

Target return strategies

- The macro framework – challenges, opportunities and the need for absolute return
- Focus on the Threadneedle Target Return Fund

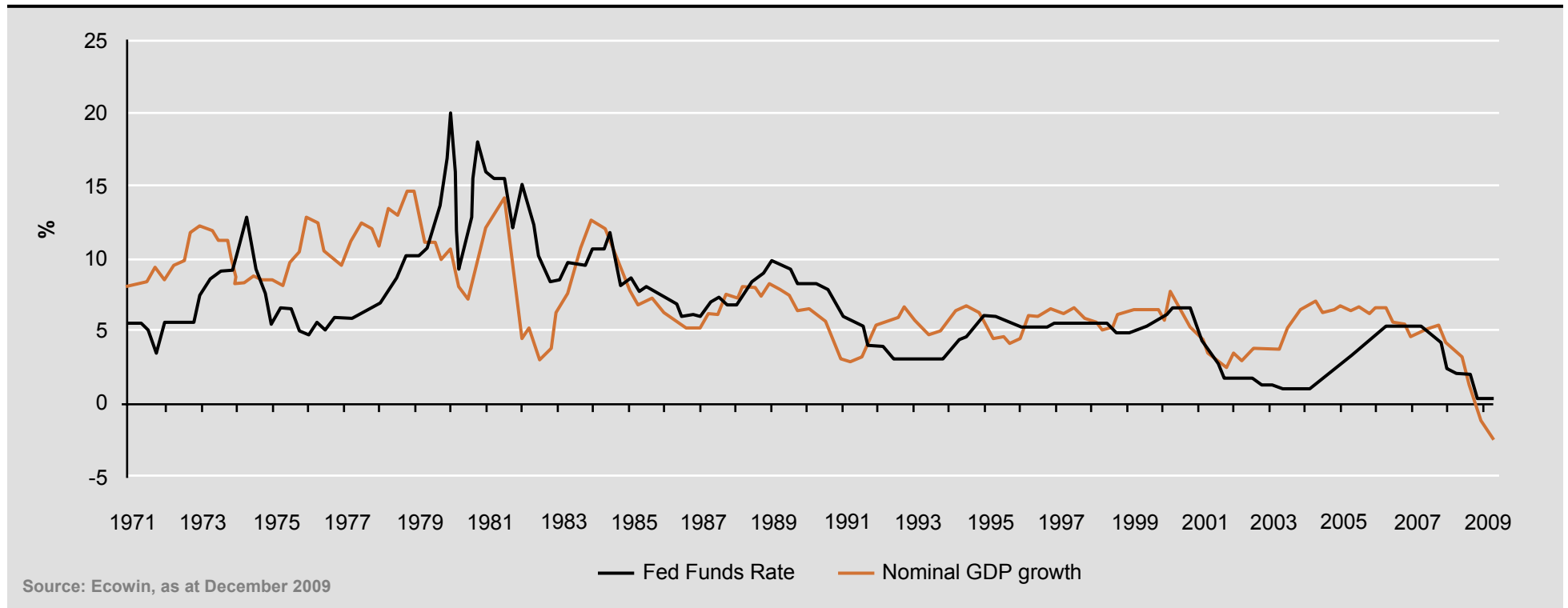


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**The macro framework:
Challenges, opportunities and the need for absolute return**

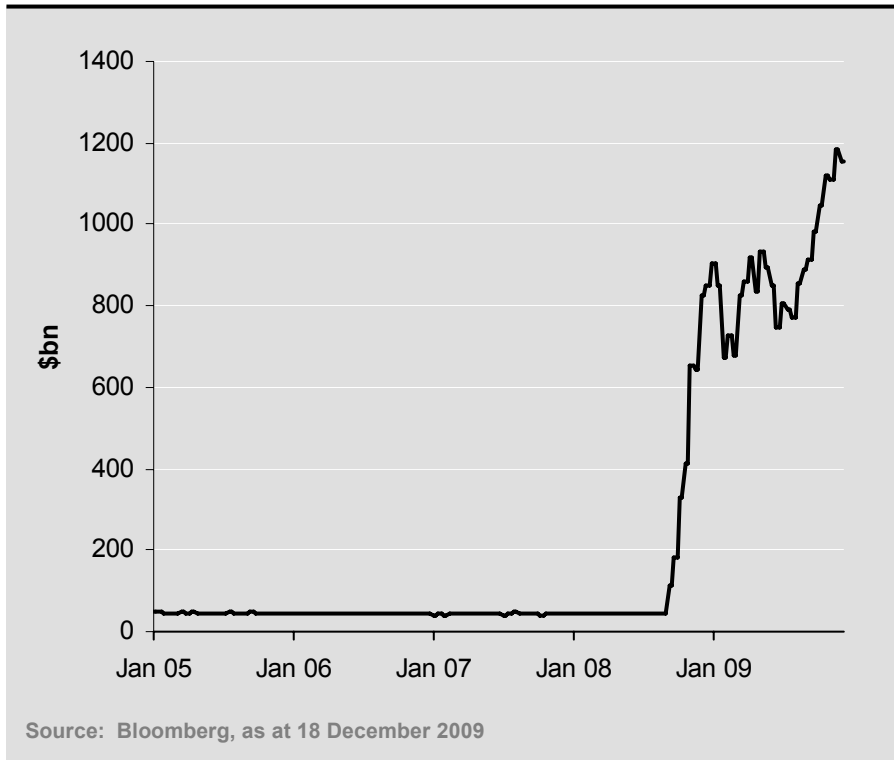
Fed unlikely to become hawkish any time soon

