Marktunabhängige Renditen mit Credit-Strategien

Roman Gaiser

September 2010

Agenda

01

Economic backdrop and outlook

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Asset Allocation

- We continue to prefer the risk asset classes in € fixed income – investment grade and high yield credit – over government bonds and over inflation protected bonds
- We hold our neutral weight in government bonds despite the fall in yields over the past few months, but in most western economies inflation is falling faster so that yields look fair value
- In the “risk” asset classes, improving results and still defensive corporate behaviour are supports but for investment grade there is a correlation between peripheral sovereign fundamentals and banks and companies domiciled in those countries. Valuations are still attractive in high yield and in investment grade

Asset allocation	Fundamental	Structural	Valuation	Overall score
Government bonds	0	+1	-1	0
Inflation protected	0	+1	-1	0
Investment grade	-1	+1	+1	+1
High yield	0	0	+1	+1

Source: Threadneedle, as at August 2010

Economic backdrop and outlook
Primary expectations

- Ongoing low inflation
- Benign inflation environment
- Interest rates to stay low
- Volatility in sovereign yields
- General backdrop is supportive of credit markets, including high yield

Ongoing slow economic recovery to continue into 2011

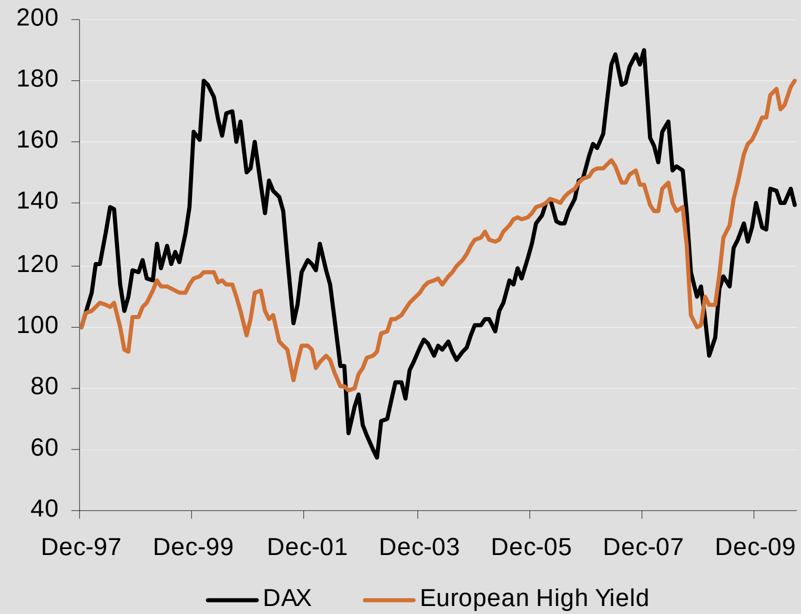
02

European High Yield

European High Yield
Return volatility

- Good diversification over sectors and ratings
- Less volatile than equity
- Strong returns over long term
- Attractive risk return profile

