

Threadneedle (Lux) Enhanced Commodities Fund

Highlights

- Annualised gross returns of 17.88% since launch *
- Energy and base metals drive outperformance of index.

*as at 31.12.2011

Institutional share class ISINs

US\$: LU0515769775

EUR-hedged:
LU0515769932

GBP-hedged:
LU0515770435

Portfolio characteristics

Fund Description	Threadneedle (Lux) Enhanced Commodities Fund (TECF) is an actively managed long-only commodities fund that uses derivatives to gain exposure to commodity indices or sub-indices composed of futures contracts on physical commodities.
Fund Managers	David Donora and Nicolas Robin
Benchmark Index	DJUBSCI TR
Target Return	Benchmark plus 3-6% per annum
Risk Budget	Expected tracking error up to 6%
Launch Date	29 June 2010 (fully invested cob 30 June 2010)

Fund delivers annualised gross returns of 17.88% since launch

Overview

Commodity markets continued to correct in December. The DJUBSTR index fell 3.75% after retreating 2.22% in November. Sovereign default risk affecting the Eurozone as well as bank funding concerns were exacerbated by year end book squaring and continued to weigh on commodity markets. In this context, TECF outperformed its benchmark by 2.27%, setting its outperformance for the year at 12.20% (gross) lead by strong relative performance in the energy and base metals complexes.

Periods to 31 December 2011

	1 month	3 months	Year To Date	1 year	Since launch (cumulative)	Since launch (annualised)
TECF (Gross)	-1.57%	3.39%	-2.75%	-2.75%	27.99%	17.88%
TECF (Net)	-1.69%	3.00%	-4.22%	-4.22%	25.09%	16.09%
DJUBSCI TR	-3.75%	0.34%	-13.32%	-13.32%	12.02%	7.86%
Relative*	2.27%	3.04%	12.20%	12.20%	14.26%	9.29%

Source: Morningstar. Net performance based on Institutional share class USD, Global Close prices, unadjusted income reinvested. Gross performance based on Global Close prices, unadjusted income reinvested, and the TER (Total Expense Ratio). *TECF Fund Gross v DJUBSCI TR. Please note the relative return shown is the geometric relative.

Performance analysis - key elements of relative return

The energy sector was mixed in December with small negative performances across crude oil, heating oil and gasoil but with a strong performance in US gasoline (+5%). With mild temperatures in most of the Northern Hemisphere at the start of winter, weather related demand continues to be subdued and has led to depressed refining margins in the Atlantic Basin. While the low margin environment had already accelerated planned refinery closures on the US East Coast, its effects started to be felt in Western Europe by mid-December. This culminated with the announcement that banks had pulled US\$1bn of credit lines from Swiss based independent refiner Petroplus, preventing the company from purchasing crude oil feedstock for its refineries and forcing the shut downs of at least three refineries. With an excess of 500 thousand bpd of refining capacity at risk, the market for refined products has started to strengthen again, with the main beneficiary being US gasoline.

Strength in products prices did little to improve the fortunes of US Natural Gas. The US Eastern Seaboard continued to record unusually mild temperatures in December. Inventory draws have continued to run at a fraction of historical averages. This led Natural Gas to post the worst performance within the benchmark universe with a fall of nearly 17%. Our positions in energy, overweight refined products and underweight US Natural Gas, generated about 120 basis point of outperformance. Base metals generally posted negative performances for the month with the exception of nickel (+7%) in which we had rotated our overweight previously held in lead (-3.55%). Our underweights in aluminum, copper and zinc partially offset by our nickel overweight and generated strong outperformance of about 70 basis points. We were similarly successful within livestock where we continue to carry feeder cattle in place of live cattle and lean hogs. We underperformed slightly in grains where short covering led to slightly stronger term structures and weaker protein spreads in wheat.

The weak macroeconomic environment compels our underweight across base metals as we continue to see potential downside risk to metal prices as the prospects for GDP growth in Europe and in the US continue to look weak. Meanwhile, geo-political risk continues to rise in the Middle-East and Africa, strengthening our conviction in the energy sector which we believe will be driven by tightness in the supply side. Within the sector, we maintain our largest overweight in refined oil products as we expect the market to tighten significantly during the course of the first quarter.

Weights and attribution – 31 December 2011

	Fund weight (%) as at 31 December	Fund contribution (%) for the month
Commodity		
Aluminum	1.71%	-0.10%
Copper	3.87%	-0.15%
Lead	0.00%	0.00%
Nickel	6.91%	0.39%
Zinc	0.00%	0.00%
Brent Crude Oil	3.82%	-0.12%
Crude Oil	11.17%	-0.12%
GasOil	2.84%	-0.10%
Heating Oil	8.22%	-0.33%
Natural Gas	2.08%	-0.36%
RBOB	11.01%	0.34%
Corn	8.00%	0.46%
Soybean	7.36%	0.38%
Soybean Oil	2.85%	0.13%
Wheat	3.76%	0.09%
Feeder Cattle DJUBS	3.29%	0.01%
Feeder Cattle GSCI	2.46%	0.01%
Lean Hogs	0.00%	0.00%
Live Cattle	0.62%	-0.01%
Gold	12.71%	-1.44%
Silver	3.36%	-0.57%
Coffee	1.35%	-0.06%
Cotton	0.00%	
Sugar	2.60%	-0.04%
Sectors		
Base Metals	12.49%	0.14%
Energy	39.14%	-0.69%
Grains	21.97%	1.07%
Livestocks	6.37%	0.01%
Precious Metals	16.07%	-2.01%
Soft	3.95%	-0.11%

Source: Threadneedle as at 31 December 2011

Important information

The fund invests in commodity derivatives rather than physical commodities. Therefore, changes in the prices of the underlying commodities will not be mirrored exactly in the fund price.

Past performance is not a guide to future performance. The value of investment can go down as well as up. Exchange rate movements may also affect the value of an investment. The Portfolio uses derivatives to gain exposure to commodity indices or sub-indices composed of futures contracts on physical commodities. 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 use of such derivatives for investment purposes may increase the risk profile of the Portfolio. 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.

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.

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Threadneedle (Lux) is authorised in Spain by the Comisión Nacional del Mercado de Valores (CNMV) and registered with the relevant CNMV's Registered with number 177

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