

# Threadneedle Strategic Bond Fund

## Investment Objective and Policy

The aim of the Fund is to provide income with the potential to grow the amount you invested as well.

The Fund invests at least two-thirds of its assets in bonds (which are similar to a loan and pay a fixed or variable interest rate), issued by companies or governments in the UK and Europe as well as by large international organisations such as the World Bank or the International Monetary Fund.

The Fund invests directly in these assets or by using derivatives. Derivatives are sophisticated investment instruments linked to the rise and fall of the price of other assets. The Fund may also make use of short selling (which is designed to make a profit from falling prices) and leverage (which increases the effect that a change in the price of an investment has on the Fund's value).

The Fund's strategy is to allocate investments between high rated bonds and lower rated bonds. Higher rated bonds, as defined by international agencies that provide such ratings, are considered safer than lower rated bonds but typically pay a lower income. Lower rated bonds are considered to be higher risk, but typically pay a higher income.

Where the bonds are not priced in British Pounds, the Fund will typically take measures to protect it from currency movements against the British Pound.



Fund Manager(s)  
**Barrie Whitman**  
Since: 07 2003

## Fund Facts

Index 60% Iboxx Sterling Non Gilt + 40% Merrill Lynch European High Yield ex CCC, 3% Constrained (Hedged to £)

Peer Group<sup>2</sup> UK Unit Trusts / OEICs (IMA) £ Strategic Bond

Fund Size £394.8m  
Launch Date November 2001

Distribution Yield 6.60% p.a.  
(Estimated Gross)

Underlying Yield 5.30% p.a.  
(Estimated Gross)

Pay Dates 4th of each month  
XD Dates 8th of each month

Type of Share Income & Accumulation

## Share Class & General

	Retail	Inst
Initial Charge	3.75%	0.00%
Annual	1.25%	0.75%
Min. Investment	£2,000	£500,000
ISA	Yes	

All information expressed in UK Sterling

<sup>1</sup> SI: Since Inception

## Contact Details

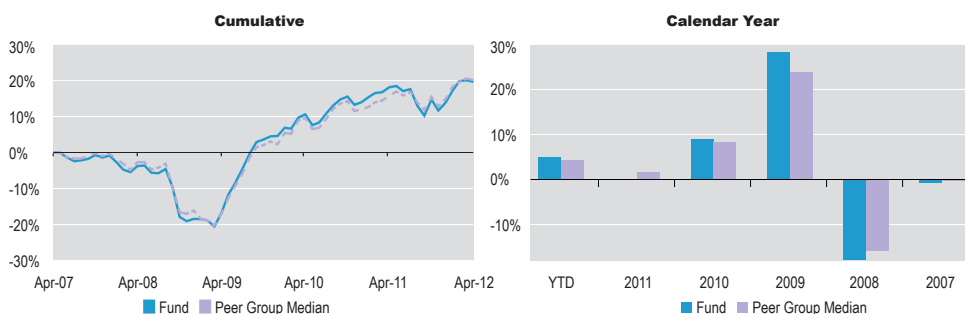
Intermediary Line 0800 068 4000\*  
Client Line 0800 068 3000\*

\*Calls are recorded

PO Box 1331, Swindon, SN38 7TA

For UK Investors only.

## 5 Year Performance



## Fund Performance - Cumulative

	1M%	3M%	YTD%	1Y%	3Y%	5Y%	10Y%
Fund (Net)	-0.3	2.1	5.1	1.3	43.9	19.6	62.5
Index (Gross)	-0.3	2.2	6.1	5.6	54.9	37.1	105.4
Peer Group Median (Net) <sup>2</sup>	-0.4	1.7	4.4	2.6	43.7	20.1	56.7
Ranking <sup>2</sup>	31/74	28/74	27/74	47/72	30/61	28/52	9/23
Quartile Ranking <sup>2</sup>	2	2	2	3	2	3	2

## Performance 12 Months Ending

	30th Apr 08	30th Apr 09	30th Apr 10	30th Apr 11	30th Apr 12
	-3.8%	-13.6%	33.0%	6.8%	1.3%

Note: All performance figures relate to the Net Inc Class 1 (Retail) GBP share class.

## Top 10 Issues

Issue	%	Total % in top 10: 8.1
United Kingdom Gilt 4.25 07/12/2040	1.5	Total Number of Stocks in Portfolio: 377
UNITY 8 1/8 01/12/2017	1.1	
First Hydro Finance PLC 9 31/07/2021	0.8	
HeidelbergCement Finance BV 8 31/01/2017	0.7	
TVNPW 10 3/4 15/11/2017	0.7	
Ineos Group Holdings Ltd 7.875 15/02/2016	0.7	
HeidelbergCement Finance BV 7.5 03/04/2020	0.7	
Tesco Property Finance 3 PLC 5.744 13/04/2040	0.7	
FCE Bank PLC 7.25 15/07/2013	0.6	
Enterprise Inns PLC 6.5 06/12/2018	0.6	

