falls to be wound-up, to realise the property of the Company and pay the liabilities of the Company out of the proceeds. Liabilities of the Company attributable to a particular Fund shall be met first out of the property attributable or allocated to such a Fund.

If the liabilities to be met out of a particular Fund are greater than the proceeds of the realisation of the property attributable or allocated to that Fund, the deficit shall be met out of the property attributable or allocated to those Funds in respect of which the proceeds of realisation exceed liabilities and divided between those Funds in a manner that is fair to the Shareholders in such Funds.

After making adequate provision for the expenses of the winding-up and the discharge of the liabilities of the Company remaining to be discharged, the ACD may arrange for the Depositary to make one or more interim distributions, and then a final distribution of the proceeds of the realisation of the property attributable or allocated to each Fund to the holders in each Fund, proportionately to the right to participate in the scheme property attached to their respective Shares.

If the Company is to be wound-up in accordance with an approved scheme of amalgamation or reconstruction, the ACD is required to wind-up the Company in accordance with a resolution of holders approving such scheme.

Where the Company and one or more Shareholders (other than the ACD) agree, the requirement to realise the property of the Company shall not apply to that part of the property which is proportionate to the right of that or those Shareholders, and the ACD may distribute that part in the form of property, after making such adjustments or retaining such provision as appears to the ACD appropriate for ensuring that that or those Shareholders bear a proportionate share of the liabilities and expenses.

If any sum of money is unclaimed or stands to the account of the Company at the date of its dissolution, the ACD shall arrange for the Depositary to pay such sum into court within one month after that date in accordance with the OEIC Regulations.

26. **ADDITIONAL INFORMATION**

26.1 **Risks**

26.1.1 **General Risks**

Shareholders should be aware that there are risks inherent in the holding of securities:

- 26.1.1.1 The past performance of any Fund is not a guide to the future performance. The value of Shares, and any income from them, can go down as well as up, particularly in the short term, meaning that an investment may not be returned in full. See

Appendix III for details of the past performance of the Funds.

26.1.1.2 The tax treatment of the Funds may change and such changes cannot be foreseen.

26.1.1.3 Where regular investments are made with the intention of achieving a specific capital sum in the future, this will normally be subject to maintaining a specified level of investment.

26.1.1.4 **Liabilities of the Company**

Although each Fund so far as possible will be treated as bearing the liabilities, expenses, costs and charges attributable to it, in the unlikely event that its assets are not sufficient to meet these the ACD may re-allocate assets, liabilities, expenses, costs and charges between the Funds of the Company (but not of any other Threadneedle OEIC) in a manner which it believes is fair to the Shareholders generally. The ACD would normally expect any such re-allocation to be effected on a pro rata basis having regard to the Net Asset Values of the relevant Funds. If there is any such re-allocation the ACD will advise Shareholders of it in the next succeeding annual or half yearly report to Shareholders.

Notwithstanding the above, however, Shareholders are not liable for the debts of the Company. A Shareholder is not liable to make any further payment to the Company after he has paid the price on purchase of the Shares.

26.1.1.5 **Effect of Initial Charge**

Where an initial charge is imposed, a Shareholder who realises his Shares after a short period may not (even in the absence of a fall in the value of the relevant investments) realise the amount originally invested.

The Shares therefore should be viewed as medium to long term investments.

26.1.1.6 **Suspension of Dealings in Shares**

Shareholders are reminded that in certain circumstances their right to redeem Shares (including a redemption by way of switching) may be suspended (see "Suspension of Dealings" in Section 22.5).

26.1.1.7 **Dilution Levy**

Investors should note that in certain circumstances a dilution levy may be applied on their purchase or redemption of Shares (see "Charges" in Section 19.5)

26.1.1.8 **Derivative Transactions**

Derivatives transactions are used solely for the purposes of EPM and hedging and are not intended to increase the risk profile of the Funds.

26.1.2 **Specific Risks**

26.1.2.1 **Fixed Interest Securities**

Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates increase, capital values may fall and vice versa. Inflation will erode the real value of capital. In addition, Companies may not be able to honour repayment on bonds they issue.

26.1.2.2 **Unregulated Collective Investment Schemes**

Up to 15% of the value of a Fund may be invested in unregulated collective investment schemes (in aggregate with the restrictions set out within Appendix I). Such schemes are subject to less onerous regulatory supervision than regulated schemes, and therefore may be considered higher risk.

26.1.2.3 **Property**

Specific property risks

There are fundamental factors which affect the value of a specific building. These include: location of the building (the attractiveness of a particular location may change over time); the physical characteristics of the building (apart from normal wear and tear, advances in technology or requirements of tenants may render a building less attractive over time); creditworthiness of the tenant(s); and length of the lease(s) (if a building is let to a good quality tenant for a long period of time then the value of the property will reflect this even if general economic conditions are more volatile).

Market Liquidity Risk

All property investments are relatively illiquid compared to bonds and equities. Liquidity is a function both of the time to effect a sale and the extent to which it is possible to trade at the market price. Property is slow to transact in normal market conditions and hence is illiquid. In poor market conditions it will take even longer to find a buyer to pay an acceptable price.

Market Valuation Risk

The value of a property, except where it is bought or sold, is generally a matter of a valuer's opinion rather than fact and may go down as well as up. The simplest yardstick of property valuation is initial yield, which is current annual rent divided by the value of the property, including purchase costs. Property yields will fluctuate through time and may reflect the general economic cycle.

At any time, the market value of the property will, broadly, reflect market expectations for rental growth. If an investment is made in the expectation that a certain level of rental growth will be achieved and that growth fails to materialise, then the returns from holding that property are likely to be lower than anticipated. Rental growth is affected by many things: general

economic conditions, local trading conditions, relative scarcity of alternative space and so on.

Tenant Default

In the event of a default by a tenant or during any other void period, there will be a rental shortfall and additional expenses may be incurred until the property is re-let. These expenses include legal and surveyor costs in re-letting, maintenance, insurances, rates and marketing costs.

