COLUMBIA THREADNEEDLE INVESTMENTS

Your success. Our priority.

Threadneedle UK Equity Income Fund

Caroline Cantor – Client Portfolio Manager

For professional investors only

Q3 2018

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Section 1

UK Equities

UK equities team

Experienced and resourced

Richard Colwell
Head of UK Equities
All sectors
28 years' experience

James Thorne
Chemicals, Technology, Small & Mid-cap
20 years' experience

Jonathan Barber
Utilities, Lloyds Insurers, Oil & Gas Majors
28 years' experience

Jeremy Smith
Head of UK Equity Research
Transport, Support Services
24 years' experience

Chris Kinder
Retail, Housebuilders
17 years' experience

Mark Westwood
Other Financials, Mining
20 years' experience

Craig Adey
Distributors, Gaming, UK Banks, Non-Life Insurance
7 years' experience

Stacey Cassidy
Tobacco, Cons Staples, Luxury Goods, Property, Asian Banks
10 years' experience

Sonal Sagar
Aerospace & Defence, Leisure, Healthcare, Life Insurance
13 years' experience

Philip Macartney
Media, Oil Services, Industrials, Telecoms
11 years' experience

Caroline Cantor
Client Portfolio Manager
9 years' experience

Dominic Younger
Client Portfolio Analyst
5 years' experience

Benjamin Malone
Dedicated UK Trader
26 years' experience

Christopher Fox
Dedicated UK Trader
19 years' experience

Chris Anker
Senior Responsible Investment Analyst
9 years' experience

Iain Richards
Head of Responsible Investment
24 years' experience

Ben Kelly
Responsible Investment Analyst
11 years' experience

James Holman
Senior Portfolio Managers' Assistant

Jenny Fedele
Team Assistant

Rose Beale
Responsible Investment Analyst
4 years' experience

Michael Hamblett
Responsible Investment Analyst
5 years' experience

Proxy Voting Team
Composed of 4 full time employees

Source: Columbia Threadneedle Investments, as at 30 September 2018.

UK equities team

Strategy range and gross performance

An extensive offering with £20.7 billion of AUM

Strategy	Representative Funds	Gross performance (Excess Return – %p.a.)				Strategy AUM (£m)	Lead Managers
		3yr (%pa)	Quartile	5yr (%pa)	Quartile		
Core	■ UK Institutional	**+0.4**	2	**+1.2**	2	5,522	■ Jeremy Smith
Alpha	■ UK Fund	**-0.1**	2	**-1.8**	2	3,295	■ Chris Kinder
	■ UK Equities (SICAV)	**-0.4**	3	**+1.7**	1		
High Alpha	■ UK Select	**-2.1**	4	**+1.9**	2	548	■ Mark Westwood
Income	■ UK Equity Income	**-0.2**	1	**+2.0**	1	5,850	■ Richard Colwell ■ Jonathan Barber
	■ UK Monthly Income	**-3.8**	4	**+0.0**	3		
	■ Monthly Extra Income[1]	**-1.2**	1	**+1.2**	1		
Income High Alpha	■ UK Equity Alpha Income	**-2.1**	2	**+0.4**	3	745	■ Richard Colwell
Unconstrained	■ UK Growth & Income	**+0.4**	2	**+1.8**	2	2,829	■ Richard Colwell
Mid Cap	■ UK Mid 250[2]	**+0.1**	4	**+1.6**	1	226	■ James Thorne ■ Philip Macartney
Small Cap	■ UK Smaller Companies[3]	**+5.7**	2	**+7.1**	2	953	■ James Thorne
Absolute Alpha	■ UK Absolute Alpha[4]	**+1.0**	3	**+3.9**	2	576	■ Chris Kinder ■ Mark Westwood
Extended Alpha	■ UK Extended Alpha	**+0.1**	2	**2.7**	2	132	■ Chris Kinder
Ethical	■ Ethical UK	**n/a**	n/a	**n/a**	n/a	25	■ James Thorne

Source: Columbia Threadneedle Investments, as at 30 September 2018. AUM of £20.7 billion refers to total UK Equities desk assets. Representative account returns gross of tax and TER for comparison with indices. All data is quoted in GBP. All figures greater than one year are annualised. Past performance is not indicative of future results. Excess return shown is calculated on geometric basis. The benchmark for all Funds is FTSE All Share Index apart from the following – 1 Threadneedle Monthly Extra Income Fund has no benchmark index – FTSE All Share used for illustrative purposes only; 2 FTSE 250 ex Investment Trusts; 3 Numis Smaller Companies index (ex IC); 4 UK Libor 3 Month.

UK Equity philosophy

- We believe that markets are inefficient
- We place valuation at the heart of our investment process
- We use short term volatility in the market to exploit the long term valuation opportunity
- By constructing a diversified portfolio we are able to deliver consistent and superior risk adjusted returns through the cycle

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Section 2

Threadneedle UK Equity Income Fund

Threadneedle UK Equity Income Fund

Key features

Aim

- Yield greater than FTSE All Share yield
- Steadily growing distribution
- Capital growth

Philosophy

- Plain vanilla
- Manage for total return
- Construct yield at portfolio level
- Diversification to manage risk

Characteristics

- Focus on effective combination of top down and bottom up
- Search for durable investment themes
- Fundamentally based stock views
- Invest with conviction, not index constrained

Fund characteristics

Threadneedle UK Equity Income Fund	
Portfolio manager	Richard Colwell
Current fund size[1]	£4,231 million
Peer Group	UK IA – UK Equity Income
Index	FTSE All Share Index
Tracking error	4.3%
Typical number of stocks	45-60
Typical maximum stock weight	8%
Typical maximum sector[2] load difference[3]	±15%
Aims to remain fully invested	

Source: Columbia Threadneedle Investments.
1 As at 30 June 2018.
2 FTSE All-Share ICB Sectors.
3 Against the FTSE All Share Index.

UK Income Stock Selection

We like	We avoid
■ Hidden gems – unloved stocks or businesses that have been overlooked	■ Stock envy!
■ Medium to long term potential – use short term volatility to build positions in long term opportunities	■ Short term earnings momentum plays
■ Value, not just optically cheap stocks	■ Speculative or bubble stocks
	■ 'Comfort' stocks
	■ Over reliance on macro bets

- Focus on picking stocks:
  - Not dependent on a buoyant market for returns
  - Always look for businesses where ability to grow dividend on a sustainable basis is not reflected in valuation

Source: Columbia Threadneedle Investments, as at September 2018.

Threadneedle UK Equity Income Fund

Examples of major stock contributors

"The big money is not in the buying or the selling… but in the waiting"

Charlie Munger[1]

Company	TSR over 3 years to 30 September 2018	TSR over 5 years to 30 September 2018	Position size now
FTSE All Share (TR)	+38%	+43%	-
Electrocomponents	+339%	+214%	5.2%
Hays	+44%	+95%	1.6%
3i	+125%	+216%	3.2%
Rentokil	+126%	+217%	3.9%
DS Smith	+43%	+110%	2.5%

Source: Bloomberg, Columbia Threadneedle Investments, as at 30 September 2018. 1 mastersinvest.com.

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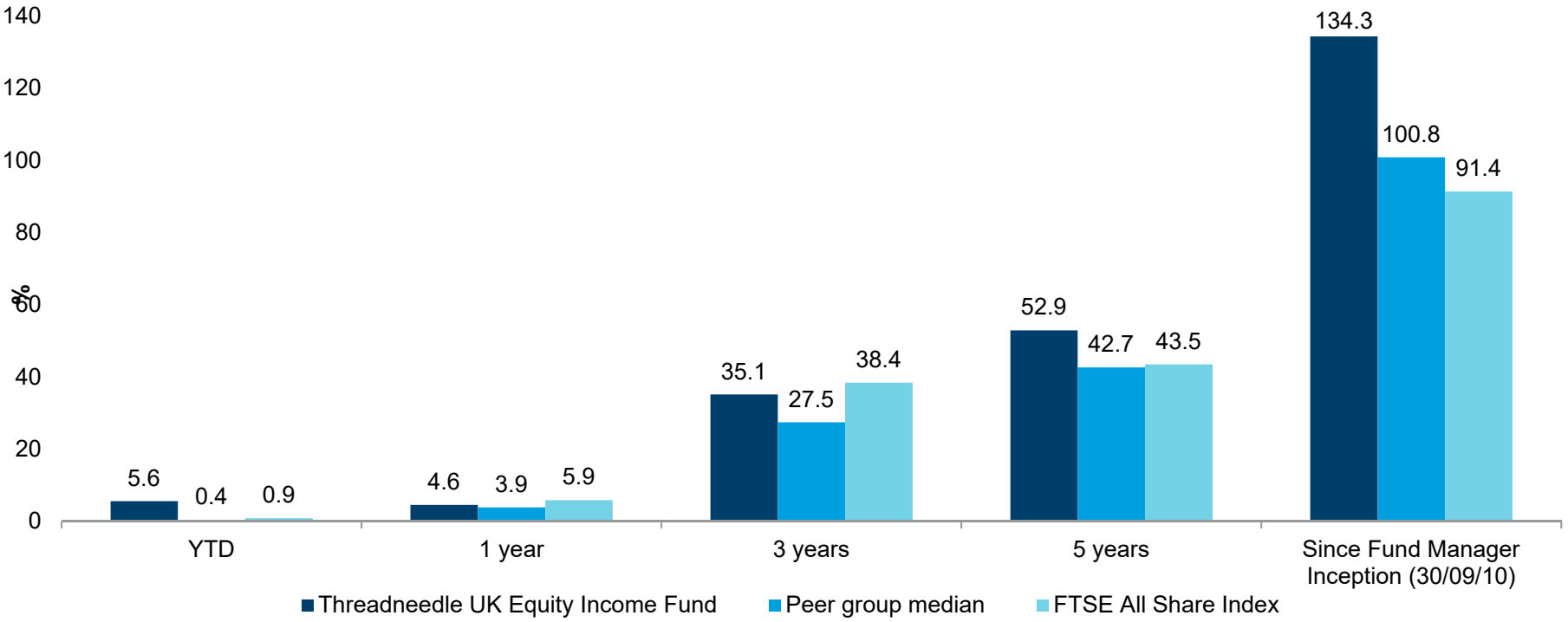
Section 3

