

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 UK PROPERTY FUND II

(An open-ended investment company with variable capital incorporated with limited liability and registered in England and Wales under registered number IC577)

This document constitutes the Prospectus for Threadneedle UK Property Fund II 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 December 2011

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

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PROSPECTUS FOR THE THREADNEEDLE UK PROPERTY FUND II

This document constitutes the Prospectus for Threadneedle UK Property Fund II (formerly known as LV= UK Property Fund), 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 and Guidance made under the Financial Services and Markets Act 2000.

The Prospectus is dated and is valid as at 1 December 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 The Company is not bound by any out of date prospectus when it has issued a new prospectus and potential investors should check that they have the most recently published version.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 the Company;
ACD	Threadneedle Investment Services Limited, the authorised corporate director of the Company;
ACD Agreement	an agreement between the Company and 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	JP Morgan Chase Bank, N.A. London Branch, 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: (a) if the account is opened at a branch in the United Kingdom: (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 building society as defined in the FSA Rules; 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: (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 UK Property Fund II;
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	J.P. Morgan Trustee and Depository Company Limited, 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 to 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> <ul style="list-style-type: none"> (a) they are economically appropriate in that they are realised in a cost effective way; (b) they are entered into for one or more of the following specific aims: <ul style="list-style-type: none"> (i) reduction of risk; (ii) reduction of cost; (iii) generation of additional capital or income for the scheme with a risk level which is consistent with the 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, made under the Act and including the COLL Sourcebook but excluding, for the avoidance of any doubt, any guidance or evidential provisions;
ICVC	investment company with variable capital;
Income Shares	Shares in respect of which income is distributed to Shareholders;
Instrument of Incorporation	the instrument of incorporation of the Company;
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);
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 III of this Prospectus (as amended from time to time);
Net Asset Value or NAV	the value of the Scheme Property less the liabilities of the Company 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;
OEIC	an open-ended investment company, incorporated under the OEIC Regulations;
OEIC Regulations	the Open-Ended Investment Companies Regulations 2001, as amended, or such other regulations as from time to time shall be in force;
Property Manager	Montagu Evans LLP or such other company as appointed from time to time to act as day-to-day property manager of the real property investments of the Company;
Register	the register of Shareholders of the Company;
Registrar and Transfer Agent	International Financial Data Services (UK) Limited or whoever is from time to time appointed as registrar and transfer agent to the Company;

Scheme Property	the property of the Company to be given to the Depositary for safe-keeping, as required by the FSA Rules, including income on that property;
SDRT	stamp duty reserve tax;
Share	an accumulation or income share 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 (according to the context);
Shareholder	a holder of Shares;
Standing Independent Valuer	Colliers International UK Plc or whoever is appointed from time to time to act as the standing independent valuer of the Company;
Threadneedle Regular Savings Facility	a regular savings facility offered by the ACD through which Retail Shares may be purchased including a savings facility within the LV= ISA;
UK	the 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 Scheme Property for the purpose of determining the price at which Shares of a Class may be issued, cancelled, sold, redeemed or exchanged. The Valuation Point will be 14:00 on each Dealing Day;
VAT	value added tax.

References to “direct investment in property” in this Prospectus shall be read to include investment through investment vehicles, where relevant. It is not currently intended to invest in such investment vehicles. When it is intended to do so, the ACD will seek permission to do so from the FSA and 60 days’ notification will be given to Shareholders.

2. **THE COMPANY**

- 2.1 The Company was incorporated in England and Wales as a single fund open-ended investment company and registered with the Financial Services Authority with registered number IC577. It was authorised on 22 August 2007. 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 Company is *not* an undertaking for collective investment in transferable securities within the meaning of Article 1(2) of Council Directive 85/611/EEC of 20 December 1985, as amended; it is a non-UCITS Retail Scheme (NURS). This means that the Company is not free to market its Shares throughout the EU.
- 2.2 The base currency of the Company is sterling. All Shares are denominated in sterling.
- 2.3 Shareholders are not liable for the debts of the Company. Shareholders are not liable to make any further payment after they have paid the price on the purchase of Shares.
- 2.4 Where any changes are proposed to be made to the Company 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. Some changes will not be fundamental, significant or notifiable.

3. **COMPANY STRUCTURE**

- 3.1 The Company is structured as an open-ended investment company with a single fund.
- 3.2 Several classes of Share, each of which may comprise different types of Share, may be issued in respect of the Company. On the introduction of any new Class or type of Share, a revised Prospectus will be prepared which will incorporate the relevant details of that Class or type.
- 3.3 The minimum and maximum sizes of the Company's share capital are £1 and £6,000,000,000 respectively. The share capital of the Company will at all times equal the Company's Net Asset Value.

4. **INVESTMENT OBJECTIVE**

The investment objective of the Company is to achieve long-term capital growth and income primarily through direct investment in, or exposure to, UK commercial property.

5. **INVESTMENT POLICY**

The investment policy of the Company is to invest in UK commercial properties (including shops, offices, retail warehouses, leisure and industrial units), as favourable investment opportunities arise.

The Company may also invest in property related securities, regulated and unregulated collective investment schemes, debt instruments, and other transferable securities to gain exposure to the UK and other property markets. In addition, the Company may invest in money market instruments, deposits, and cash and near cash.

The choice of investment markets will be influenced by fundamental market characteristics such as liquidity, transparency, taxation policies, legal and lease structures, and by the relative value given market pricing and long term growth prospects.

Except in exceptional circumstances, the ACD does not expect more than 80% of the Company's assets to be invested directly in property.

Derivatives and Forward transactions may be used for investment purposes and the purposes of Efficient Portfolio Management and hedging.

It is not expected that the use of derivatives will increase the risk profile of the Company, or otherwise result in significant share price volatility.

6. **AUTHORISED CORPORATE DIRECTOR**

6.1 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.

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

6.3 The ACD is authorised and regulated by the FSA.

6.4 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.

6.5 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 7 to 10 below.

6.6 **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 III.

6.7 **ACD Agreement**

The ACD Agreement is dated 1 December 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 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 below.

7. THE INVESTMENT MANAGER

7.1 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 December 2011.

7.2 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.

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

7.4 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 and in certain other circumstances.

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 or wilful default). 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.

8. **THE PROPERTY MANAGER**

- 8.1 Under an Agreement between the ACD, the Company and the Property Manager, Montagu Evans LLP will act as the day-to-day property manager of the Company. The Property Manager will act as property managing agents and as such, carry out day-to-day management of the real property investments of the Company.
- 8.2 The Agreement may be terminated by either party on not less than six months' notice or earlier upon the happening of certain specified events.
- 8.3 The Property Manager will receive a fee from the Company as set out in Section 27.7.

9. **THE ADMINISTRATOR**

- 9.1 Under an Agreement between the ACD and the Administrator, the ACD has appointed J.P. Morgan Chase Bank N.A, London Branch to provide accounting services in respect of the Company.
- 9.2 The Agreement is for an initial period of three years ("initial term") which will then automatically renew for additional twelve month periods. The Agreement may be terminated at the end of a term on not less than 180 days' prior notice by either party or earlier upon the happening of certain specified events.
- 9.3 The Administrator will receive a fee from the Company as set out in Section 27.6.

10. **THE STANDING INDEPENDENT VALUER**

10.1 **General**

The Standing Independent Valuer to the Company is Colliers International UK Plc. The Standing Independent Valuer is a private company limited by shares incorporated in England and Wales with registered number 4195561.

10.2 **Terms of appointment**

The Standing Independent Valuer was appointed by an agreement between the ACD and the Standing Independent Valuer.

The Standing Independent Valuer is responsible for valuing the immovable property (the real property) of the Company. The Standing Independent Valuer also acts as an appropriate valuer as referred to in the FSA Rules, when permitted to do so under the FSA Rules.

Where the Standing Independent Valuer is acting as a connected party to a transaction being carried out by the Company, the Company will, as required under the FSA Rules, appoint an alternative Standing Independent Valuer to act on its behalf. This alternative Standing Independent Valuer will also act as an appropriate valuer as referred to in the FSA Rules, when permitted to do so under the FSA Rules.

The Standing Independent Valuer will receive a fee from the Company as set out in Section 27.5.

11. **THE DEPOSITARY**

J.P. Morgan Trustee and Depositary Company Limited is the Depositary of the Company. The Depositary is a private company limited by shares authorised and regulated by the FSA and incorporated in England and Wales on 7 May 1986 with registered number 02017279. The ultimate parent company of the Depositary is JP Morgan Chase & Co., incorporated in Delaware, USA.

Subject to the COLL Sourcebook and the OEIC Regulations, the Depositary is responsible for the safekeeping of the Scheme Property entrusted to it and has a duty to take reasonable care to ensure that the Company is managed in accordance with the provisions of the COLL Sourcebook relating to the pricing of, and dealing in, Shares of the Company and the allocation of the income of the Company. The appointment of the Depositary has been made under the Depositary Agreement between the Company, the ACD and the Depositary.

Registered office and head office

Registered office: 125 London Wall, London EC2Y 5AJ.

Head office: Chaseside, Bournemouth BH7 7DA.

11.1 **Principal business activity**

The principal business of the Depositary is that of a corporate trustee including acting as trustee of authorised unit trusts, acting as depositary of open-ended investment companies and acting as trustee or depositary in relation to recognised schemes.

11.2 **Terms of appointment**

Subject to the FSA Rules, the Depositary has full power under the Depositary Agreement to delegate (and authorise its delegates to sub-delegate) all or any part of its duties as depositary. The Depositary has appointed JP Morgan Chase Bank, London Branch, to act as custodian of the moveable

Scheme Property and Threadneedle Asset Management Limited to act as custodian of the immovable Scheme Property (i.e. the real property).

The Depositary Agreement may be terminated on three months' written notice by the Depositary, the Company or the ACD provided that the Depositary may not retire voluntarily except upon the appointment of a new depositary.

To the extent allowed by the COLL Sourcebook and the OEIC Regulations, the Depositary Agreement contains indemnities by the Company in favour of the Depositary against (other than in certain circumstances) any liability incurred by the Depositary as a consequence of its safe keeping of any of the Scheme Property or incurred by it as a consequence of the safe keeping of any of the Scheme Property by anyone retained by it to assist it to perform its function of the safekeeping of the Scheme Property and also (in certain circumstances) exempts the Depositary from liability.

The fees to which the Depositary is entitled are set out in Section 27.3.

12. THE AUDITOR

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

13. THE REGISTRAR

The ACD has delegated the function of registrar and transfer agent for the Company to International Financial Data Services (UK) Limited pursuant to a Services Agreement between the ACD, International Financial Data Services (UK) Limited and International Financial Data Services Limited.

The Register of shareholders is kept and can be inspected free of charge during normal business hours at the office of the Registrar: IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS. The Registrar will also keep at this address, and make available in accordance with the Regulations, the plan register for the Threadneedle ISA in which shares in the Company may be held.

The fees to which the Registrar and Transfer Agent is entitled are set out in Section 26.7.

14. CONFLICTS OF INTEREST

The ACD, the Depositary and the Investment Manager are or may be involved in other financial, investment and professional activities which may, on occasion, cause conflicts of interest with the management of the

Company. In addition, the Company may enter into transactions at arm's length with companies in the same group as the ACD.

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

Each of the parties will, to the extent of their ability and in compliance with the FSA Rules, ensure that the performance of their respective duties will not be impaired by any such involvement.

15. **PROFILE OF A TYPICAL INVESTOR**

16. The Company is designed to be marketable to retail and institutional investors, who are seeking to diversify their portfolio through investment in UK commercial property and are looking for a mix of income and potential capital growth. Investors should be able to invest for the long-term and should understand the risks and the investment objective and policy of the Company. The ACD always recommend that investors seek professional advice before making investment decisions.

17. **ELIGIBLE MARKETS**

The Company 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.

