

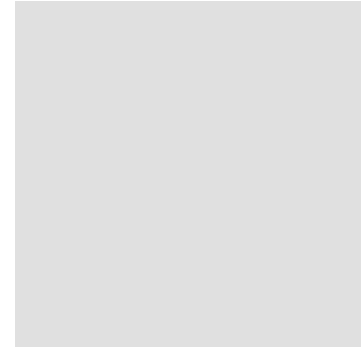
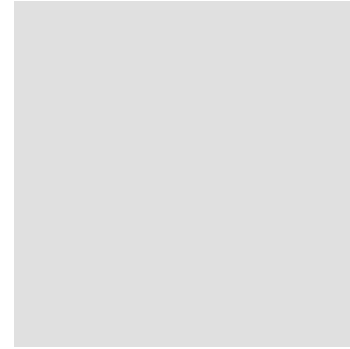
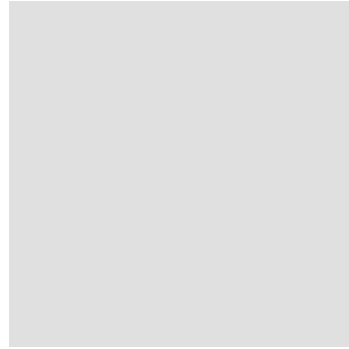


Hubbis Workshop Active Commodities Management

David Donora, Head of Commodities

February 2012

01



An Active strategy to commodities management

A strategy designed to succeed in a radically changing commodity environment

Threadneedle Enhanced Commodity Strategy

Active management of Commodities

Fundamentally driven investment process which aims to generate outperformance

Active Weights

- Driven by investment process
- Active rebalancing of weights

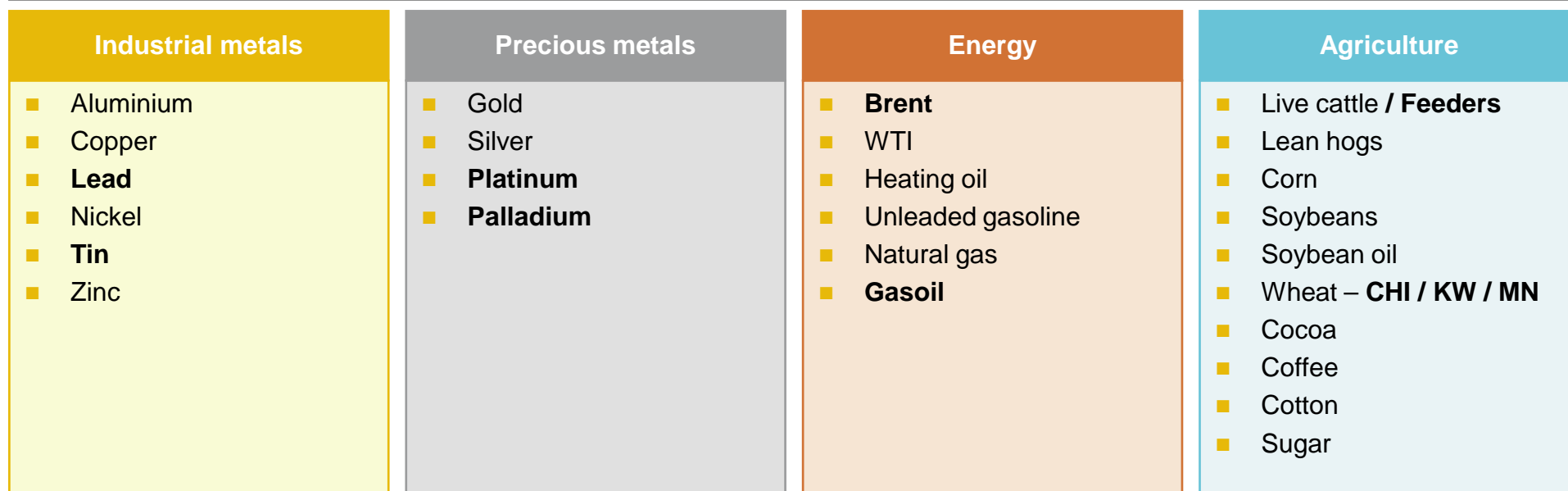
Proactive curve positioning

- Positioning of individual commodity weight along the term-structure
- Timing of moving allocations along the curve
- Seeking to capture curve volatility and uncorrelated alpha

Commodity Universe

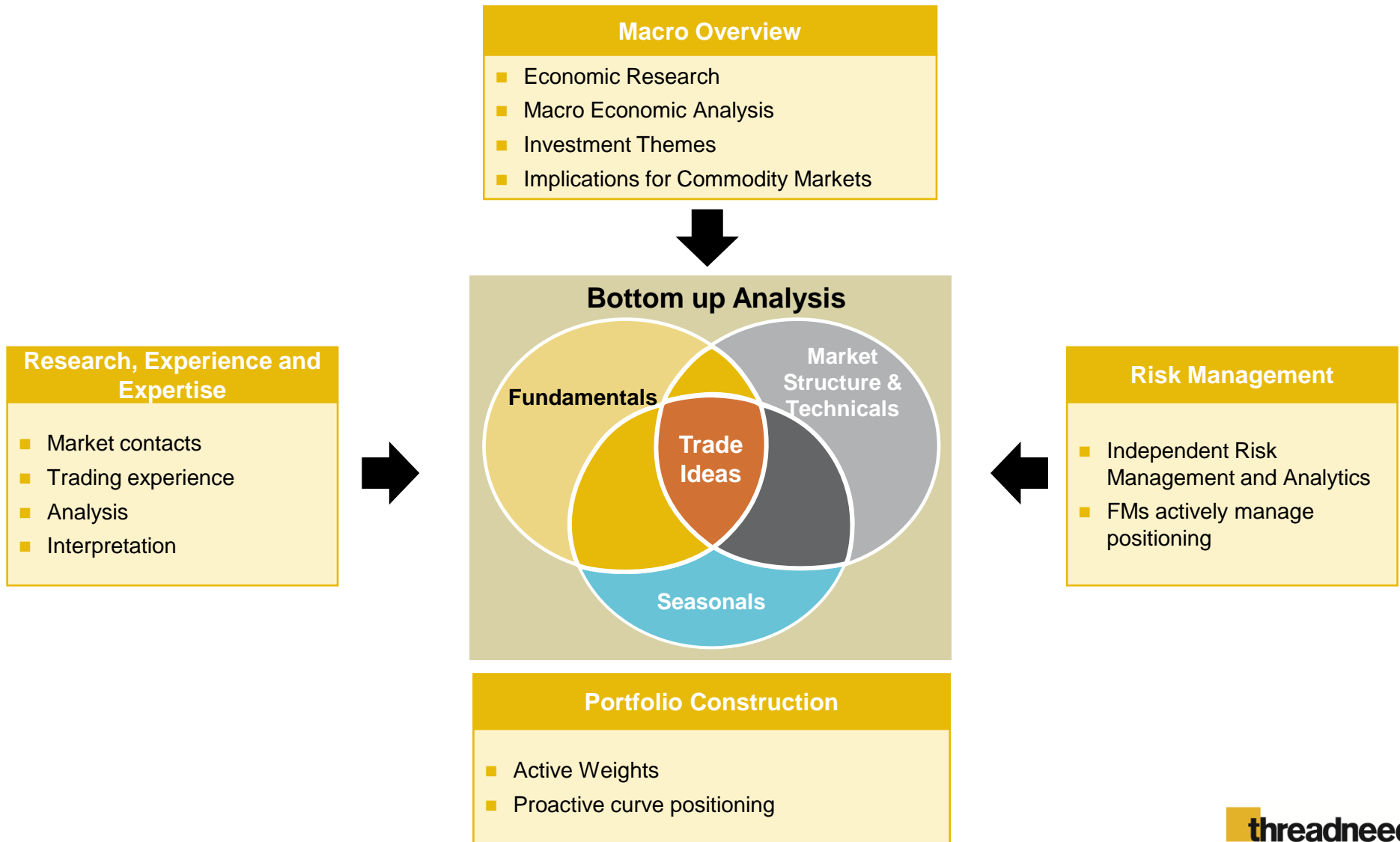
- Universe of investable commodities include both S&P GSCI and DJUBS index components

