

**SHINING A LIGHT ON THE.....
Threadneedle Dynamic Real Return Fund**

AT A GLANCE

Investment Objective	
<p>The aim of the Fund is to provide a positive real rate of return above inflation (defined as the Consumer Price Index) over the medium to long term and to provide a positive return over a three-year time period, notwithstanding market conditions. Positive returns are not guaranteed and no form of capital protection applies. The Fund invests in shares of companies and bonds (which are similar to a loan, and pay a fixed or variable interest rate) issued by companies and governments, money market instruments, cash, currencies, property and commodities worldwide. Commodities are physical materials such as oil, agricultural products, and metals. The Fund makes active investment decisions and may vary exposure to or at times choose not to invest in some of the types of investments listed. The Fund invests directly in these assets, through regulated or unregulated funds, or by using derivatives.</p>	

Inception Date	18 June 2013
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000Q3C5

Management	
Manager Name	Start Date
Toby Nangle	18 June 2013

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	43.82%
Large	34.29%
Medium	19.05%
Small	2.82%
Micro	0.01%

Top 10 Holdings		
Total number of holdings	-	
Assets in Top 10 Holdings	74.27%	
Name	Sector	% of Assets
Threadneedle Stlg SD Corp Bd InsXGrslnc£	-	22.35%
Threadneedle Japan Ins X Acc GBP	-	13.27%
Threadneedle European X Acc GBP	-	8.29%
Threadneedle European Sel X Acc GBP	-	6.76%
Threadneedle UK Ins X Inc GBP	-	6.67%
Threadneedle (Lux) Enhanced Cmdts XU	-	6.19%
United Kingdom (Government Of) 1.75%	-	5.66%
Threadneedle UK Prpty Authrsd Invmt INI	-	5.08%

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Volatility Measurements	
3-Yr Std Dev (volatility)	4.19%
3-Yr Mean Return (average)	6.36%

FUND PERFORMANCE

Performance from 18 June 2013 to 31 August 2017:

	2013	2014	2015	2016	2017
Threadneedle Dynamic Real Return Fund	2.54%	6.20%	2.96%	8.07%	5.91%
Vanguard Global Bond Index	-0.05%	7.97%	1.25%	3.51%	2.09%

Performance over 12 months, 3 years, since launch and since management changes:

	1 year	3 years	Since Launch
Threadneedle Dynamic Real Return Fund	6.67%	20.26%	28.32%
Vanguard Global Bond Index	-0.87%	9.13%	15.47%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE....

There is some uncertainty around bonds and for many investors wanting lower volatility there seem to be very few options open to them. However, fund houses are developing alternative strategies for investors but these can be complex.

One of these options is Threadneedle Dynamic Real Return. This is possibly one of the simpler strategies out there. It is called active asset allocation and effectively the manager can move across asset classes to match his view at any given point in time.

The fund can hold up to 75% in equities, 100% in cash and bonds, 20% in property, 20% in commodities and 10% in alternatives. The main types of investments that are used to access these markets are direct investments, derivatives and in-house Threadneedle Funds.

Toby Nangle explained it is a deliberately simple formula which provides transparency for investors. His aim is to target UK CIP plus 4% with 2/3rds of the volatility of equities.

The key to the success of the fund is drawing on the expertise across the company, and Toby explained how this worked with BREXIT. Two weeks before the vote he believed it could go either way; the team mapped out two scenarios to show what would need to be done when the results came in. Once the result was known were effectively able to reposition the fund on the same day, protecting and getting returns for clients.

As a manager, Toby is looking for what happens next in the real world, and is looking for the disconnects. There is no specific benchmark he needs to follow, other than the guidelines on maximum

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assets he can hold. As an example, Europe had a zero holding but in 2016 Europe grew faster than the US and now the holding is the largest it has been.

What struck me when meeting Toby is that he is a seriously bright person, he hasn't developed a strategy that is complex but one that most people can follow. The skill is to ensure he positions the fund correctly and even with that he explains that having collaboration across the company really helps because he can see what others are thinking. Using this he can get a real understanding for how the world will develop and by capturing all the insights he can develop a strategy for the fund.

I asked whether there is ever a conflict of interest in terms of holding Threadneedle Funds. Toby said this could be possible in commercial terms, relating to him moving in and out of funds, but this isn't something he worries about although he knows it is monitored within the company. He feels that if it did become an issue then perhaps an alternative arrangement would be needed.

In summary, some investors would perhaps avoid this type of strategy especially as it seems to be a blend of Threadneedle Funds. However, Toby has demonstrated that this strategy works and when blended with similar products could offer an alternative to bonds, or compliment a strategy that uses bonds. It is worth adding that the fund can and does currently hold bonds so investors could still have exposure through this fund. In terms of performance it has delivered on its target. One question we didn't ask was when the strategy might not perform and that is just something to consider.

The source of information in this note has been provided by Threadneedle and is correct as at September 2017. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.