The Company may also deal through the securities markets and derivatives markets as set out in Appendix V below.

18. **INDIVIDUAL SAVINGS ACCOUNT**

In accordance with the Individual Savings Account Regulations 1998 as amended, Shares in the Company are eligible for investment in a Stocks & Shares ISA.

19. **SHARES**

19.1 Shares will be issued in larger and smaller denominations. There are 100 smaller denomination Shares to each larger denomination Share. Smaller denomination Shares represent what, in other terms, might be called fractions of a larger share and have proportionate rights.

19.2 Shares have no par value and, within each Class subject to their denomination, are entitled to participate equally in the profits arising in respect of, and the proceeds of, the liquidation of the Company. Shares do not carry preferential or pre-emptive rights to acquire further Shares.

- 19.3 Several Share Classes may be issued in respect of the Company. The Share Classes presently available for the Company are set out in Appendix IV. Further Share Classes may be made available in due course, as the ACD may decide.
- 19.4 Different Share Classes are subject to different charging structures as set out in Appendix IV. As a result, monies may be deducted from the assets attributable to each of those Classes within the Company in unequal proportions, in which event the proportionate interests of those Classes will be adjusted accordingly.
- 19.5 Shares may be issued as income or accumulation Shares.
- 19.6 Holders of income Shares are entitled to be paid the distributable income attributed to such Shares on any relevant interim and annual allocation dates.
- 19.7 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 Company on the relevant interim and/or annual accounting dates. This is reflected in the price of an accumulation Share.
- 19.8 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.
- 19.9 Currently net accumulation and net income Shares are in issue.
- 19.10 The Register of Shareholders is conclusive evidence of the title to Shares except in the case of any default in payment or transfer to the Company of cash or other property due. The ACD is not obliged to take notice of any trust or equity or other interest affecting the title to any of the Shares. Any notices to be sent to Shareholders will be sent to those Shareholders entered on the Register of Shareholders at the relevant record date.
- 19.11 The Company shall not issue certificates to Shareholders but a statement of shareholding ("periodic statement") shall be sent to each holder of such Shares at least once a year in such form as the ACD may decide. A periodic

statement shall not constitute a document of title to the Shares to which it refers.

19.12 Shareholders are entitled (subject to certain restrictions) to switch all or part of their Shares in a Share Class for Shares in another Share Class within the Company. Details of this switch facility and the restrictions are set out in Section 20.4.

20. **ISSUE, REDEMPTION AND SWITCHING OF SHARES**

20.1 **General**

Requests for the purchase, redemption or switching of Shares may be dealt with by the issue or cancellation of Shares by the Company. However, the ACD will normally, in accordance with the FSA Rules, deal with such requests by selling Shares to, and/or repurchasing them from, the applicant as appropriate. The ACD is entitled to hold Shares for its own account and to satisfy requests for the sale of Shares from its own holding. It is required by the FSA Rules to procure the issue or cancellation of Shares by the Company where necessary to meet any obligation to sell or redeem Shares.

The ACD will be available to receive requests for the purchase or redemption of Shares between 08.00 and 18.00 each Dealing Day. The ACD may at its absolute discretion determine that for a particular Dealing Day, these hours shall be varied, after consultation with the Depositary.

Shares may be bought and sold by telephone 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.

The ACD may not sell a Share at a higher price, or redeem a Share at a lower price, than notified to the Depositary in respect of the Valuation Point concerned.

The current initial charge is 5% of the issue price in respect of each Class of Share, with the exception of the Second Retail Class on which the current initial charge is 4%. This charge is included in the offer price of Shares and is payable to the ACD. The ACD is under no obligation to account to the Company or to Shareholders or any of them for any profit it makes on the issue of Shares or on the reissue or cancellation of Shares which it has redeemed, and will not do so.

20.2 **Issue**

20.2.1 **Applications**

Dealings are at forward prices, i.e. at a price calculated by reference to the next valuation following receipt of the application. Shares to satisfy an application received before the Valuation Point on a Dealing Day will be issued at a price based on that day's valuation and Shares to satisfy an application received after that time, or on a day which is not a Dealing Day, at a price based on the valuation made on the next Dealing Day.

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.

Any subscription monies remaining after a whole number of Shares have been issued will not be returned to the applicant. Instead, smaller denomination Shares will be issued. A smaller denomination Share is equivalent to 100th of a larger denomination Share.

Applicants who have received advice may have the right to cancel their application to buy Shares at any time during the 14 days after the date on which they receive a cancellation notice from the ACD. If an applicant decides to cancel the contract, and the value of the investment has fallen at the time the ACD receives the completed cancellation notice, they will not receive a full refund as an amount equal to any fall in value will be deducted from the sum originally invested.

Applications will not be acknowledged, but a contract note will be sent on or before the business day next following the relevant Dealing Day.

20.2.2 **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.

20.2.3 **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.

20.2.4 **In specie application**

The ACD may, by special arrangement and at its discretion, agree to arrange for the issue of Shares in exchange for assets other than cash but only if the Depositary is satisfied that acquisition of the assets in exchange for the number of Shares to be created is not likely to result in any material prejudice to the interests of holdings or potential holders of Shares.

20.2.5 **Minimum holding/purchase**

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.

A regular savings facility is available with a minimum initial and subsequent investment of £100 per month.

The minimum amount that may be redeemed at any one time is £1,000, subject to the minimum holding.

Institutional share class £500,000 minimum initial investment and £100,000 minimum subsequent investment.

Shareholders must maintain a minimum holding of Shares of £100,000. The

minimum amount that may be redeemed at any one time is £10,000, subject to the minimum holding.

The value of Shares for this purpose is calculated by reference to their current price. Smaller denomination Shares may be issued and all investments will be rounded up to the nearest smaller denomination Share.

The minimum holding requirements will not be treated as being breached if the value of Shares held falls below the relevant minimum solely as a result of a fall in the Share price.

The limits for minimal initial investment and minimum subsequent investment may be waived at the discretion of the ACD.

20.3 **Redemption**

20.3.1 **Application**

Shares may be redeemed on any Dealing Day. Dealings are at forward prices as explained above. Shares to be redeemed pursuant to a redemption request received before the Valuation Point on a Dealing Day will be redeemed at a price based on that day's valuation and Shares to be redeemed pursuant to a redemption request received after that time, or on a day which is not a Dealing Day, at a price based on the valuation made on the next Dealing Day. Redemption instructions may only be given by delivering to the ACD written instructions for redemption by letter or fax. Redemption instructions are irrevocable.

A redemption contract note will be sent on or before the business day next following the relevant Dealing Day. The redemption proceeds will be paid not later than the close of business on the fourth business day after the later of the following times:

- (a) the Valuation Point immediately following the receipt by the ACD of the request to redeem the Shares; and
- (b) the time when the ACD has received all duly executed instruments and authorisations as effect (or enable the ACD to effect) transfer of title to the Shares.

Neither the Company nor the ACD, however, is required to make payment in respect of a redemption of Shares where the money

due on an earlier issue of those Shares has not yet been received or where the ACD considers it necessary to carry out or complete identification procedures in relation to the holder or another person pursuant to a statutory, regulatory or European Community obligation.

20.3.2 **In specie redemption**

Where a Shareholder requests redemption of a number of Shares, the ACD at its discretion may, by serving a notice of election on the Shareholder not later than the close of business on the second business day following the day of receipt of the request, elect that the Shareholder shall not be paid the redemption price of his Shares but instead there shall be a transfer to the holder of Scheme Property having the appropriate value. Where such a notice is so served on a Shareholder, the Shareholder may serve a further notice on the ACD not later than the close of business on the fourth business day following the day of receipt by the Shareholder of the first mentioned notice requiring the ACD, instead of arranging for a transfer of property, to arrange for a sale of that property and the payment to the Shareholder of the net proceeds of that sale. The selection of Scheme Property to be transferred (or sold) is made by the ACD in consultation with the Depositary, 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 property to be transferred (or the proceeds of sale) property or cash of value or amount as an SDRT provision.

20.3.3 **Minimum redemption**

A redemption request may not be made in respect of the Shareholder's Shares if it would result in a holding of less than the minimum value for the relevant Class of Share (see Minimum Holding/Purchase in Section 20.2.5).

20.4 **Switching between Classes**

With the qualifications mentioned below, a Shareholder is entitled to switch Shares of one Class for the appropriate number of Shares of any available Class. The appropriate number of Shares is determined by the following formula:

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

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 Shareholder 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.

The right to switch is subject to the following:

- the ACD and the Depositary are not obliged to give effect to a request for a switch if the value of the Shares to be switched is less than the minimum permitted transaction (see Minimum Holding/Purchase above) for the Class of Shares into which the switch is being made or if it would result in the Shareholder holding a Class of Share of less than the minimum holding for that Share Class (see Minimum holding/Purchase in Section 20.2.5).
- the ACD may decline to permit a switch in any case in which it would be entitled by the FSA Rules to refuse to give effect to a request by the Shareholder for the redemption of Shares of the old class or the issue of Shares of the new Class.

Switches may be subject to a charge of 2% of the value to be switched. This is payable to the ACD.

In no circumstances will a Shareholder who switches Shares (as set out above) be given a right by law to withdraw from or cancel the transaction.

20.4.1 **Application**

A Shareholder wishing to switch should apply in the same way as for redemption (see Section 20.3.1). A switch to be made pursuant to a request received before the Valuation Point or Dealing Day will be effected at prices based on that day's valuations; where a request is received after that time, the switch will be effected at a price based on the valuations made on the next such Dealing Day.

A contract note giving details of the switch will be sent on or before the business day next following the relevant Dealing Day.

20.5 **Suspension of dealings**

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 the Company where due to exceptional circumstances it is in the interests of all the Shareholders.

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 suspension.

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.

20.6 Deferred Redemption

In times of high redemption, to protect the interests of continuing Shareholder, the ACD may defer all redemptions at the Valuation Point to the next Valuation Point or Points where the requested redemptions exceed 10% of the Company's value. Redemptions not processed at a Valuation Point will be processed at the next Valuation Point, up to the 10% Net Asset Value limit.

Available Shares to be redeemed will be bought back in equal values (up to the amounts requested) across all Shareholders who have sought to redeem Shares at any Valuation Point at which redemptions are deferred. All deals relating to an earlier Valuation Point will be completed before those relating to a later Valuation Point are considered.

20.7 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 Company incurring any liability to taxation which the Company 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.

20.8 Regular Savings Facility

The ACD may make available certain Classes of Shares of the Company 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 £100 per month.

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

21. **PUBLICATION OF PRICES**

The prices of each Class of Share are available from www.threadneedle.co.uk Alternatively, prices can be obtained by telephone on 0845 113 0273.

The ACD issues and redeems Shares on a forward pricing basis, not on the basis of the published prices.

22. **OTHER DEALING INFORMATION**

22.1 **Income Equalisation**

Income equalisation, as explained below, may apply in relation to each Share Class.

Part of the purchase price of a Share reflects the relevant share of accrued income received or to be received by a Share Class. This capital sum is returned to a Shareholder with the first allocation of income in respect of a Share issued during a distribution period.

The amount of income equalisation is either the actual amount of income included in the issue price of that Share or is calculated by dividing the aggregate of the amounts of income included in the price of Shares issued or sold to Shareholders in an annual or interim distribution period by the number of those Shares and applying the resultant average to each of the Shares in question.

22.2 **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

advantage of variations in the price of Shares between the daily Valuation Points of the Company. 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 Company 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.

22.3 **Large Deal Provisions**

For large deals, being for these purposes a transaction (or series of transactions) in excess of £15,000, the ACD may redeem at a higher sale price or lower redemption price than those published, but not exceeding the relevant maximum and minimum parameters (see "Price per Share", below).

22.4 **Governing Law**

All deals in Shares are governed by English law.