Threadneedle Enhanced Commodity Strategy



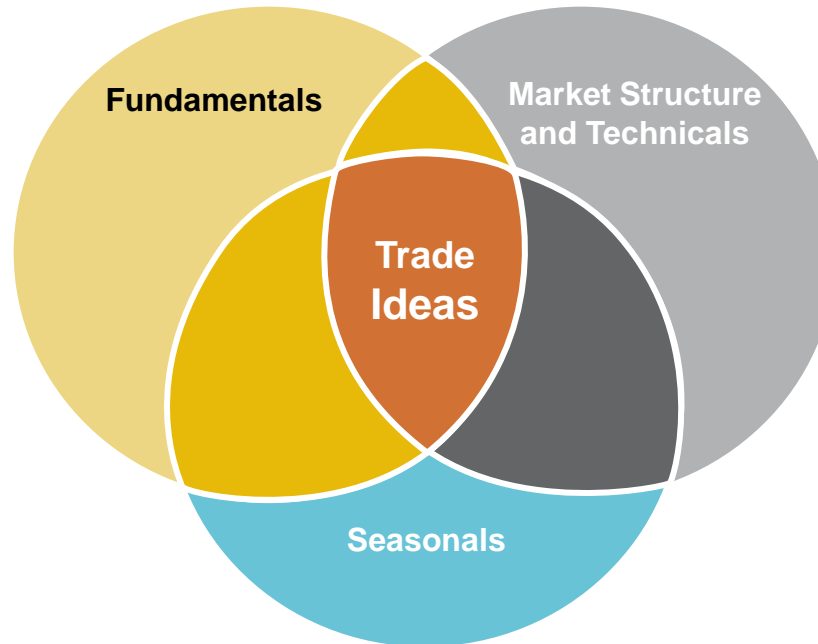
Note: Diagram for illustrative purposes only

Investment process – portfolio considerations



The Engine Room - Sources of Alpha

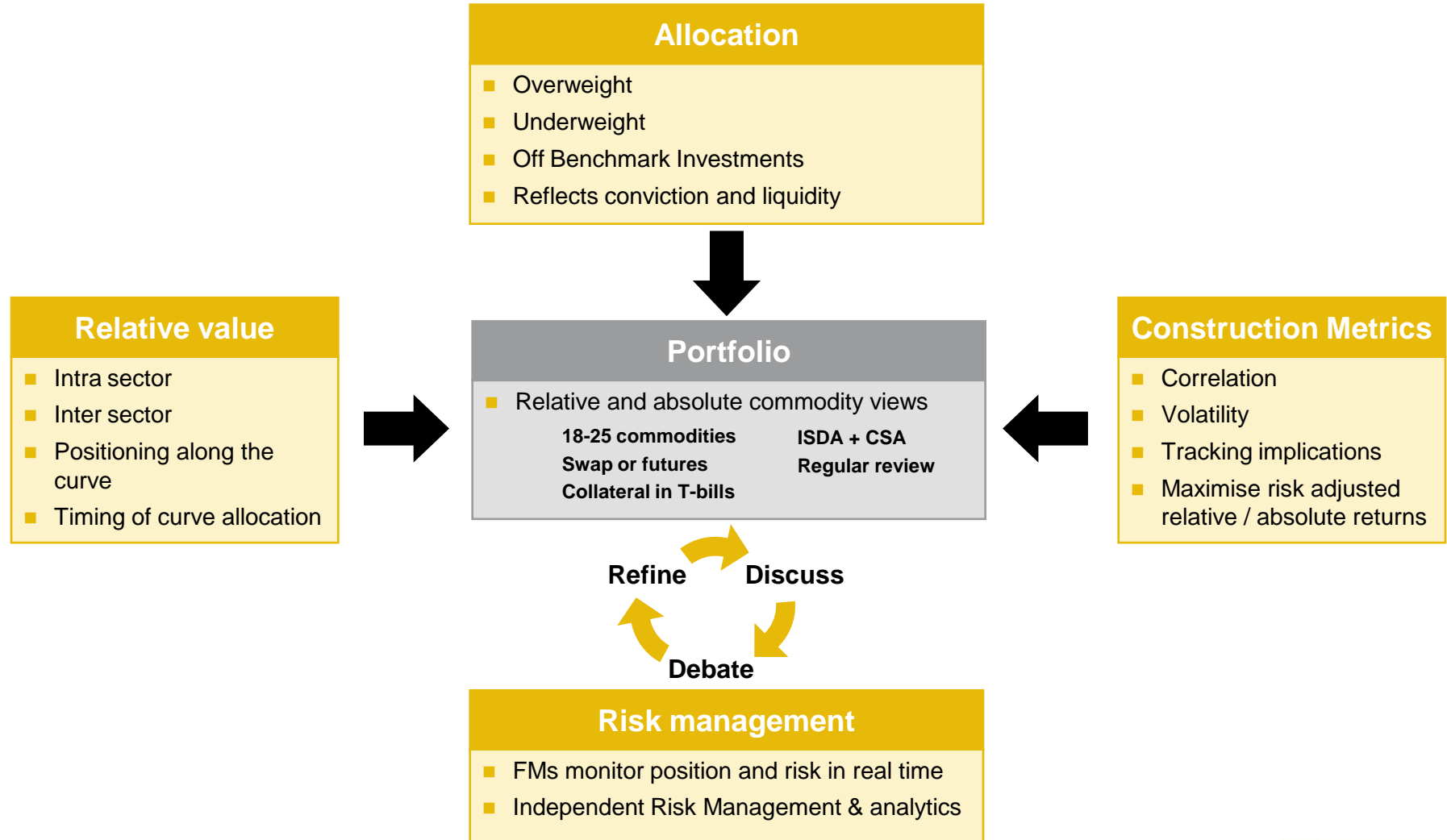
- Supply / production
- Demand
- Inventory / stocks / storage
- Logistics
- Weather
- Technological development