Total return of high yield and equity

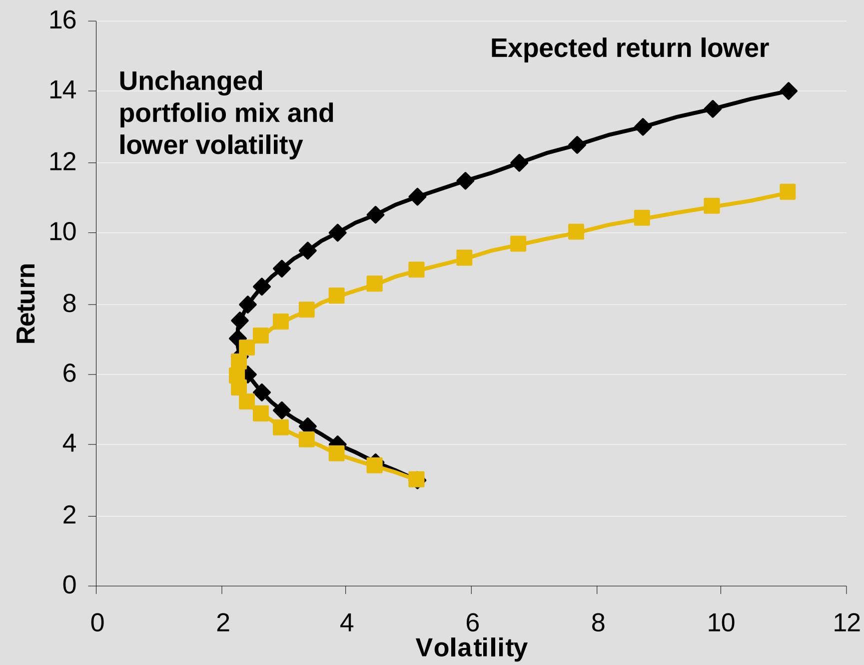


Source: Bloomberg August 2010

European High Yield
Attractive asset class

- Low correlation with Government Bonds and equities
- Great for portfolio diversification
- Stable economic environment ideal
- High yield is an attractive asset class

Portfolio-Optimisation with low correlation



Source: Threadneedle

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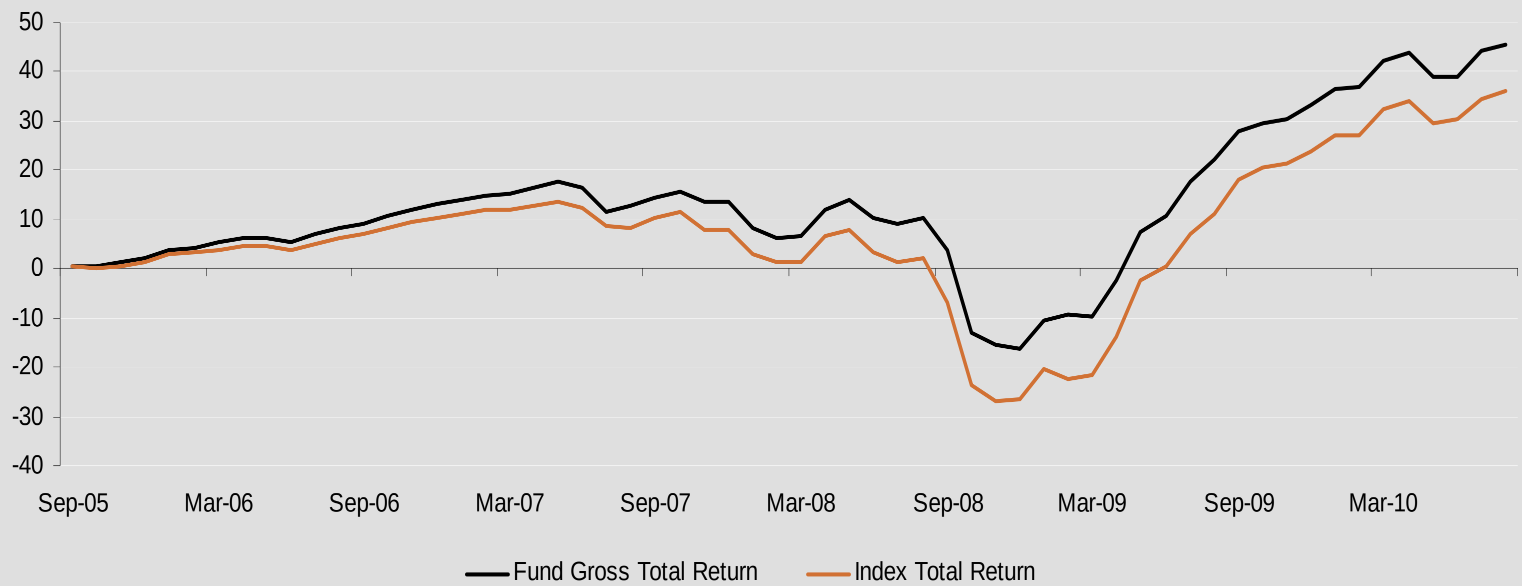
Threadneedle European High Yield Bond Fund

Cumulative Performance vs. benchmark



Source: Morningstar, as at 31 August 2010
Data is shown in €. Fund data is quoted on a bid to bid basis with gross income re-invested at bid. Fund data is gross of tax and net of fees

03

Threadneedle Credit Opportunities Fund

Threadneedle Credit Opportunities Fund
Investment proposition

- The Threadneedle Credit Opportunities Fund **leverages our credit expertise** to complement our existing suite of macro-driven absolute return products
- The fund will typically **focus** on opportunities in the high yield and investment grade corporate bond markets, but can also exploit opportunities that arise in other areas of the credit market
- The fund can make **full use of UCITS III powers**. These include the use of leverage and derivatives, including the ability to short with derivatives and allocate to cash.
- Performance target of **1 month Euro deposit + 350bps** (gross of fees and tax) over the medium term