Concentration Risk

If the value of a property fund falls significantly, it may not be possible for it to maintain the same diversification of risk as the fund may hold fewer properties.

26.1.2.4 **Currencies**

Currency fluctuations may adversely affect the value of a Fund's investments and the income thereon and, depending on an Shareholder's currency of reference, currency fluctuations may adversely affect the value of his investment in Shares.

26.1.2.5 **Deduction of Annual Management Charge and other charges and expenses from capital**

Where the investment objective of a Fund is to treat the generation of income as a higher priority than capital growth, or the generation of income and capital growth have equal priority, all or part of the ACD's fee, may be charged against capital instead of against income. This treatment will increase the amount of income (which may be taxable) available for distribution to Shareholders in the Fund concerned but may constrain capital growth.

The Annual Management Charge of Threadneedle Diversified Income Fund is charged against capital.

26.2 Risk Management

The ACD will provide upon the request of a Shareholder further information relating to:

- 26.2.1 the quantitative limits applying in the risk management of any Fund;
- 26.2.2 the methods used in relation to 26.2.1 ; and
- 26.2.3 any recent development of the risk and yields of the main categories of investment.

26.3 Conflicts of Interest

- 26.3.1 The ACD, the Investment Manager and other companies within the Threadneedle group of companies may, from time to time, act as investment managers or advisers to other funds or sub-funds which follow similar investment objectives to those of the Funds. It is therefore possible that the ACD and/or the Investment Manager may in the course of their business have potential conflicts of interest with the Company or a particular Fund. Each of the ACD and the Investment Manager will, however, have regard in such event to its obligations under the ACD Agreement and the Investment Management Agreement respectively and, in particular, to its obligation to act in the best interests of the Company so far as practicable, having regard to its obligations to other clients, when undertaking any investment business where potential conflicts of interest may arise. Where a conflict of interest cannot be avoided, the ACD will ensure that the Company and the other funds it manages are fairly treated.

The ACD acknowledges that there may be some situations where the organisational or administrative arrangements in place for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the Company or its shareholders will be prevented. Should any such situations arise the ACD will disclose these to shareholders in an appropriate format.

The Depositary may, from time to time, act as the depositary of other OEICs and as trustee or custodian of other collective investment schemes.

26.3.2 The FSA Rules contain provisions on conflict of interest governing any transaction concerning the Company which is carried out by or with any "affected person", which means the Company, an associate of the Company, the ACD, an associate of the ACD, the Depositary, an associate of the Depositary, any Investment Manager and any associate of any Investment Manager.

These provisions, among other things, enable an affected person (a) to sell or deal in the sale of property to the Company or the Depositary for the account of the Company; (b) vest property in the Company or the Depositary against the issue of Shares in the Company; (c) purchase property from the Company (or the Depositary) acting for the account of the Company; (d) enter into a stock lending transaction in relation to the Company; or (e) provide services for the Company. Any such transactions with or for the Company are subject to best execution on exchange, or independent valuation or arm's length requirements as set out in the FSA Rules. An affected person carrying out such transaction is not liable to account to the Depositary, the ACD, any other affected person, or to the holders of Shares or any of them for any benefits or profits thereby made or derived.

Investment of the property of the Company may be made on arm's length terms through a member of an investment exchange (acting as principal) who is an affected person in relation to the ACD. Neither the ACD nor any such affected person will be liable to account to the Company or to the holders of Shares for any profit made or derived out of such dealings.

27. **GENERAL INFORMATION**

27.1 **Accounting periods**

The annual accounting period of the Company ends each year on 31 March (the accounting reference date) with a half-yearly accounting period ending on 30 September each year.

The Threadneedle Diversified Income Fund also has interim accounting periods that end on 30 June and 31 December each year.

27.2 **Income allocation**

As described in paragraph 12 above, allocation of income to holders of Income Shares will be paid directly into the Shareholder's bank account on or before the relevant allocation dates set out below:

Threadneedle Diversified Income Fund: Quarterly on 17 February, 17 May, 17 August and 17 November in each year.

Threadneedle Managed Portfolio 3: Twice yearly on 17 May and 17 November

Threadneedle Managed Portfolio 4: Twice yearly on 17 May and 17 November.

Threadneedle Managed Portfolio 5: Twice yearly on 17 May and 17 November.

Threadneedle Managed Portfolio 6: Twice yearly on 17 May and 17 November.

Threadneedle Managed Portfolio 7: Twice yearly on 17 May and 17 November.

The amount available for distribution in any accounting period is calculated by taking the aggregate of the income received or receivable for the account of the Company in respect of that period, and deducting the charges and expenses of the Company paid or payable out of income in respect of that accounting period. The ACD then makes such other adjustments as it considers appropriate (and after consulting the auditors as appropriate) in relation to taxation, income equalisation, income unlikely to be received within 12 months following the relevant income allocation date, income which should not be accounted for on an accrual basis because of lack of information as to how it accrues, transfers between the income and capital account and any other adjustments which the ACD considers appropriate after consulting the Auditor.

When a distribution of income is payable to a registered Shareholder, the ACD will pay it by will be paid directly into the Shareholder's bank account. Where such Shareholders have not provided bank account details, income will be reinvested in new Shares until such bank account details have been received by the ACD.

If a distribution remains unclaimed for a period of six years after it has become due, it will be forfeited and will revert to the Company.

27.3 **Reports**

The ACD will, within four months after the end of each annual accounting period and two months after the end of each half-yearly accounting period respectively, publish and provide a short report. A long report for each period will also be available, free of charge, on request.

27.4 Documents of the Company

The following documents may be inspected free of charge between 9.30am and 4.30pm (London time) every business day at the offices of the ACD at 60 St Mary Axe, London EC3A 8JQ:

- The most recent annual and interim reports of the Company;
- The Instrument of Incorporation (and any amending instrument of incorporation);
- This Prospectus; and
- The material contracts referred to below.