- Investment flows
- Speculative positioning
- Hedger Activity
- Algorithmic/rules traders impact
- Futures Exchange Rules
- Options activity and Vols
- Market positioning

- Proprietary Database
- Underlying markets
- Sectors
- Indices

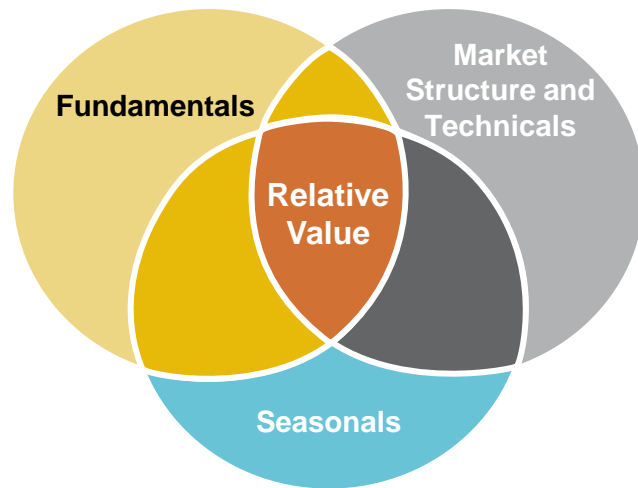
Portfolio construction



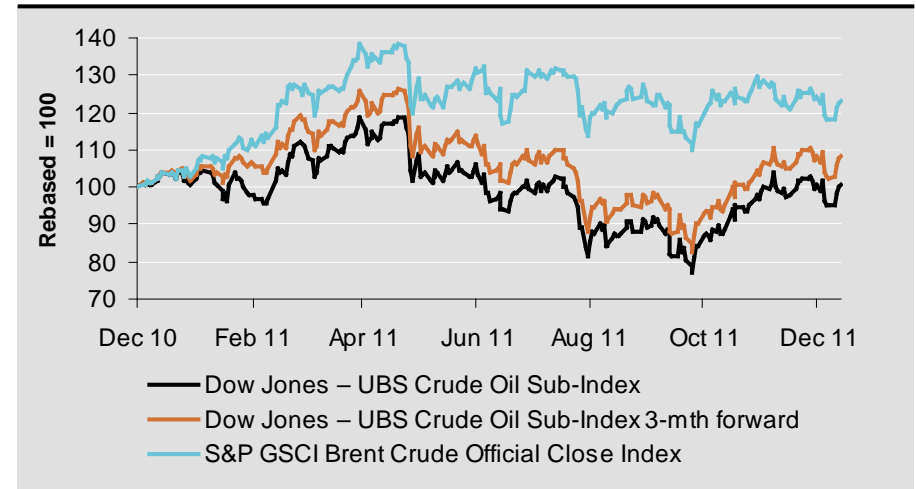
Curve trading and relative value in Crude Oil grades and term structure

- Early 2011 tightness in Brent exacerbated by Middle East unrest
- WTI price and structure both weak due to strong domestic production and storage constraints at Cushing
- Allocated to Brent v WTI in Feb '11
- Front of curve for Brent only
- DJ added Brent in Jan 2012

- WTI price was beginning to fail as a global benchmark and Brent would more accurately reflect the market
- Brent structure would stay strong with loss of Libyan oil
- WTI structure would struggle with limited shipping to Gulf Coast



- Seasonal weakness in WTI term structure due to refining maintenance in the first quarter

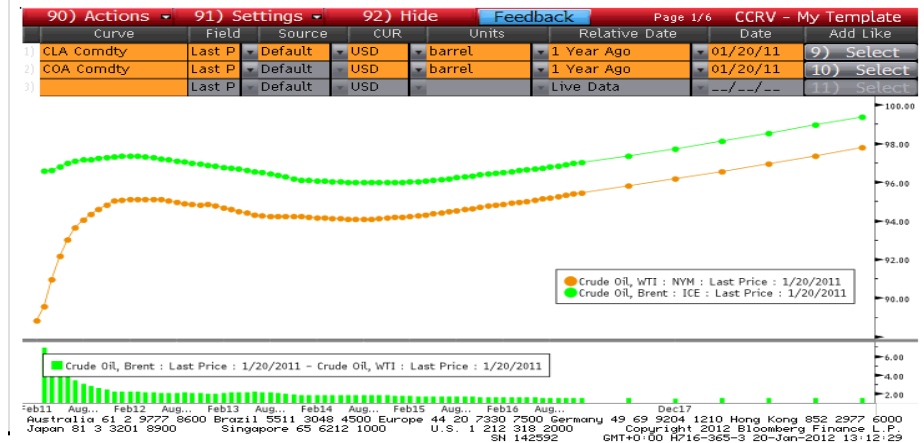


Source: Bloomberg, December 2011

Weak WTI Structure early in 2011

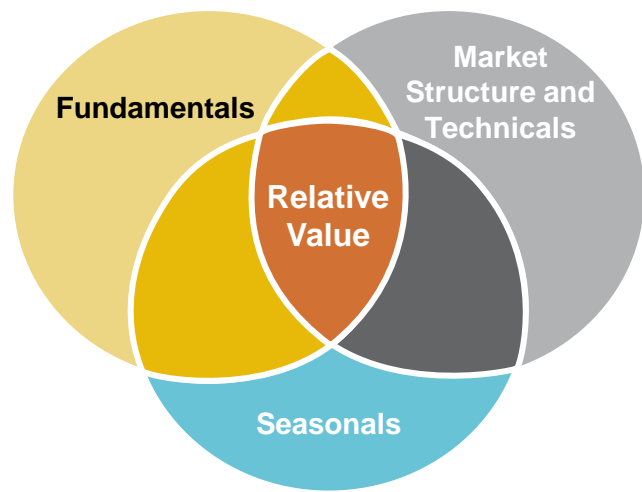
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Msg: J. TURNER