Nominal GDP growth and Fed Funds Rate

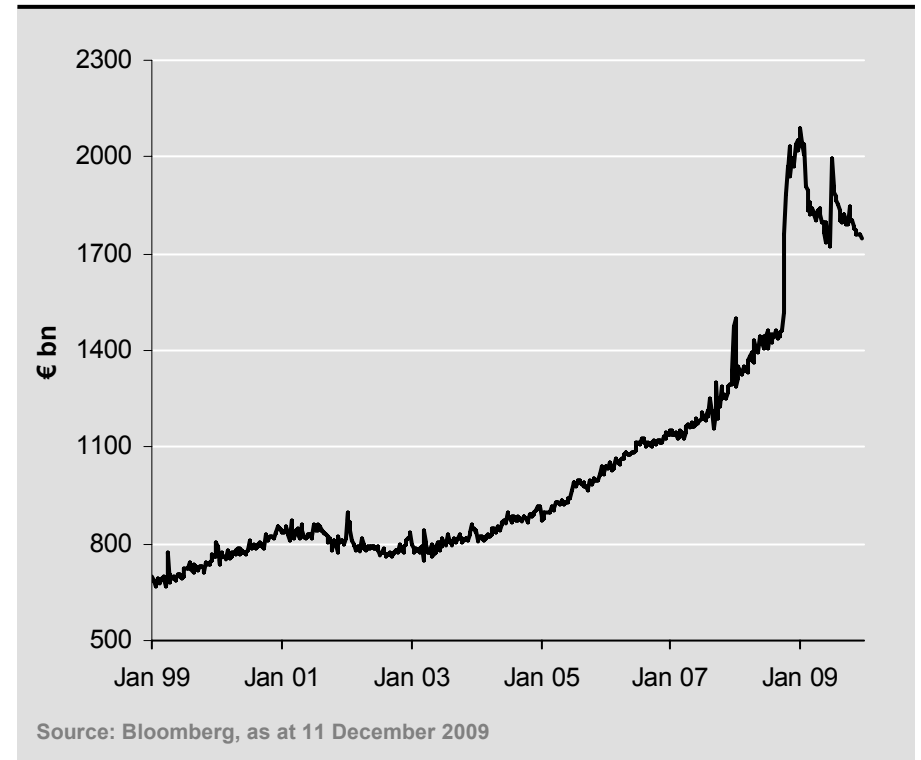


Liquidity levels remain mind-boggling

Reserves held by US depository institutions with the Federal Reserve



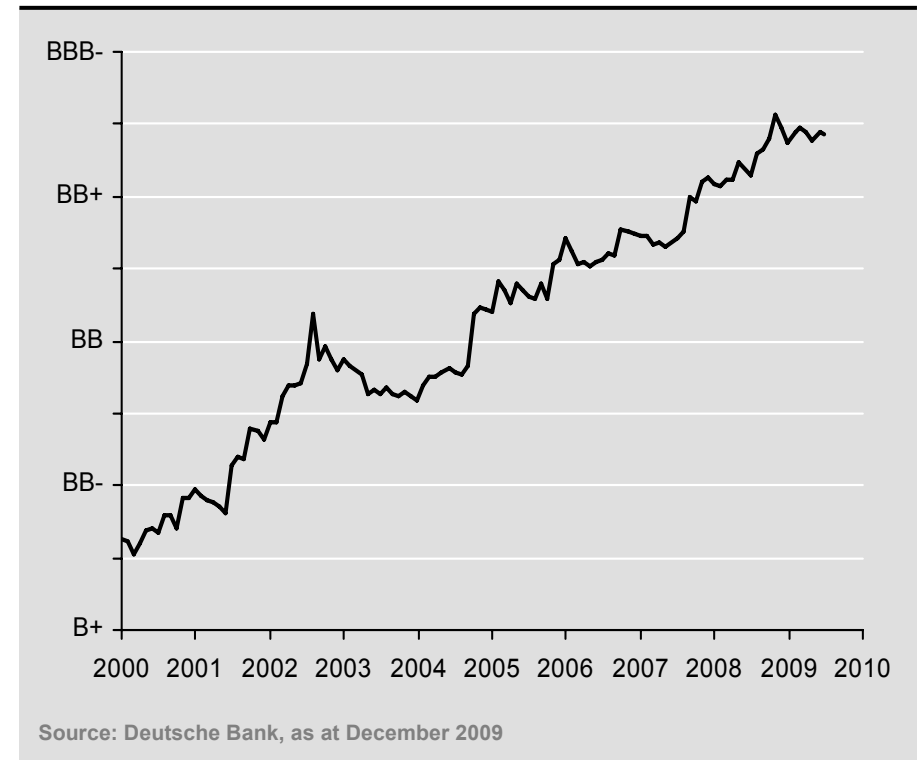
Balance sheet of the ECB