23. **VALUATION OF SHARES**

The Company is dual-priced, meaning that it has a buying (offer) and selling (bid) price with the difference between these two prices known as the "spread".

Valuations of the Scheme Property for the purpose of calculation of issue and cancellation, and sale (offer) and redemption (bid) prices, will be carried out on both an issue and cancellation basis. Details of how the Scheme Property is valued for these purposes are set out at Appendix VI.

Valuations of the Scheme Property are currently calculated at 2.00 p.m. (London time) on each Dealing Day (the Valuation Point).

The ACD will, on completion of the valuation of the Scheme Property, advise the Depositary of the issue and cancellation prices together with the prices at which it intends to deal for that valuation point. The creation and cancellation prices are the prices which the ACD has to pay to the Depositary for the issue of Shares or which the ACD will receive from the Depositary upon the cancellation of Shares.

Subject to the FSA Rules the ACD may at any time carry out an additional valuation if the ACD considers it desirable to do so.

Where the Company is invested in stocks or markets which are closed at the time of the valuation, there is a risk that the quoted prices of those stocks may be out of date and unreliable. In accordance with the FSA Rules, the ACD may make adjustments to the value of any investments which may be materially impacted by out of date prices through a technique known as fair value pricing as described in paragraph 24.

24. FAIR VALUE PRICING

24.1 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").

24.2 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.

24.3 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.

25. **PROPORTION ACCOUNT**

25.1 The proportionate interests of each Share Class in the assets and income of the Company is ascertained as follows.

25.2 A notional account will be maintained for each Share Class. Each account will be referred to as a "Proportion Account".

The word "proportion" in the following paragraphs means the proportion which the balance on a Proportion Account at the relevant time bears to the balance on all the Proportion Accounts of the Company at that time. The proportionate interest of a Share Class in the assets and income of the Company is its "proportion".

25.3 There will be credited to a Proportion Account:

- (a) the subscription money (excluding any initial charges and dilution levy) for the issue of Shares of the relevant Share Class;
- (b) that Share Class's proportion of the amount by which the Net Asset Value of the Company exceeds the total subscription money for all Shares in the Company;
- (c) that Share Class's proportion of the Company's income received and receivable; and
- (d) any notional tax benefit under this Section.

25.4 There will be debited to a Proportion Account:

- (a) the redemption payment for the cancellation of Shares of the relevant Share Class;
- (b) the Share Class's proportion of the amount by which the Net Asset Value of the Company falls short of the total subscription money for all Shares in the Company;

- (c) all distributions of income (including equalisation if any) made to Shareholders of that Share Class;
 - (d) all costs, charges and expenses incurred solely in respect of that Share Class;
 - (e) that Share Class's share of the costs, charges and expenses incurred in respect of that Share Class and one or more other Share Classes in the Company, but not in respect of the Company as a whole;
 - (f) that Share Class's proportion of the costs, charges and expenses incurred in respect of or attributable to the Company as a whole;
 - (g) any stamp duty reserve tax charge; and
 - (h) any notional tax liability under this Section.
- 25.5 Any tax liability in respect of the Company and any tax benefit received or receivable in respect of the Company will be allocated between Share Classes in order to achieve, so far as possible, the same result as not materially to prejudice any Share Class. The allocation will be carried out by the ACD after consultation with the Company's auditors.
- 25.6 Where a Share Class is denominated in a currency which is not the base currency of the Company, the balance on the Proportion Account shall be converted into the base currency of the Company in order to ascertain the proportions of all Share Classes. Conversions between currencies shall be at a rate of exchange decided by the ACD as being a rate that is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders.
- 25.7 The Proportion Accounts are memorandum accounts maintained for the purpose of calculating proportions. They do not represent debts from the Company to Shareholders or the other way round.
- 25.8 Each credit and debit to a Proportion Account shall be allocated to that account on the basis of that Share Class's proportion immediately before the allocation. All such adjustments shall be made as are necessary to ensure that on no occasion on which the proportions are ascertained is any amount counted more than once.
- 25.9 When Shares are issued thereafter each such Share shall represent the same proportionate interest in the Scheme Property as each other Share of the same category and Share Class then in issue in respect of the Company.

26. **PRICE PER SHARE**

The ACD operates dual pricing. That is, the valuation on an issue basis is used to establish the sale price of new Shares. The valuation on a cancellation basis is used to establish the redemption price of Shares.

The *minimum price* at which Shares may be sold back to the ACD (selling/bid price) is arrived at by valuing the assets on the basis of the amount that the Company would receive if the assets were sold (i.e. market prices less dealing costs and expenses) and dividing the result by the number of Shares in existence. This minimum price is also known as "cancellation" price and is the lowest price that the ACD can set as the bid price.

The *maximum price* at which Shares may be sold by the ACD (buying/offer price) is arrived at by valuing the assets of the Company on the basis of the cost of acquiring those assets (i.e. market price, dealing costs, stamp duty etc), dividing this by the number of Shares in existence and adding on the ACD's initial charge.

The ACD sets the bid (sell) and offer (buy) prices within this permitted range.

The ACD has discretion to require "large deals" to be carried out at a higher sale price or lower redemption price than the published prices provided that the prices do not exceed the maximum and minimum prices permitted by the CIS Sourcebook. This means, for example, that the ACD may exercise its discretion to apply the cancellation price to large redemptions. For these purposes "large deal" means a transaction (or series of transactions in one dealing period) by any person to buy, sell, or exchange Shares at a total value of £15,000 or more.

27. **FEES AND EXPENSES**

27.1 **General**

The Company may pay out of its property charges and expenses incurred by it, which will include the following expenses:

- (a) the fees and expenses payable to the ACD (which will include the fees and expenses payable to the Investment Manager), the Property Manager, the Administrator, the Standing Independent Valuer and the Depositary;
- (b) broker's commission, fiscal charges (including stamp duty, stamp duty land tax, and/or SDRT) and other disbursements which are necessarily incurred in effecting transactions for the Company and

- normally shown in contract notes, confirmation notes and difference accounts as appropriate;
- (c) fees and expenses of the Registrar and Transfer Agent including fees and expenses in respect of establishing and maintaining the Register and any sub-register of Shareholders;
 - (d) any costs incurred in or about the listing of Shares in the Company on any stock exchange;
 - (e) any costs incurred in the creation, issue, switch, cancellation or redemption of Shares;
 - (f) any costs incurred by the Company in publishing the price of the Shares in a national or other newspaper;
 - (g) any costs incurred in producing and dispatching any payments made by the Company, or the yearly and interim reports of the Company;
 - (h) any fees, expenses or disbursements of any legal or other professional adviser of the Company;
 - (i) any costs incurred in taking out and maintaining any insurance policy in relation to the Company;
 - (j) any costs incurred in preparing and printing the Simplified Prospectus, Key Features Document or Key Features illustration and in modifying the Instrument of Incorporation or Prospectus, including costs incurred respect of meetings of Shareholders convened for any purpose including those convened on a requisition by Shareholders not including the ACD or an associate of the ACD;
 - (k) liabilities on amalgamation or reconstruction including certain liabilities arising after transfer of property to the Company in consideration for the issue of Shares as more fully detailed in the FSA Rules;
 - (l) 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;
 - (m) taxation and duties payable in respect of the Scheme Property or the creation, issue, switch, cancellation or redemption of Shares;

- (n) the audit fees of the Auditor (including VAT) and any expenses of the Auditor;
- (o) the fees of the FSA as detailed in the FEES sourcebook of the FSA Rules, together with any corresponding periodic fees of any regulatory authority in a country or territory outside the UK in which Shares in the Company are or may be marketed;
- (p) any expense incurred in relation to Company's secretarial duties including the cost of maintenance of minute books and other documentation required to be maintained by the Company;
- (q) any tax and/or legal expenses incurred on the establishment of subsidiary vehicles to buy property;
- (r) the fees and expenditure incurred in relation to the immovable property. "Expenditure" in this context means in respect of any moveable or immovable property or property related right or interest whatsoever which is, or may be intended to become, part of the Scheme Property, taxes, charges, costs, expenditure, outgoings or disbursements whatsoever (including abortive costs) incurred or legally committed in relation thereto including at present the following:
 - (i) researching, acquiring, developing, letting, reletting, disposing, structuring or restructuring, reinstating, varying, managing, funding, financing, refinancing, securing, profit sharing, clawback arrangements, hedging, procuring swaps, procuring underwriting, paying interest, commissions, charges and fees;
 - (ii) taxes, rates, charges, duties, levies, assessments, impositions or other outgoings, whatsoever whether of a capital or revenue nature including stamp duty and stamp duty land tax, stamp duty reserve tax, transfer tax, withholding tax, transfer pricing and irrecoverable VAT;
 - (iii) to any planning authority or other competent authority or to a third party pursuant to any planning highways or similar agreement or arrangement whatsoever;
 - (iv) to agents, brokers, solicitors, attorneys, counsel, notaries, accountants, actuaries, insurers, surveyors, architects, engineers, developers, analysts, rating agencies, credit reference agencies, advertisers,

marketers, information providers, enquiry agents, publishers, property manager, experts and/or arbiters and any other professional advisers and consultants whatsoever, professional or industry organisations, governments, government agencies, suppliers, contractors, security, concierge and maintenance staff whatsoever including their respective disbursements;

- (v) valuing assets, analysing or securing independent comparative fund performance, securing financial reports and other information on and investigating actual or prospective occupiers, tenants, vendors, purchasers and any other third parties;
- (vi) any project or development management whether internal or external;
- (vii) for any works, systems, plant or equipment or plinishings whatsoever including environmental, demolition, building, fitting out, commissioning, decommissioning, decontaminating, decorating, equipping, furnishing, repairing, replacing, maintaining, remediating, refurbishing, refurnishing, rebuilding, redecorating, re-equipping, restorative and preventative measures;
- (viii) any rent-free or reduced period, commission, premium, fine or other financial inducement or incentive of any nature whatsoever given to any third party to induce it to enter into any lease licence renewal or other arrangement whatsoever;
- (ix) any ground rent payable to the freeholder (where a building is owned on a leasehold basis);
- (x) complying with any law and any obligation whatsoever including meeting obligations to banks, funders, superiors, landlords, tenants, occupiers and paying rents, costs and expenses including for voids and service charges for voids;
- (xi) attributable to property management, expert determinations, arbitrations, dispute resolution, litigation, enforcement of rights, including employment issues, rent reviews, actual or threatened

repairs and dilapidations, evictions, debt recovery, surety enforcement, forfeiture, and bad debts;

- (xii) any other items whatsoever properly incurred in the day to day operation of a property portfolio of the type envisaged in this prospectus including analogous items in any country in which immovable property may be held in terms of this prospectus; and
- (xiii) any insurance premium costs relating to the immovable Scheme Property;
- (s) any payments otherwise due by virtue of the FSA Rules;
- (t) any other costs or expenses that may be taken out of the Scheme Property in accordance with the FSA Rules; and
- (u) any value added or similar tax relating to any charge or expense set out herein.

Expenses are allocated between capital and income in accordance with the FSA Rules and the Statement of Recommended Practice relating to the Financial Statements of Authorised Funds, issued by the Investment Management Association.

The ACD has agreed with the Depositary that all of fees and expenses of the ACD, Property Manager, Administrator, Standing Independent Valuer, Depositary, Registrar, Auditor, and the periodic fees of FSA and any other income expense payments that the ACD may from time to time agree with the Depositary shall be charged against capital instead of against income. See "Risk of Investing in the Company" - Section 28.

27.2 **Charges payable to the ACD**

27.2.1 **Initial charge**

This charge is included in the offer price of units. It is currently 5% of the issue price of Shares within the Retail and Institutional Share Classes and 4% of the issue price of Shares in the Second Retail Share Class.

The current initial charge of a Class may only be increased in accordance with the Regulations.

From the initial charge received, or out of its other resources, the ACD may pay a commission to relevant intermediaries.