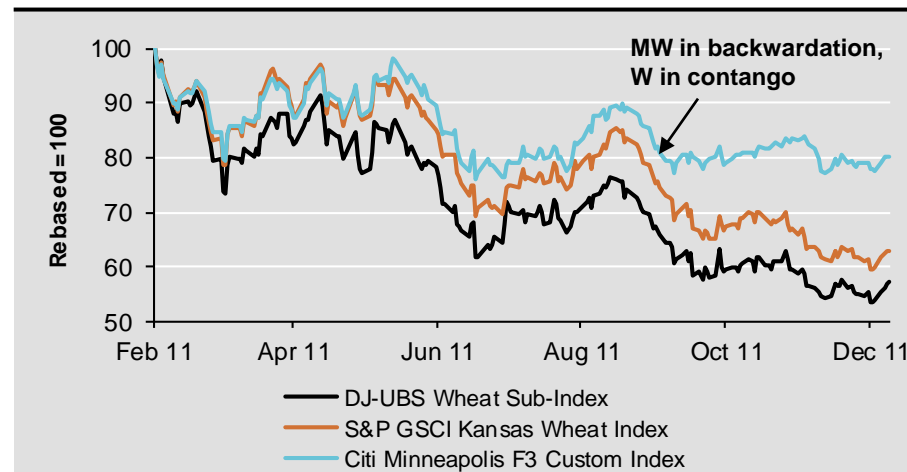


Wheat - In an active strategy, it is possible to capture the volatility in the protein spread and the difference in carry

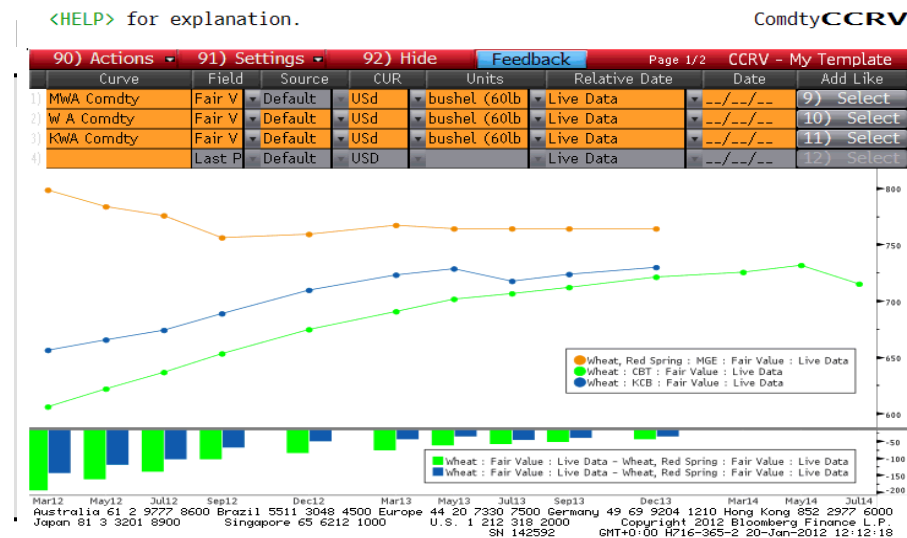
- We allocated to MW wheat Feb 2011 - fundamentals and structure
- MW wheat has high protein content
- Grown in different regions of NA
- La Nina effect severely impacted MW production in 2011
- Logistics impaired shipment of 2010 crop
- Minneapolis, Kansas and Chicago wheat all have different physical delivery conditions
- Chicago wheat most affected by VSR
- MW more inclined to backwardation/positive roll yield
- Less speculative and index activity



- MW has stronger Spring and Summer seasonal performance



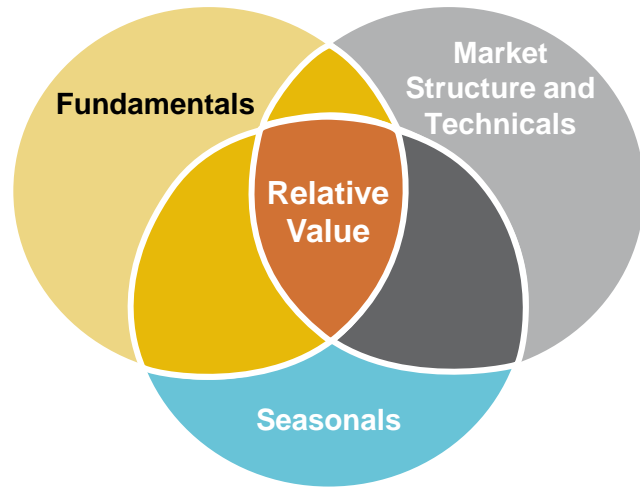
Source: Bloomberg, December 2011



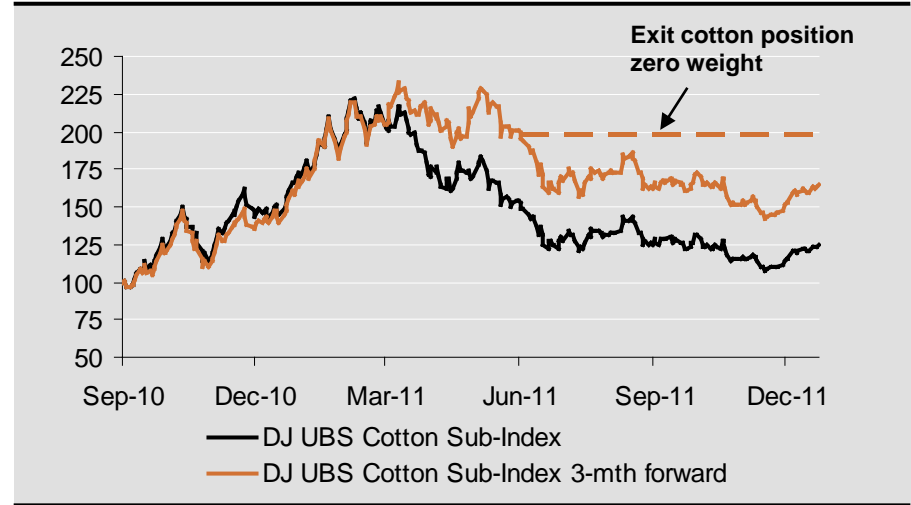
Cotton – Positioned in deferred months, moved to zero weight in June 2011