Threadneedle Credit Opportunities Fund
Investment case

- The high volatility (and in some cases) weak performance of traditional bond funds has resulted in a dramatic increase in demand for absolute return strategies
- Our extensive knowledge of credit markets and strong track record managing absolute return strategies supports our ability to meet low volatility and absolute return objectives

- The recent market environment has forced investors to question the degree of correlation between asset classes
- The funds objective in terms of both risk and return is a low level of correlation with other asset classes

- The UCITS-III framework provides increased flexibility within a regulated environment
- This flexibility provides managers the ability to exploit more opportunities and manage risk

Threadneedle Credit Opportunities Fund
Portfolio manager and team

- Highly experienced investment team
- Complementary talents and skill sets
- Integrated team approach, benefiting from shared ideas across investment teams
- Backed by a large and well resourced fixed income business
- Proven investment processes and strong track records of long-term performance

Barrie Whitman

23 years' experience

Roman Gaiser

15 years' experience

Alasdair Ross

7 years' experience

Source: Threadneedle, as at 31 March 2010

Threadneedle Credit Opportunities Fund
Why launch the fund?

- Change in nature of the investor
- Change in growth environment and banking sector

2004 - 2008

- Cheap and ample liquidity available
- Aggressive use of leverage across credit (Banks prop desks, CLO's, Credit Hedge Funds)
- Consequently any opportunity was arbitraged away
- Valuations becoming more distorted

2009 -

- Excess liquidity has disappeared, lending restricted and much less use of leverage
- Credit opportunities not being exploited through leverage
- Cost of Capital has increased
- Leaves idiosyncratic risk and return choices

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Investment approach and positioning

Threadneedle Credit Opportunities Fund
Investment philosophy

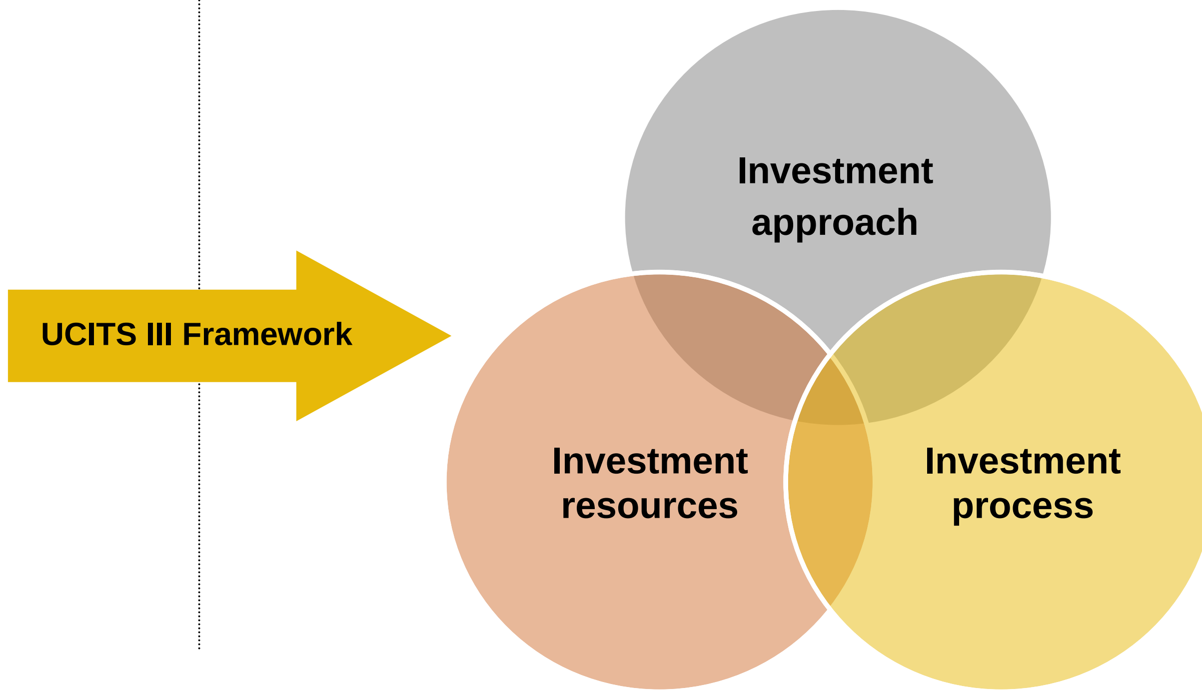
What are we aiming to achieve ?