Emerging market sovereign risk is falling...

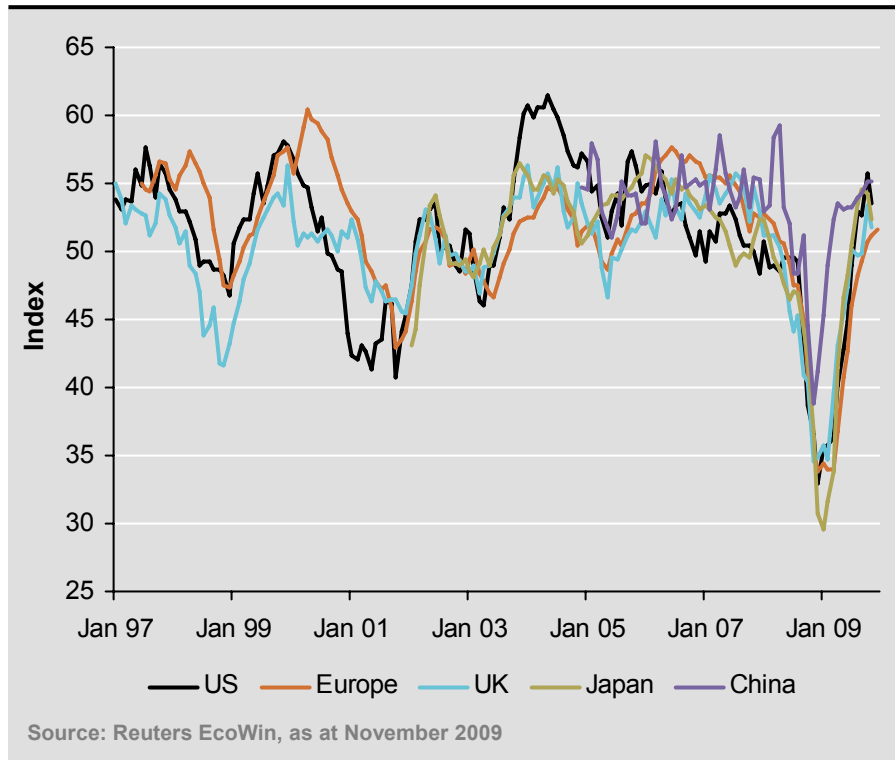
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- By contrast many AAA-rated countries are under downward pressure
- Look at what has been happening in Ireland and Greece