- Since inception, we were invested in deferred months cotton (mkt wt)
- Physical tight market had run into second growing season, time for supply response to high prices
- Demand affected by high prices and substitution accelerated

- Speculative and Index length all rolling and looking for an exit
- Extreme backwardation weakened during standard roll dates
- Speculative length was beginning to climbing in the first half of 2011
- Agricultural commodities tend to revert to contango (negative roll)



- Cotton exhibits weak seasonal performance from May through October



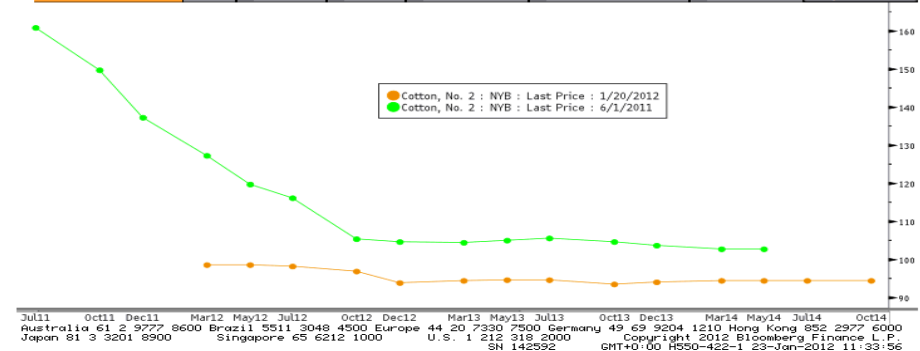
Source: Bloomberg, January 2012

Extreme structure & high prices

<HELP> for explanation.

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2) CTA Comdty	Last P	Default	USD	pound	User Entered	06/01/11	10) Select
3)	Last P	Default	USD		Live Data	--/--/--	11) Select



Portfolio construction: emphasis on relative value

- Focus on **relative value** opportunities within the commodity universe
 - Intra sector
 - Across sectors
- Position size to reflect both **conviction** and underlying market **liquidity**
- Portfolio positions constructed with emphasis on:
 - Correlation
 - Volatility
- **Maximise** performance outcome within the tracking error budget **constraint**
- Deliver **high risk adjusted relative returns** with a portfolio volatility close benchmark

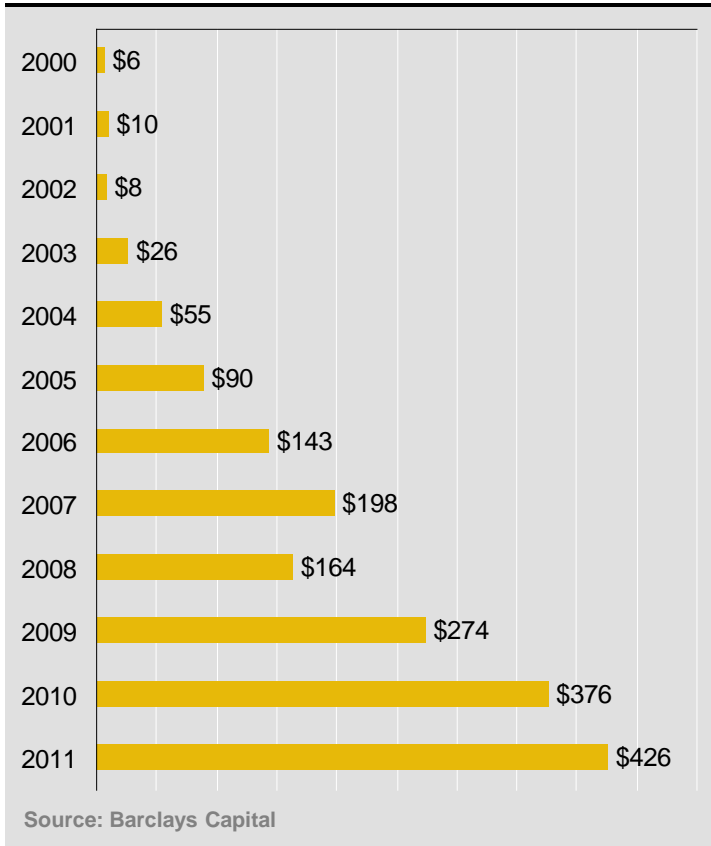


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How to access commodities?

Over a decade of commodity investing

Commodity AUM (US\$bn)



- Investable commodity indices created GSCI 1991, DJUBS 1999
- 2001 OTC Swaps and notes based on commodity indices
- 2002 geopolitical tensions increase interest in commodities
- June 2004, Gorton & Rouwenhorst study of 40+ years data shows commodities increase returns and reduce risk in a diversified portfolio
- Dec. 2004, GLD, the first physical commodity ETF launched
- April 2006 USO, first futures backed commodity ETF launched
- 2006 / 2007 Start of “enhanced” passive products
- 2008 Correlation between DJUBS and S&P swings from -0.8 to +0.97
- 12 Feb. 2009 a negative 24.1% roll cost in WTI Crude for 1 month (“Super Contango”) coined
- 2009 / 2010 Investors grapple with contango, correlation and liquidity
- 2011 – Gold ETFs reach \$140 billion in August

