

# Glossary of Terms

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The Databook contains a comprehensive analysis of the Threadneedle Investment Funds. The notes below are an explanation of some of the more technical information shown.

## ABSOLUTE SHARPE RATIO

This measure is a risk-adjusted return statistic. It measures the fund's return over and above cash (excess return over a risk free asset) divided by the absolute volatility of the fund. It shows the trade-off between risk and return. The greater the result, the better the return the fund has delivered given the risks within the fund.

## ABSOLUTE VOLATILITY

One of the main ways in which the risk of an investment is measured is calculating the degree to which its value fluctuates around an average. The standard method for calculating this volatility is standard deviation. Absolute volatility is the standard deviation of the fund's last three years' performance which is then expressed as a percentage.

## AVERAGE LIFE

This is the weight adjusted average life of the bonds held in the portfolio i.e. on average how many years to go before their expected redemption.

## BETA

This is a measure of the volatility of the fund relative to its benchmark. A figure greater than 1 indicates that the fund will tend to outperform in a rising market and underperform in a falling one. I.e. is more volatile than the market. The reverse applies to a Beta of less than 1.

## DISTRIBUTION YIELD

This measure only applies to funds paying interest distributions i.e. those investing primarily in debt securities. Threadneedle has opted to use the effective interest method of income recognition. This means that the estimated future earnings of the fund from its investments available for distribution divided by the unit price at the date of calculation (known as the coupon method), will be adjusted upwards or downwards due to the price movements that will occur (resulting in capital gains or losses for the fund) between the date of purchase and their expected maturity. Therefore, if the fund predominantly holds debt securities priced above their redemption price, the coupon yield will be adjusted downwards and vice versa if holdings are predominantly priced below their redemption price.

## EQUIVALENT YIELD

This relates to property funds and is a weighted average of the net initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received.

## EX-DIVIDEND DATE (XD DATE)

Is the cut off date, after which new investors are not entitled to that income payment. Conversely, any investor selling holdings in a fund after that date will be entitled to the income payment in respect of those holdings.

## HISTORIC YIELD

This measure only applies to funds paying dividend distributions i.e. those investing primarily in equities. It is calculated by dividing the sum of distributions declared in respect of the unit held by the investor in the 12 months previous to the date of calculation divided by price of that unit as at the calculation date.

## INFORMATION RATIO

This statistic is commonly used to measure a fund manager's skill against the benchmark. The out/underperformance of the fund relative to its benchmark is divided by the tracking error. Therefore, anything positive is above average and anything negative is below average. The larger the number the better.

## JENSEN ALPHA

A risk-adjusted performance measure that represents the average return on the fund over and above that predicted by the CAPM (Capital Asset Pricing Model), given the fund's beta and the average market return as represented by the benchmark. If the value is positive then the fund has outperformed the market and if it is negative then the opposite is true.

## LAUNCH DATE

Is the launch date of the original unit trust whose track record has been maintained after conversion into the OEIC (if applicable).

## MODIFIED DURATION

Is a measure of risk for fixed interest securities as it predicts the sensitivity of the value of the fund's portfolio to a change in interest rates. The higher the value the greater the volatility of the fund's performance resulting from changes to interest rates. If the modified duration of a fund is 5 then the average price movement of the fund resulting from a +/- 1% change in interest rates is 5%.

## NET INITIAL YIELD

This measure applies to property funds and is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.

## PAY DATE

Is the date when accrued income within the fund is paid to investors.

## PERFORMANCE NET & GROSS

Currently all fund performance is shown net of expenses as this more accurately reflects the returns investors would have expected to receive had they been invested during the period covered by the various charts, diagrams and tables contained in the databook and individual factsheets. Since sector averages consist of the median performance of all funds grouped together because of their similar investment objectives, the median performance will also be de facto net of charges. Finally, where indices are shown, performance is gross since technically no charges can be assigned to them. Performance is calculated on the basis that any distributions made by the fund are immediately re-invested. For the UK databook and factsheets, distributions (whether they are interest or dividend distributions) will be re-invested after deducting the basic rate of tax. For non UK databooks and factsheets, interest distributions from bond funds will be re-invested gross of UK tax whilst dividend distributions from equity funds will be re-invested net of UK basic tax since non-UK taxpayers cannot reclaim this tax back.

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## R<sup>2</sup>

This is a measure of how close the portfolio of a fund is correlated (or can be explained by) the performance of the benchmark. A result of 1 means a perfect correlation whilst 0 means there is effectively no relationship between the two performances. The degree of reliance that can be placed on the result is not linear, however. Generally, a correlation is only significant for values of 0.75 and above. Finally, it is worth noting that the higher the R<sup>2</sup> the greater the reliance that can be placed on the beta result (see above).

## RELATIVE VOLATILITY

Shows how much more or less volatile the fund has been relative to its benchmark which for all risk measures will be an index. For example if the fund's absolute volatility is 9% and the benchmark's is 10% then the relative volatility is 0.90.

## REVERSIONARY YIELD

This relates to property funds and is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

## RISK DECOMPOSITION

This chart is only shown for the absolute return funds. It shows by class of holding the contribution to the overall volatility in the performance of the fund and hence the relative risk of holding these assets within the overall context of how volatile or risky the overall fund is.

## SECTOR/COUNTRY WEIGHTS

Shows the breakdown of the fund by its sector/country constituents. It includes cash. For the Managed Funds, it is the OEIC sub fund constituents.

## TRACKING ERROR

Indicates how closely the fund tracks the benchmark. It is the standard deviation of the monthly returns of the fund divided by the monthly returns of its benchmark. The lower the number the closer the fund follows its benchmark.

## SHARE CLASSES AND UNITS

One or more share classes may be issued in respect of each OEIC fund. Share classes are used to differentiate between investors by offering them different features. For example most funds currently offer two share classes: class 1 ('retail'), with a minimum investment of £2,000; and class 2 ('institutional'), with a minimum of £500,000. In addition there will be different currency versions of class 1 & 2 share classes and there are also share classes paying out gross interest distributions which are intended for investors exempt from UK income tax. In addition, each share class may come in two varieties income units or accumulation units. With the former any distributions are paid to the investor whilst for the latter they are re-invested in the fund. For full details of all share classes and units please refer to the fund codes section in this databook.

## AVERAGE TERM TO MATURITY

Is the average life of each bond in the portfolio, weighted by value.

## UNDERLYING YIELD

This measure will only be published if it is lower than the distribution yield. There are two main differences in calculation between the two measures. Firstly to calculate the underlying yield fund managers are required to use the interest method of income recognition and to this extent for Threadneedle funds there will be no difference. However, the underlying yield calculation also requires expenses charged to the fund's capital (i.e. not deducted from fund revenue) to be brought into the calculation. This is not the case with the distribution yield measure. Consequently underlying yield will be lower for those Threadneedle funds to which currently have expenses charged to capital.