Fund performance and positioning

Performance overview

Threadneedle UK Equity Income Fund

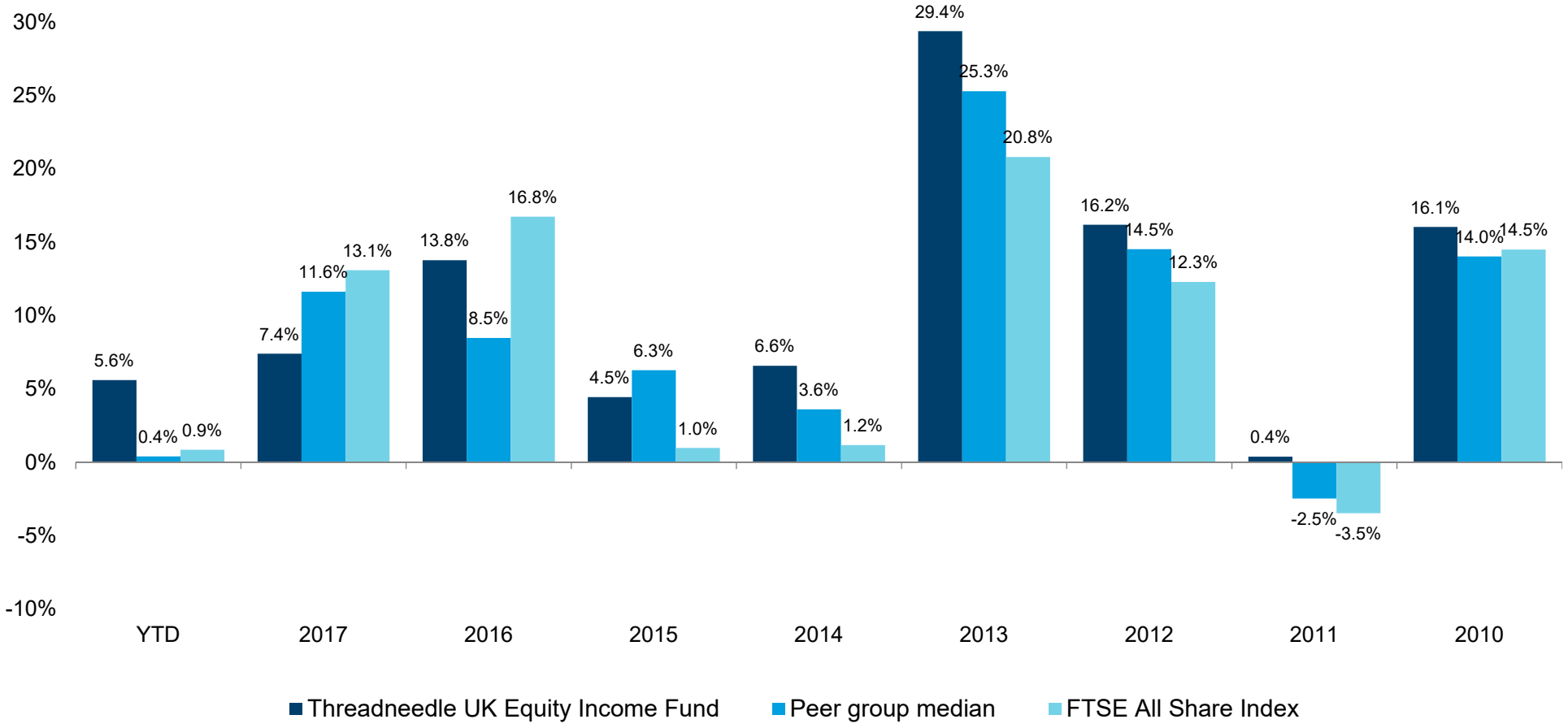


Sortino Ratio[1]	2.8

Source: Morningstar, as at 30 September 2018. Peer group is UK IA Equity Income for the UK Equity Income, and UK IA All Companies for the UK Growth & Income Fund. Fund data in GBP and quoted on a bid to bid basis with net income reinvested at bid. Fund data cumulative and net of fees. Past performance is not a guide to future returns.
1 Sortino Ratio based on net of fees performance over three years.

Threadneedle UK Equity Income Fund

Calendar year net performance vs. benchmark and peer group



Source: Morningstar, all data as at 30 September 2018. Peer group is UK IA – UK Equity Income. Past performance is not a guide to future returns.
1 Fund returns based on official NAV performance and net of fees and include reinvested unadjusted income.

Threadneedle UK Equity Income Fund

2018 YTD attribution

Positive stock attribution	Position	vs. FTSE All Share
British American Tobacco	N/H	+128bps
Wm Morrison Supermarkets	O/W	+85bps
AstraZeneca	O/W	+79bps
Electrocomponents	O/W	+69bps
Vodafone Group	N/H	+69bps
HSBC Holdings	N/H	+60bps
Pearson	O/W	+50bps
GlaxoSmithKline	O/W	+47bps
Centrica	O/W	+33bps
Johnson Matthey	O/W	+28bps

Overall performance	+473bps
Stock selection	**+53bps**
Sector Allocation	**+418bps**

Negative stock attribution	Position	vs. FTSE All Share
BP	N/H	-67bps
Imperial Brands	O/W	-48bps
Royal Dutch Shell	U/W	-44bps
Sherborne Investors	O/W	-31bps
Sky	N/H	-31bps
BT Group	O/W	-30bps
Rank Group	O/W	-28bps
Shire	N/H	-27bps
BHP Billiton	N/H	-19bps
RSA Insurance	O/W	-18bps

Source: Columbia Threadneedle Investments, as at 30 September 2018.
Attribution is gross of fees relative to the FTSE All Share Index, using geometric analysis. Key: O/W = overweight; U/W = underweight; N/H = not held. Average weight.

Threadneedle UK Equity Income Fund

Portfolio composition

Largest 10 holdings	Portfolio weight %
AstraZeneca	7.7
GlaxoSmithKline	5.6
Electrocomponents	5.2
Wm Morrison	4.7
Imperial Brands	4.2
Royal Dutch Shell	4.0
Phoenix	3.5
Unilever	3.3
Rentokil Initial	3.3
3i	3.1

Largest 10 active overweights	vs. FTSE All Share %
Electrocomponents	5.1
AstraZeneca	4.6
Wm Morrison	4.4
Phoenix	3.3
Imperial Brands	3.2
Rentokil Initial	3.0
3i	2.7
RSA Insurance	2.7
Pearson	2.6
Marks and Spencer	2.6