The ACD may make a charge at its discretion for copies of documents, except for copies of long form accounts which can be obtained free of charge.

27.5 Material contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and are, or may be, material:

- 27.5.1 the ACD Agreement between the Company and the ACD;
- 27.5.2 the Depositary Agreement between the Company, the Depositary and the ACD;
- 27.5.3 the Investment Management Agreement between the ACD and the Investment Manager;
- 27.5.4 the Registrar Agreement between the ACD and the Registrar.

Details of these contracts are given in Sections 3 to 7.

27.6 Complaints

If you have a complaint you should write to the Complaints Officer at the administration centre of the ACD at PO Box 10033, Chelmsford CM99 2AL. If your complaint is not dealt with to your satisfaction you can, depending on the nature of the complaint, also write directly to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR. The ACD will inform you of your rights when answering your complaint. Details of the ACD's customer complaint handling procedures are available on request.

27.7 **The Financial Services Compensation Scheme**

The Financial Services Compensation Scheme offers compensation when an authorised firm is unable to pay claims against it, usually because the firm has gone out of business. The ACD is covered by the Financial Services Compensation Scheme. You may be entitled to compensation from the scheme if the ACD cannot meet its obligations. Most types of investment business are covered by 100% of the first £50,000. The maximum compensation is £50,000. Details of the scheme are included in a leaflet that you can request from the ACD. Further information is available from the Financial Services Authority and the Financial Services Compensation Scheme.

27.8 **Address for Service**

60 St Mary Axe, London EC3A 8JQ

APPENDIX I

INVESTMENT AND BORROWING POWERS AND RESTRICTIONS

1. General rules of investment

- 1.1 The scheme property of each Fund will be invested with the aim of achieving the investment objective of that Fund but subject to the limits on investment set out in Chapter 5 of COLL. These limits apply to each Fund as summarised below.
- 1.2 The ACD's investment policy may mean that at times, where it is considered appropriate, the scheme property of a Fund will not be fully invested and that prudent levels of liquidity will be maintained.

2. Prudent spread of risk

The ACD must ensure that, taking account of the investment objective and policy of each of the Funds, the scheme property of each of the Funds provides a spread of risk.

3. Cover

- 3.1 Where the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in Chapter 5 of the COLL Sourcebook, it must be assumed that the maximum possible liability of a Fund under any other of those rules has also to be provided for.
- 3.2 Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered:
 - 3.2.1 it must be assumed that in applying any of those rules, a Fund must also simultaneously satisfy any other obligation relating to cover; and
 - 3.2.2 no element of cover must be used more than once.

4. Investment Powers: general

- 4.1 The scheme property of each Fund may, subject to the rules set out in this Appendix, comprise any assets or investments to which it is dedicated,

including those set out at 4.3 below.

4.2 The scheme property of each Fund may also include movable or immovable property that is necessary for the direct pursuit of the Company's business of investing in those assets or investments. The Company does not currently intend to invest in immovable property or any tangible movable property.

4.3 The scheme property of a Fund must, subject to its investment objective and policy and except where otherwise provided in the FSA Rules, consist of any one or more of:

4.3.1 transferable securities;

4.3.2 money-market instruments;

4.3.3 units in collective investment schemes permitted under paragraph 11 below (Investment in collective investment schemes)

4.3.4 derivatives and forward transactions permitted under paragraph 15 below (permitted transactions (derivatives and forwards));

4.3.5 deposits permitted under COLL5.2.26R (Investments in deposits);

4.3.6 immovables permitted under COLL5.6.18R (Investment in property) to COLL5.6.19R (Investment limits for immovables); and

4.3.7 gold up to a limit of 10% in value of the scheme property of each Fund.

5. **Transferable Securities and money-market instruments**

5.1 Transferable securities and money-market instruments held within a Fund must:

5.1.1 be admitted to or dealt in on an eligible market within paragraph 8 below (Eligible markets regime: purpose and requirements); or

5.1.2 be recently issued transferable securities which satisfy the requirements for investment by a UCITS scheme set out in COLL 5.2.8R(3)(e); or

5.1.3 be approved money-market instruments not admitted to or

dealt in on an eligible market which satisfy the requirements for investment by a UCITS scheme set out in COLL 5.2.10A R to COLL5.2.10C R; or

5.1.4 subject to a limit of 20% in value of the scheme property of a Fund be:

(a) transferable securities which are not within 5.1.1 to 5.1.3; or

(b) money-market instruments which are liquid and have a value which can be determined accurately at any time.

5.1.5 Transferable securities held within the Company must also satisfy the criteria in COLL 5.2.7A R, COLL 5.2.7C R and COLL 5.2.7E R for the purposes of investment by a UCITS scheme.

6. Money market instruments with a regulated issuer

6.1 In addition to instruments admitted to or dealt in on an eligible market the Sub-fund may invest in an approved money-market instrument provided it fulfils the following requirements:

6.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and

6.1.2 the instrument is issued or guaranteed in accordance with paragraph 7 (Issuers and guarantors).

7. Issuers and guarantors

7.1 A Sub-fund may invest in an approved money-market instrument if it is:

7.1.1 issued or guaranteed by any one of the following:

7.1.1.1 a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;

7.1.1.2 a regional or local authority of an EEA State;

7.1.1.3 the European Central Bank or a central bank of an EEA State;

7.1.1.4 the European Union or the European Investment Bank;

7.1.1.5 a non-EEA State or, in the case of a federal state, one of

- 8.3.2 a market in an EEA State which is regulated, operates regularly and is open to the public; or
 - 8.3.3 any market within 8.4 below.
- 8.4 A market not falling within paragraph 8.3.1 or 8.3.2 is eligible for the purposes of Chapter 5 of the FSA Rules if:
 - 8.4.1 the ACD, after consultation with and notification to the Depositary, decides that market is appropriate for investment of, or dealing in, the scheme property;
 - 8.4.2 the market is included in a list in the Prospectus; and
 - 8.4.3 the Depositary has taken reasonable care to determine that:
 - 8.4.3.1 adequate custody arrangements can be provided for the investment dealt in on that market; and
 - 8.4.3.2 all reasonable steps have been taken by the ACD in deciding whether that market is eligible.
- 8.5 In paragraph 8.4.1, a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self-regulating organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of Shareholders.
- 8.6 The eligible markets for each Fund are set out below in Appendix IV.