Commodity indices – roll return impacting performance

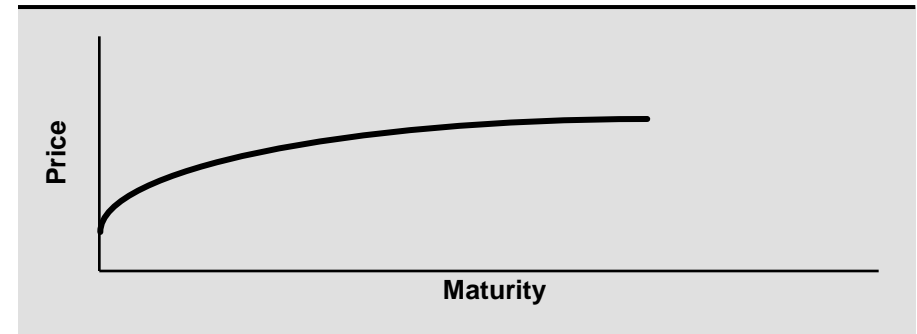
- Roll return has historically eroded 50% of the returns of the spot returns for S&P GSCI and 55% of the spot returns for DJ-UBSCI

Backwardation, contango and roll yield

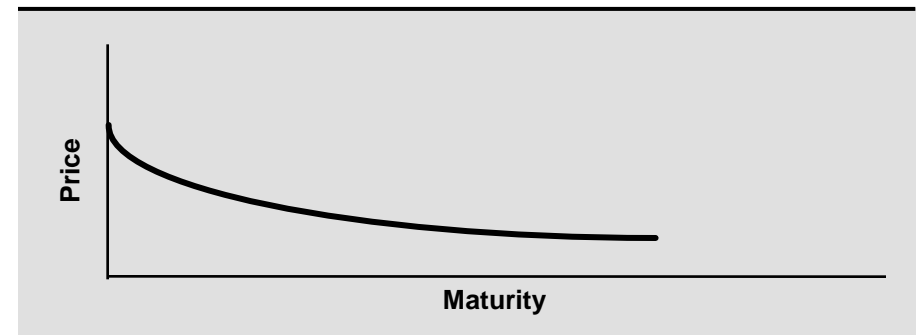
- The slope of the futures / forward curve indicates the state of available, deliverable inventory relative to market demand
- Commodities with abundant supply are typically in contango – short-dated futures prices are lower than longer-dated ones. Precious metals are usually in contango because of the significant stocks available and therefore the low metal lease rates
- Commodities with tight supply are typically backwardated – short-dated futures prices are higher than longer-dated ones
- Maintaining long positions in commodity futures necessitates replacing maturing futures contracts with longer dated futures. For a commodity market in contango the investor will suffer an erosion of return by replacing cheap futures with more expensive futures further along the curve. Conversely, for a market in backwardation the investor will benefit from improvement in the return

Source: JP Morgan

Contango – negative roll return



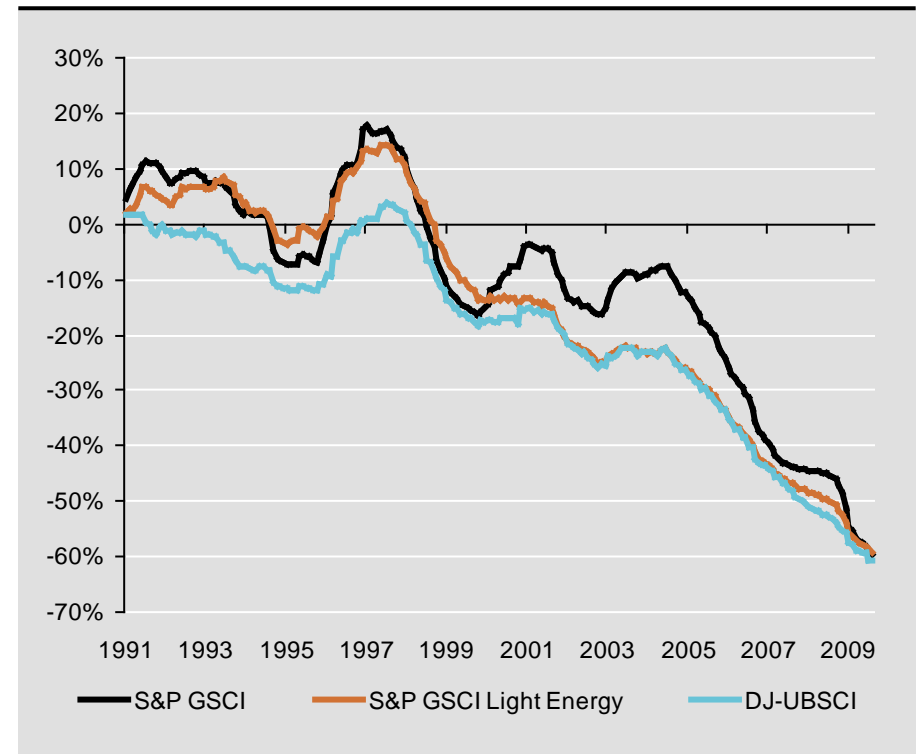
Backwardation – positive roll return



Commodity indices – from ‘roll return’ to ‘roll drag’

- Excess return = price return + roll return
- Price return – change in contracts’ prices
- The roll return is the incidental cost or benefit of tracking the price index and is inherent to commodity investing

Hypothetical cumulative roll return



Commodity indices – answers to contango? (cont'd)

- Liquidity remains uneven along the forward curve and across markets
- Algorithmic strategies suffers from the same ills as indices
 - Rules transparency
 - Lack of flexibility
- Markets are continuously evolving

Active management = flexibility

03

Threadneedle (Lux) Enhanced Commodities Strategy Performance

Threadneedle (Lux) Enhanced Commodity Fund

Product highlights and features

- Target outperformance of 3–6%* with tracking error up to 6%
 - Benchmark: DJUBS TR Commodity Index
- Actively managed long-only fund investing in commodity derivatives
 - No leverage
 - No shorting
 - Fully invested
- UCITS qualifying fund with daily liquidity
- Exposure created through Commodity Index swaps margined daily, (futures and physical not permitted by regulator)
- Diversified exposure across the commodity futures spectrum
- Collateral invested in US T-bills with maturities to 1 year
- Hedged Share Classes: Euro, Sterling, Swiss Franc and Singapore Dollar

*This is only a target outperformance, there is no guarantee that the Fund will achieve this target

Threadneedle (Lux) Enhanced Commodities Fund

Performance to Date (in USD)

2010	Jul	Aug	Sep	Oct	Nov	Dec	2010
Fund (gross)	7.3%	-1.3%	6.4%	5.5%	-0.1%	10.8%	31.5%
Index ²	6.8%	-2.5%	7.3%	5.0%	-0.4%	10.7%	29.2%
Relative	+0.5%	+1.3%	-0.8%	+0.5%	+0.3%	+0.1%	+1.8%