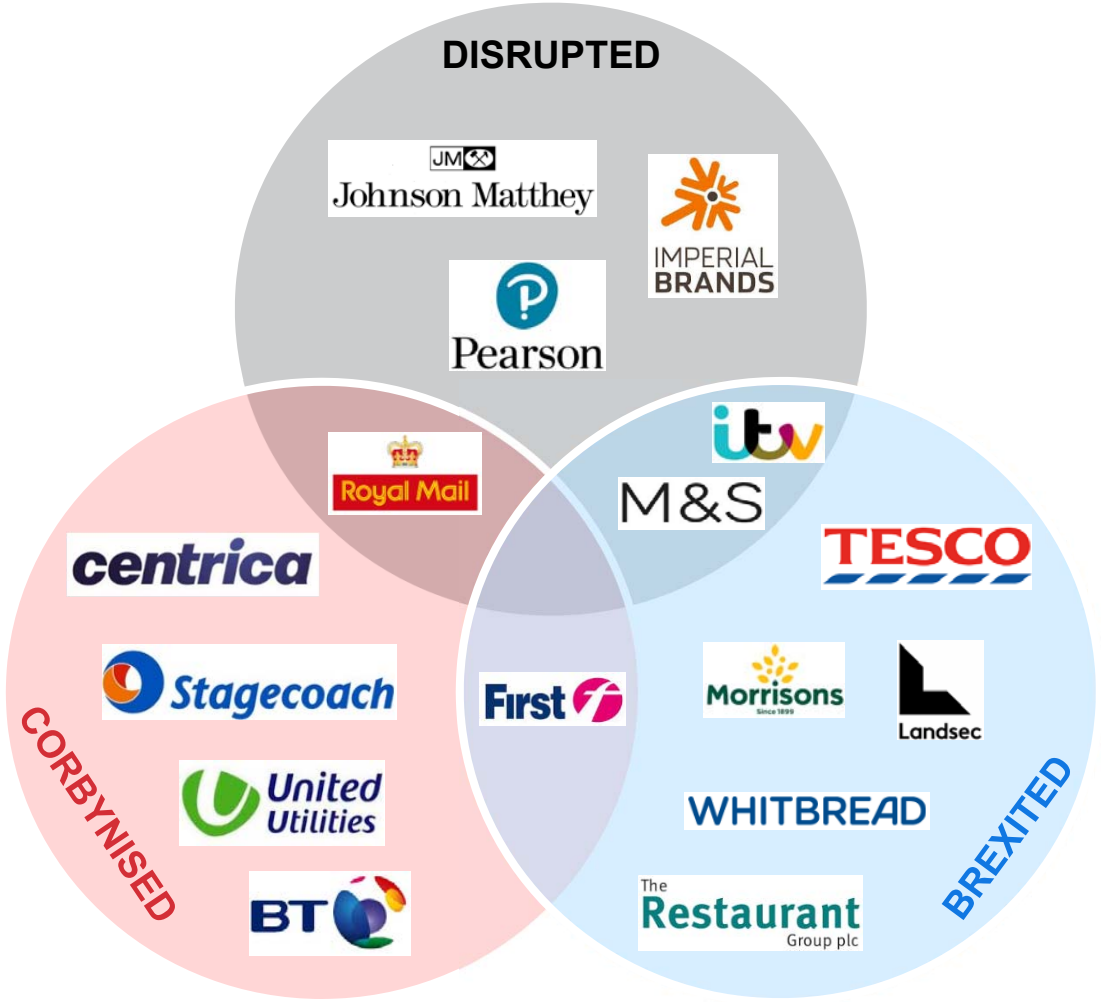
Breakdown by market cap	Fund %	Index %	Peer group[1] %
FTSE 100	74.5	80.5	62.9
FTSE Mid 250	20.7	15.8	22.3
FTSE Small Cap	3.6	3.7	6.5
Not in index	0.9	0.0	8.3

Sectors[2]	Active %
Top overweight	
Industrials	+12.3
Consumer Services	+9.1
Health Care	+5.7
Utilities	+0.6
Top underweight	
Financials	-13.4
Oil & Gas	-5.9
Basic Materials	-3.3
Consumer Goods	-2.8

Source: Columbia Threadneedle Investments, as at 30 September 2018. Excludes Cash of 0.3%.
1 Peer group is the Lipper UK Equity Income Index, Index is FTSE All Share; 2 FTSE sector classification.
The mention of any stocks or shares is not a recommendation to deal.

‘The Uninvestables’?!

Could the market be wrong?



Companies mentioned above are held in a range of strategies across the UK Equity desk and not collectively in any individual portfolio.
The mention of stocks is not a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

Threadneedle UK Equity Income

Portfolio activity highlights

Disruptor vs disrupted

- Added to M&S, Johnson Matthey and ITV
- Added to position in Imperial Brands

Restructure

- Built positions in Cobham, GKN and Smiths Group
- Participated in cash raise for next Sherborne Investors project
- Participated in Phoenix Group's 2018 right issue

Focusing of contrarian positions

- Added to positions in AstraZeneca, Centrica, BT and GlaxoSmithKline

New holdings

- Booker shares converted to Tesco post takeover completion; added recently on weakness

Strategic exits and selective trimming

- Activity funded largely via exits from National Grid, Standard Life, WS Atkins (post bid)

Source: Columbia Threadneedle Investments, as at September 2018. The mention of any stocks or shares is not recommendation to deal

Threadneedle UK Equity Income

Conclusion

- UK market left behind, but valuations look attractive on relative terms
- Markets globally have been very narrowly led, boosted by scarce growth stories and re-ratings in QE world
- 2017: year of the barbell – combination of mega-cap and small/mid-cap stocks
- Lots of opportunities despite UK market at record highs
- ‘Brexited’ and ‘Corbynised’ stocks having their own Q4 2008 / Q1 2009 moment
- Increased M&A activity to be a feature
- Focus on **valuation not newsflow**

Source: Columbia Threadneedle Investments.

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Section 4

Market outlook

29 March 2019

The day the country will stand still!?

- Level of hysteria around no-deal Brexit reminiscent of Millennium Bug

Image: flickr.com

Britain could have to install thousands of power generators on barges in the Irish Sea to keep the lights on in Belfast if there is no Brexit deal

GRUB STASH PLAN Ministers draw up secret plans to stockpile processed food in case of a 'no deal' Brexit

EU airports unable to cope with safety risks of 'no-deal' Brexit, leaked memo reveals

Army on standby for Brexit chaos: Troops will deliver food, medicine and fuel if Britain crashes out of EU without a deal as supermarkets issue warning to stockpile essential items

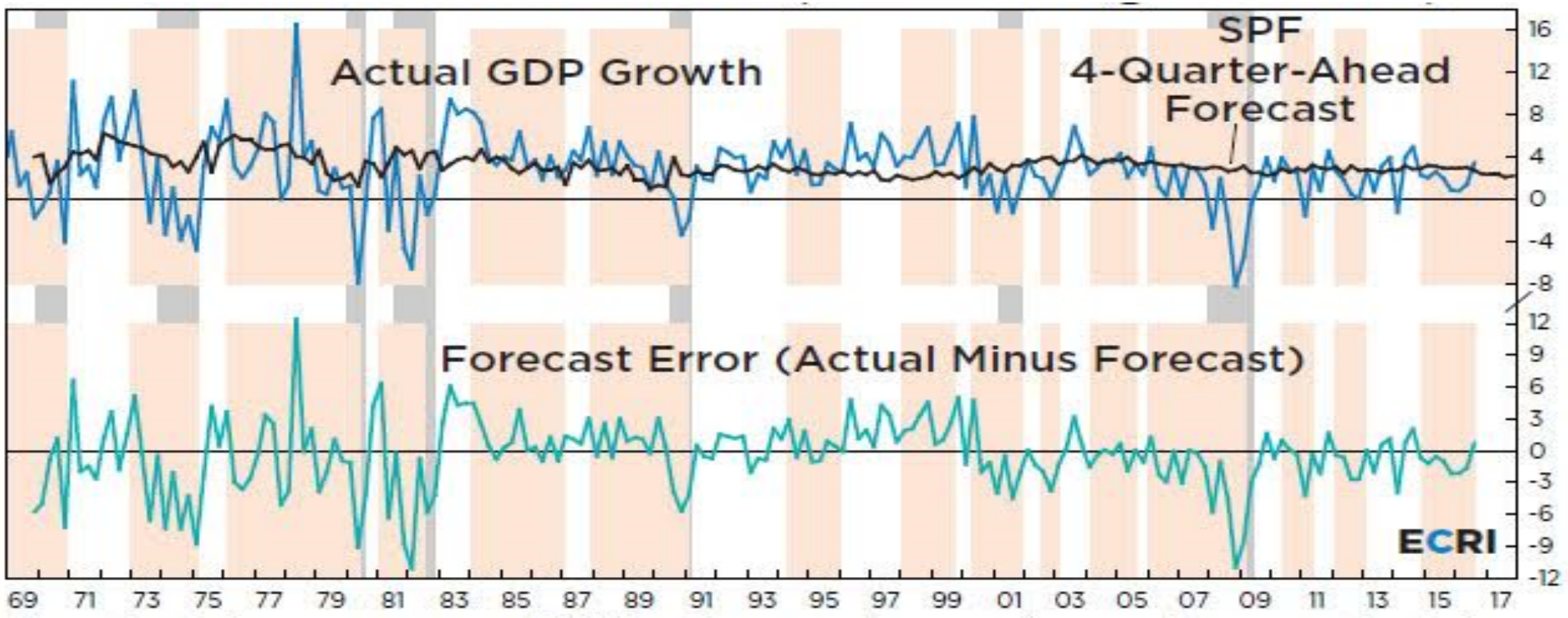
- Government has only made worse!

Forecasting

Not a drop of evidence that we can forecast anything at all!

