

## Key Features

Attractive return potential from fixed income investments as well as diversification benefits as part of an asset allocation process

Actively managed, research driven approach seeks best investment ideas from across the opportunity set

Focused portfolio of long/short strategies targets alpha generation and capital preservation

Multi-disciplined investment team with extensive experience of fixed income markets

Draws on expertise of global fixed income team and wider investment platform

A proven track record of long-term outperformance

## Absolute Return Bond strategy

### Key facts\*

**Lead portfolio manager:** Quentin Fitzsimmons

**Benchmark:** 3-month LIBOR

**Investment objective:** The strategy aims to achieve a positive return over the medium-term, irrespective of market conditions, by investing in global bond and currency markets, working within a robust risk budget

**Investment universe:** The strategy will invest primarily in derivatives, cash and near cash, fixed interest securities and index-linked securities

**Performance target:** To outperform the benchmark by 3% per annum (gross of fees) over a medium-term time horizon

**Credit quality:** Has typically averaged AA

**Number of holdings:** We hold a diversified range of securities in the portfolio

**AUM managed in all Absolute Return Bond strategies:** GBP 1.5 billion

### Performance returns

	1 year	3 year	5 year	Inception <sup>1</sup>
Composite	1.40%	1.89%	5.41%	5.25%
Benchmark <sup>2</sup>	0.94%	0.87%	2.69%	3.21%
<b>Value added</b>	<b>+0.46%</b>	<b>+1.02%</b>	<b>+2.72%</b>	<b>+2.04%</b>

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

<sup>1</sup>Inception date of the Absolute Return Bond strategy is 31.10.2005. <sup>2</sup>Benchmark is the 3-month LIBOR.

### Investment philosophy

- Teamwork defines us and is fundamental to our investment process. We believe we are stronger together, that we produce better results for our clients, by working collectively rather than as individuals.
- A flexible and multi-disciplined approach is valuable to interpreting the fundamental, structural and valuation factors that drive fixed income markets. Emphasis among these factors varies with the investment and economic cycle, and we adapt our approach to market conditions.
- The sources of return in fixed income markets can vary widely over time. We consider all potential alpha sources and allocate active risk to where our research process identifies the best opportunities.

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

### Investment team

The absolute return bond team has extensive investment experience of the major fixed income and currency markets. These complementary strengths enable us to bring a diverse range of skills and ideas to managing our absolute return bond strategies.



**Quentin Fitzsimmons**  
Head of Government Bonds and Currency  
21 years' experience



**Dave Chappell**  
Portfolio Manager  
25 years' experience



**Matthew Cobon**  
Portfolio Manager  
16 years' experience



**Richard Stevens**  
Portfolio Manager  
30 years' experience



**Martin Harvey**  
Portfolio Manager  
8 years' experience



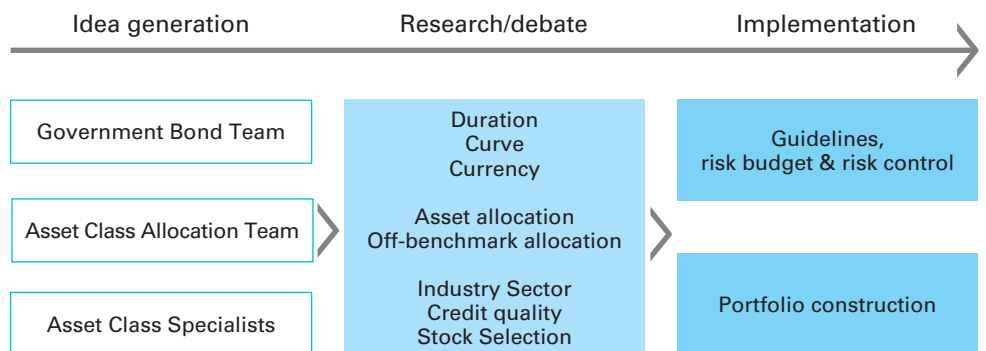
**Matthew Rees**  
Quantitative Analyst  
4 years' experience

### Investment process

We blend together a wide range of fixed income instruments to deliver the targeted return. To achieve this, we construct a portfolio using two main building blocks, each of which delivers different aspects of performance:

- The 'core' portfolio aims to provide security of returns, liquidity and collateral to the alpha portfolio by investing in short-dated, high grade bonds.
- The 'alpha' portfolio targets a return of 3% above 3-month LIBOR by investing predominantly in derivative strategies, delivered via an overlay to the core portfolio.\*\*

Our process is illustrated in the diagram below:



\*\*Please note that the performance target may not be attained.