9. **Spread: general**

- 9.1 This rule on spread does not apply to government and public securities.
- 9.2 Not more than 20% in value of the scheme property of a Fund is to consist of deposits with a single body.
- 9.3 Not more than 10% in value of the scheme property of a Fund is to consist of transferable securities or money market instruments issued by any single body, subject to paragraph 20 below (Schemes replicating an index).
- 9.4 The limit of 10% in paragraph 9.3 is raised to 25% in value of the scheme property of a Fund in respect of covered bonds.
- 9.5 In applying paragraph 9.3 certificates representing certain securities are to be treated as equivalent to the underlying security.
- 9.6 Not more than 5% in value of the scheme property of a Fund is to consist of

warrants.

- 9.7 The exposure to any one counterparty in an OTC derivative transaction must not exceed 10% in value of the scheme property of a Fund.
- 9.8 Except for a feeder fund, not more than 35% in value of the scheme property of a Fund is to consist of the units of any one scheme.
- 9.9 For the purpose of calculating the limits in 9.7, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in 9.10.
- 9.10 The conditions referred to in 9.9 are that the collateral:
- 9.10.1 is marked-to-market on a daily basis and exceeds the value of the amount at risk;
 - 9.10.2 is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
 - 9.10.3 is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
 - 9.10.4 can be fully enforced by the relevant Fund at any time.
- 9.11 For the purpose of calculating the limits in 9.7, OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
- 9.11.1 comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to Directive 2000/12/EC; and
 - 9.11.2 are based on legally binding agreements.
- 9.12 In applying this rule, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- 9.12.1 it is backed by an appropriate performance guarantee; and
 - 9.12.2 it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.
- 9.13 For the purposes of this rule, a single body is:
- 9.13.1 in relation to transferable securities and money market instruments, the person by whom they are issued; and

9.13.2 in relation to deposits, the person with whom they are placed.

10. **Spread: Government and public securities**

10.1 The above restrictions do not apply to Government and public securities ("such securities"). The restrictions in relation to such securities are set out below.

10.2 Where no more than 35% in value of the scheme property of a Fund may be invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in such securities issued by any one body or of any one issue.

10.3 In relation to such securities:

10.3.1 issue, issued and issuer include guarantee, guaranteed and guarantor; and

10.3.2 an issue differs from another if there is a difference as to repayment date, rate of interest, guarantor or other material terms of the issue.

11. **Investment in collective investment schemes**

11.1 A Fund must not invest in units in a collective investment scheme (a "second scheme") unless the second scheme meets each of the requirements under paragraphs 11.1.1 to 11.1.5:

11.1.1 The second scheme:

11.1.1.1 satisfies the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or

11.1.1.2 is a non-UCITS retail scheme; or

11.1.1.3 is a recognised scheme; or

11.1.1.4 is constituted outside of the United Kingdom and the investment and borrowing powers of which are the same or more restrictive than those of a non-UCITS retail scheme; or

11.1.1.5 is a scheme not falling within 11.1.1.1 to 11.1.1.4 and in respect of which no more than 20% in value of the scheme property (including any transferable securities which are not approved

securities) is invested;

11.1.2 The second scheme operates on the principle of the prudent spread of risk;

11.1.3 The second scheme is prohibited from having more than 15% in value of its scheme property consisting of units in collective investment schemes;

11.1.4 The participants in the second scheme must be entitled to have their units redeemed in accordance with the scheme at a price:

11.1.4.1 Related to the net value of the property to which the units relate; and

11.1.4.2 Determined in accordance with the scheme; and

11.1.5 Where the second scheme is an umbrella, the provisions in 11.1.2 to 11.1.4 and paragraph 9 apply to each Fund as though it were a separate scheme.

12. Investment in associated collective investment schemes

12.1 In accordance with COLL 5.6.11R, each of the Funds may include units that fall within paragraph 11 that are also collective investment schemes managed or operated by (or, if it is an OEIC, has as its ACD) the ACD of the Fund or an associate of the ACD, providing the conditions in COLL 5.2.16R (Investments in other group schemes) are complied with.

13. Investment in nil and partly paid securities

13.1 A transferable security or an approved money market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Fund, at the time when payment is required, without contravening the Rules in Chapter 5 of COLL.

14. Derivatives – General

14.1 Under the FSA Rules derivatives are permitted for non-UCITS Retail Schemes for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives of the Funds or both.

14.2 Under the FSA Rules derivatives are permitted for non-UCITS Retail Schemes for investment purposes and derivative transactions may be used for the

purposes of hedging or meeting the investment objectives of the Funds or both.