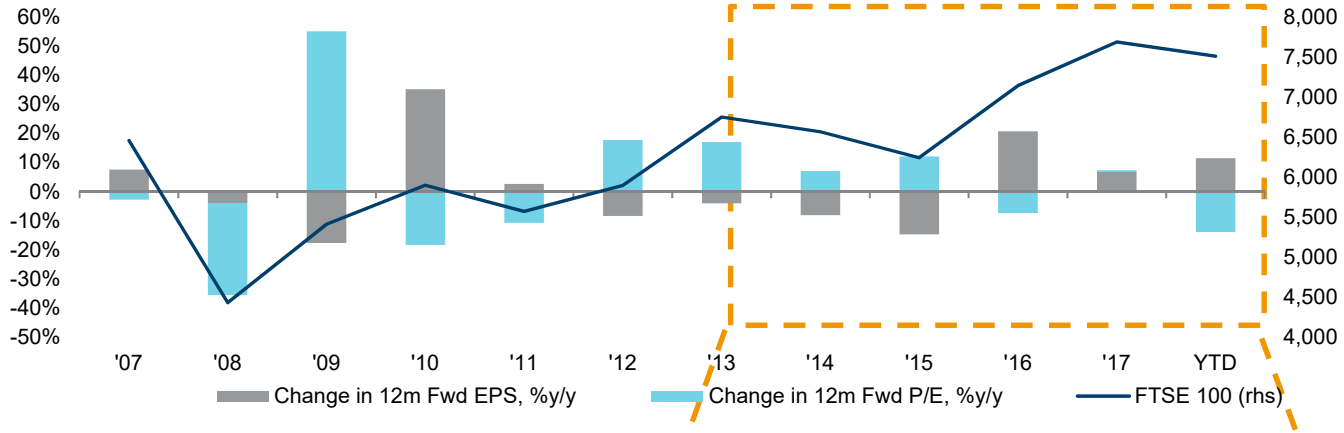
The ‘new normal’ confuses the distribution of economic outcomes (and forecasts thereof)

Economists can’t forecast for toffee: actual 12-mth US GDP growth vs Survey of Professional Forecasters (%)



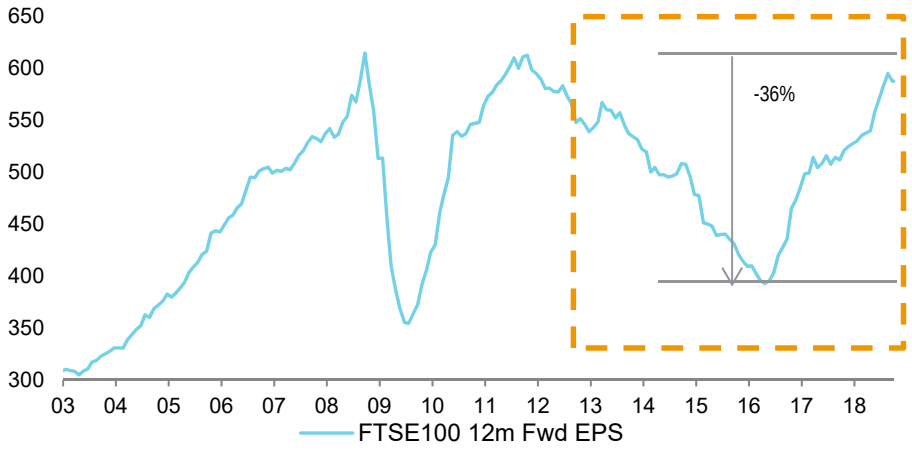
Source: ritholtz.com, ECRI.

Where are we now?



UK P/E re-rating

EPS revisions



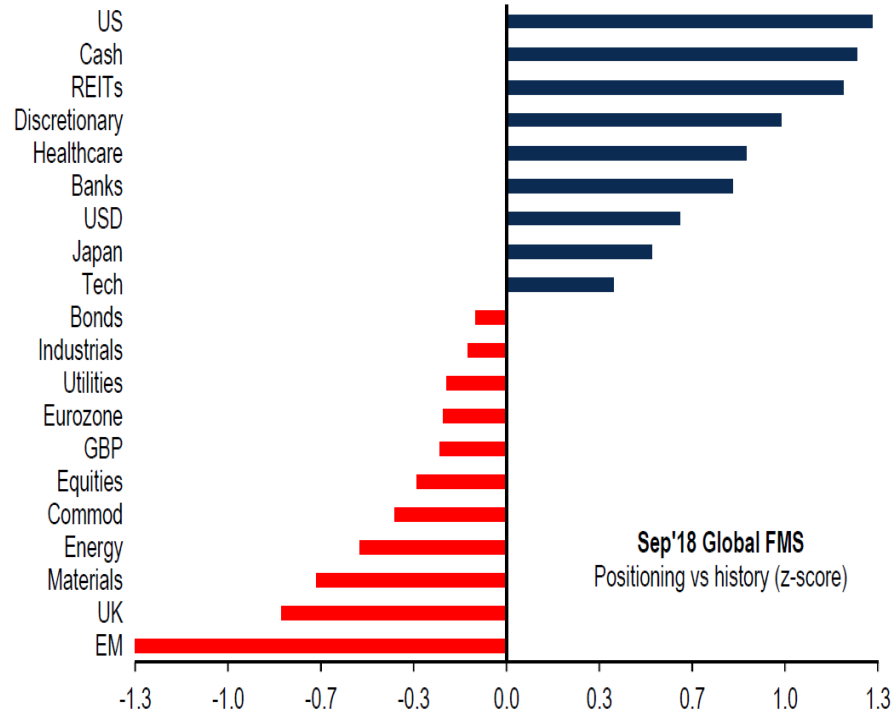
Source: JPMorgan Cazenove Global Equity Research, as at 30 September 2018.

Global allocators have retreated from UK

Global asset allocators continue to dislike the UK…

- Returning flows are the biggest upside risk

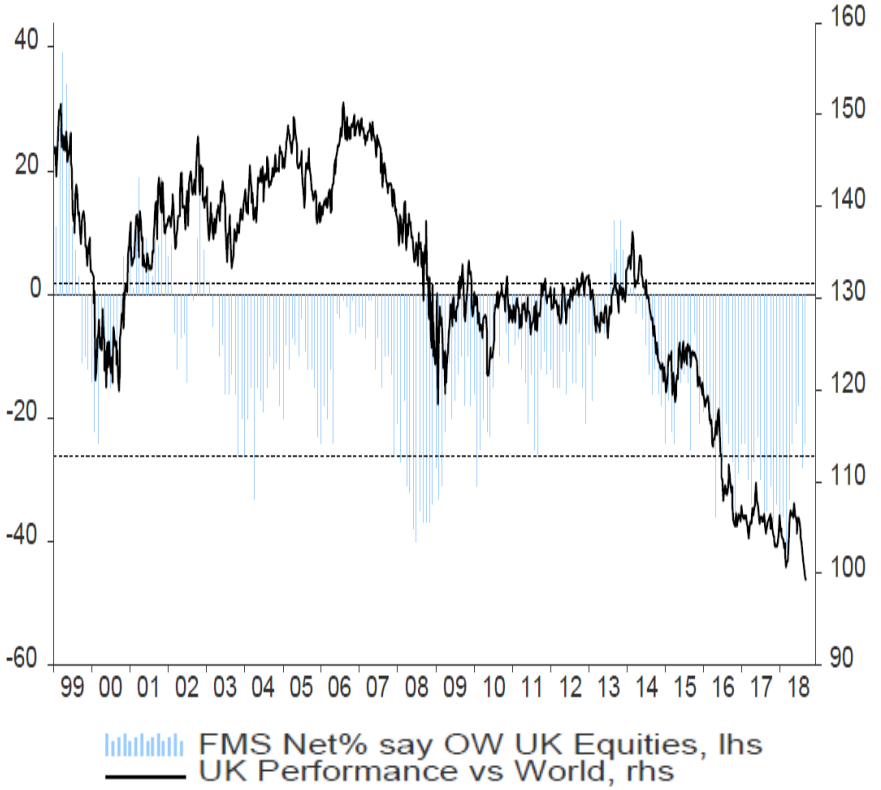
Global Fund Manager Survey: UK is one of the most disliked asset class in the world, relative to history[1]



Source: Bank of America Merrill Lynch Global Fund Manager Survey, as at 10 September 2018.1 Data since 2006 for commodities & real estate, since 2001 for everything else

… although UK underweight may have peaked

Net % of asset allocators who are underweight UK Equities has bounced from GFC-era lows in March

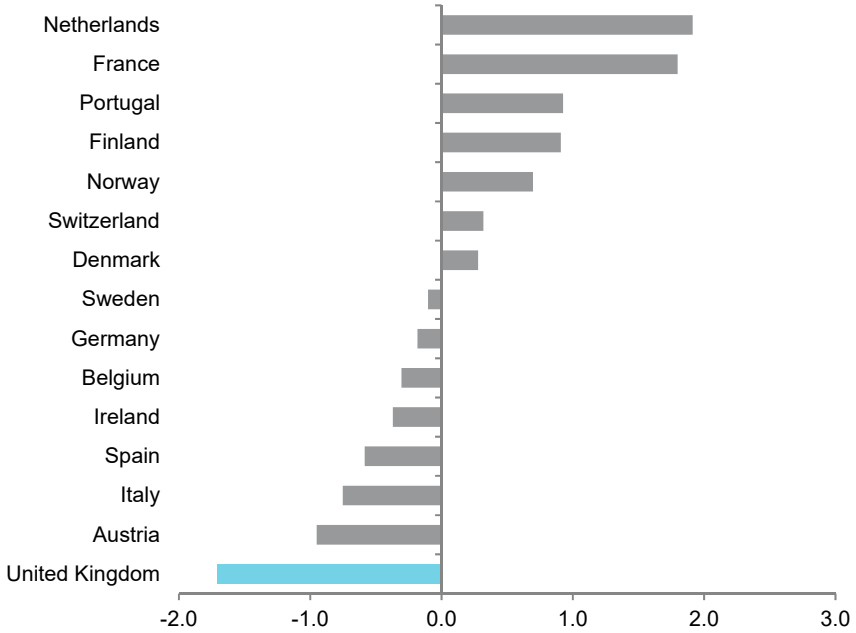


Source: Bank of America Merrill Lynch Global Fund Manager Survey, as at 10 September 2018.