## Idea generation

We forecast the future performance of fixed income asset classes using a thorough analysis of three key market factors to identify:

- Fundamentals: Developing macroeconomic opportunities for investment ideas.
- Structural: Trades and attractive entry and exit points.
- Technicals: Evolving shifts in supply and demand.

In-house strategy groups regularly assess these factors, formulating our outlook for economies and markets, investment themes and asset allocation. This also helps us to build a picture of risk appetite across capital markets for various types of fixed income investments, as well as their relative attractiveness.

We draw on the outputs from this research process, whilst developing our own views and investment ideas on potential sources of return for the portfolio. This interconnected effort helps shape our top-down views on interest rate positioning, country and currency choice, credit exposure and security selection.

## Research/debate

To determine the emphasis of top-down asset allocation, we analyse rigorously the relative attractiveness within each asset class and across different fixed income investments. We use analytical scorecards to rank government bonds, credits and currencies, highlighting potential investment opportunities. This enables us to assess and select the optimal allocation of strategies for both the 'core' and 'alpha' portfolios.

We use risk budgeting as an integral part of the asset allocation process. This enables us to refine the asset class mix within the 'core' and 'alpha' portfolios, measuring the relationship between expected return and contribution to risk within the context of an aggregate portfolio. This enhances alpha generation potential and maximises diversification benefits.

## Portfolio construction

The portfolio manager determines the type and weighting of individual strategies to meet the required return target, within the context of the overall risk budget and contribution to portfolio tracking error. This may reflect a positive or negative view, resulting in a long or short bias within the portfolio. Once this has been determined, the portfolio manager purchases the combination of securities to fill the position.

Key factors in building an active position are weighting – both in isolation and more importantly as part of the overall portfolio – as well as volatility and liquidity. Position sizes are fine-tuned based on the portfolio manager's level of conviction and ongoing assessment of other attractive opportunities.

## Risk management

Risk management supports and enhances the portfolio manager's decision-making, with an integrated framework that combines both investment and non-investment risk.

Our independent risk management team reports daily, using a proprietary risk system to provide comprehensive risk analytics for each portfolio. The risk team also conducts stress testing to evaluate the potential impact of extreme market shifts and identify sensitive market exposures. This is in addition to our own portfolio risk analysis, which includes pre and post trade compliance monitoring, stop-loss limits, portfolio modelling and mandate limit verification.

## GIPS – Absolute Return Bonds composite

Year End	Composite Total Return Gross %	Primary Benchmark %	Composite 3-Yr St Dev %	Benchmark 3-Yr St Dev %	Number of Portfolios	Composite Dispersion	AUM Composite (millions)	AUM Firm (millions)	%age of firm assets
2005 (since 31-Oct-05)	1.01	0.76	N/A	N/A	1	N/A	7.14	69,965.3	0.0
2006	4.48	4.95	N/A	N/A	1	N/A	17.81	72,159.1	0.0
2007	8.49	6.20	N/A	N/A	1	N/A	10.3	67,689.7	0.0
2008	14.23	5.68	4.17	0.22	1	N/A	119.0	50,753.4	0.2
2009	4.34	1.24	4.20	0.66	2	N/A	781.6	60,485.5	1.3
2010	0.23	0.74	3.90	0.65	2	N/A	784.8	67,670.8	1.2
2011	1.68	0.88	2.58	0.12	1	N/A	491.0	73,041.6	0.7
YTD	-0.14	0.26			1		484.6	77,039.6	0.6
3 Months	-0.14	0.26			1				
Rolling 1 Year	1.40	0.94			1	N/A			
Rolling 3 Year	5.77	2.63			1				
Annualised	1.89	0.87				N/A			
Rolling 5 Years	30.12	14.20			1				
Annualised	5.41	2.69				N/A			
Rolling 10 Years	N/A	N/A			1				
Annualised	N/A	N/A				N/A			
Since Inception (31/10/2005)	38.88	22.45			1				
Annualised	5.25	3.21				N/A			