- 14.3 The property of these Funds may be invested in derivatives and forward transactions under the FSA Rules for the purposes of Efficient Portfolio Management (including hedging) and/or meeting their investment objectives. It is not intended that the use of derivatives in this way will cause the Net Asset Value of these Funds to have high volatility or otherwise cause its existing risk profile to change materially.
- 14.4 **None of the Funds currently intends to use its property to invest in derivatives and forward transactions under the COLL Sourcebook, other than for the purposes of efficient portfolio management techniques, which is not expected to have a detrimental effect on the risk profile of the Funds.**
- 14.5 **Shareholders will be given at least 60 days' notice of any decision to use derivatives for investment purposes as well as EPM, and a revised Prospectus will be issued.**
- 14.6 Where derivatives are used for investment purposes, there remains a possibility that the share price of the Fund may be more volatile than would otherwise have been the case. The effect of the derivative strategies employed could be to amplify or dampen market movements, or to cause the Net Asset Value of the Fund to move in an opposite direction to that of the market. In such cases, its behaviour could be counter-intuitive to that expected by investors who are accustomed to investment in traditional long only funds.
- 14.7 A transaction in derivatives or a forward transaction must not be effected for a fund unless the transaction is of a kind specified in paragraph 15 (Permitted Transactions (derivatives and forwards)); and covered, as required, by paragraph 22 (cover for transactions in derivatives and forward transactions).
- 14.8 Where a Fund invests in derivatives, the exposure to the underlying assets must not exceed the limits in paragraph 9 (Spread: general) and paragraph 10 (Spread: government and public securities) except as provided in paragraph 14.10.
- 14.9 Where a transferable security or money-market instrument embeds a derivative, this must be taken into account for the purposes of complying with this Section.
- 14.10 Where a Fund invests in an index-based derivative, provided the relevant index falls within paragraph 20 (Schemes replicating an index) the

underlying constituents of the index do not have to be taken into account for the purposes of paragraph 2 (Prudent spread of risk).

15. Permitted transactions (derivatives and forwards)

- 15.1 A transaction in a derivative must be in an approved derivative; or be one which complies with paragraph 18 (OTC transactions in derivatives).
- 15.2 A transaction in a derivative must have the underlying consisting of any or all of the following to which the scheme is dedicated: transferable securities, money market instruments, deposits, permitted derivatives under this paragraph, collective investment scheme units permitted under paragraph 11 (Investment in collective investment schemes), financial indices, interest rates, foreign exchange rates and currencies or all of the attributes thereof.
- 15.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.
- 15.4 A transaction in a derivative must not cause the Funds to diverge from their investment objectives as stated in the Instrument of Incorporation and the most recently published version of this Prospectus.
- 15.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more transferable securities, money market instruments, units in collective investment schemes, or derivatives.
- 15.6 Any forward transaction must be with an Eligible Institution or an Approved Bank.

16. Transactions for the purchase of property

- 16.1.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of the Funds may be entered into only if that property can be held for the account of the Funds, and the ACD having taken reasonable care determines that delivery of the property under the transaction will not occur or will not lead to a breach of the rules in the COLL Sourcebook.

17. Requirement to cover sales

- 17.1 No agreement by or on behalf of the Funds to dispose of property or rights may be made unless the obligation to make the disposal and any other similar obligation could immediately be honoured by the Funds by delivery of property or the assignment (or, in Scotland, assignation) of rights, and the property and rights above are owned by the Funds at the time of the

agreement. This requirement does not apply to a deposit.

17.2 Paragraph 17.1 does not apply where:

17.2.1 the risks of the underlying financial instrument of a derivative can be appropriately represented by another financial instrument and the underlying financial instrument is highly liquid; or

17.2.2 the ACD or the Depositary has the right to settle the derivative in cash and cover exists within the scheme property which falls within one of the following asset classes:

17.2.2.1 cash;

17.2.2.2 liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards (in particular, haircuts); or

17.2.2.3 other highly liquid assets having regard to their correlation with the underlying of the financial derivative instruments, subject to appropriate safeguards (e.g. haircuts where relevant).

17.2.3 In the asset classes referred to in paragraph 17.2.2, an asset may be considered as liquid where the instrument can be converted into cash in no more than seven business days at a price closely corresponding to the current valuation of the financial instrument on its own market.

18. **OTC transactions in derivatives**

18.1 Any transaction in an OTC derivative under paragraph 15 must be:

18.1.1 in a future or an option or a contract for differences;

18.1.2 *with an approved counterparty*; a counterparty to a transaction in derivatives is approved only if the counterparty is an Eligible Institution or an Approved Bank or a person whose permission (including any requirements or limitations), as published in the FSA Register or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;

18.1.3 *on approved terms*; the terms of the transaction in derivatives are approved only if the ACD:

- (c) carries out, at least daily, and at any other time at the request of the Funds or the ACD, a reliable and verifiable valuation in respect of that transaction corresponding to its fair value (being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty; and
- (d) can enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at a fair value (as defined above);

18.1.4 *capable of reliable valuation*; a transaction in derivatives is capable of reliable valuation only if the ACD having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy:

- (a) on the basis of an up-to-date market value which the ACD and the Depositary have agreed is reliable; or
- (b) if the value referred to in (a) is not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and

18.1.5 *subject to verifiable valuation*, a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:

- (a) an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the ACD is able to check it; or
- (b) a department within the ACD which is independent from the department in charge of managing the scheme property of a Fund and which is adequately equipped for such a purpose.

19. **Risk Management**

The ACD uses a risk management process, as reviewed by the Depositary, enabling it to monitor and measure as frequently as appropriate the risk associated with the Funds' positions and their contributions to the overall risk profile of each Fund.

20. **Schemes replicating an index**

- 20.1 A Fund may invest up to 20% in value of the property of the Fund in shares and debentures which are issued by the same body where aim of the stated investment policy of the Fund as stated in the most recently published prospectus is to replicate the performance or composition of a relevant index as defined below.
- 20.2 The 20% limit can be raised for a Fund up to 35% in value of the property of the Fund, but only in respect of one body and where justified by exceptional market conditions.
- 20.3 In the case of a Fund replicating an index the property of the Fund need not consist of the exact composition and weighting of the underlying in the relevant index where deviation from this is expedient for reasons of poor liquidity or excessive cost to the scheme in trading in an underlying investment.
- 20.4 The indices referred to above are those which satisfy the following criteria:
 - 20.4.1 The composition is sufficiently diversified;
 - 20.4.2 The index is a representative benchmark for the market to which it refers; and
 - 20.4.3 The index is published in an appropriate manner.