2011	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2011	Since inception ¹
Fund (gross)	1.9%	3.6%	2.4%	4.8%	-5.5%	-3.3%	3.8%	1.7%	-14.0%	6.5%	-1.4%	-1.6%	-2.8%	27.9%
Index ²	1.0%	1.3%	2.1%	3.5%	-5.1%	-5.0%	3.0%	1.0%	-14.7%	6.6%	-2.2%	-3.7%	-13.3%	12.0%
Relative	+0.9%	+2.2%	+0.3%	+1.3%	-0.4%	+1.8%	+0.8%	+0.7%	+0.9%	-0.1%	+0.9%	+2.3%	+12.2%	+14.2%

Source: FactSet as at 31 December 2011. Gross performance based on official global close prices, Fund data is quoted on a bid to bid basis with gross income re-invested at bid. Fund returns calculated Gross of TER (and Tax) for comparison with index. Performance figures for periods greater than 1 year are cumulative

1 Since inception at 30 June 2010

2 Index – Dow Jones-UBS Commodity Index

Threadneedle (Lux) Enhanced Commodities Fund

2011 drivers of performance

	Base Metals	Energy	Grains	Livestocks	Precious Metals	Softs	Collateral & Cash
Jan-11	0.65%	0.67%	0.71%	0.30%	-0.81%	0.56%	0.01%
Feb-11	0.58%	0.87%	0.20%	0.03%	1.49%	0.53%	0.02%
Mar-11	-1.04%	2.22%	0.11%	0.22%	0.85%	-0.01%	0.01%
Apr-11	-0.15%	2.44%	0.50%	-0.25%	2.12%	0.08%	0.06%
May-11	-0.89%	-2.23%	-0.58%	-0.38%	-1.16%	-0.31%	0.01%
Jun-11	-0.35%	-1.68%	-1.21%	0.43%	-0.49%	-0.06%	0.02%
Jul-11	0.35%	0.77%	0.88%	0.00%	1.45%	0.26%	-0.02%
Aug-11	-0.79%	-0.75%	1.72%	-0.26%	1.53%	0.29%	0.04%
Sep-11	-3.05%	-3.87%	-3.58%	0.39%	-2.97%	-0.68%	-0.01%
Oct-11	1.00%	3.26%	0.96%	-0.06%	1.48%	0.05%	0.00%
Nov-11	-0.55%	0.27%	-1.09%	0.15%	-0.20%	-0.15%	0.00%
Dec-11	0.14%	-0.69%	1.07%	0.01%	-2.01%	-0.11%	0.00%
2011	-3.95%	0.92%	-0.68%	0.67%	0.65%	0.42%	0.13%

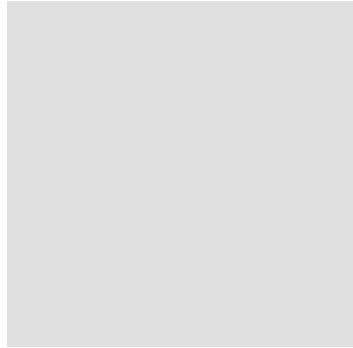
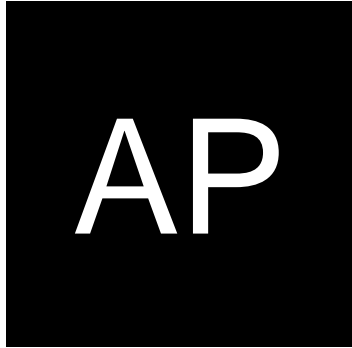
Source: Threadneedle as at 31 December 2011

Threadneedle (Lux) Enhanced Commodities Fund

2011 drivers of performance

- Overweight Gasoline and Distillates
- Allocating to Brent at the expense of WTI
- Underweight US Natural Gas
- Allocating to Minneapolis Wheat at the expense of Chicago
- Underweight in Cotton and Coffee
- Short structure in Softs and Agriculture
- Allocating to Feeder Cattle at the expense of Live Cattle and Hogs

Source: Threadneedle as at 31 December 2011



The T-Lux Enhanced Commodities Fund overview

Threadneedle Enhanced Commodities Fund

Applicable UCITS limits

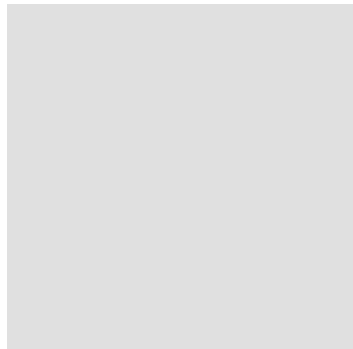
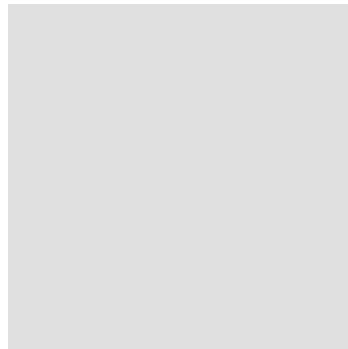
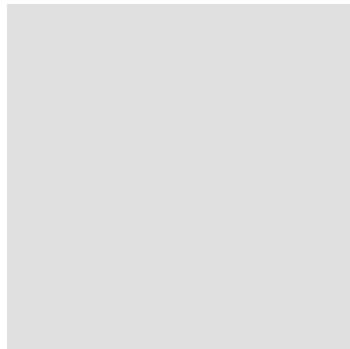
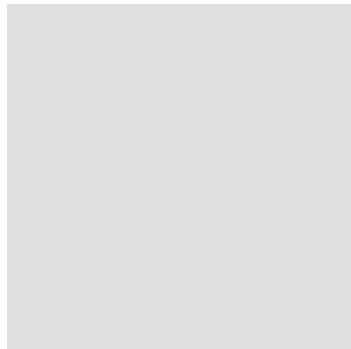
- Physical commodities and futures or options on a commodity are NOT permitted in UCITS funds.
- Derivatives on commodity indices are permitted
- 5/10/40% limit
 - Ensures diversity in the fund
 - Not more than 40% of the fund can have holdings of between 5 and 10%
 - No holding can exceed 10% of the fund
- 20/35% correlated group limit
 - Ensures diversity in the fund
 - Applied to correlated commodities (80%)
 - Max 35% in one correlated commodity group
 - Max 20% in the other correlated groups
- 10% Issuer limit
- 200% Gross Exposure