The 'Firm' is defined as all portfolios managed by Threadneedle Asset Management Limited and Threadneedle International Limited since 01/01/2000 excluding directly invested property portfolios. In 2009 Threadneedle acquired the Standard Chartered World Express SICAV business with a value of \$2.38bn. The funds have been incorporated into the composites according to GIPS standards. Subadvisors are used to manage some of these portfolios. (Threadneedle Asset Management Limited and Threadneedle International Limited are authorised and regulated in the UK by the Financial Services Authority. In addition, Threadneedle International Limited is registered with the Securities and Exchange Commission (SEC) in the United States as an investment adviser under the US Investment Advisers Act of 1940). This composite comprises all discretionary accounts managed according to the Firm's Absolute Return (GBP) strategy. Threadneedle Asset Management 'the Firm' claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS Standards. Threadneedle Asset Management has been independently verified by Ernst & Young LLP for the periods 1st January 2000 to 30th June 2011. The verification reports are available upon request. Verifications assesses whether the firm has complied with all composite construction requirements of the GIPS Standards on a firm wide basis and that the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. Verification does not ensure the accuracy of any specific composite presentation. The portfolio returns used in composites are calculated using daily authorised global close valuations with cash flows at start of the day. Returns are net of non-recoverable withholding tax, whilst any recoverable tax is included on a cash basis. Composite returns are calculated by using underlying portfolio beginning of period weights and monthly returns. Periodic returns are geometrically linked to produce longer period returns. Additional information regarding policies for calculation and reporting of returns is available on request. Composite performance results are presented gross of management fees and custodian fees but after deduction of trading expenses. The representative fee scale for this composite is 0.55% per annum. The dispersion of annual returns is measured by the asset weighted standard deviation of portfolio returns represented within the composite for the full year. Dispersion is only shown in instances where there are five or more portfolios throughout the entire reporting period. The primary benchmark for this composite is the 3MTHSLIBOR. Derivative instruments may be used as a fundamental part of a fund's investment objective and would be expected to be used in almost all market conditions and may materially increase the risk profile of the fund from that which would be expected from its non-derivative activities. Derivatives are used for alpha generation, for beta management and for efficient portfolio management. Derivatives include, but are not limited to, exchange traded futures, interest rate swaps, credit default swaps and forward foreign exchange contracts. Derivative usage is governed by the appropriate level of risk to meet the return targets of the funds in the composite. The Funds are permitted only to borrow, on a short term basis, up to 10% of the fund's Net Asset Value in accordance with the FSA COLL rules as subject to the provisions of the UCITS directive. The three-year annualised standard deviation measures the variability of the composite and the benchmark returns over the preceding 36 month period. A full list of composites is available upon request.

**Important Information. For internal use by institutional clients and consultants only (not to be passed on to any third party). To the extent that this document contains financial product advice, that advice is provided by Threadneedle International Limited. Threadneedle International Limited is exempt from the requirement to hold an Australian financial services licence under the Corporations Act in respect of the financial services it provides. Threadneedle International Limited is regulated by the Financial Services Authority under UK laws, which differ from Australian laws.**

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested. Performance figures and other data relating to a fund or a representative account are provided for illustrative purpose only and may differ from that of other separately managed accounts due to such differences as cash flows, charges, applicable taxes, and differences in investment strategy and restrictions. Where references are made to portfolio guidelines and features, these are at the discretion of the portfolio manager and may be subject to change over time and prevailing market conditions. Actual investment parameters will be agreed and set out in the prospectus or formal investment management agreement. Please note that the performance target may not be attained. The research and analysis included in this document has been produced by Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. This document is a marketing communication. The research and analysis included in this document have not been prepared in accordance with the legal requirements designed to promote its independence and have been produced by Threadneedle Investments for its own investment management activities, may have been acted upon prior to publication and is made available here incidentally. Any opinions expressed are made as at the date of publication but are subject to change without notice. Information obtained from external sources is believed to be reliable but its accuracy or completeness cannot be guaranteed. The mention of any specific shares or bonds should not be taken as a recommendation to deal. Threadneedle Asset Management Limited. Registered in England and Wales, No. 573204. Registered Office: 60 St Mary Axe, London EC3A 8JQ. Authorised and regulated in the UK by the Financial Services Authority. Threadneedle International Limited. Registered in England and Wales, No. 2283244. Registered Office: 60 St Mary Axe, London EC3A 8JQ. Authorised and regulated in the UK by the Financial Services Authority. Issued in Hong Kong by Threadneedle Portfolio Services Hong Kong Limited 天利投资管理香港有限公司 ("TPSHKL"). Registered Office: Unit 3004, Two Exchange Square, 8 Connaught Place Hong Kong. Registered in Hong Kong under the Companies Ordinance (Chapter 32), No. 1173058. Authorised and regulated in Hong Kong by the Securities and Futures Commission. Authorisation does not imply official approval or recommendation. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document you should obtain independent professional advice. Issued in Singapore by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07 Winsland House 1, Singapore 239519. License Number: CMS100182-1. Threadneedle Investments Singapore (Pte) Limited has exempt fund manager status in Singapore. This document is being issued in Singapore to and is directed only at persons who are accredited investors (as defined in the Securities and Futures Act, Chapter 289 of Singapore) in Singapore. This document must not be relied or acted upon by any persons in Singapore other than an accredited investor. Threadneedle Investments is a brand name and both the Threadneedle Investments name and logo are trademarks or registered trademarks of the Threadneedle group of companies. [threadneedle.com](http://threadneedle.com)