



AA+
04/2007

Threadneedle Emerging Market Bond Fund

Product Profile

Fund Name	Threadneedle Emerging Market Bond Fund
ISIN	GB0002773652
Investment universe	Emerging market bonds
Benchmark	JPM Morgan EMBI Global
Base Currency	USD
Earnings	Accumulation
Inception date	26. Dec. 1997
Fund Volume	USD 251.1m/ EUR 184.5m per 30. Apr. 2007
Management Fee	1.5 % p.a.
TER	1.8 % p.a.
Fund Manager	Paul Murray-John
Company	Threadneedle Asset Management Limited (TAML)
Internet	www.threadneedle.com

Investor's Profile

Investment horizon	short term
Risk classification	higher than benchmark
Return expectations	outperformance target is 200bp vs the benchmark
Loss Tolerance	short term losses are possible

TELOS Comment

Threadneedle Emerging Market Bond Fund is a global fund that invests primarily in high-interest government and corporate bonds issued by borrowers from Eastern Europe, the Middle East and Africa. In principle, the fund may not invest in OECD and G7 countries. The fund's self-defined performance target is to outperform its benchmark, the JPM EMBI Global Index, by 200 basis points. With this in mind, a flexible and dynamic investment approach is taken. This is clear from, amongst other things, the fact that the fund management is now allowed to build up greater cash positions in the emerging countries, particularly since developments there are uncertain and spreads are very narrow in these markets. Derivatives may also be used. These control opportunities are being actively used at the present time in order to adopt a somewhat more defensive approach (e.g. 12% is held in cash).

The investment process is highly complex. *Threadneedle* has reflected this fact by adopting extremely stringent risk management and by drawing benefit from the work of its professional Fixed Income Team.

A proprietary database provides a range of macroeconomic data and figures and delivers key input for country selection from emerging countries. It also includes questions related to possible currency

developments of local EM countries in particular. In addition to this quantitative data, the quality element of the selection process includes extensive assessments of possible political risks.

The Emerging Market Debt Team is well integrated into the Fixed Income Unit. Ongoing communication on current market developments is key to the fund's success. This is ensured through close cooperation and information exchange within the Emerging Market Debt Team, who are tightly integrated in terms of location, and also through regular meetings with the analysts of the other Fixed Income Teams.

Since its launch in 1997, the fund has managed to exceed its self-defined performance target of outperforming the benchmark, the JPM EMBI Global Index, by 200 basis points, over rolling 3 year periods. The fund's holdings currently total US\$ 250 million (30.04.2007) and it is available in a number of different share classes.

In view of its extremely clear structure, good risk management and the unquestionably high level of *Threadneedle's* expertise in Fixed Income and Emerging Markets, the *Threadneedle Emerging Market Bond Fund* is rated **AA+**.



AA+
04/2007

Threadneedle Emerging Market Bond Fund

Investment Process

The *Threadneedle Emerging Market Bond Fund* is managed by *Threadneedle Asset Management Limited* (*Threadneedle*) in London, a subsidiary of Ameriprise Financial, Inc.. The *Emerging Market Debt Team* is part of the Fixed Income Team, which comprises 30 experts. The fund manager *Paul Murray-John* has overall responsibility for the fund.

When the fund was launched, its investment universe as regards country selection was restricted to the Emerging Markets sector, so that no investments were permitted in OECD and G7 countries. However, to avoid specific country risks, the fund is now permitted to invest in G7 countries, cash holdings and derivatives. When selecting bonds, preference is essentially given to government bonds from preferred countries (currently 36 emerging markets), but the fund continues to invest in corporate bonds.

The investment philosophy is based on the assumption that opportunities in emerging countries can be detected through intensive research, and that investments in traditional markets can be outperformed on the basis of the spreads that still exist. A proprietary database is used for country selection and for the implied weighting of the country risk. This measures the macroeconomic rating of the

country in question using a solvency/liquidity ratio (e.g. level of debt, capital inflows from exports etc.) calculated from the database. Finally, the importance of continuous monitoring of potential political risks is respected. These quality aspects are examined with the aid of in-house and bought-in analyses. A kind of "radar" system is used to highlight the relative attractiveness of the individual countries. The *Emerging Market Debt Team* takes the final decision on individual investments and weightings.

Risk management is an integral component of the investment process and is supported by appropriate risk management systems.

The risk of borrower default (government or corporate) is seen as significant. In contrast, tracking error and volatility are not particularly relevant. Following portfolio construction, investments are subject to continuous monitoring, with the support of the regular (weekly and monthly) meetings with the analysts from the other teams within the Fixed Income Unit.

The *Emerging Market Debt Team* generally implements its investment decisions itself, at which time the team is supported by the trading desk of the Fixed Income Unit.

Quality Management

Performance quality is subject to review in quantity terms using real-time analysis of a number of ratios, including tracking error, beta, information ratio. The fund's risk profile is monitored daily, to check the level of exposure to risks that breach the fund guidelines. Special software is used to ensure that

client restrictions and self-imposed investment restrictions are adhered to. The value and suitability of research from external sources, such as country analyses, political assessments and broker material, which is also crucial to the investment process, is assessed regularly.