27.2.2 **Annual Management Charge**

In payment for carrying out its duties and responsibilities the ACD is entitled to deduct from the Company an annual management charge.

The annual management charge for each Share Class of the Company is calculated and accrues daily and is payable monthly in arrears on the last business day of each month. The current annual management charge for each Share Class is set out in Appendix IV.

The ACD's annual management charge is taken from capital; as a consequence this will constrain capital growth.

The ACD may not increase the current rate or amount of its remuneration payable out of the Scheme Property unless, not less than 60 days before the increase, it gives notice in writing of the increase and the date of its commencement to all relevant Shareholders and has revised and made available the Prospectus to reflect the introduction of the new rate and the date of its commencement.

27.2.3 **Expenses**

The ACD is also entitled to reimbursement of all reasonable, properly vouched, out of pocket expenses incurred in the performance of its duties, including stamp duty and SDRT on transactions in Shares.

27.2.4 **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.

27.3 **Depositary's fee**

The Depositary is entitled to receive out of Scheme Property by way of remuneration a periodic charge, which will be calculated and accrue daily and be paid monthly as soon as practicable after the end of each month, and

certain additional charges and expenses. The rate of the Depositary's periodic charge will be such rate or rates as agreed from time to time between the ACD and the Depositary in accordance with the COLL Sourcebook. The current rate of the Depositary's periodic charge is:

Band Range	Fee (annual percentage of the net asset value of the Scheme Property)
on the first £20 million	0.03%
on the next £80 million	0.02%
on the next £400 million	0.01%
on the next £500 million	0.0075%
thereafter	0.005%

In addition VAT on the amount of the periodic charge will be paid out of Scheme Property.

In the event of the termination of the Company, the Depositary shall continue to be entitled to a periodic charge in respect of the Company for the period up to and including the day on which the final distribution in the termination of the Company shall be made or, in the case of a termination following the passing of an extraordinary resolution approving a scheme of arrangement, up to and including the final day on which the Depositary is responsible for the safekeeping of the Scheme Property. Such periodic charge will be calculated, be subject to the same terms and accrue and be paid as described above, except that for the purpose of calculating the periodic charge in respect of any day falling after the day on which the termination of the Company commences, the value of the Scheme Property shall be its Net Asset Value determined at the beginning of each such day.

The Depositary Agreement between the Company and the Depositary provides that in addition to a periodic charge the Depositary may also be paid by way of remuneration custody fees where it acts as custodian and other transaction and bank charges. At present the Depositary delegates the function of custody of the moveable Scheme Property to JP Morgan Chase Bank, London Branch and of the immovable property to Threadneedle Asset Management Limited. Threadneedle Asset Management Limited does not receive a separate fee for this role.

The transaction charges for the UK are currently £8. Transaction charges vary between countries: currently the rates provided by the Custodian are between £8 and £70.

Custody charges also vary according to geographic location and market value of holdings (calculated in the same manner as for the ACD's periodic charge). The Custodian annual charges for the UK are 0.0055% of the net asset value of the Scheme Property. These vary from country to country and in the tariff currently provided by the Custodian range from 0.0055% to 0.25%.

Custody and transaction charges will be calculated and accrue daily and be payable monthly as soon as practicable after the end of each month.

In addition to the remuneration referred to above, the Depositary is entitled to receive reimbursement for expenses properly incurred by it in discharge of its duties or exercising any powers conferred upon it in relation to the Company. Such expenses include, but are not restricted to:

- (a) delivery of stock to the Depositary or custodian;
- (b) custody of assets;
- (c) collection of income and capital;
- (d) submission of tax returns;
- (e) handling tax claims;
- (f) preparation of the Depositary's annual report;
- (g) arranging insurance;
- (h) calling Shareholder meetings and otherwise communicating with Shareholders;
- (i) dealing with distribution warrants;
- (j) taking professional advice;
- (k) conducting legal proceedings;
- (l) such other duties as the Depositary is permitted or required by law to perform.

VAT (if any) in connection with any of the above is payable in addition.

27.4 **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 Manager Agreement are summarised in Section 7.4

27.5 Standing Independent Valuer's fee

The Standing Independent Valuer's fee will vary depending on the number of properties held by the Company. The current minimum fee (before VAT) is £37,000 per annum. The Standing Independent Valuer's fee is not directly related to the value of the Scheme Property and may increase if additional properties are purchased.

Further details of the Standing Independent Valuer's Agreement are summarised in Section 10.2.

27.6 Administrator's fee

Administration and Fund Accounting fee

The Administrator's fee to provide 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 £50,000 to £150,000 per annum. 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 provided in Section 9.

27.7 Registrar and Transfer Agency Fee

The Registrar and Transfer Agent is entitled to receive a fee out of the Scheme Property for providing registration and distribution services (including establishing and maintaining sub-registers, where applicable). The charge is currently 0.06% of the net asset value of the Scheme Property. The Registrar's fee is subject to VAT.

27.8 Property Manager's fee

The Property Manager's fee (before VAT) is a base minimum fee of £500 per annum for a property let to a single occupier and a base fee of £4,000 per annum in respect of all multi-occupied buildings subject to the Property Manager seeking to recover a full and justifiable amount from the tenants

through the service charge. Further details of the Property Manager's Agreement are summarised in Section 0.

27.9 Exemption from liability to account for profits

The ACD, Depositary and Investment Manager are not liable to account to the Shareholders of any Company for any profits or benefits it makes or receives that are derived from or in connection with:

27.9.1 dealings in the Shares of the Company;

27.9.2 any transaction in Company;

27.9.3 the supply of services to the Company.

27.10 Allocation of fees and expenses between Share Classes

All the above fees, duties and charges (other than those borne by the ACD) will be charged to the Share Class in respect of which they were incurred but where an expense is not considered to be attributable to any one Share Class, the expense will normally be allocated to all Share Classes *pro rata* to the Net Asset Value of the Share Classes, although the ACD has discretion, after consultation with the Depositary and Auditor, to allocate these fees and expenses in a manner which it considers fair to shareholders generally.

28. RISKS OF INVESTING IN THE COMPANY

Potential investors should consider the following risk factors before investing in the Company.

28.1 General Risks

The past performance of the Company 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 II for details of the past performance of the Company.

Unless this Company's performance meets or exceeds the rate of inflation, the real value of any investment will reduce.

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

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.

28.2 **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.

28.3 **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.

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

The Company charges and expenses are taken from capital. This will have the effect of constraining potential future capital growth. In unfavourable market conditions it could also result in the capital of the Company being eroded.

Past performance is not a guide to future performance.

The performance of this Company will generally follow the performance of the UK commercial property market. Where this market declines, the value of Shares will probably also fall.

The performance of the Company may be adversely affected by the impact of a variety of factors, including general economic conditions (including changes to interest rates), by conditions within relevant markets including any cyclical movements, the political and economic environment, and by the particular financial condition of counterparties transacting business with the Company.

Changes in GDP growth and rates of inflation may affect the Company's income and capital value or the value of any investment.

28.5 **Property risks**

Specific Property Risk

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.

Insurance

All immovable property forming part of the Scheme Property will be fully insured against risks of physical loss or damage and other perils considered appropriate by the Investment Manager but there is no guarantee that in the event of a claim on the insurance any insurance will be payable in any given circumstance. Where the insurance policies are not available to meet any liability in whole or in part, any outstanding liability will be met out the Scheme Property.

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 the Company falls significantly, it may not be possible to maintain the same diversification of risk as the Company may hold fewer properties.

28.6 Suspension of dealings in Shares

Investors are reminded that in certain circumstances their right to redeem Shares may be suspended (see Section 20.5).

28.7 Unregulated Collective Investment Schemes

Up to 15% of the value of the Company may be invested in unregulated collective investment schemes (in aggregate with the restriction at Section 12.1 of Appendix I). Such schemes are subject to less onerous regulatory supervision than regulated schemes, and therefore may be considered higher risk.

28.8 Equity Investments

The Company may also invest in shares of property investment companies. Whilst equity investments carry potential for attractive returns over the longer term, the volatility of these returns can also be relatively high.

28.9 Derivatives

Derivatives may be used for investment purposes and for the purposes of Efficient Portfolio Management (EPM) and hedging. The use of derivatives is not intended to increase the risk profile of the Company.

Where derivatives transactions are used in the Company solely for the purposes of Efficient Portfolio Management they are not likely to increase the risk profile of the Company. Derivatives may also be used from time to time for hedging or for the purpose of meeting the Company's investment objective. Although it is not intended to use derivatives extensively, if they are so used in this way this may lead to greater volatility in the Share prices of the Company.

28.10 Cancellation Rights

Where cancellation rights are applicable, if Shareholders choose to exercise their cancellation rights and the value of their investment falls before notice of cancellation is received by the ACD in writing, a full refund of the original investment may not be provided but rather the original amount less the fall in value.

29. **SHAREHOLDER MEETINGS AND VOTING RIGHTS**

29.1 **Requisition and conduct of meetings**

The ACD has dispensed 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.

The ACD may requisition a general meeting at any time.

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 that Company. The ACD must convene a general meeting no later than eight weeks after receipt of such requisition.

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.

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 the 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.

29.2 **Notice of meetings**

Shareholders will receive at least 14 days' notice of a Shareholders' meeting and are entitled to be counted in the quorum and vote at such meeting either in person or by proxy. The quorum for a meeting is two Shareholders, present in person or by proxy. The quorum for an adjourned meeting is two Shareholders present in person or by proxy although this may be reduced to one if two Shareholders are not present after a reasonable time. Notices of meetings and adjourned meetings will be sent to Shareholders at their registered addresses.

29.3 **Voting rights**

At a meeting of Shareholders, on a show of hands every Shareholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, has one vote.

On a poll vote, a Shareholder may vote either in person or by proxy. The voting rights attaching to each Share are such proportion of the voting rights attached to all the Shares in issue that the price of the Share bears to the aggregate price(s) of all the Shares in issue at the date seven days before the notice of meeting is deemed to have been served.

A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

For joint Shareholders only the vote of the first named in the register of Shareholders can be taken.

Except where the FSA Rules or the Instrument of Incorporation of a Company require an extraordinary resolution (which needs 75% of the votes cast at the meeting to be in favour if the resolution is to be passed) any resolution will be passed by a simple majority of the votes validly cast for and against the resolution.

The ACD may not be counted in the quorum for a meeting and neither the ACD nor any associate (as defined in the FSA Rules) of the ACD is entitled to vote at any meeting of the Company except in respect of shares which the ACD or associate holds on behalf of or jointly with a person who, if the registered Shareholder, would be entitled to vote and from whom the ACD or associate has received voting instructions.

"Shareholders" in this context means Shareholders on the date seven days before the notice of the relevant meeting was deemed to have been served but excludes holders who are known to the ACD not to be Shareholders at the time of the meeting.

30. **SHARE CLASS MEETINGS**

The above provisions, unless the context otherwise requires, apply to meetings of Share Classes as they apply to general meetings of shareholders.

31. **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.

31.1 The Company

31.1.1 Income

The Company will be subject to corporation tax on income including property rental income (net of property expenses) excluding dividends from United Kingdom companies. Allowable management expenses are deducted from the Company's income when calculating the taxable income.

31.1.2 Gains

The Company is exempt from tax on capital gains realised on the disposal of investments (including interest-paying securities and derivative contracts) held by it.

31.1.3 Stamp Taxes

The Company will be subject to stamp duty land tax (at rates of up to 4%) on purchases of property in the market in the normal way. It will also be subject to stamp duty reserve tax on the purchase of United Kingdom equities (and related instruments).

31.2 Individual Shareholders

31.2.1 Dividend distributions to UK resident individuals

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

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.

31.2.2 **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

31.2.3 **Exchange between shares classes by UK resident individuals**

An exchange of one class of Shares for another class of Shares will not constitute a realization for the purposes of capital gains tax.