Relative value opportunity

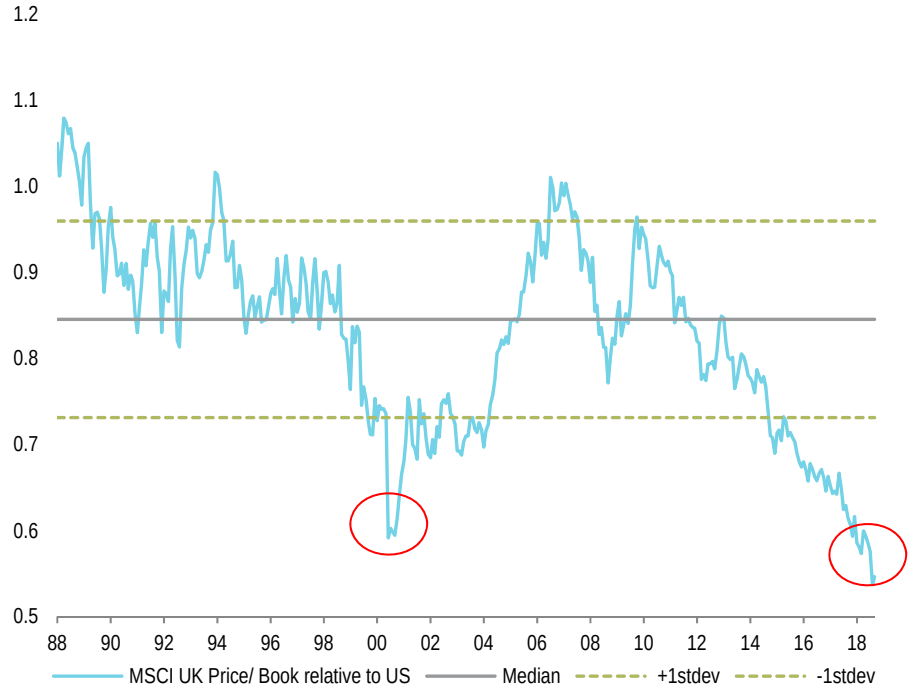
Valuation[1]	Price to Earnings 2018E	Dividend Yield (%)
UK	13x	4.2
Europe ex UK	15x	3.4
USA	18x	1.9

European market valuations vs. 10 year history, based on PE, Dividend Yield & PBV[2]



Source: 1 Bloomberg, as at 8 October 2018; 2 Morgan Stanley, as at 31 August 2018.

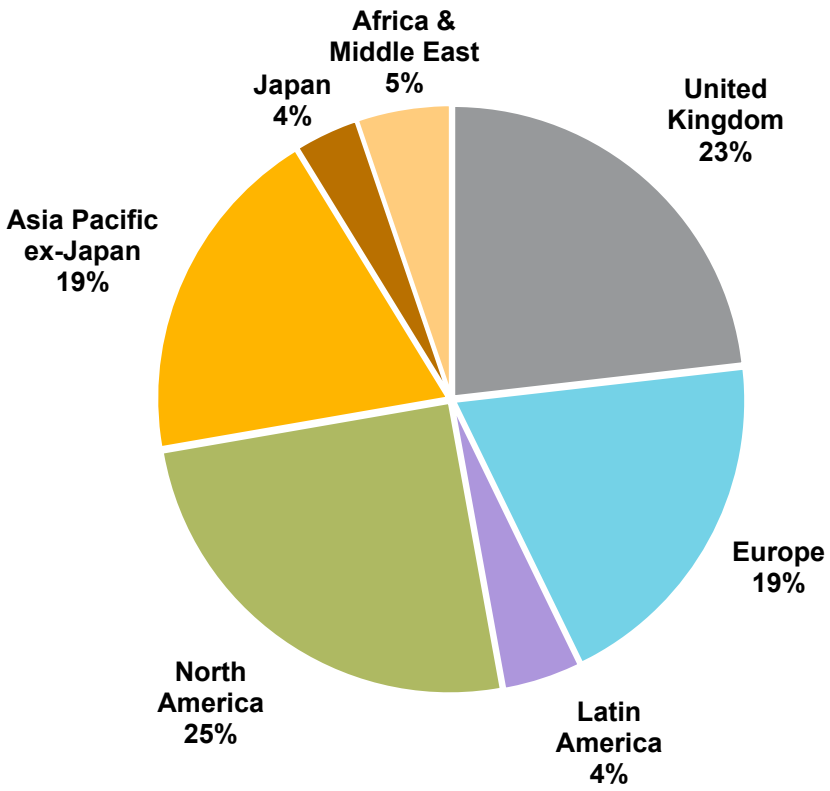
UK vs. US valuations[3]



Source: 3 JPMorgan, as at 30 September 2018.

UK Equities attractive qualities

FTSE 100 – revenue exposure



Source: Factset, as at 30 September 2018.

Why buy FTSE 100?

- **Global exposure**
  - 77% exposure outside the UK
- **FX factor**
  - High level of inverse correlation with sterling
- **Defensive nature**
  - 33% of the index[1]
- **Commodity exposure**
  - 28% of the index[2]
- **Governance**
  - Strong regulatory framework and supportive domestic environment

1 Defensive sectors comprising combined weighting of Consumer Staples, Healthcare, Utilities, Telecommunications. 2 combined weighting of energy and materials sectors (GICS definition). As at 8 October 2018

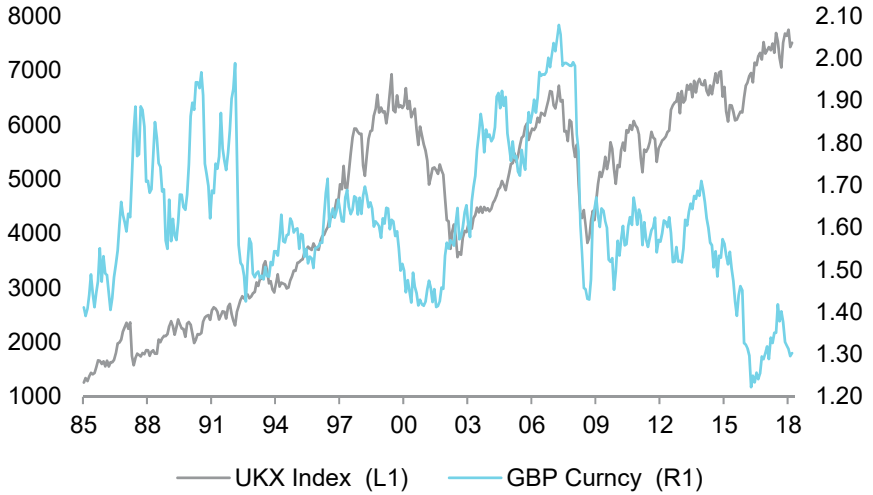
UK Equities key qualities (cont.)

Sector composition of UK vs other key markets

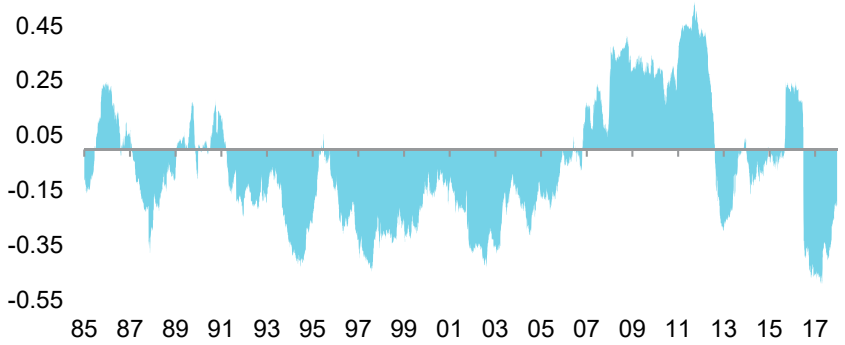
	FTSE100	MSCI US	Topix	MSCI Eurozone
Energy	17%	6%	1%	6%
Materials	10%	3%	7%	9%
Industrials	9%	10%	23%	15%
Discretionary	9%	13%	19%	14%
Staples	16%	7%	9%	10%
Healthcare	11%	15%	8%	8%
Financials	19%	13%	12%	18%
IT	1%	27%	12%	9%
Telecoms	3%	2%	5%	3%
Utilities	3%	3%	2%	5%
Real Estate	1%	3%	3%	2%
Cyclicals	**29%**	**52%**	**60%**	**47%**
Defensives	**33%**	**29%**	**26%**	**29%**

Source: JPMorgan and DataStream, as at 5 October 2018.

