

Threadneedle Absolute Return Bond Fund

Threadneedle has been managing absolute return funds since 2005 and we now offer a full range of fund strategies in this sector. The Threadneedle Absolute Return Bond Fund, which aims to return 3-month LIBOR + 300bps gross of fees on an annualised basis, is the flagship UK product in our range. Although not guaranteed, this fund is designed to produce modest returns across market conditions and therefore we place significant emphasis on understanding and managing risk. We manage the fund for daily liquidity and aim to be able to collapse the portfolio in a timely and efficient manner. In addition to these controls, the managers are supported by sophisticated portfolio monitoring tools that allow them to see at any time exactly how each strategy in the fund is contributing to overall portfolio risk and performance. To get the full benefit of our approach an investment horizon of 18-24 months is suggested.

During times of heightened investor interest over current market conditions, we believe it is important to keep investors up to date with our funds. As such, this product update highlights performance since launch, includes a detailed commentary on market conditions year to date as well as an overview of current strategy.

Performance History - gross monthly performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total	Relative to Index
2005											0.27%	0.73%	1.01%	+0.24%
2006	0.51%	0.47%	0.55%	0.41%	0.53%	0.27%	0.15%	-0.43%	0.81%	0.49%	0.53%	0.10%	4.48%	-0.46%
2007	-0.13%	1.40%	-0.13%	-0.26%	-0.63%	-0.61%	2.81%	1.55%	2.06%	0.94%	0.93%	0.34%	8.52%	+2.18%
2008	2.38%	1.72%	2.67%	-1.97%	-1.16%	-0.30%	0.73%	2.08%	0.94%	1.78%	2.79%	2.63%	15.08%	+8.87%
2009	-0.07%	0.37%	0.37%	0.83%	1.14%	0.62%	-0.18%	0.88%	0.16%	0.46%	-0.01%	-0.04%	4.62%	+3.27%
2010	0.10%	0.10%	0.33%	-0.33%									0.20%	-0.03%

Data as at 30 April 2010 quoted 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 Libor 3 month deposit rate

Current strategy

We continue to apply a tactical approach to risk and feel that being liquid in the current market environment is more beneficial than having large exposures to risk assets. Due to extreme choppiness and politicisation of markets we are focused on managing the downside: we feel that this is an important strategy moving into June as the markets continue to remain nervous. The de-leveraging process that we are seeing in the markets has raised the possibility of a further economic slowdown and the fear of the emergence of a double dip recession, which could have further impacts on commodity based and emerging market currencies. We also continue to hold the view that the yield curve in US treasuries is too steep. We will continue to be tactical overall and maintain the quality of the short dated bond portfolio, where we have further decreased duration and continue to hold only AAA-A rated securities. Importantly, we have no exposure in Portugal, Greece or Spain.

Performance commentary highlights

	Strategy	Positive contributions	Negative contributions
January	Rising risk appetite expected to lead to weaker bond markets. USD expected to be strong vs major currencies but weaker against emerging markets	<ul style="list-style-type: none"> Short duration initially benefitted Long USD vs EUR and Yen Short dated bond portfolio performed well 	<ul style="list-style-type: none"> Duration position hurt by return of economic weakness and volatility
February	De-risking and volatile environment requiring a tactical approach. Buying duration on weakness – government bond markets expected to be range bound.	<ul style="list-style-type: none"> Long USD Long duration 	<ul style="list-style-type: none"> Long Gilts vs Bunds impacted by rising sovereign risk concerns
March	The markets are discounting too strong an economic recovery and indicating rises in bank base/policy rates too soon. Our view is that “rates to remain lower for longer” especially in the UK market. Otherwise the markets are still difficult to call and require a tactical approach.	<ul style="list-style-type: none"> Positioning for a reduction in expectation of interest rate rises (lower for longer) Long USD vs GBP and Yen Holdings in Hungarian domestic bonds 	<ul style="list-style-type: none"> Curve flattening in US Treasuries
April	A difficult market for bonds on supply concerns and an improving global economy, overshadowed by the problems in Greece and investors’ fear of this spreading. Position for range bound markets. Moving to reduce risk in the short dated bond portfolio by: upgrading credit quality to place higher emphasis on A to AAA at this time, and; slowly decreasing duration. Emphasis on managing the downside risk led to the liquidation of positions that were not performing.	<ul style="list-style-type: none"> A long Brazilian real/short Mexican peso trade was positive 	<ul style="list-style-type: none"> The rates-lower-for-longer strategy (continued from March) was hit by a growing liquidity squeeze (on risk aversion) in the interbank market forcing up short rates. Short US Treasury duration vs long Gilt
May	A continued tactical approach to markets with politicisation adding to uncertainty over market direction. In a nervous environment looking for USD strength vs GBP and EUR, with GBP to see some return to strength post election. Continued emphasis on managing downside risk and maintaining the quality of the short dated bond portfolio.	<ul style="list-style-type: none"> Long GBP vs EUR Short GBP vs USD Long duration in UK Gilts and US Treasuries 	<ul style="list-style-type: none"> Commodity (ie AUD) and emerging currencies vs USD Continued risk aversion playing out through the interbank market led us to hedge out the “lower for longer” strategy. US treasury yield curve flattener

Important information

For investment professional use only – not to be relied upon by private investors.

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