Absolute return objective

Alpha and beta management

Anticipate credit momentum

What are the essential ingredients for success ?



This is <u>not</u> a new process, merely a new application of a successful one

High yield

Investment grade credit

Threadneedle Credit Opportunities Fund

Emerging markets

Government debt

Asset backed bonds

Leveraging Threadneedle's broader fixed income skills and expertise

Threadneedle Credit Opportunities Fund
Investment approach

1 Month Euro Deposit Rate +350bps

Tactical investment Overlay

- Reflect manager's best credit ideas
- Long and short bond and derivatives
- Can be market neutral or directional

+

Thematic core Portfolio

- Driven by existing credit processes
- Directionally long credit portfolio
- Shorter dated maturities
- May contain derivatives

Threadneedle Credit Opportunities Fund
Core investment portfolio

- Long credit, but shorter dated maturities (dependent on market conditions)
- Long bias reflects the importance of income to the portfolios absolute return objective
- The core portfolio may contain derivatives as well as securities
- Degree and nature of market exposure will depend on market conditions

Core investment portfolio
Recent activity

- Added 1 year CDS in a number of Investment Grade and High Yield names, e.g NSINO, ARCELORMITTAL
- Added to a number of existing positions as the fund has grown, e.g HEIGR, BP, FIAT & FCE

Threadneedle Credit Opportunities Fund
Core investment portfolio – 31 August 2010

Core portfolio key characteristics

Core portfolio	€51.8m
% of net assets	57.1%

Credit quality – % of core portfolio

Investment grade	27.1%
Sub-investment grade	72.9%

Instrument type – % of core portfolio

Bonds	40.6%
Credit default swap	59.4%

Source: Threadneedle, data as at 31 August 2010

Industry exposure – % of core portfolio

Consumer Cyclical	19.8%
Banking	18.1%
Basic Industry	16.4%
Telecommunications	13.6%
Industrial	10.9%
Financial Services	9.4%
Basic Materials	9.0%
Consumer Non-Cyclical	7.6%
Insurance	7.0%
CDS Basket	6.6%
Other	26.7%

Tactical investment overlay

The investment overlay represents the team's strong conviction ideas. Strategies may be directional or market neutral and leverage can be employed. Typical investment strategies will include:

Directional long / short

- Strategies representing an outright credit view and can be employed using derivatives or cash bonds

Pair trades

- Long one issuer versus another issuer

Basis trades

- Long the bond of a single issuer versus a short derivative position of that same instrument. For positive carry and event driven strategies

Capital structure arbitrage

- Long / short a senior debt instrument versus a subordinated debt instrument of the single issuer

Tactical investment overlay
Recent activity

- Reduced directional exposure as outlook has become more uncertain (added some LBO shorts)
- Added to a number of Event trades, e.g KDG, Cognis, NLC, Conti and TDC
- Increased exposure to Lower Tier 2 Basis exposure (HBOS, RBS & Unicredit)
- Increased Relative Value book via High Yield exposure (BA, FCE & VMED)

Threadneedle Credit Opportunities Fund
Tactical investment overlay – 31 August 2010

Investment strategy and exposure

	Long	Short	Net	Gross
Basis	9.2%	-8.0%	1.2%	17.2%
Directional	6.9%	-4.0%	2.8%	10.9%
Event	28.6%	-2.3%	26.3%	30.9%
Relative Value	12.3%	-10.9%	1.4%	23.2%
TOTAL	**56.9%**	**-25.3%**	**31.7%**	**82.2%**

Source: Threadneedle, data as at 31 August 2010

Threadneedle Credit Opportunities Fund
Investment restrictions

- Due to the challenges in calculating VaR for credit instruments, stress testing and strict concentration limits play a fundamental role in the measurement of overall portfolio risk:
  - Industry exposure: Maximum of 25% per industry sector,
  - Issuer restriction:

BBB and above	± 10.0%
BB	± 7.5%
B	± 5.0%
CCC	± 3.0%
Not Rated	± 5.0%

  - Currency: ± 10% to any single non-base currency (40% maximum)
  - Value at Risk: 0% to 1.5% (95% confidence interval / 5 day)
- Independent quantitative risk team - proven experience in analysis of other absolute return strategies at Threadneedle, including UCITS III and hedge fund products