21. **Derivatives exposure**

- 21.1 A Fund may invest in derivatives and forward transactions as long as the exposure to which a Fund is committed by that transaction itself is suitably covered from within its property. Exposure will include any initial outlay in respect of that transaction.
- 21.2 Cover ensures that a Fund is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the property of the Fund. Therefore, a Fund must hold property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Fund is committed. Paragraph 22 (Cover for transactions in derivatives and forward transactions) sets out detailed requirements for cover of a Fund.
- 21.3 Cover used in respect of one transaction in derivatives or forward transaction

must not be used for cover in respect of another transaction in derivatives or a forward transaction.

22. Cover for transactions in derivatives and forward transactions

- 22.1 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which a Fund is or may be committed by another person is covered globally.
- 22.2 Exposure is covered globally if adequate cover from within the property of a Fund is available to meet its total exposure, taking into account the value of the underlying assets, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.
- 22.3 Cash not yet received into the property of a Fund but due to be received within one month is available as cover.
- 22.4 Property the subject of a stock lending transaction is only available for cover if the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- 22.5 The total exposure relating to derivatives held in a Fund may not exceed the net value of the property of the Fund.

23. Cash, borrowing, lending and other provisions

- 23.1 Paragraph 24 applies to the ACD.
- 23.2 Paragraph 26 (General power to borrow) applies to the Funds, except paragraphs 26.3 and 26.4 which apply to the ACD.
- 23.3 Paragraph 27 (Borrowing limits) applies to the ACD.
- 23.4 Paragraph 28 (Restrictions on lending of money) applies to the Funds.
- 23.5 Paragraph 29 (Restrictions on lending of property other than money) applies to the Funds, except for paragraph 29.4.1 which applies to the Funds or to the Depositary.
- 23.6 Paragraph 30 (General power to accept or underwrite placings) applies to the Funds.
- 23.7 Paragraph 31 (Guarantees and indemnities) applies to the Funds or the Depositary.

24. Cash and near cash

- 24.1 Cash and near cash must not be retained in the scheme property of a Fund except to the extent that, where this may reasonably be regarded by the ACD, at its discretion, as necessary in order to enable:
- 24.1.1 the pursuit of that Fund's investment objectives; or
 - 24.1.2 redemption of Shares; or
 - 24.1.3 efficient management of the Fund in accordance with its investment objectives; or
 - 24.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of the Fund.
- 24.2 During the period of the initial offer the scheme property may consist of cash and near cash without limitation.
- 24.3 The ACD expects the liquid funds of a Fund to vary between 0% and 30% of the value of the property of the Fund at any one time. Liquidity may be at the upper end of, or even exceed, this range under certain circumstances such as where large market movements and/or an exceptional number of redemptions are anticipated or the Fund is in receipt of large cash sums upon the creation of shares or realisation of investments.
- 24.4 Cash forming part of the property of a Fund or standing to the credit of the distribution account may be placed in any current, deposit or loan account with the Depository, the ACD or any investment adviser or any associate of any of them provided it is an Eligible Institution and the arrangements are at least as favourable to the Fund concerned as would be those of any comparable arrangements effected on normal commercial terms negotiated at arm's length between two independent parties.

25. **Stock lending**

- 25.1 The entry into stock lending transactions for the account of the Company is permitted as part of Efficient Portfolio Management and for the generation of additional income for the benefit of the Company, and hence for its investors.
- 25.2 The specific method of stock lending permitted in this Section is in fact not a transaction which is a loan in the normal sense. Rather it is an arrangement of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992, under which the lender transfers securities to the borrower otherwise than by way of sale and the borrower is to transfer those securities, or securities of the same type and amount, back to the lender at a later date. In accordance with good market practice, a separate transaction by way of

transfer of assets is also involved for the purpose of providing collateral to the "lender" to cover him against the risk that the future transfer back of the securities may not be satisfactorily completed.

- 25.3 The stock lending permitted by this Section may be exercised by the Company when it reasonably appears to the Company to be appropriate to do so with a view to generating additional income for the Company with an acceptable degree of risk.
- 25.4 The Company or the Depositary at the request of Company may enter into a stock lending arrangement of the kind described in section 263B of the Taxation of Chargeable Gains Act 1992 (without extension by section 263C), but only if all the terms of the agreement under which securities are to be reacquired by the Depositary for the account of the Company, are in a form which is acceptable to the Depositary and are in accordance with good market practice, the counterparty is an authorised person or a person authorised by a home state regulator, and collateral is obtained to secure the obligation of the counterparty. Collateral must be acceptable to the Depositary, adequate and sufficiently immediate.
- 25.5 The Depositary must ensure that the value of the collateral at all times is at least equal to the value of the securities transferred by the Depositary. This duty may be regarded as satisfied in respect of collateral the validity of which is about to expire or has expired where the Depositary takes reasonable care to determine that sufficient collateral will again be transferred at the latest by the close of business on the day of expiry.
- 25.6 Any agreement for transfer at a future date of securities or of collateral (or of the equivalent of either) may be regarded, for the purposes of valuation under the COLL Sourcebook, as an unconditional agreement for the sale or transfer of property, whether or not the property is part of the property of the Company.
- 25.7 There is no limit on the value of the Scheme Property which maybe the subject of stock lending transactions.

26. **General power to borrow**

- 26.1 A Fund may, in accordance with this paragraph, borrow money for the use of that Fund on terms that the borrowing is to be repayable out of the scheme property. This power to borrow is subject to the obligation of the Fund to comply with any restriction in the instrument constituting the Fund.
- 26.2 A Fund may borrow under paragraph 26.1 only from an Eligible Institution or an Approved Bank.

26.3 The ACD must ensure that any borrowing is on a temporary basis and that borrowings are not persistent, and for this purpose the ACD must have regard in particular to:

26.3.1 the duration of any period of borrowing; and

26.3.2 the number of occasions on which resort is had to borrowing in any period.