FTSE 100 index vs GBP/USD: performance



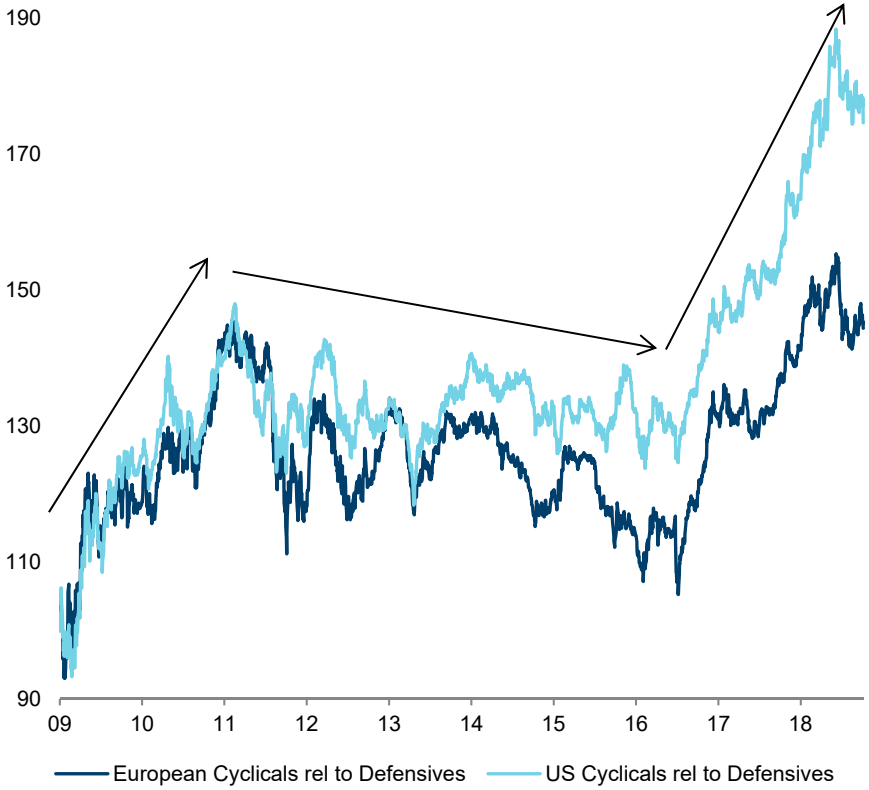
FTSE 100 index vs GBP/USD: correlation



Source: Columbia Threadneedle, Bloomberg as at 30 September 2018.

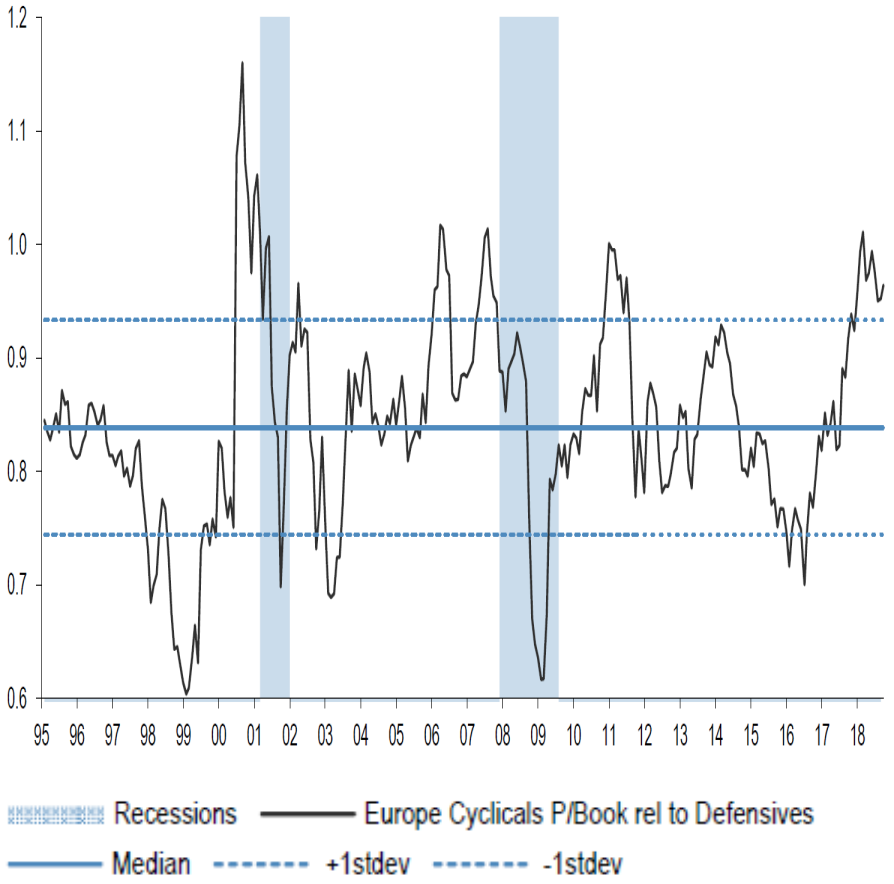
Cyclicals vs Defensives – longer term context

US and European cyclicals vs. defensives



Source: JPMorgan and DataStream, as at 5 October 2018.

European cyclicals price/book vs. defensives



Source: JPMorgan and DataStream, as at 3 October 2018.

Value arbitrage – the Brexit discount

- Global firms listed in the UK trading at material price-to-earnings discounts relative to foreign competitors
- Reflection of uncertainty over political and economic trajectory of UK
- Most source majority of revenue from overseas
- Theme visible across multiple sectors

Overseas peers – price-to-earnings differential

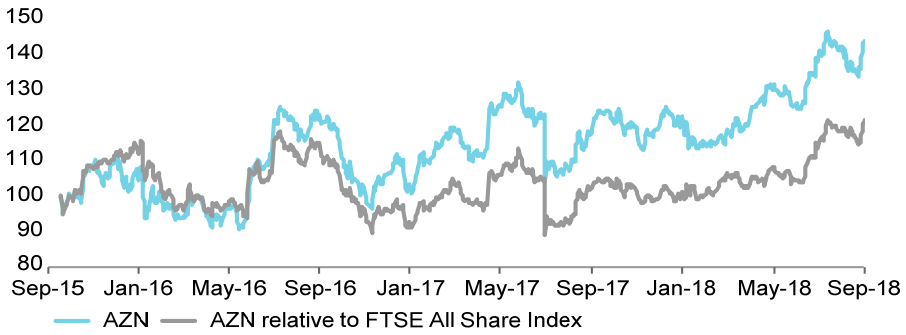
UK-listed companies	P/E 2018E	Overseas-listed companies	P/E 2018E	Overseas-listed companies	P/E 2018E
Smiths Group	15x	**Becton Dickinson**	23x	**L3 Technologies**	21x
GlaxoSmithKline	13x	**Bristol-Myers Squibb**	17x	**Novo Nordisk**	17x
Imperial Brands	10x	**Philip Morris International**	17x	**Swedish Match**	23x
RSA Insurance	14x	**Gjensidige Forsikring**	19x	**Tryg**	22x
Wood Group	18x	**Schlumberger**	34x	**Worley Parsons**	26x
Intercontinental Hotels	22x	**Hilton Worldwide**	30x	**Accor**	34x
Johnson Matthey	16x	**Sherwin-Williams**	24x	**Umicore**	33x

Source: Bloomberg, as at 8 October 2018. The mention of stocks is not a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

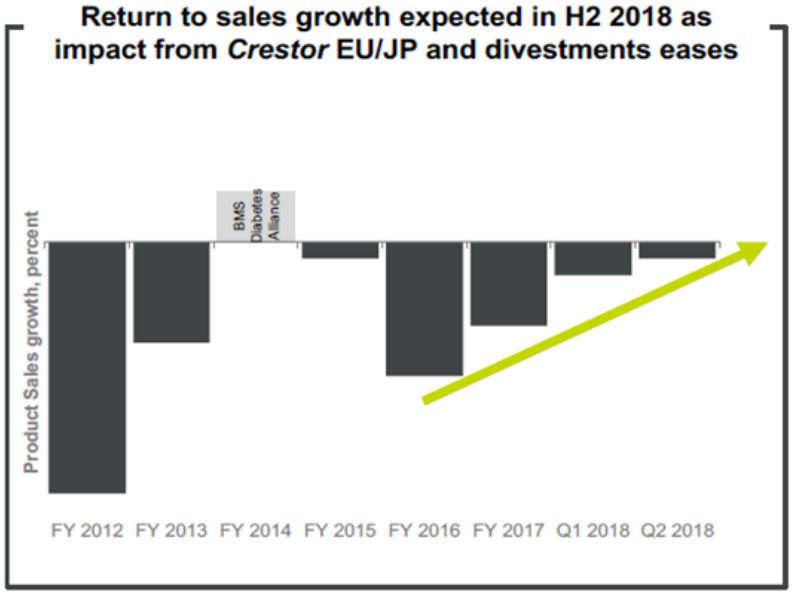
AstraZeneca: the drugs don't work...?