Assessing and monitoring risk to seek the most appropriate risk / reward trade-off

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Current strategy and performance

Threadneedle Credit Opportunities Fund
Current strategy

- Core investment portfolio
  - Maintain exposure to carry book
  - Looking to take advantage from recent volatility
- Tactical investment overlay
  - Focus on event situations, lower Beta directional trades
  - Having run down the directional portfolio we are now re-examining opportunities

Threadneedle Credit Opportunities Fund
Portfolio positioning – 31 August 2010

	Long	Short	Net	Gross
Core investment portfolio	57.1%	0.00%	57.1%	57.1%
Tactical investment overlay	56.9%	-25.3%	31.7%	82.2%
Cash, FX and IR Hedge	0.0%	-5.8%	-5.8%	5.8%
TOTAL	**114.1%**	**-31.0%**	**83.0%**	**145.1%**

Source: Threadneedle, data as at 31 August 2010

Threadneedle Credit Opportunities
Gross monthly performance

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Threadneedle Credit Opportunities Fund					0.87%	1.10%	1.63%	0.62%	1.11%	0.85%	0.98%	0.77%	7.94%
Citigroup EUR 1 Month Eurodeposit Index					0.08%	0.06%	0.05%	0.04%	0.02%	0.02%	0.01%	0.02%	0.78%

2010	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Threadneedle Credit Opportunities Fund	1.08%	0.42%	1.17%	1.02%	-0.50%	0.28%	1.15%	0.59%					5.32%
Citigroup EUR 1 Month Eurodeposit Index	0.02%	0.02%	0.02%	0.02%	0.02%	0.03%	0.02%	0.03%					0.18%

Fund data sourced Morningstar, in €. Index data provided by Thomson Financial DataStream.
Fund data is based on Global Close prices. Fund data is gross of T.E.R to facilitate comparison with the indices
*Inception date used for performance calculation is 30 April 2009; actual launch date was 29 April 2009

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Appendix

Threadneedle Credit Opportunities Fund
Key fund facts

- Target alpha:
  - 1 month Euro deposit +350bps (gross of charges and tax) over the medium term
- Euro performance share class fee:
  - Retail: AMC 1.0% + performance fee of 20% over 1 month Euro deposit + 350 basis points*
  - Institutional: AMC 0.50% + performance fee of 20% over 1 month Euro deposit + 350 basis points**
- Hedged share class fee:
  - Retail: AMC 1.25% - no performance fee
  - Institutional: 0.65% - no performance fee
- Fund currency: €
- Currency classes: €, £ (hedged), $ (hedged)

*** Calculated on a net basis at 1 month Euro deposit + 240 basis points**
**** Calculated on a net basis at 1 month Euro deposit + 295 basis points**

Threadneedle Credit Opportunities Fund
Uses for the fund

- **Diversification**
  - The multiple sources of alpha incorporated within the fund and its use of long and short strategies, should deliver a low correlation with traditional fixed income and equity portfolios
- **More stable performance**
  - Target of 1month Euro deposit + 350bps (gross) over the medium term
- **Combination with other absolute return funds**
  - With similar strategies, but different sources of alpha, the Credit Opportunities Fund could be used in conjunction with other absolute return products to further diversify risk and create a broader absolute return portfolio
  - For use within the “alternative” basket in asset allocation strategies or portfolios