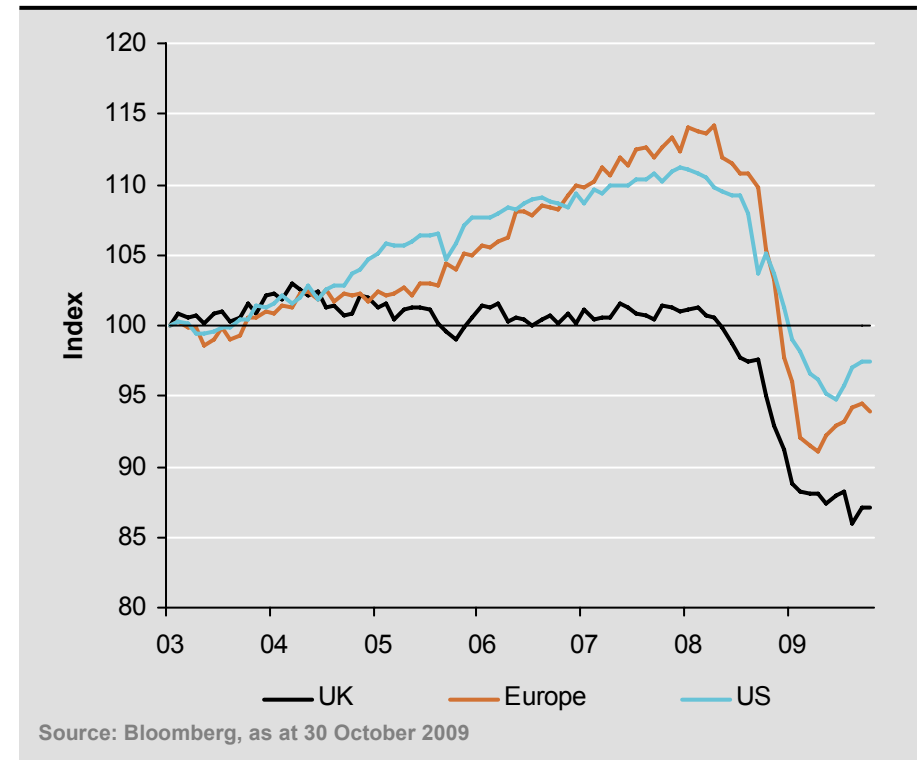


Rates of change and all that – better for some

Manufacturing sector PMI

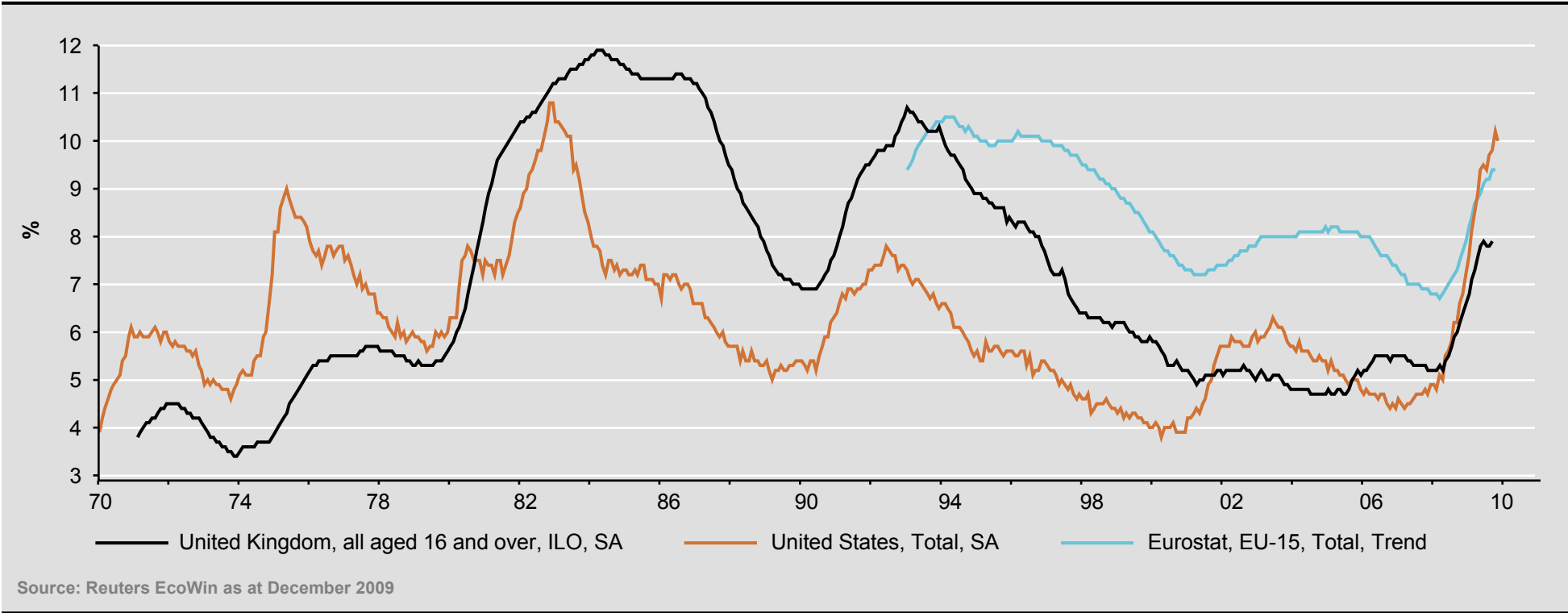


Production index



Unemployment hints at lots of spare capacity

Unemployment rate



Implications for investors

- The conventional assumptions surrounding risk and reward have been challenged over the past three years
- There has been extreme volatility in financial markets and this is likely to continue
- The inflation/deflation debate is key
- Bond yields and interest rates are at low levels
- Given this background, let's take a brief look at the Threadneedle Target Return Fund

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Threadneedle Target Return Fund

Threadneedle Target Return Fund

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- **Investment objective:**
- To achieve a total positive return in all market conditions through exposure to global bond and FX markets working within a disciplined risk budget
- Targeting to outperform 3 month Euribor by 300bps on an annualised basis over an 18 to 24 month period, gross of fees
- Working within an ex-ante risk budget limit of 1% VaR (95% confidence level over 5 days)



Threadneedle Target Return Fund, as at 29 January 2010



Threadneedle Target Return Fund

Building blocks

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Target:
300bp

**“Alpha” portfolio:
Investment strategies
seeking excess return**

- Overlay adds pure alpha
- Predominantly derivative overlay
- Liquid fixed interest and currency