Team

Paul Murray-John leads the Emerging Market Debt Team. He has been supported for many years by the economist Dr. Henry Stipp, who is a highly experienced expert in emerging markets, not least because of his own origins. They have worked as a team for many years. The specialists from the Fixed Income

Unit, who are involved in the overall process, are all graduates, and most of them are also qualified CFAs; their salaries stand at around the market average. Attractive performance-related bonus schemes are also offered.



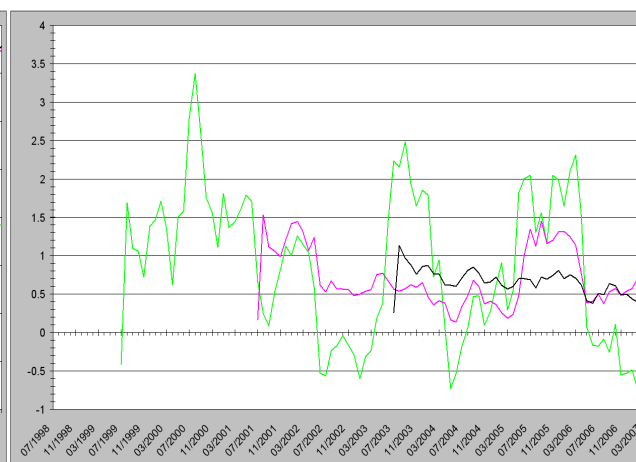
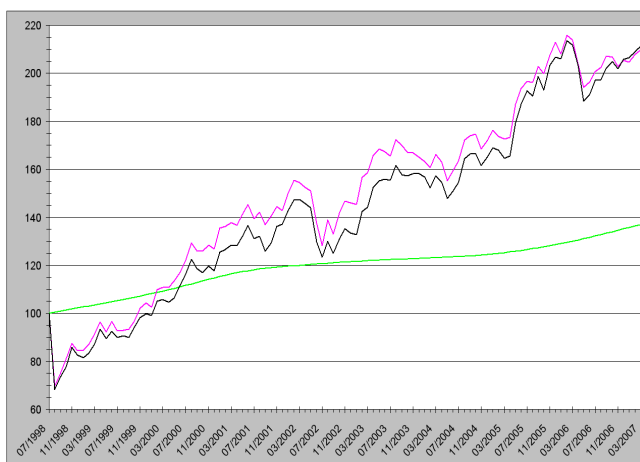
Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Economic environment	Currency weighting
Currencies	Country allocation
Country risk	Asset selection
Short term interest rates (level)	Asset weighting
Long term interest rates (level)	Maturity allocation

Product History

Performance

Sharpe-Ratio



— Fund — Benchmark — Money Market — 1 year — 3 years — 5 years

<i>Statistics per end of 12/2006</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
<i>Performance (annualised)</i>	-0.19%	13.31%	10.32%	7.45%	10.38%	—
<i>Volatility (annualised)</i>	9.86%	10.96%	10.61%	11.62%	11.32%	—
<i>Sharpe-Ratio</i>	-0.56	0.80	0.63	0.41	0.63	—
<i>Best monthly result</i>	3.06%	8.40%	8.40%	8.40%	8.40%	—
<i>Worst monthly result</i>	-7.29%	-7.29%	-7.29%	-9.77%	-9.77%	—
<i>Median of monthly results</i>	1.18%	1.30%	1.27%	0.54%	1.02%	—
<i>Best 12-month result</i>		28.64%	28.64%	28.64%	28.64%	—
<i>Worst 12 month result</i>		-2.16%	-2.16%	-4.79%	-6.97%	—
<i>Median of 12-month results</i>		2.25%	7.06%	7.06%	7.92%	—
<i>Maximum loss period</i>	12 M	13 M	13 M	13 M	13 M	—
<i>Maximum loss</i>	-10.99%	-11.78%	-11.78%	-16.40%	-16.40%	—

All rights reserved. This rating report is based on facts and information taken from sources believed reliable, but we cannot warrant their accuracy and/or completeness. TELOS GmbH accepts no liability for any loss or damage arising from errors or matters of opinion expressed. Neither the presented figures nor the actual historical performance permit future predictions. Ratings and views presented are subject to revision and should not solely be relied upon for investment decisions. The Fund rating is no offer or recommendation or request to buy, sell or hold the product(s) being discussed in this publication.

Explanations

TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The *performance* of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

As a measure for the *money market*, the 1-month LIBID deposit rate in the fund's base currency is used, calculated via $LIBID = LIBOR - 0.125\%$. For periods before 1999, the respective DEM interest rates are used as a predecessor to EUR. Data source: British Bankers' Association; $LIBID(OR)$ = London Interbank Bid (Offered) Rate.

The *Sharpe Ratio* provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken:

$$\text{Sharpe Ratio} = \frac{\text{fund return} - \text{money market return}}{\text{fund volatility}}$$

The *volatility* employed here is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier results" than, for instance, the mean (average) value of monthly returns.

In an analogous way, the *median of 12-month results* should be interpreted.

The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used.

Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

Contact

TELOS GmbH
Abraham-Lincoln-Straße 7
D-65189 Wiesbaden
www.telos-rating.de

Telephone : +49-611-9742-100
Fax : +49-611-9742-200
E-Mail: tfr@telos-rating.de