Combining absolute return strategies

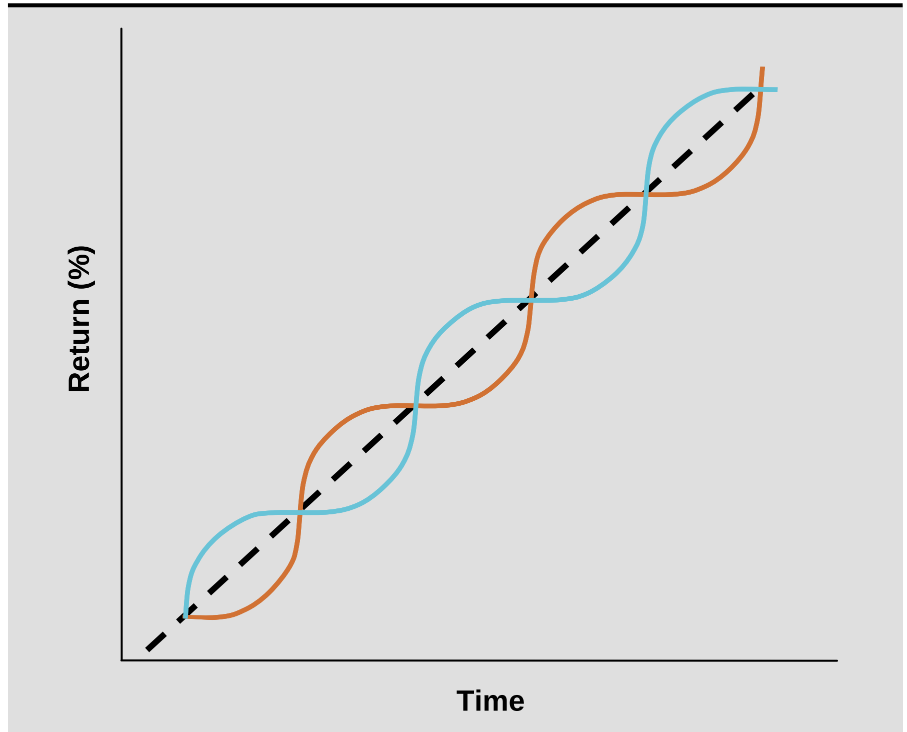

Chart is for illustrative purposes only

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Appendix: Examples

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Core investment portfolio – carry trade example

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- **Short dated carry trade**
  - 2.3% of fund, added at 102.5, T + 434bp spread, 5.25% yield
  - Hanson bond, size €750m, matures September 2010, 7.875% coupon
  - Rated B1 / BB- / BB-, upgraded from CCC+ composite rating
  - Heidelberg acquired Hanson during 2007 for €14bn, predominantly debt funded, Hanson bonds left outstanding
- Key considerations
  - Debt structure: net debt reduced €3.4bn during 2009 to €9bn, €3.5bn maturities extended to 2014+
  - Ample near term liquidity: €0.7bn cash, €1.6bn available under committed RCF
  - Covenant protection: Hanson bonds have strong negative pledge language, hard to subordinate
  - Operations: highly cyclical, EBITDA declined 25% 2009 YTD, but positive operating cash flows
  - Outlook: further deleveraging expected during 2010, ratings upgrades likely
- Conclusion
  - Opportunity to pick up a good yield from a short dated bond
  - Operationally sound company but highly cyclical industry
  - 2009 was a transforming year – material decreases in net debt, near term maturities and leverage

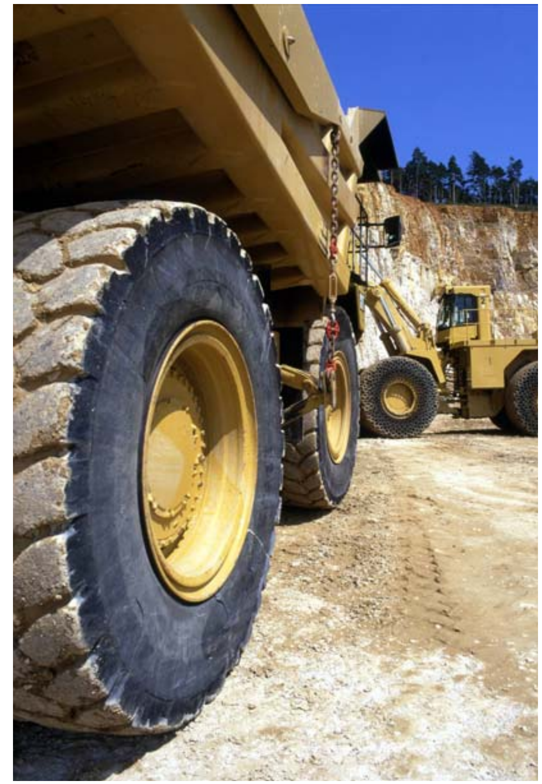
Threadneedle Credit Opportunities Fund
Core investment portfolio – carry trade example