+

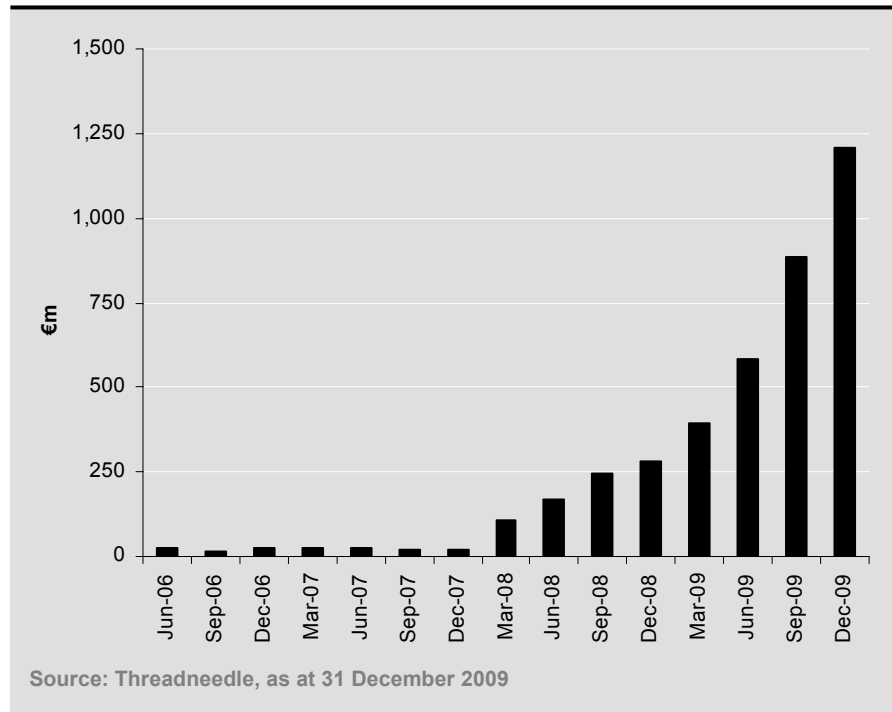
Target:
3-month
EURIBOR

**Short dated, high grade
bond portfolio for
liquidity and stability**

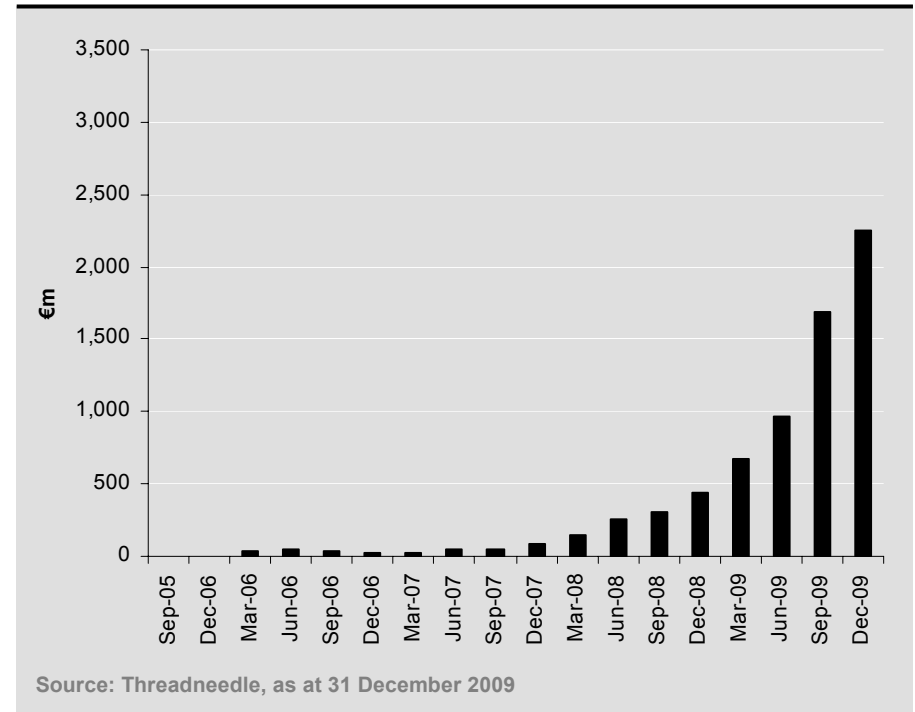
- Managed for stability of returns
- Can provide liquidity and collateral support for ‘alpha’ portfolio
- High quality bond and cash portfolio
- Short maturities

Growth of our absolute return strategies

Threadneedle Target Return Fund Total AUM



Absolute return strategies Total AUM



Threadneedle Target Return Fund

Correlation analysis

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	Target Return Fund	EU Government	EU Corp Debt	European Currency High Yield	Global Emerging Markets Sovereign & Corp	EU Equity: Euro Stoxx 50	EU Equity German Dax
Target Return Fund		0.56	0.04	-0.05	-0.19	-0.41	-0.45
EU Government	0.56		0.38	-0.02	0.02	-0.18	-0.21
EU Corp Debt	0.04	0.38		0.16	0.61	0.43	0.37
European Currency High Yield	-0.05	-0.02	0.16		0.17	0.21	0.12
Global Emerging Markets Sovereign & Corp	-0.19	0.02	0.61	0.17		0.59	0.56
EU Equity: Euro stoxx 50	-0.41	-0.18	0.43	0.21	0.59		0.98
EU Equity German Dax	-0.45	-0.21	0.37	0.12	0.56	0.98	

Source: Threadneedle/Thompson Financial DataStream, as at 29 January 2010. Based on monthly returns since launch of Threadneedle Target Return Fund (28 April 2006). All data calculated in fund currency. Fund data is quoted on a bid-bid basis with income re-invested at bid. Fund data is gross of tax and T.E.R to facilitate comparison with the indices



Threadneedle Target Return Fund