31.3 **Corporate shareholders**

31.3.1 **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.

31.3.2 **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

31.3.3 **Exchange between share classes by UK resident companies**

An exchange of one class of Shares for another class of Shares will generally not constitute a realization for the purposes of capital gains tax.

31.4 **Non-Taxpayers**

31.4.1 **Individuals**

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

31.4.2 **Pension funds**

Pension Funds cannot reclaim the tax credit on dividend distributions.

31.4.3 **Charities**

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

31.4.4 **ISAs**

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

31.4.5 **Income equalisation**

The first income allocation received by an investor after buying Shares may include an amount of income equalisation. This is effectively a repayment of the income equalisation paid by the investor as part of the purchase price. It is a return of capital, and is not taxable.

31.5 **Stamp Duty Reserve Tax**

The Company will be liable for stamp duty reserve tax (SDRT) on surrenders and certain other transfers of shares of the Company.

31.5.1 **The SDRT System**

SDRT arises on the surrender of Shares (i.e. the redemption or switching) and certain transfers of shares. The charge is 0.5% of the value of surrenders and transfers each week reduced proportionately to the extent that during that week and the following week:

- the investments held by the Company are exempt assets that is, broadly, any assets other than United Kingdom property (and related derivatives) and United Kingdom equities (and related derivatives); and
- the purchases of Shares are less by number than surrenders of Shares.

31.5.2 **Surrenders of Shares**

The ACD has decided that any SDRT will normally be borne by the Company. However, in the case of large deals, that is, purchases or redemptions of more than £1,000,000 or 2% of the value of the Company, whether single deals or aggregated, and in other cases where the ACD considers that it is in the interests of the shareholders, the ACD may look to the investor to pay an SDRT provision of up to 0.5%.

31.5.3 **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 in the normal way and provide evidence of any applicable exemption from SDRT with the transfer. Any SDRT triggered in other cases will normally be paid by the Company. In exceptional cases, the ACD may require the parties to the transaction to pay a provision of up to 0.5% for the SDRT before the transfer is registered.

31.5.4 **Frequency of SDRT provision**

Based on the current expected level of transactions in the Company the ACD does not currently expect to require an SDRT provision in relation to the Company, but may do so at its discretion in accordance with 31.5.2 and 31.5.3.

32. **WINDING UP OF THE COMPANY**

The Company shall not be wound up except as an unregistered company under Part V of the Insolvency Act 1986 or under the FSA Rules.

Where the Company is to be wound up under the FSA Rules, such winding up may only be commenced following approval by the FSA. The FSA may only give such approval if the ACD provides a statement (following an investigation into the affairs of the Company) either that the Company will be able to meet its liabilities within 12 months of the date of the statement or that the Company will be unable to do so. The Company may not be wound up under the FSA Rules if there is a vacancy in the position of ACD at the relevant time.

The Company may be wound up under the FSA Rules if:

- an extraordinary resolution to that effect is passed by Shareholders; or
- the period (if any) fixed for the duration of the Company by the Instrument of Incorporation expires, or an event (if any) occurs on the occurrence of which the Instrument of Incorporation provides that the Company is to be wound up (for example, if the share capital of the Company is below its prescribed minimum; or
- 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.

On the occurrence of any of the above:

- the FSA Rules relating to dealing, valuation and pricing and investment and borrowing powers will cease to apply to the Company;
- the Company will cease to issue and cancel Shares in the Company and the ACD shall cease to buy or sell Shares or arrange for the Company to issue or cancel them for the Company;
- no transfer of a Share shall be registered and no other change to the register shall be made without the sanction of the ACD;
- where the Company is being wound up, the Company shall cease to carry on its business except in so far as it is beneficial for the winding up of the Company;
- the corporate status and powers of the Company and, subject to the provisions above, the powers of the ACD shall remain until the Company is dissolved.

The ACD shall, as soon as practicable after the Company falls to be wound up, realise the assets and meet the liabilities of the Company and, after paying out or retaining adequate provision for all liabilities properly payable and retaining provision for the costs of winding up, arrange for the Depositary to make one or more interim distributions out of the proceeds remaining (if any) to Shareholders proportionately to their rights to participate in the Scheme Property. When the ACD has caused all of the Scheme Property to be realised and all of the liabilities of the Company to be realised, the ACD shall arrange for the Depositary to also make a final distribution to Shareholders (if any Scheme Property remains to be distributed) on or prior to the date on which the final account is sent to Shareholders of any balance remaining in proportion to their holdings in the Company.

As soon as reasonably practicable after completion of the winding up of the Company, the ACD shall notify the FSA.

On completion of a winding up of the Company, the Company will be dissolved and any money (including unclaimed distributions) standing to the account of the Company, will be paid into court within one month of dissolution.

Following the completion of the winding up of the Company, the ACD shall notify the Registrar of Companies and shall notify the FSA that it has done so.

Following the completion of a winding up of the Company, the ACD must prepare a final account showing how the winding up took place and how the Scheme Property was distributed. The auditors of the Company shall make a report in respect of the final account stating their opinion as to whether the final account has been properly prepared. This final account and the auditors' report must be sent to the FSA, to each Shareholder and to the Registrar of Companies within two months of the termination of the winding up.

33. **GENERAL INFORMATION**

33.1 **Accounting periods**

The annual accounting period of the Company ends each year on December 31 (the accounting reference date) with an interim accounting period ending on 30 June each year.

33.2 **Income allocation**

Income allocation dates are 30 April (annual) and 31 August (interim) each year.

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.

For Accumulation Shares classes, income will become part of capital property and be reflected in the price of each Accumulation Share as at the end of the relevant accounting period.

For Income Shares, when a distribution of income is payable to a registered Shareholder, the ACD will pay it directly into the Shareholder's nominated bank account. Where such Shareholders have not provided any bank details the income will be reinvested to purchase new Shares in the Company.

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.

33.3 **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. Long form report and accounts for each period will also be available, free of charge, on request.

Details of the accounting reference and interim accounting dates are set out in paragraph 33.1 above.

33.4 **Genuine diversity of ownership**

Shares in the Company are and will continue to be widely available. The intended categories of investors are retail investors (who should seek financial advice before investing in the Company) and institutional investors. Different Share Classes are issued to different types of investors.

Shares in the Company are and will continue to be marketed and made available sufficiently widely to reach the intended categories of investors for each Share Class, and in a manner appropriate to attract those categories of investors.

33.5 **Documents of the Company**

The following documents may be inspected free of charge between 9.30am and 4.30pm (London time) on 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 the Prospectus and the long form accounts which can be obtained free of charge.

33.6 **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:

- 33.6.1 the ACD Agreement between the Company and the ACD;

- 33.6.2 the Depositary Agreement between the Company, the Depositary and the ACD;
- 33.6.3 the Investment Management Agreement between the Company, the ACD and the Investment Manager;
- 33.6.4 the Accounting Agreement between the ACD and the Administrator;
- 33.6.5 the Standing Independent Valuer's Agreement between the Company, the ACD, the Depositary and the Standing Independent Valuer: and
- 33.6.6 the Transfer Agency Services Agreement between the ACD and the Registrar and Transfer Agent.

Details of these contracts are given in Section 6 to 11.

33.7 Complaints

If you have a complaint you should write to the Complaints Officer at the administration centre of the ACD at 60 St Mary Axe, London EC3A 8JQ. 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.

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. The current 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.

33.8 Address for Service

Threadneedle Investment Services Limited
60 St Mary Axe, London EC3A 8JQ

APPENDIX I:

INVESTMENT AND BORROWING POWERS AND RESTRICTIONS

1. Investment restrictions - General

- 1.1 The Scheme Property will be invested with the aim of achieving the investment objective of the Company but subject to the limits on investment set out in the Sourcebook and the investment policy of the Company.
- 1.2 Generally the Scheme Property will comprise any assets or investments to which it is dedicated including immovable property, transferable securities, units in collective investment schemes, warrants, money market instruments, cash and near cash, deposits and derivatives and forward transactions.
- 1.3 Where a rule in the 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 it must be assumed that in applying any of those rules, the Company must also simultaneously satisfy any other obligation relating to cover and no element of cover must be used more than once.
- 1.4 **The following limits apply to the Company as summarised below.**

2. Non-UCITS retail schemes – general

- 2.1 The Scheme Property of the Company must, subject to its investment objective and policy and except where otherwise provided in the Sourcebook, consist only of any or all of:
 - (a) transferable securities;
 - (b) money market instruments;
 - (c) permitted derivatives and forward transactions;
 - (d) permitted deposits;
 - (e) permitted units in collective investment schemes;
 - (f) permitted immovables; and
 - (g) gold up to a limit of 10% in value of the Scheme Property

3. **Immovable Property**

- 3.1 The Company may invest up to 90% in value of the Scheme Property in eligible immovables, but will only in exceptional circumstance invest more than 80% of the value of the Scheme Property in immovables. Immovables invested in will be primarily UK commercial property.
- 3.2 Any investment in land or a building held within the Scheme Property must be situated in the UK.
- 3.3 If situated in England and Wales or Northern Ireland, the immovable property must be a freehold or leasehold interest and if situated in Scotland, the immovable property must comprise an interest or estate in or over land or comprise a heritable right including a long lease, or if situated elsewhere, be equivalent to any of the interests mentioned in this paragraph. If no such equivalent interest exists in the jurisdiction, the interest acquired must be an interest that grants beneficial ownership of the immovable to the Company and provides as good a title as any of the interests detailed above in this paragraph.
- 3.4 The ACD must take reasonable care to determine that the title to the immovable is a good marketable title.
- 3.5 For each investment in an immovable the ACD must have received a report from an appropriate valuer which:
 - 3.5.1 contains a valuation of the immovable (with and without any relevant subsidiary mortgage) and states that in the appropriate valuer's opinion the immovable would, if acquired by the Company, be capable of being disposed of reasonably quickly at that valuation; or
 - 3.5.2 states that the immovable is adjacent to or in the vicinity of another immovable included in the Scheme Property or is another legal interest, as referred to in paragraph 3.3, in an immovable which is already included in the Scheme Property and in the opinion of the appropriate valuer, the total value of both immovables would at least equal the sum of the price payable for the immovable and the existing value of the other immovable.
- 3.6 An immovable must:
 - 3.6.1 be bought or be agreed by enforceable contract to be bought within six months of the report of the appropriate valuer in paragraph 3.1;

- 3.6.2 not be bought if it is apparent to the ACD that the report in paragraph 3.6.1 could no longer be reasonably relied upon; and
 - 3.6.3 not be bought at more than 105% of the valuation for the relevant immovable in the report in paragraph 3.1. An appropriate valuer must be a person who has knowledge of and experience in the valuation of immovables of the relevant kind in the relevant area, is qualified to be a standing independent valuer of a non-UCITS retail scheme or is considered by the Company's standing independent valuer to hold an equivalent qualification, is independent of the Company, the Depositary and each of the directors of the ACD and has not engaged himself or any of his associates in relation to the finding of the immovable for the Company or the finding of the Company for the immovable.
- 3.7 An immovable may be held by the Company through an intermediate holding vehicle whose purpose is to enable the holding of immovables by the Company or a series of such intermediate holding vehicles, provided that the interests of Shareholders are adequately protected. Any investment in an intermediate holding vehicle for the purpose of holding an immovable shall be treated for the purposes of chapter 5 of the Sourcebook as if it were a direct investment in the immovable. An intermediate holding vehicle must be wholly owned by the Company or another intermediate holding vehicle or series of intermediate holding vehicles wholly owned by the Company, unless and to the extent that local legislation or regulation relating to the intermediate holding vehicle holding the immovable requires a proportion of local ownership.