26.4 In addition to complying with paragraph 26.3, the ACD must ensure that no period of borrowing exceeds three months, whether in respect of any specific sum or at all, without the prior consent of the Depositary; the Depositary's consent may be given only on such conditions as appear to the Depositary appropriate to ensure that the borrowing does not cease to be on a temporary basis only.

26.5 A Fund must not issue any debenture unless it acknowledges or creates a borrowing that complies with paragraph 26.1 to 26.4 and 27.

26.6 These borrowing restrictions do not apply to "back to back" borrowing for currency hedging and efficient portfolio management purposes.

27. **Borrowing limits**

27.1 The ACD must ensure that a Fund's borrowing does not, on any business day, exceed 10% of the value of the scheme property of that Fund.

27.2 This limit does not apply to "back to back" borrowing.

27.3 In this paragraph 27, "borrowing" includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a temporary injection of money into the scheme property in the expectation that the sum will be repaid.

28. **Restrictions on lending of money**

28.1 None of the money in the scheme property of a Fund may be lent and, for the purposes of this prohibition, money is lent by the Fund if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.

28.2 Acquiring a debenture is not lending for the purposes of paragraph 28.1; nor is the placing of money on deposit or in a current account.

28.3 Paragraph 28.1 does not prevent a Fund from providing an officer of that Fund with funds to meet expenditure to be incurred by him for the purposes of the Fund (or for the purposes of enabling him properly to perform his

duties as an officer of the Fund) or from doing anything to enable an officer to avoid incurring such expenditure.

29. Restrictions on lending of property other than money

- 29.1 The scheme property of a Fund other than money must not be lent by way of deposit or otherwise.
- 29.2 Transactions permitted by paragraph 25 (Stock Lending) are not lending for the purposes of paragraph 29.1.
- 29.3 The scheme property of a Fund must not be mortgaged.
- 29.4 Where transactions in derivatives or forward transactions are used for the account of a Fund in accordance with any of the rules in Chapter 5 of the FSA Rules, nothing in this rule prevents a Fund or Depositary at the request of the Fund from:
 - 29.4.1 lending, depositing, pledging or charging scheme property for margin requirements; or
 - 29.4.2 transferring scheme property under the terms of an agreement in relation to margin requirements, provided that the ACD reasonably considers that both the agreement and the margin arrangements made under it (including in relation to the level of margin) provide protection to shareholders.

30. General power to accept or underwrite placings

- 30.1 Any power in Chapter 5 of the FSA Rules to invest in transferable securities may be used for the purpose of entering into transactions to which this Section applies, subject to compliance with any restriction in the Instrument of Incorporation.
- 30.2 This Section applies, subject to paragraph 30.3, to any agreement or understanding:
 - 30.2.1 which is an underwriting or sub-underwriting agreement; or
 - 30.2.2 which contemplates that securities will or may be issued or subscribed for or acquired for the account of a Fund.
- 30.3 Paragraph 30.2 does not apply to:
 - 30.3.1 an option; or
 - 30.3.2 a purchase of a transferable security which confers a right:

30.3.2.1 to subscribe for or acquire a transferable security;
or

30.3.2.2 to convert one transferable security into another.

30.4 The exposure of a Fund to agreements and understandings within paragraph 30.2 must, on any business day:

30.4.1 be covered in accordance with the requirements of rule 5.5.7R(4) of the FSA Rules; and

30.4.2 be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in Chapter 5 of the FSA Rules.

31. **Guarantees and indemnities**

31.1 A Fund or the Depositary for the account of that Fund must not provide any guarantee or indemnity in respect of the obligation of any person.

31.2 None of the scheme property of a Fund may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.

31.3 In respect of a Fund, paragraphs 31.1 and 31.2 do not apply to:

31.3.1 an indemnity falling within the provisions of regulation 62(3) (Exemptions from liability to be void) of the Treasury Regulations;

31.3.2 an indemnity (other than any provision in it which is void under regulation 62 of the Treasury Regulations) given to the Depositary against any liability incurred by it as a consequence of the safekeeping of any of the scheme property by it or by anyone retained by it to assist it to perform its function of the safekeeping of the scheme property; and

31.3.3 an indemnity given to a person winding up a scheme if the indemnity is given for the purposes of arrangements by which the whole or part of the property of that scheme becomes the first property of the Fund and the holders of units in that scheme become the first shareholders in the Fund.

APPENDIX II

OTHER THREADNEEDLE FUNDS

The ACD also acts as an authorised corporate director of the following OEICs:

- Threadneedle Investment Funds ICVC
- Threadneedle Investment Funds II ICVC
- Threadneedle Investment Funds III ICVC
- Threadneedle Specialist Investment Funds ICVC
- Threadneedle Portfolio Advantage Funds
- Threadneedle Focus Investment Funds ICVC
- Threadneedle UK Property Fund II

The ACD also acts as authorised fund manager of the following authorised unit trusts:

- Threadneedle Global Equity Fund
- Threadneedle Global Equity and Bond Fund
- Threadneedle Equity and Bond Fund
- Threadneedle Defensive Equity and Bond Fund
- Threadneedle Defensive Fund
- Threadneedle Managed Income Fund
- Threadneedle UK Property Trust

APPENDIX III

HISTORICAL PERFORMANCE

The investment returns of the Funds for each full calendar year are set out below. Investment returns are only shown where a Fund's share class has been in existence for the full twelve months of an applicable year.