- AZN debate shifted from 'declining core with high risk pipeline' to execution of new drug launches
- New launches driving pickup in revenue growth
- Assembled robust oncology pipeline since Pfizer approach in 2014
- Varied outcomes (e.g. MYSTIC) are inherent part of medical research – AZN not a one trick pony
- Company has strong portfolio of recently launched pipeline drugs
- Unveiled £8.5bn oncology partnership with Merck

Performance relative to FTSE All Share
3-year performance[1]



Source: 1 FactSet, as at 30 September 2018. The mention of any specific shares should not be taken as a recommendation to deal.



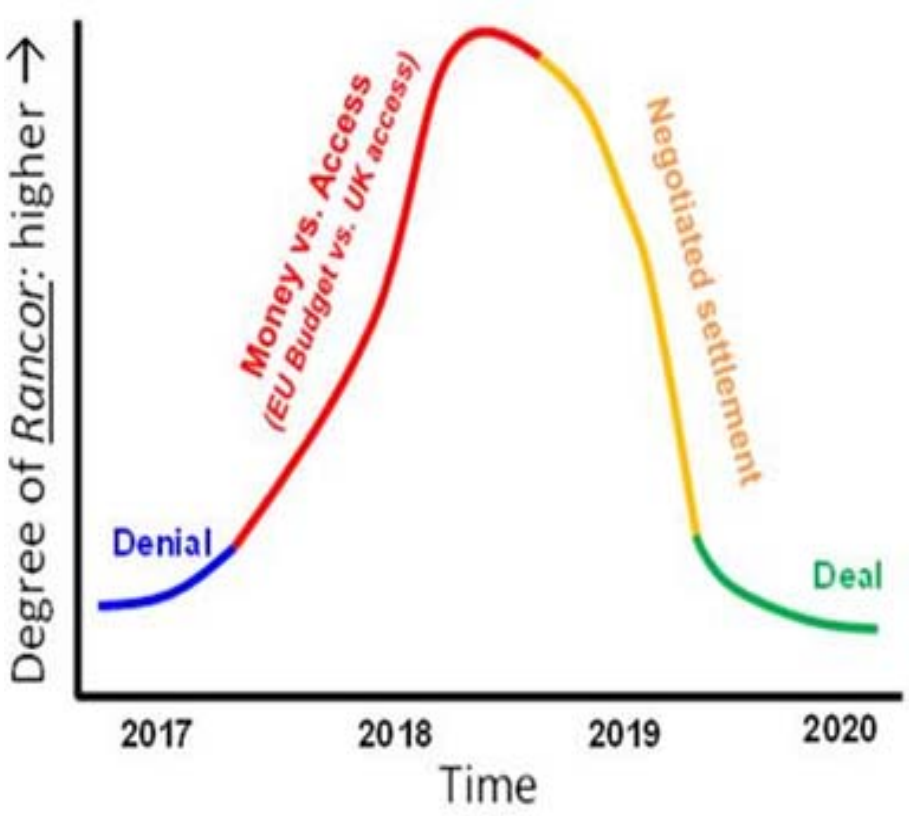
- In our view, significant progress over last 4 years to date not fully acknowledged by the market
- Dividend supported by new drug launches
- Options to take out more costs from high cost base if necessary
- PE 19.9x, Dividend yield 3.7%, EV/EBITDA 15.5x

Image: company presentation, July 2018. The mention of stocks is not a recommendation to deal. As at 31 July 2018.

Brexit is a divorce, so watch the money…

There will be 3 phases which follow the standard 'money vs. access' divorce pattern with rancour peaking mid-way (2018)

Money vs Access: the divorce negotiation curve



Source: Stifel, as at October 2017.

"No panic. Pro bono publico, no bloody panic. It's going to be all right in the end"

Boris Johnson[1]

"The EU is a protectionist organisation which imposes high taxes on food, clothing, wine and thousands of other items from non-EU countries – which comprise around 93% of the world's population"

Tim Martin, founder of JD Wetherspoon[2]

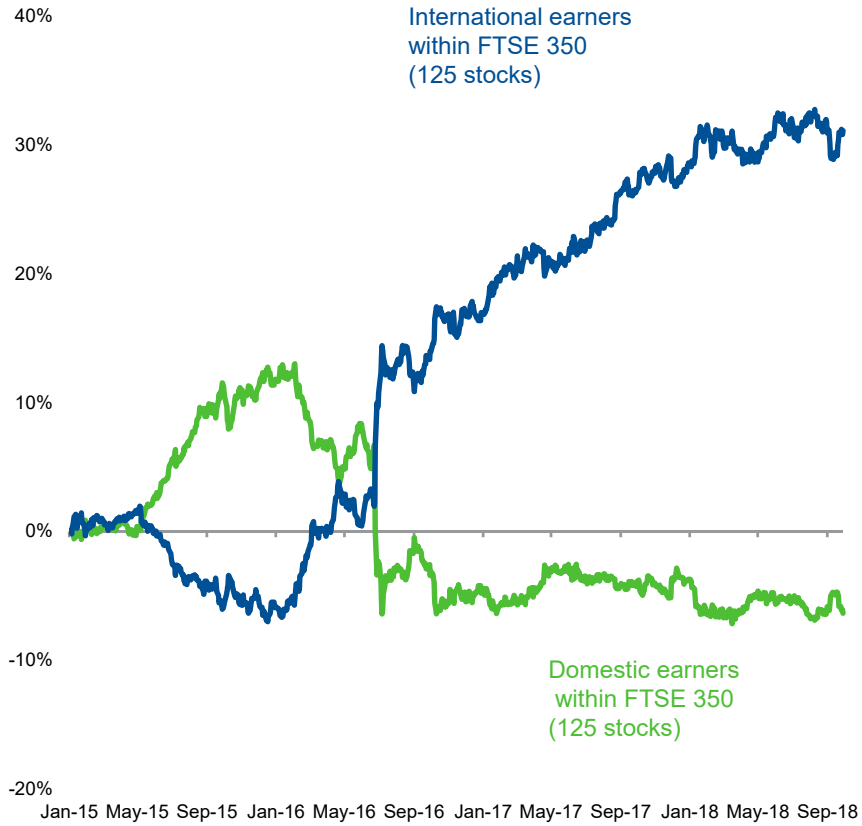
"There's always uncertainty in business, […] I think uncertainty is an opportunity, and the opportunity here is actually that the rest of the world is growing at a far greater rate than Europe"

Sir James Dyson[3]

1 Reuters, as at 8 June 2018. 2 Chairman's letter, as at July 2018. 3 Radio 4 Today Programme, as at 14 September 2017.

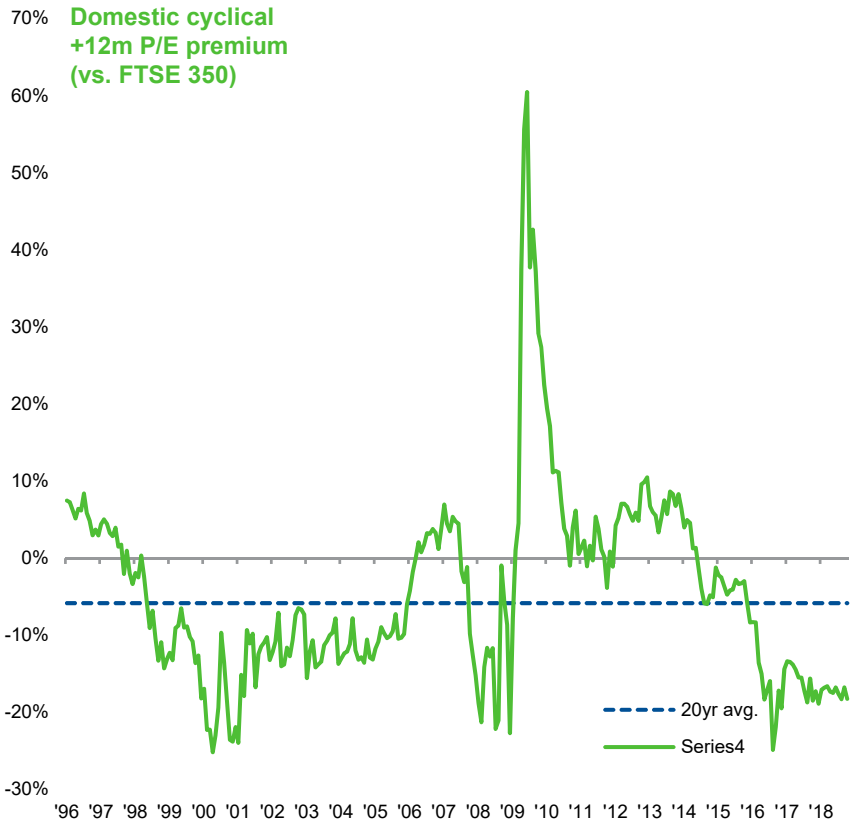
Brexit – the market is as divided as the country!

Relative performance of domestic vs. international earners



Note: Domestic earner = >85% of revenue is from the UK, International = <40% of revenue is from the UK. Source: Liberum and Datastream, as at 30 September 2018.