4. **Investment limits for immovables**

- 4.1 Not more than 15% in value of the Scheme Property of the Company is to consist of one immovable.
- 4.2 Immovables within paragraph 3.5.2 must be regarded as one immovable.
- 4.3 The figure of 15% in paragraph 4.1 may be increased to 25% once the immovable has been included in the Scheme Property.
- 4.4 Income received from any one group in an accounting period must not be attributable to immovables comprising:
 - 4.4.1 more than 25%; or
 - 4.4.2 in the case of a government or public body, more than 35% of the value of the Scheme Property.

- 4.5 Not more than 20% in value of the Scheme Property of the Company is to consist of mortgaged immovables and any mortgage must not secure more than 100% of the valuation received from an appropriate valuer in accordance with paragraph 3.1 (on the assumption the immovable is not mortgaged).
- 4.6 The aggregate value of:
- 4.6.1 mortgages secured on immovables under paragraphs 4.5;
 - 4.6.2 borrowings under paragraph 26; and
 - 4.6.3 any transferable securities which are not approved securities
- must not at any time exceed 20% of the value of the Scheme Property.
- 4.7 The Company may invest up to 50% of its Scheme Property in immovables which are unoccupied and non-income producing or in the course of substantial development, redevelopment or refurbishment.
- 4.8 The Company may grant an option to a third party to buy an immovable in the Scheme Property provided the value of the relevant immovable does not exceed 20% of the value of the Scheme Property of that Company together with, where appropriate, the value of investments in:
- 4.8.1 unregulated collective investment schemes; and
 - 4.8.2 any transferable securities which are not approved securities.
- 4.9 Any furniture, fittings or other contents of any building may be regarded as part of the relevant immovable.

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

- 5.1 Transferable securities and money-market instruments held within the Company must be:
- 5.1.1 admitted to or dealt on an eligible market (as described in paragraph 7 below); or
 - 5.1.2 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 Company:
 - 5.1.4.1 transferable securities, which are not within paragraphs 5.1.1 to 5.1.2; or
 - 5.1.4.2 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.
- 5.1.6 Not more than 5% in value of the Company is to consist of warrants.

6. **Transferable securities**

- 6.1 A transferable security is an investment which is any of the following:
 - 6.1.1 a share;
 - 6.1.2 a debenture;
 - 6.1.3 an alternative debenture
 - 6.1.4 a government and public security;
 - 6.1.5 a warrant; or
 - 6.1.6 a certificate representing certain securities.
- 6.2 An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.
- 6.3 In applying paragraph 6.2 to an investment which is issued by a body corporate, and which is a share or a debenture, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- 6.4 An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.

7. **Eligible markets: requirements**

- 7.1 A market is eligible for the purposes of the Sourcebook if it is:
 - 7.1.1 a regulated market; or

- 7.1.2 a market in an EEA State which is regulated, operates regularly and is open to the public; or
 - 7.1.3 any market within paragraph 7.2
- 7.2 A market not falling within paragraphs 7.1.1 and 7.1.2 is eligible if:
- 7.2.1 the ACD, after consultation with and notification to the Depositary, decides that market is appropriate for investment of, or dealing in, the Scheme Property;
 - 7.2.2 the market is included in a list in the Prospectus; and
 - 7.2.3 the Depositary has taken reasonable care to determine that:
 - 7.2.3.1 adequate custody arrangements can be provided for the investment dealt in on that market; and
 - 7.2.3.2 all reasonable steps have been taken by the ACD in deciding whether that market is eligible.
- 7.3 In paragraph 7.2.1, a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self regulatory 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 investors.
- 7.4 The eligible markets in which the Company may invest are set out in Appendix V.
- 8. Money-market instruments with a regulated issuer**
- 8.1 In addition to instruments admitted to or dealt in on an eligible market the Company may invest in an approved money-market instrument provided it fulfils the following requirements:
- 8.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and
 - 8.1.2 the instrument is issued or guaranteed in accordance with paragraph 9.
- 8.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:
- 8.2.1 the instrument is an approved money-market instrument;

8.2.2 appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it; and

8.2.3 the instrument is freely transferable.

9. **Issuers and guarantors of money market instruments**

9.1 The Company may invest in an approved money-market instrument if it is:

9.1.1 issued or guaranteed by any one of the following:

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

9.1.1.2 a regional or local authority of an EEA State;

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

9.1.1.4 the European Union or the European Investment Bank;

9.1.1.5 a non-EEA State or, in the case of a federal state, one of the members making up the federation;

9.1.1.6 a public international body to which one or more EEA States belong; or

9.1.2 issued by a body, any securities of which are dealt in on an eligible market; or

9.1.3 issued or guaranteed by an establishment which is:

9.1.3.1 subject to prudential supervision in accordance with criteria defined by Community law; or

9.1.3.2 subject to and complies with prudential rules considered by the FSA to be at least as stringent as those laid down by Community law.

9.1.4 An establishment shall be considered to satisfy the requirement in paragraph 9.1.3.2 if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:

9.1.4.1 it is located in the European Economic Area;

- 9.1.4.2 it is located in an OECD country belonging to the Group of Ten;
- 9.1.4.3 it has at least investment grade rating;
- 9.1.4.4 on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law.

10. **Spread: general**

- 10.1 The requirements in paragraphs 10 and 11 do not apply during any period during which it is not reasonable to comply provided that the requirement to maintain prudent spread of risk is complied with.
- 10.2 This paragraph 10 does not apply to government and public securities.
- 10.3 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.
- 10.4 Not more than 10% in value of the Scheme Property is to consist of transferable securities or money market instruments issued by any single body subject to paragraph 23 (Schemes replicating an index).
- 10.5 The limit of 10% in paragraph 10.4 is raised to 25% in value of the Scheme Property of the Company in respect of covered bonds.
- 10.6 In applying paragraph 10.4 certificates representing certain securities are treated as equivalent to the underlying security.
- 10.7 The exposure to any one counterparty in an OTC derivative transaction must not exceed 10% in value of the Scheme Property of the Company.
- 10.8 Not more than 35% in value of the Scheme Property is to consist of the units of any one collective investment scheme.
- 10.9 For the purposes of calculating the limit in paragraph 10.7, 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 following conditions:
 - 10.9.1 is marked-to-market on a daily basis and exceeds the value of the amount at risk;
 - 10.9.2 is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;

- 10.9.3 is held by a third-party custodian not related to the provider or is legally secured from the consequences of failure of a related party; and
 - 10.9.4 can be fully enforced by the Company at any time.
- 10.10 For the purposes of calculating the limit in paragraph 10.7, OTC derivative positions with the same counterparty may be netted provided that the netting procedures comply with the conditions set out in section 3 (Contractual netting) (Contracts for novation and other netting agreements)) of Annex III to the Banking Consolidation Directive and are based on legally binding agreements.
- 10.11 In applying this paragraph 10 all derivative 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:
 - 10.11.1 it is backed by an appropriate performance guarantee; and
 - 10.11.2 it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.
- 11. **Spread: government and public securities**
 - 11.1 The above restrictions do not apply to government and public securities ("such securities"). The restrictions in relation to such securities are set out below.
 - 11.2 Where no more than 35% in value of the Scheme Property is 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 any one issue.
 - 11.3 The Company may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:
 - 11.3.1 the ACD has before any such investment is made consulted with the Depositary and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of the Company;
 - 11.3.2 no more than 30% in value of the Scheme Property consists of such securities of any one issue;
 - 11.3.3 the Scheme Property includes such securities issued by that or another issuer, of at least six different issues.

- 11.4 In relation to such securities:
- 11.4.1 issue, issuer and guarantor include guarantee, guaranteed and guarantor; and
 - 11.4.2 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.

12. **Investment in collective investment schemes**

- 12.1 Up to 15% of the value of the Scheme Property of the Company may be invested in units in a collective investment scheme provided that the investee scheme complies with each of the following requirements:
- 12.1.1 it satisfies the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
 - 12.1.2 it is a non-UCITS retail scheme; or
 - 12.1.3 it is a recognised scheme; or
 - 12.1.4 it is constituted outside 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
 - 12.1.5 it is a scheme not falling within 12.1.1 to 12.1.4 and in respect of which no more than 15% in value of the Scheme Property (provided that no more than 20% in aggregate of Scheme Property is made up of such schemes and transferable securities which are not approved securities) is invested.
- 12.2 In addition the investee scheme must operate on the principle of the prudent spread of risk, must be prohibited from having more than 15% in value of its scheme property consisting of units in collective investment schemes and its participants must be entitled to have their units redeemed in accordance with the scheme at a price related to the net value of the property to which the units relate and determined in accordance with the scheme.
- 12.3 Subject to paragraph 12.4 the Company may invest in units in collective investment schemes managed or operated by (or, if it is an open-ended investment company has as its authorised corporate director), the ACD or an Associate of the ACD.
- 12.4 The Company must not invest in or dispose of units in another collective investment scheme, which is managed or operated by (or in the case of an

open-ended investment company has as its authorised corporate director), the ACD, or an Associate of the ACD, unless:

- 12.4.1 there is no charge in respect of the investment in or the disposal of units in the investee scheme; or
- 12.4.2 the ACD is under a duty to pay to the Company by the close of business on the fourth business day next after the agreement to buy or to sell the amount referred to in paragraphs 12.4.3 and 12.4.4;
- 12.4.3 on investment, either:
 - 12.4.3.1 any amount by which the consideration paid by the Company for the units in the investee scheme exceeds the price that would have been paid for the benefit of the investee scheme had the units been newly issued or sold by it; or
 - 12.4.3.2 if such price cannot be ascertained by the ACD, the maximum amount of any charge permitted to be made by the seller of units in the investee scheme;
- 12.4.4 on disposal, the amount of any charge made for the account of the ACD or operator of the investee scheme or an Associate of any of them in respect of the disposal;

12.5 In paragraph 12.4 above:

- 12.5.1 any addition to or deduction from the consideration paid on the acquisition or disposal of units in the investee scheme, which is applied for the benefit of the investee scheme and is, or is like, a dilution levy or SDRT provision, is to be treated as part of the price of the units and not as part of any charge; and
- 12.5.2 any switching charge made in respect of an exchange of units in a part of the investee scheme for units in a separate part of that scheme is to be included as part of the consideration paid for the units.

13. **Cash and near cash**

13.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, this may reasonably be regarded as necessary in order to enable:

- 13.1.1 the pursuit of the Company's investment objectives; or

- 13.1.2 redemption of Shares; or
 - 13.1.3 efficient management of the Company in accordance with its investment objectives; or
 - 13.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of the Company.
- 13.2 During the period of the initial offer the Scheme Property may consist of cash and near cash without limitation.

14. **Nil and partly paid securities**

A transferable security or an approved money market instrument on which any sum is unpaid may be held provided that if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Company, at the time when payment is required, without contravening the rules in the Sourcebook.

15. **Investment in deposits**

The Company may invest in deposits only with an Approved Bank and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

16. **Derivatives – General**

17. Under the FSA Rules derivatives transactions are permitted for non-UCITS Retail Schemes for the purposes of Efficient Portfolio Management (including hedging) or meeting the investment objectives of the Company or both.

17.1 The property of the Company may be invested in derivatives and forward transactions under the FSA Rules for the purposes of Efficient Portfolio Management (including hedging) and/or meeting its investment objectives.

It is not intended that the use of derivatives for either purpose will cause the Net Asset Value of the Company to have high volatility or otherwise cause its existing risk profile to change.