Gross monthly performance

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Investment objective:

- Targeting to outperform 3 month Euribor by 300bps on an annualised basis over an 18 to 24 month period
- Working within an ex-ante risk budget limit of 1% VaR (95% confidence level over 5 days)

(%)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Relative to target
2006					0.46	-0.06	0.07	-0.56	0.65	0.38	0.47	-0.07	1.39	-0.85
2007	-0.11	1.19	-0.27	-0.34	-0.54	-0.41	1.86	1.53	1.50	0.89	1.08	0.03	6.46	+1.92
2008	2.92	1.33	1.97	-1.71	-1.00	-0.39	0.60	1.77	1.00	1.99	2.42	1.38	12.79	+7.60
2009	0.13	0.38	0.44	0.82	1.00	0.74	-0.17	0.45%	0.38	0.49	-0.04	0.06	4.78	+3.48
2010	0.09												0.09	+0.04

Source: Threadneedle as 29 January 2010. All returns in €. Fund data provided by Morningstar. Fund returns calculated from 12 noon (UK Time) prices compared to Global Close Indices. Fund data is quoted on a bid-bid basis with income re-invested at bid. Fund data is gross of tax and T.E.R. Benchmark is Euribor 3 month deposit rate



Why Threadneedle for target return investing?

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- The strategy has delivered strong performance over a 4 year period throughout an unprecedented time within financial markets
- Daily independent pricing and liquidity within the UCITS III framework
- Macro strategies offering diversification benefits within a disciplined framework of risk control

Important information

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