Investment Risk Guidelines¹

- The fund manager could be overweight or underweight +/-5% per commodity sector
- The fund manager could be overweight or underweight +/-7% per specific commodity
- The fund manager could be overweight 12 months future contract by 100% of the index weight in that commodity type

¹ Investment risk guidelines are not limits. The guidelines are deliberately set at levels which will be likely to be exceeded on a reasonably regular basis. The guidelines are only used as management information for both. Risk and Fund Management regarding the level of risk being run in the funds

AP2






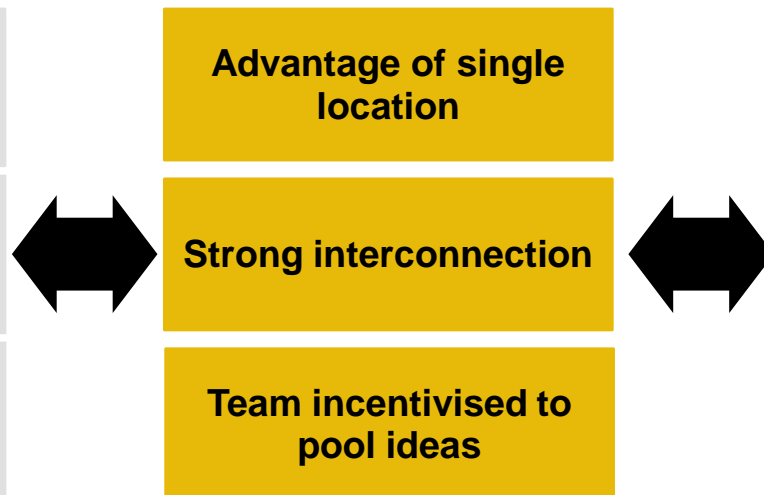
Commodities at Threadneedle – a strong fund management team

Commodities

Leveraging the wider Threadneedle investment expertise

An experienced commodities team

	David Donora <i>Head of Commodities</i> 29 years experience
	Nicolas Robin <i>Co-Fund Manager</i> 10 years experience
	Daniel Belchers <i>Investment Analyst</i> 9 years experience



US Equity Team 8 fund managers / analysts
Global Equity Team 8 fund managers / analysts
Emerging Market Equity Team 9 fund managers / analysts
Government Bond Team 6 fund managers / analysts
Investment Grade Bond Team 8 fund managers / analysts
High Yield Bond Team 6 fund managers / analysts
Emerging Market Debt Team 5 fund managers / analysts

Biography



DAVID DONORA Fund Manager

David Donora joined Threadneedle in 2008 as a Fund Manager specialising in Commodities. His principal responsibilities are to establish Threadneedle's capabilities in this asset class and to develop a suitable product range to complement the company's equity, bond and property offerings.

David has more than 25 years' investing experience encompassing commodity and derivative-based roles. He began his career at Marine Midland Bank in New York in 1982 where he held positions of VP – Commodity Finance, focusing on base and precious metals, latterly trading FX options, and finally Head of FX Options for London and New York. David then moved to UBS NY in 1988 to head its FX and Precious Metals OTC derivatives desk, before transferring to London to take a lead role in developing UBS London's OTC derivative businesses in precious metals, subsequently moving to the dealing side, trading FX and European government bonds.

In 1994 David joined CIBC to establish the London leg of a global volatility proprietary trading business, and became Managing Director and Global Head of FX Derivatives in 1998. In 1999 he created a successful commodity-based proprietary trading and derivative structuring business while Head of OTC Derivatives at Refco Overseas. The business was innovative in that it created unique derivative OTCs in all major asset classes, incorporating 1st and 2nd generation exotics as the building blocks, and managed its risk as a Global-macro Proprietary Trader. Since 2003 the primary focus was in the agriculture and soft commodity markets.

David graduated from the University of Notre Dame with a BA in Finance.

Threadneedle start date: 2008

Industry start date: 1982

Important Information – Hong Kong

- The Portfolio invests in commodity indices comprised of futures contracts on physical commodities in certain sectors. As these futures contracts approach expiration, they are replaced by contracts that have a later expiration. Depending on the prevailing prices in the underlying market, this could positively or negatively impact the portfolio. Commodity prices may change unpredictably, affecting the index and the level of the index and the value of the Portfolio in unforeseeable ways. The portfolio invests in single commodity indexes which may be particularly susceptible to fluctuation and may fluctuate rapidly based on numerous factors. The commodities underlying the Index components may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities and the value of the index.
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- Past performance of the fund and its manager and any forecasts or information on the economic trends are not necessarily indicative of the future or likely performance of the fund or its manager or a guarantee of future trends. The price of shares and the income accruing to those shares, if any, may fall or rise and an investor may not get back the amount invested. Due to the investment policies of the fund, it may experience greater volatility in its net asset value. The fund may invest in financial derivative instruments to the extent permitted under relevant laws. Please contact Threadneedle for more information.
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- Subscription to a fund may only be made on the basis of the current Prospectus or Simplified Prospectus and the latest annual or interim reports, which can be obtained free of charge on request. Investors should note the 'Risk Factors' section of the Prospectus in terms of risks applicable to investing in any funds. The dealing price may include a dilution adjustment where the fund experiences large inflows and outflows of investment. Tax treatment depends on individual circumstances. Tax concessions are not guaranteed and tax legislation may change in the future.
- Threadneedle (Lux) is an investment company with variable capital (Société d'investissement à capital variable, or "SICAV") formed under the laws of the Grand Duchy of Luxembourg. The SICAV issues, redeems and exchanges shares of different classes, which are listed on the Luxembourg Stock Exchange. The management company of the SICAV is Threadneedle Management Luxembourg S.A, who is advised by Threadneedle Asset Management Ltd. and/or selected sub-advisors. The SICAV is registered in Austria, France, Germany, Hong Kong, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, Switzerland, Taiwan and the UK; however, this is subject to applicable jurisdictions and some sub-funds and/or share classes may not be available in all jurisdictions. Shares in the funds may not be offered to the public in any other country and this document must not be issued, circulated or distributed other than in circumstances which do not constitute an offer to the public and are in accordance with applicable local legislation. Subscriptions to any funds may only be made on the basis of the current Prospectus or Simplified Prospectus and the latest annual or interim reports, which can be obtained free of charge upon request from the SICAV's registered office at 69, route d'Esch, L-1470 Luxembourg, Grand Duchy of Luxembourg.
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