- 17.2 Where derivatives are used for investment purposes, there remains a possibility that the share price of the Company 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 Company 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.
- 17.3 A transaction in derivatives or a forward transaction must not be effected for the Company unless the transaction is of a kind specified in paragraph 18 (Permitted Transactions (derivatives and forwards)); and covered, as required, by paragraph 25 (cover for transactions in derivatives and forward transactions).
- 17.4 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.
- 17.5 A transaction in derivatives or a forward transaction must not be effected for the Company unless the transaction is:
- 17.5.1 of a kind specified in paragraph 18 (Permitted Transactions (derivatives and forwards)); and
 - 17.5.2 covered, as required, by paragraph **Error! Reference source not found.** (cover for transactions in derivatives and forward transactions).
- 17.6 Where the Company invests in derivatives, the exposure to the underlying assets must not exceed the limits in paragraph 10 (Spread: general) and paragraph 11 (Spread: government and public securities) except as provided in paragraph 17.7.
- 17.7 Where the Company invests in an index-based derivative, provided the relevant index falls within paragraph 23 (Schemes replicating an index) the underlying constituents of the index do not have to be taken into account for the purposes of paragraph 33.2 (Prudent spread of risk).
18. **Permitted transactions (derivatives and forwards)**
- 18.1 A transaction in a derivative must be in an approved derivative; or be one which complies with paragraph 21 (OTC transactions in derivatives).
- 18.2 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 12 (Investment in collective investment schemes), financial indices, property indices, interest rates, foreign exchange rates, currencies, permitted immovables, gold or all of the attributes thereof.

- 18.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.
- 18.4 A transaction in a derivative must not cause the Company to diverge from their investment objectives as stated in the Instrument of Incorporation and the most recently published version of this Prospectus.
- 18.5 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.
- 18.6 Any forward transaction must be with an Eligible Institution or an Approved Bank.

19. **Transactions for the purchase of property**

- 19.1.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of the Company may be entered into only if that property can be held for the account of the Company, 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.

20. **Requirement to cover sales**

- 20.1 No agreement by or on behalf of the Company to dispose of property or rights may be made unless:
 - 20.1.1 the obligation to make the disposal and any other similar obligation could immediately be honoured by the Company by delivery of property or the assignment (or, in Scotland, assignation) of rights; and
 - 20.1.2 the property and rights above are owned by the Company at the time of the agreement.
- 20.2 This requirement does not apply to a deposit.
- 20.3 Paragraph 20.1 does not apply where:

- 20.3.1 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
 - 20.3.2 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:
 - 20.3.2.1 cash;
 - 20.3.2.2 liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards (in particular, haircuts); or
 - 20.3.2.3 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).
- 20.4 In the asset classes referred to in paragraph 20.3, 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.

21. **Over the counter (“OTC”) transactions in derivatives**

- 21.1 Any transaction in an OTC derivative under paragraph 18.1 must be:
- 21.1.1 *with an approved counterparty*; a counterparty to a transaction in derivatives is approved only if the counterparty is:
 - 21.1.1.1 an Eligible Institution or an Approved Bank; or
 - 21.1.1.2 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;
 - 21.1.2 *on approved terms*; the terms of the transaction in derivatives are approved only if the ACD:
 - 21.1.2.1 carries out at least daily 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

- 21.1.2.2 can enter into one or more further transactions to sell, liquidate or close out that transaction at any time, at its fair value;
- 21.1.3 *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:
 - 21.1.3.1 on the basis of an up-to-date market value which the ACD and the Depositary have agreed is reliable;
 - 21.1.3.2 or, if that value is not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and
- 21.1.4 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:
 - 21.1.4.1 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
 - 21.1.4.2 a department within the ACD which is independent from the department in charge of managing the scheme property and which is adequately equipped for such a purpose.

22. **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 of the Company's positions and their contribution to the overall risk profile of the Company. The ACD has notified the FSA of the details of the risk management process. This includes the methods for estimating the risks and the types of derivatives and forwards to be used within the Company together with their underlying risks and any relevant quantitative limits.

23. **Schemes replicating an index**

23.1.1 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.

23.1.2 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.

23.1.3 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.

23.1.4 The indices referred to above are those which satisfy the following criteria:

23.1.4.1 The composition is sufficiently diversified;

23.1.4.2 The index is a representative benchmark for the market to which it refers; and

23.1.4.3 The index is published in an appropriate manner.

24. **Derivatives exposure**

24.1 The Company may invest in derivatives and forward transactions as long as the exposure to which that Company is committed by that transaction itself is suitably covered from within its Scheme Property. Exposure will include any initial outlay in respect of that transaction.

24.2 Cover ensures that the Company is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the Scheme Property. Therefore, the Company must hold Scheme Property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Company is committed. Paragraph **Error! Reference source not found.** sets out detailed requirements for cover of the Company.

24.3 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.

25. **Cover for transactions in derivatives and forward transactions**

- 25.1 A transaction in derivatives or a 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 the Company is or may be committed by another person is covered globally.
- 25.2 Exposure is covered globally if adequate cover from within the Scheme Property is available to meet the Company's 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.
- 25.3 Cash not yet received into the Scheme Property but due to be received within one month is available as cover.
- 25.4 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.
- 25.5 The total exposure relating to derivatives held in the Company may not exceed the net value of the Scheme Property.

26. **Borrowing powers**

- 26.1 The Depositary on the instruction of the ACD (and subject to the COLL Sourcebook) may, in accordance with this paragraph, borrow money for the use of the Company 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 Company to comply with any restriction in the Instrument of Incorporation. The Depositary may borrow money only from an Eligible Institution or an Approved Bank.
- 26.2 Not more than 20% in value of the Scheme Property may consist of mortgaged immovables - that is, borrowings where the immovable is offered as security for repayment of the borrowing. No mortgage may secure more than 100% of the value of an immovable. No more than 20% of the value of the Scheme Property may consist of mortgaged immovables and transferable securities which are not approved securities.
- 26.3 The ACD must ensure that any other borrowing - that is, in addition to any mortgaged immovables - is on a temporary basis and that borrowings are not persistent, and for this purpose the ACD must have regard in particular to the duration of any period of borrowing, and the number of occasions on which resort is had to borrowing in any period.

- 26.4 The ACD must ensure that no period of such other 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 any such borrowing does not, on any business day, exceed the limits as set out in the COLL Sourcebook in relation to non-UCITS Retail Schemes.
- 26.5 The ACD reserves the right to exercise the full powers of the Company in relation to borrowing as and when it considers that the circumstances which then exist make it appropriate to do so.
27. **Restrictions on lending of money**
- 27.1 None of the money in the Scheme Property of the Company may be lent and, for the purposes of this prohibition, money is lent by the Company if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.
- 27.2 Acquiring a debenture is not lending for the purposes of paragraph 27.1: nor is the placing of money on deposit or in a current account.
- 27.3 Paragraph 27.1 does not prevent the Company from providing an officer of the Company with funds to meet expenditure to be incurred by him for the purposes of the Company (or for the purposes of enabling him properly to perform his duties as an officer of the Company) or from doing anything to enable an officer to avoid incurring such expenditure.
28. **Restrictions on lending of property other than money**
- 28.1 The Scheme Property of the Company other than money must not be lent by way of deposit or otherwise.
- 28.2 Transactions in accordance with paragraph 32 (Stock Lending) are not to be regarded as lending for the purposes of paragraph 28.1.
- 28.3 Where transactions in derivatives or forward transactions are used for the account of the Company in accordance with any of the rules in Chapter 5 of COLL, nothing in this rule prevents the Company or the Depositary at the request of the Company, from:
- 28.3.1 lending depositing pledging or charging scheme property for margin requirements; or
- 28.3.2 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.

29. General power to accept or underwrite issues of stock

29.1 Any power in Chapter 5 of the Sourcebook 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.

29.2 This section 29 applies to any agreement or understanding:

29.2.1 which is an underwriting or Sub-underwriting agreement; or

29.2.2 which contemplates that securities will or may be issued or subscribed for or acquired for the account of the Company.

29.3 Paragraph 29.2 does not apply to:

29.3.1 an option; or

29.3.2 a purchase of a transferable security which confers a right:

29.3.2.1 to subscribe for or acquire a transferable security; or

29.3.2.2 to convert one transferable security into another.

29.4 The exposure of the Company to agreements and understandings within paragraph 29.2 must, on any business day:

29.4.1 be covered in accordance with paragraph 29; and

29.4.2 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 Sourcebook.

30. Guarantees and indemnities

30.1 The Company or the Depositary for the account of the Company must not provide any guarantee or indemnity in respect of the obligation of any person.

30.2 None of the Scheme Property of the Company may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.

30.3 Paragraphs 30.1 and 30.2 do not apply in respect of the Company to:

- 30.3.1 any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the Sourcebook; and
- 30.3.2 an indemnity falling within the provisions of regulation 62(3) (Exemptions from liability to be void) of the Treasury Regulations;
- 30.3.3 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
- 30.3.4 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 Company and the holders of units in that scheme become the first Shareholders in the Company.

31. **Standing independent valuer and valuation**

- 31.1 The following requirements apply in relation to the appointment of a valuer:
 - 31.1.1 the ACD must ensure that any immovables in the scheme property are valued by an appropriate valuer (standing independent valuer) appointed by the ACD; and
 - 31.1.2 the appointment must be made with the approval of the trustee or depositary at the outset and upon any vacancy.
- 31.2 The standing independent valuer must be independent of the Company, the ACD and the Depositary.
- 31.3 The following requirements apply in relation to the functions of the standing independent valuer:
 - 31.3.1 the ACD must ensure that the standing independent valuer values all the immovables held within the scheme property, on the basis of a full valuation with physical inspection (including, where the immovable is or includes a building, internal inspection), at least once a year;
 - 31.3.2 for the purposes of paragraph 31.3.1 any inspection in relation to adjacent properties of a similar nature may be limited to that of only one such representative property;

- 31.3.3 the ACD must ensure that the standing independent valuer values the immovables, on the basis of a review of the last full valuation, at least once a month;
 - 31.3.4 if either the ACD or the Depositary becomes aware of any matters that appear likely to:
 - 31.3.4.1 affect the outcome of a valuation of an immovable; or
 - 31.3.4.2 cause the valuer to decide to value under paragraph 31.3.1 instead of under paragraph 31.3.3;
 - 31.3.4.3 it must immediately inform the standing independent valuer of that matter;
 - 31.3.5 the ACD must use its best endeavours to ensure that any other affected person reports to the standing independent valuer immediately upon that person becoming aware of any matter within paragraph 31.3.4; and
 - 31.3.6 any valuation by the standing independent valuer must be undertaken in accordance with UKPS 2.3 of the RICS Valuation Standards (The Red Book) (6th edition published January 2008), or in the case of overseas immovables on an appropriate basis, but subject to COLL 6.3 (Valuation and pricing).
- 31.4 In relation to an immovable:
- 31.4.1 any valuation under COLL 6.3 (Valuation and pricing) has effect, until the next valuation under that rule, for the purposes of the value of immovables; and
 - 31.4.2 an agreement to transfer an immovable or an interest in an immovable is to be disregarded for the purpose of the valuation of the scheme property unless it reasonably appears to the ACD to be legally enforceable.

32. **Stock lending**

- 32.1 The Company, or the Depositary at the ACD's request, may enter into stock lending transactions (involving a disposal of assets in the Company and reacquisition of equivalent assets) when it reasonably appears to the ACD to be appropriate to do so with a view to generating additional income for the Company with an acceptable degree of risk. Such transactions must comply with conditions set out in the Sourcebook, which require (inter alia) that:

- 32.2 the stock lending transaction must be of a kind described in Section 263B of the Taxation of Chargeable Gains Act 1992;
- 32.3 the terms of the agreement under which the Depositary is to re-acquire the securities for the account of the Company must be acceptable to the Depositary and in accordance with good market practice;
- 32.4 the counterparty must be acceptable in accordance with the Sourcebook.
- 32.5 the collateral obtained must be acceptable to the Depositary and must also be adequate and sufficiently immediate as set down in the Sourcebook.
- 32.6 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 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.
- 32.7 There is no limit on the value of the Scheme Property which maybe the subject of repo contracts or stock lending transactions.

33. **General**

- 33.1 Underwriting and sub-underwriting contracts and placings may also, subject to certain conditions set out in the Sourcebook, be entered into for the account of the Company.
- 33.2 The ACD must ensure that, taking account of the investment objective and policies of the Company, the Scheme Property aims to provide a prudent spread of risk.