- **Short dated carry trade**
  - Sold protection on June 2011 Rio Tinto CDS @ 200
  - Issuer rated Baa1 / BBB+ 4.1% of the fund
- Key considerations
  - Acquisition of Alcan placed significant refinancing risks on company at a time when debt markets closed
  - Bank hedging of loan liabilities drove CDS higher especially in short dates
  - The company began working to address its liquidity concerns: termed out $3.5bn of debt in 5 year and 10 year bonds
  - Announced $15.2bn equity raising including rights issue at JV of certain assets with BHP
  - Post debt issuance, rights issue and JV, all debt maturities to 2012 are pre-financed, without taking FCF into account
  - Despite CDS tightening from 300 to 200 on the equity issuance news, liquidity position means risk-reward in favour of long risk at 2 year maturity
- Conclusion
  - If no appropriate maturity bonds to execute trade rationale, then fund can and will use CDS
  - Willing to take longer-dated carry positions in investment grade names

RIO TINTO

Threadneedle Credit Opportunities Fund
Tactical investment overlay – relative value trade example

- **Pairs trade**
  - Xstrata: sold 5 year CDS @ 370bp, 4.1% of NAV, closed at 90bps
  - LaFarge: bought 5 year CDS @ 280, 4.1% of NAV, closed at 125bps
  - Net spread compression 125bps, total return of 19bps
- Key considerations
  - Industry: both highly cyclical industries, Xstrata has stronger asset base and is more diversified
  - Company: Xstrata has strong management team - huge expansion since 2001 and one of first to rights issue in Jan 2009, Lafarge has c. 1 turn more leverage than Xstrata, both have through the cycle cash flow, both historically aggressively acquisitive. Xstrata rated Baa2 NEG / BBB, Lafarge rated Baa3 NEG / BBB- / BBB- NEG
  - Outlook: commodity demand driven by China leading to price rebound, some stability in cement demand although at weak YoY levels, LaFarge precariously positioned in investment grade – any disappointment will lead to a downgrade to high yield
- Conclusion
  - Situation where two companies with similar cyclicality were trading inversely to where we would expect, with possible additional upside should LaFarge disappoint and be downgraded to high yield
  - Trade closed when Xstrata traded inside Lafarge and evidence of cement market stability lessened likelihood of LaFarge downgrade



Threadneedle Credit Opportunities Fund
Tactical investment overlay – relative value trade example

- **Pairs trade (+ event upside)**
  - National Grid (Baa1 stable / BBB+ stable): Sold 5 year CDS @ 76bp, 3.7% of NAV
  - United Utilities (Baa1 / BBB+ CWN): Bought 5 year CDS @ 57bp, 3.7% of NAV
- Key considerations
  - Industry: these names both derive the bulk of their income from regulated activities, UU through their water businesses and Grid through electricity and gas transmission and distribution. Both display low risk business profiles
  - Company: While Grid have been expanding their operations, increasing business and geographical diversity UU have been selling business to become a pure water name. Both have very high leverage metrics
  - Outlook: Grid are consolidating recent acquisitions and clear visibility on medium-term revenues should see some de-leveraging. UU have just been subject to a harsh regulatory review which is likely to cause leverage to increase and lead to ratings downgrades
  - Event “kicker”: The UK water sector has experienced M&A where leveraged whole business securitisation structures are put in place. The UU CDS references the hold-co, which is outside the regulatory ring fence, and would be likely to widen significantly if a securitised capital structure were put in pace, either by current or new management
- Conclusion
  - Both these companies operate in highly stable regulated environments. However, UU are likely to see leverage rise and pressure on ratings whereas Grid are likely to be stable / de-lever. UU CDS trading significantly inside Grid therefore doesn’t seem justified
  - In addition there is an Event “kicker” to the trade should a securitised capital structure be put in place at UU. This is not the core rationale for the trade, rather a low probability of a highly profitable outcome

Threadneedle Credit Opportunities Fund
Tactical investment overlay – basis trade example

- **Negative basis trade (+ event upside)**
  - Exchanged into TDC 6½ 2012 into TDC $5\frac{7}{8}$% 2015 at an exchanged spread of mid swaps +315bps
  - Hedged by buying TDC 5 year CDS at 130
  - Results in negative basis (spread on bond - spread on CDS) of 185bps
  - Issue rated Ba3 / BB- / BB
- Key considerations
  - The company opportunistically extended part of its 2012 maturities into 2015 to smooth its maturity schedule and ease near-term refinancing needs
  - Equity sponsors are examining strategies to exit the business which include an IPO. In this scenario we would expect the company to continue to deleverage, and for it to be upgraded, probably to an investment grade rating
  - The exchanged bond is issued at a senior entity within the broad TDC / NTC structure. We think that the negative basis was excessive vs. other incumbent investment grade telecoms companies in Europe which we think is in the region of 50bps
- Conclusion
  - The opportunity was to take advantage of a dislocation between the cash and derivatives markets that would become apparent when the market looks to re-price this senior paper against other European operators on the event occurring
  - As at June 2010 the bonds have widened to ASW + 329bps whilst the 5 year CDA has widened to 180bps, i.e. the negative basis has tightened to 149bps.