	Investment Return (%)	
Retail Shares	1 January 2009 to 31 December 2009	1 January 2010 to 31 December 2010
Threadneedle Diversified Income Fund	17.49	11.40
Threadneedle Managed Portfolio 3	N/a	Not available – launched June 2010
Threadneedle Managed Portfolio 4	17.06	9.41
Threadneedle Managed Portfolio 5	17.74	11.32
Threadneedle Managed Portfolio 6	20.07	13.66
Threadneedle Managed Portfolio 7	23.28	15.64
Second Retail Shares	1 January 2009 to 31 December 2009	1 January 2010 to 31 December 2010
Threadneedle Diversified Income Fund	N/a	10.87
Threadneedle Managed Portfolio 3	N/a	Not available – launched June 2010
Threadneedle Managed Portfolio 4	N/a	9.03
Threadneedle Managed Portfolio 5	N/a	10.92
Threadneedle Managed Portfolio 6	N/a	13.16
Threadneedle Managed Portfolio 7	N/a	15.09

Source: Morningstar, bid to bid basis with net income reinvested for a UK basic rate tax payer as at 30.09.2011

Cumulative performance of Retail Shares in Sterling of the following Funds from launch to 30 September 2011.

	Fund performance (%)	Fund launch date
Threadneedle Diversified Income Fund	7.49	31 July 2008
Threadneedle Managed Portfolio 3	2.43	30 June 2010
Threadneedle Managed Portfolio 4	9.40	31 July 2008
Threadneedle Managed Portfolio 5	9.51	31 July 2008
Threadneedle Managed Portfolio 6	9.23	31 July 2008
Threadneedle Managed Portfolio 7	9.15	31 July 2008

Source: Morningstar, bid to bid basis with net income reinvested for a UK basic rate tax payer as at 30.09.2011

Cumulative performance of Second Retail Shares in Sterling of the following Funds from launch to 30 September 2011.

	Fund performance (%)	Fund launch date
Threadneedle Diversified Income Fund	7.49	31 July 2008
Threadneedle Managed Portfolio 3	2.43	30 June 2010
Threadneedle Managed Portfolio 4	9.40	31 July 2008
Threadneedle Managed Portfolio 5	9.51	31 July 2008
Threadneedle Managed Portfolio 6	9.23	31 July 2008
Threadneedle Managed Portfolio 7	9.15	31 July 2008

Source: Morningstar, bid to bid basis with net income reinvested for a UK basic rate tax payer as at 30.09.2011

It must be emphasised that past performance should not be seen as an indication of future performance. Your attention is also drawn to the risks explained above in paragraph 25.

APPENDIX IV

ELIGIBLE MARKETS

Eligible Securities Markets

Set out below are the securities markets, in addition to those established in a Member State of the EU or EEA, through which the Company may invest or deal for the account of each Fund (subject to the Fund's respective investment objective and policy) when dealing in approved securities.

Australia	The Australia Stock Exchange Limited
Canada	Any Stock Exchange prescribed for the purposes of the Canadian Income Tax Act
China	Shanghai Stock Exchange and Shenzhen Stock Exchange
Hong Kong	Any Stock Exchange recognised under the law in Hong Kong
Indonesia	Jakarta Stock Exchange
Japan	Any Stock Exchange
Republic of Korea	The Korea Stock Exchange
Malaysia	Kuala Lumpur Stock Exchange
Mexico	The Mexican Stock Exchange
New Zealand	Any Stock Exchange
Philippines	Philippine Stock Exchange
Singapore	The Singapore Stock Exchange
Switzerland	Any Stock Exchange
Taiwan	Taipei Stock Exchange
Thailand	The Stock Exchange of Thailand
United States	NASDAQ (the electronic inter-dealer quotation system of America operated by the National Association of Securities Dealers Inc) any Exchange registered with the Securities and Exchange Commission as a National Stock Exchange

The Alternative Investment Market of the London Stock Exchange is also an eligible securities market.

Eligible Derivatives Markets

- Athens Derivative Exchange
- Australian Stock Exchange
- Chicago Board Options Exchange
- Chicago Mercantile Exchange
- Borsa Italiana (IDEM)
- Budapest Stock Exchange
- Eurex
- EDX London
- Euronext Paris
- Hong Kong Futures Exchange
- Korea Futures Exchange
- MEFF
- New Zealand Futures Exchange
- NYSE Euronext Liffe – Amsterdam
- NYSE Euronext Liffe – Brussels
- NYSE Euronext Liffe – Lisbon
- NYSE Euronext Liffe – London
- NYSE Euronext Liffe – Paris
- NYSE Liffe U.S.
- Osaka Securities Exchange
- Prague Stock Exchange
- Singapore Stock Exchange
- Sydney Futures Exchange
- The Nordic Exchange (Copenhagen)
- The Nordic Exchange (Helsinki)
- The Nordic Exchange (Stockholm)
- The Oslo Stock Exchange (OSE) (Oslo Bors)
- Taiwan Futures Exchange
- Turkish Derivatives Exchange
- Warsaw Stock Exchange
- Wiener Borse

APPENDIX V

DIRECTORY

Threadneedle Investment Funds IV ICVC

Authorised Corporate Director (ACD)

Threadneedle Investment Services Limited

(authorised and regulated by the Financial Services Authority)

- **Registered Address and Head Office**

60 St Mary Axe

London EC3A 8JQ

- **Customer Administration Address**

PO Box 10033,

Chelmsford

CM99 2AL

ACD Regulator's Address

The Financial Services Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Depository

HSBC Bank plc

(authorised and regulated by the Financial Services Authority)

8 Canada Square

London E14 5HQ

Investment Manager

Threadneedle Asset Management Limited

(authorised and regulated by the Financial Services Authority)

60 St Mary Axe

London EC3A 8JQ

Registrar

International Financial Data Services (UK) Limited
(authorised and regulated by the Financial
Services Authority)
St Nicholas Lane
Basildon
Essex SS15 5FS

Administrator

HSBC Bank plc
(authorised and regulated by the Financial Services Authority)
8 Canada Square
London E14 5HQ

Custodian

HSBC Bank plc
(authorised and regulated by the Financial Services Authority)
8 Canada Square
London E14 5HQ

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Legal Advisers

Eversheds LLP
One Wood Street
London EC2V 7WS