APPENDIX II: HISTORICAL PERFORMANCE

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

	Investment returns (%)		
	1 January 2008 to 31 December 2008	1 January 2009 to 31 December 2009	1 January 2010 to 31 December 2010
Retail Accumulation Shares	-9.71%	-1.97%	7.15%
Second Retail Accumulation Shares	N/a	N/a	5.67%
Second Retail Income Shares	N/a	N/a	4.12%
Institutional Accumulation Shares	-9.50%	-1.65%	7.47%
Institutional Income Shares	N/a	N/a	N/a*

Source: Lipper, bid to bid basis in GBP with income reinvested.

*The Institutional Income Share Class launched on 29 June 2010. Accordingly there is no past performance data on this class available at present.

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 Section 26 of this Prospectus.

APPENDIX III: FUNDS OF THREADNEEDLE OEICS

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 Investment Funds IV ICVC
- Threadneedle Focus Investment Funds ICVC
- Threadneedle Specialist Investment Funds ICVC
- Threadneedle Portfolio Advantage Funds

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 IV: SHARE CLASSES

Name	<i>Retail Accumulation</i>	<i>Second Retail Accumulation</i>	<i>Second Retail Income</i>	<i>Institutional Income</i>	<i>Institutional Accumulation</i>
Currency	Sterling	Sterling	Sterling	Sterling	Sterling
Annual Management Charge	1.0%	1.5%	1.5%	0.60%	0.60%
Registrar's Fee	0.06%	0.06%	0.06%	0.06%	0.06%
Initial Charge	5%	4%	4%	5%	5%
Minimum Initial Investment	£1,000	£1,000	£1,000	£500,000	£500,000
Minimum Top- Up	£500	£500	£500	£100,000	£100,000
Minimum Holding	£500	£500	£500	£100,000	£100,000
Frequency of SDRT provision (20010)	0	0	0	0	0

APPENDIX V: ELIGIBLE MARKETS

The following lists of the markets which the ACD, in consultation with the Depositary, has deemed to be eligible securities and eligible derivatives markets, as defined in the FSA Rules, for each Company (in addition to those eligible markets referred to in COLL 5.2.10R). From time to time, an eligible market may be deemed temporarily ineligible by the ACD with the agreement of the Depositary, for example because the economic or political situation in the market has become unstable. This status will continue until the position regarding the market becomes clear, and the ACD and Depositary agree either that it should resume being an eligible market or that it should be removed from the list below.

Eligible Securities Markets

The London Stock Exchange

Alternative Investment Market (AIM)

Nasdaq Europe

The Grey Book Market

International Securities Market Association (ISMA)

Eligible Derivatives Markets

London International Financial Futures and Options Exchange

OMLX

London Stock Exchange

EUREX

EURONEXT

EUROLIFFE

APPENDIX VI: VALUATION FOR DUAL PRICING

The value of the Scheme Property of the Company is the value of its assets less the value of its liabilities determined in accordance with the following provisions.

1. All the Scheme Property (including receivables) is to be included, subject to the following provisions.
2. The valuation of the Scheme Property shall consist of two parts, one on an issue basis and one on a cancellation basis, calculated in accordance with the following provisions.
 - 2.1 The valuation of Scheme Property for that part of the valuation which is on an issue basis is as follows:
 - 2.1.1 Scheme Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:
 - (a) units or shares in a collective investment scheme:
 - (i) if a single price for buying and selling units or shares is quoted, at that price plus any dealing costs (as defined below), any preliminary charge payable by the Company on the purchase of the units or shares, and any dilution levy or SDRT provision which would be added in the event of a purchase by the Company of the units or shares in question (except that, where the ACD, or an associate of the ACD, is also the manager or authorised corporate director of the collective investment scheme whose units or shares are held by the Company, the valuation must not include any preliminary charge payable in the event of a purchase by the Company of those units or shares); or
 - (ii) if separate buying (offer) and selling (bid) prices are quoted, at the buying price, less any expected discount plus any dealing costs (as defined below), but where the ACD, or an associate of the ACD, is also

the manager or authorised corporate director of the collective investment scheme whose units or shares are held by the Company, the issue price shall be taken instead of the buying price; or

- (iii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if no recent price exists or if the most recent price available does not reflect the ACD's best estimate of the value, at a value which, in the opinion of the ACD, is fair and reasonable;

(b) immovable property:

- (i) the Standing Independent Valuer is responsible for valuing the immovables of the Company on the basis of a full valuation with physical inspection (including where the immovable is or includes a building, internal inspection) at least once a year. The Standing Independent Valuer also values each immovable on the basis of a review of the last full valuation at least once a month. The figure arrived at under that valuation is used as part of the valuation of the Company calculated on each Dealing Day for the following month. Any valuation by the Standing Independent Valuer is on the basis of 'Market Value' as defined in the 7th edition of the Valuation Standards issued by the Royal Institution of Chartered Surveyors, as updated and amended from time to time. Where the appointed Standing Independent Valuer is acting as a connected party to a purchase transaction being carried out by the Company, the Company will, as required, appoint an alternative valuer to act on its behalf in relation to that particular transaction only;

- (c) exchange-traded derivative contracts:
 - (i) if a single price for pm and selling the exchange-traded derivative contract is quoted, at that price; or
 - (ii) if separate buying and selling prices are quoted, at the average of the two prices;
- (d) over-the-counter (OTC) derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the ACD and the Depositary;
- (e) any other investment:
 - (i) the best available market dealing offer price on the most appropriate market in a standard size (plus any dealing costs, (as defined below)); or
 - (ii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if the most recent price available does not reflect the ACD's best estimate of the value, at a value which, in the opinion of the ACD, is fair and reasonable; and
- (f) Scheme Property other than that described in (a), (b), (c), (d) and (e) above: at a value which, in the opinion of the ACD, is fair and reasonable (plus any dealing costs (as defined below)).

2.2 The valuation of Scheme Property for that part of the valuation which is on a cancellation basis is as follows:

2.2.1 Scheme Property which is not cash (or other assets dealt with in paragraphs 3 and 4 below) shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:

- (a) units or shares in a collective investment scheme:
 - (i) if a single price for buying and selling units or shares is quoted, at that price (less any dealing costs (as defined below), any

redemption charge payable by the Company on the sale of the units or shares, (taking account of any expected discount) and any dilution levy or SDRT provision which would be deducted in the event of a sale by the Company of the units or shares (except that, where the ACD, or an associate of the ACD, is also the manager or authorised corporate director of the collective investment scheme whose units or shares are held by the Company, any redemption charge payable in the event of a sale by the Company of those units or shares must not be deducted)); or

(ii) if separate buying (offer) and selling (bid) prices are quoted, at the selling price less any dealing costs (as defined below) and any redemption charge payable on the sale of the units or shares taking account of any expected discount (except that, where the ACD, or an associate of the ACD, is also the manager or authorised corporate director of the collective investment scheme whose units or shares are held by the Company, the cancellation price shall be taken instead of the selling price); or

(iii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if no recent price exists or if the most recent price available does not reflect the ACD's best estimate of the value, at a value which, in the opinion of the ACD, is fair and reasonable;

(b) immovable property:

(i) the Standing Independent Valuer is responsible for valuing the immovables of the Company on the basis of a full valuation with physical inspection (including where the immovable is or includes a building, internal inspection) at

least once a year. The Standing Independent Valuer also values each immovable on the basis of a review of the last full valuation at least once a month. The figure arrived at under that valuation is used as part of the valuation of the Company calculated on each Dealing Day for the following month. Any valuation by the Standing Independent Valuer is on the basis of 'Market Value' as defined in the 7th edition of the Valuation Standards issued by the Royal Institution of Chartered Surveyors, as updated and amended from time to time. Where the appointed Standing Independent Valuer is acting as a connected party to a purchase transaction being carried out by the Company, the Company will, as required, appoint an alternative valuer to act on its behalf in relation to that particular transaction only;

- (c) exchange-traded derivative contracts:
 - (i) if a single price for buying and selling the exchange-traded derivative contract is quoted, at that price; or
 - (ii) if separate buying and selling prices are quoted, at the average of the two prices;
- (d) over-the-counter (OTC) derivative contracts shall be valued in accordance with the method of valuation as shall have been agreed between the ACD and the Depositary;
- (e) any other investment:
 - (i) the best available market dealing bid price on the most appropriate market in a standard size (less any dealing costs (as defined below)); or
 - (ii) if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if the most recent

price available does not reflect the ACD's best estimate of the value, at a value which, in the opinion of the ACD, is fair and reasonable; and

- (f) Scheme property other than that described in (a), (b), (c), (d) and (e) above: at a value which, in the opinion of the ACD, is fair and reasonable (less any dealing costs (as defined below)).
3. Cash and amounts held in current, deposit and margin accounts and in other time related deposits shall be valued at their nominal values.
 4. In determining the value of the Scheme Property, all instructions given to issue or cancel Shares shall be assumed (unless the contrary is shown) to have been carried out and any payment made or received and any consequential action required by the Regulations or the Instrument of Incorporation shall be assumed (unless the contrary has been shown) to have been taken.
 5. Subject to paragraphs 6 and 7 below, agreements for the unconditional sale or purchase of Scheme Property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the ACD, their omission shall not materially affect the final net asset amount.
 6. Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 5.
 7. All agreements are to be included under paragraph 5 which are, or ought reasonably to have been, known to the person valuing the property assuming that all other persons in the ACD's employment take all reasonable steps to inform it immediately of the making of any agreement.
 8. Deduct an estimated amount for anticipated tax liabilities (on unrealised capital gains where the liabilities have accrued and are payable out of the property of the Scheme; on realised capital gains in respect of previously completed and current accounting periods; and on income where liabilities have accrued) including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty and stamp duty reserve tax.

9. Deduct an estimated amount for any liabilities payable out of the property of the Scheme and any tax thereon treating periodic items as accruing from day to day.
10. Deduct the principal amount of any outstanding borrowings whenever payable and any accrued but unpaid interest on borrowings.
11. Add an estimated amount for accrued claims for tax of whatever nature which may be recoverable.
12. Add any other credits or amounts due to be paid into the property of the Scheme.
13. Add a sum representing any interest or any income accrued due or deemed to have accrued but not received and any stamp duty reserve tax provision anticipated to be received.
14. Currencies or values in currencies other than the base currency shall be converted at the relevant valuation point at a rate of exchange that is not likely to result in any material prejudice to the interests of shareholders or potential shareholders.

APPENDIX VII

DIRECTORY

Threadneedle UK Property Fund II ICVC

Authorised Corporate Director (ACD)

Threadneedle Investment Services Limited

(authorised and regulated by the Financial Services Authority)

- **Customer Administration Address**

PO Box 10033,
Chelmsford,
CM99 2AL

- **Registered Address and Head Office**

60 St Mary Axe, London
EC3A 8JQ

ACD Regulator's Address

The Financial Services Authority ("FSA")

25 The North Colonnade

Canary Wharf

London E14 5HS

Depository

J.P. Morgan Trustee and Depository Company Limited

(authorised and regulated by the Financial
Services Authority)

125 London Wall

London EC2Y 5AJ

Investment Manager

Threadneedle Asset Management Limited

(authorised and regulated by the Financial
Services Authority)

60 St Mary Axe, London EC3A 8JQ

Property Manager

Montagu Evans LLP
Clarges House
6-12 Clarges Street
London
W1J 8HB

Standing Independent Valuer

Colliers International UK Plc
9 Marylebone Lane
London W1U 1HL

Registrar and Transfer Agency

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

Administrator

J.P. Morgan Chase Bank, London Branch
125 London Wall
London EC2Y 5AJ

Auditors

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

Legal Advisers

Eversheds LLP
One Wood Street
London EC2V 7WS