Threadneedle Credit Opportunities Fund
Tactical investment overlay – basis trade example

- **Negative basis trade (+ event upside)**
  - Bought Barclays $ June 2011 call / June 2016 final LT2 FRN at 79.00 = DM+1200 to call, DM+268 to maturity
  - Hedged by buying Barclays Sub CDS protection to June 2016 at 236
  - Results in negative basis (spread on bond – spread on CDS) of +32bps to maturity. If bond is called at par in 2011 (the event) trade has significant upside
  - Issue rated Baa1 / A 3.5% of fund
- Key considerations
  - LT2 FRNs trading at low cash prices given (a) a popular SIV instrument because of technical selling pressure from SIV's (b) market consensus that bonds would not be called and (c) low running yield so basis trades are negative carry in absence of pull to par
  - We believed market was too pessimistic on likelihood of LT2 calls, especially for certain banks attempting to differentiate themselves from weaker rivals
- Conclusion
  - The credit opportunity was the mispricing of the credit event (the call). Therefore combined a long position in the callable bonds with CDS in order to hedge out default risk
  - SD carry book can "fund" the negative running yield on the trade if pull to par on the bond does not occur
- Trade Update
  - 17/08/10: Taken the CDS off at 186 (-50 bps). Bonds quoted at 95.75/96.75, DM+467 to call (-733 bps), DM+86 to maturity (-182 bps)
  - Bonds up +17 points, CDS capital move -3.5 points, basis trade makes 13.5 points
  - Fund continues to hold the bonds unhedged in the event book

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Appendix: Team biographies

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Biography

BARRIE WHITMAN

Barrie Whitman joined Threadneedle in 1999 as Head of High Yield. Barrie manages the Threadneedle High Yield Bond Fund, the Threadneedle Strategic Bond Fund and the Threadneedle Credit Opportunities Fund, as well as institutional high yield bond assets. He is also the deputy fund manager of the Threadneedle European High Yield Bond Fund.

He began his investment career in 1987 at United Bank of Kuwait as a Credit Analyst Specialising in High Yield Bond Investment. In 1990 he became a High Yield Fund Manager and, in 1996, CIO for High Yield Investments. Barrie then moved to Standard Bank London in 1997 as Head of European High Yield and Distressed Debt.

Barrie graduated in 1982 with a BSc in Economics and Accounting from Hull University and qualified as a Chartered Accountant in 1986. He is a member of the Institute of Chartered Accounts in England and Wales.

Threadneedle start date:	1999
Industry start date:	1987

ROMAN GAISER

Roman Gaiser joined Threadneedle in 2005 and manages the Threadneedle European High Yield Bond Fund. He is also the co-manager of the Threadneedle Credit Opportunities Fund. Prior to joining Threadneedle Roman was a Director of high yield credit at F&C. Having worked in the high yield bond market since 2000, he has managed money through all stages of the investment cycle, giving him vital experience of the opportunities and risks involved in the asset class.

Roman graduated in 1995 with a post graduate degree in International Economics & Finance from the University of Paris Dauphine. He is a mother-tongue German speaker and is also fluent in English and French.

Threadneedle start date:	2005
Industry start date:	1995

Biography

ALASDAIR ROSS

Alasdair Ross joined Threadneedle in 2003 as a credit analyst focusing on the telecom, media and technology sectors, as well as utility and energy companies. During his time working in Threadneedle's investment grade credit team, Alasdair also gained experience in the analysis of asset backed securities. In 2007, Alasdair was promoted to Fund Manager and he is now responsible for the Threadneedle European Corporate Bond Fund as well as a number of institutional / segregated portfolios.

Prior to this, he worked at BP plc as a Graduate Management Trainee.

Alasdair has a first class honours degree in Politics, Philosophy and Economics from Oxford University.

Threadneedle start date: 2003

Industry start date: 2003

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Past performance is not a guide to future returns. The value of investments is not guaranteed and may fall as well as rise, and may be affected by exchange rate fluctuations. This means that an investor may not get back the original investment.

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