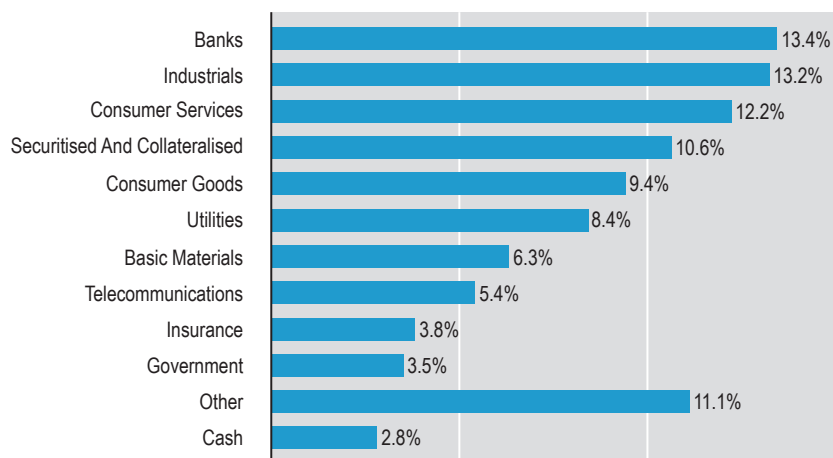
Past performance is not a guide to the future. The value of investments and any income from them can fall as well as rise.

Index returns assume reinvestment of dividends and capital gains and unlike fund returns do not reflect fees or expenses. The index is unmanaged and cannot be invested in directly.

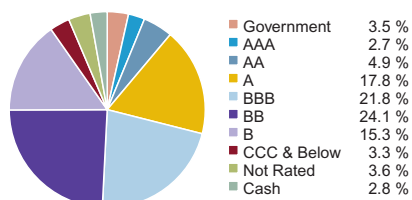
Source performance: Copyright © 2012 Morningstar UK Limited, assumes income is reinvested for a basic rate taxpayer, bid to bid (which means performance does not include the effect of any initial charge). Source other: Threadneedle. All performance and information is quoted in retail share class terms.

<sup>2</sup> The Peer Group Median (Net), Ranking and Quartile Ranking are referenced to the Peer Group.

## Sector Weightings



## Credit Rating Weightings\*



## Portfolio Characteristics

Average Life	7.1
Effective Duration	5.2

## Risk Analysis

Absolute Volatility	7.51%
Relative Volatility	0.48
Tracking Error	1.67%
Sharpe Ratio	1.61

## Relative Performance Summary

Information Ratio	-1.70
Jensen Alpha	-2.48%
Beta	0.98
R <sup>2</sup>	0.95

Note: Against Index over 3 years

## Additional Information

The Tracking Error is likely to be higher than expected due to a mismatch in the timing of the fund and the index.

\*Credit ratings are derived from averaging the scores of Moody's, Standard & Poors and Fitch, where provided.

On 01.12.2010 the Fund changed its investment policy to allow the use of derivatives and forward transactions for investment purposes.

## Fund Codes

### Retail (Net) Inc GBP

Sedol	3102237
ISIN	GB0031022378
Bloomberg	TDNSBF1 LN
Reuters	765458X.DX
MEX ID	ADRSB

For further details on fund codes for other classes, please contact Threadneedle.

Investment Management Association (IMA) is the trade body representing the UK investment management industry.

Please refer to further Risk Warnings and Glossary at the rear of this document.

## Risk Warnings

**Market Risk:** The value of investments can fall as well as rise and investors might not get back the sum originally invested, especially if investments are not held for the long term.

**Currency Risk:** Where investments are made in assets that are denominated in foreign currency, changes in exchange rates may affect the value of the investments.

**Issuer Risk:** The fund invests in securities whose value would be significantly affected if the issuer either refused to pay or was unable to pay.

**Liquidity Risk:** The fund invests in assets that are not always readily saleable without suffering a discount to fair value. The portfolio may have to lower the selling price, sell other investments or forego another, more appealing investment opportunity.

**Inflation Risk:** Most bond funds offer limited capital growth potential and an income that is not linked to inflation. Therefore, inflation can affect the value of capital and income over time.

**Interest Rate Risk:** Changes in interest rates are likely to affect the fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa. Duration is a measure of the extent to which this is the case, with a longer duration suggesting higher sensitivity to interest rate moves.

**Valuation Risk:** The fund's assets may sometimes be difficult to value objectively and the true value may not be recognised until assets are sold.

**Short Selling Risk:** Short selling is designed to make a profit from falling prices. However, if the value of the underlying investment increases, the short position will negatively affect the fund's value.

**Leverage Risk:** Leverage amplifies the effect that a change in the price of an investment has on the fund's value. As such, leverage can enhance returns to investors but can also increase losses.

**Derivatives Risk:** Investment in derivatives may result in losses in excess of the amount invested.

## Summarised Glossary

In addition to the above specific risk warnings applicable to the fund, the second page of the factsheet includes a number of statistical measures that should also assist investors and/or their advisors in selecting funds that meets both their investment objectives and appetite for risk.

**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. All the other risk measures below are also based on the last 3 year's fund performance.

**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 under perform in a falling one. I.e. is more volatile than the market. The reverse applies to a Beta of less than 1.

**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 peer group 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.

**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 years then the average price movement of the fund resulting from a +/- 1% change in interest rates is 5%.

**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.

**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.

**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.

Please refer to the Databook or [threadneedle.com](https://www.threadneedle.com) for a full Glossary of Terms.

Subscriptions to a fund may only be made on the basis of the current Prospectus. Investors should note the "Risk factors" section of the Prospectus in terms of risks applicable to investing in this or any other fund.

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