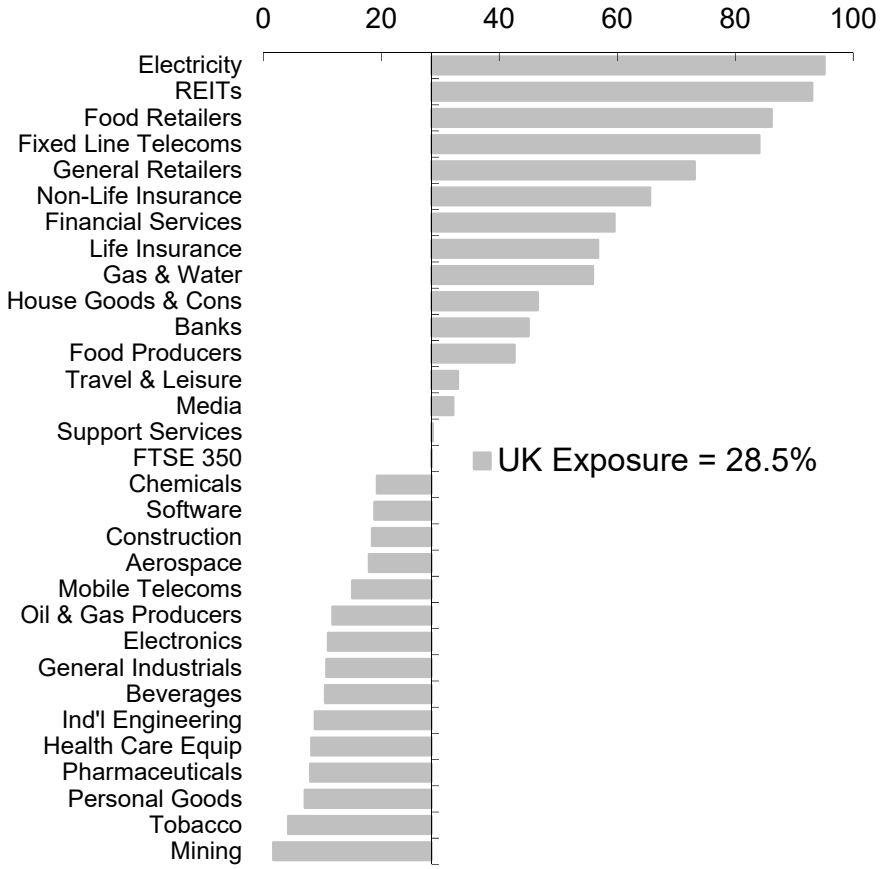
Domestic cyclicals: +12m P/E premium (vs. FTSE 350)



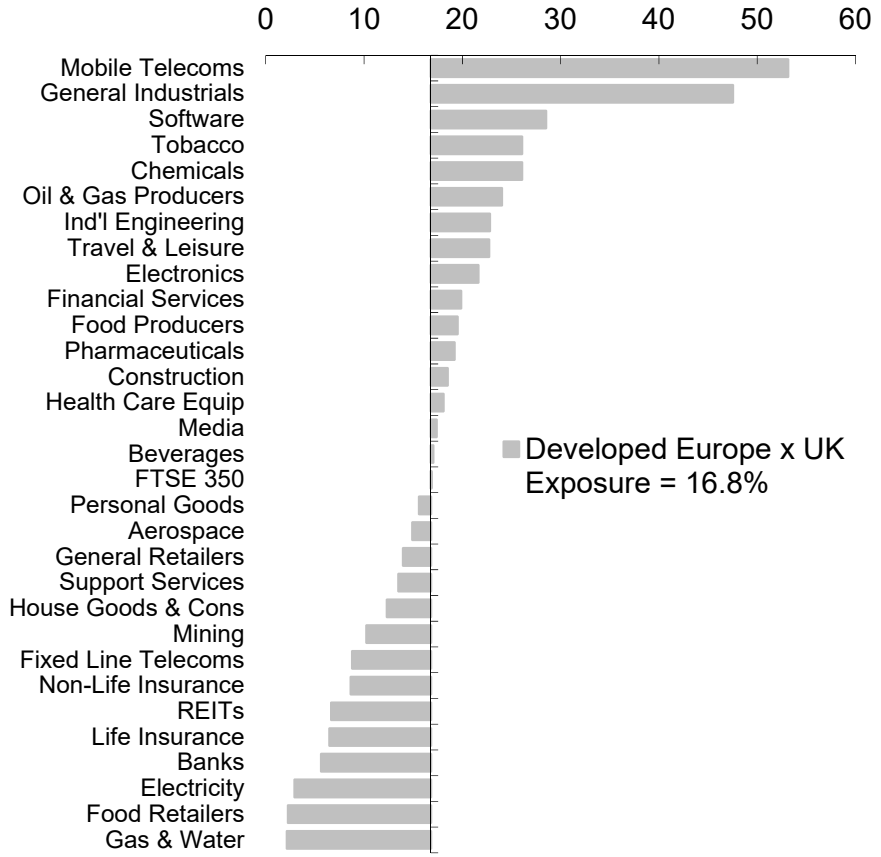
Source: Liberum and Bloomberg, as at 30 September 2018.

UK sector revenue exposure

FTSE 350 – Sector exposure to UK %



FTSE 350 – Sector exposure to developed Europe ex UK %



Source: Agency Partners, as at 5 October 2018.

Tesco: it's all about the British aisles

- Viewed as lightning rod for Brexit sentiment, and market generally shown caution on grocers
- Booker merger offers significant potential buying and revenue synergies
- Prioritising profitable sales not chasing volumes
- Increase existing asset intensity in core UK business, **not** trying to 'plant the flag'

- Management & board have clear focus on cash generation and capital allocation
- Trialling discount formats with 15 existing stores recycled into new 'Jack's' offering
- Stock is at same level versus market as in 2003
- Pension deficit substantially reduced
- Trades on 6x EV/EBIT, FcF yield of 10% in 2020

Performance relative to FTSE All Share
3-year performance[1]

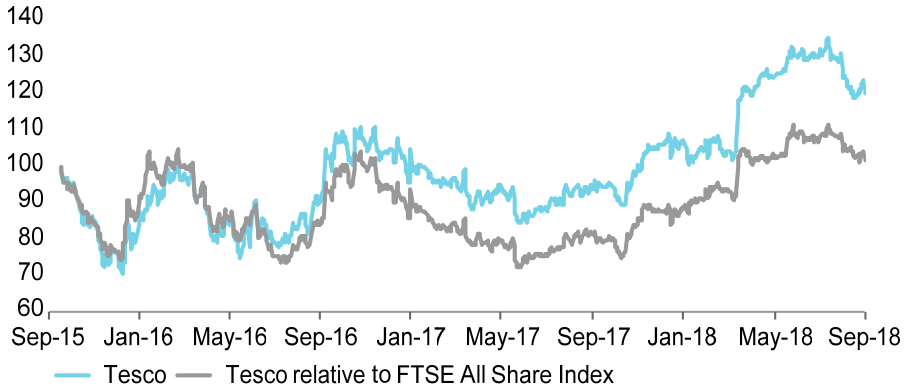


Image: Tesco.com. The mention of any specific shares should not be taken as a recommendation to deal. Past performance is not a guide to future performance.

Source: 1 FactSet, as at 30 September 2018. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

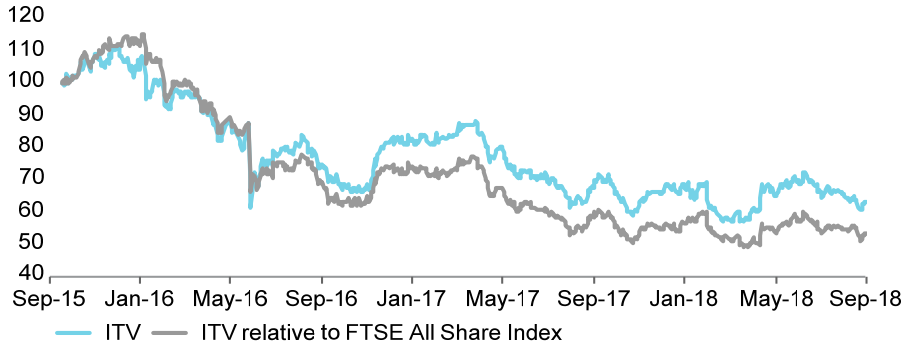
ITV – can it compete in a Netflix world?

- Cost restructuring phase over – now for growth
- Free-to-Air TV, one of last remaining large scale audiences, is cash cow and a unique asset in UK
- Cash still king – capital light model adds flexibility
- Market expectations low – to justify current share price requires 2009-like advertising recession

Photo: goldstar.com. The mention of any specific shares or bonds should not be taken as a recommendation to deal. All intellectual property rights in the brands and logos set out in this slide are reserved by respective owners.

- New CEO Carolyn McCall ready to **"refresh the strategy and plan for the future"**
- ITV Hub becoming entry point for young viewers
- High quality content to drive more collaborations, helping to keep pace with fast evolving industry
  - Created all of top 5 UK drama shows this year
  - Studio revenue now 58% overseas vs 35% in 2011[1]
- Low sentiment, but business in an improving position, yield above 4%

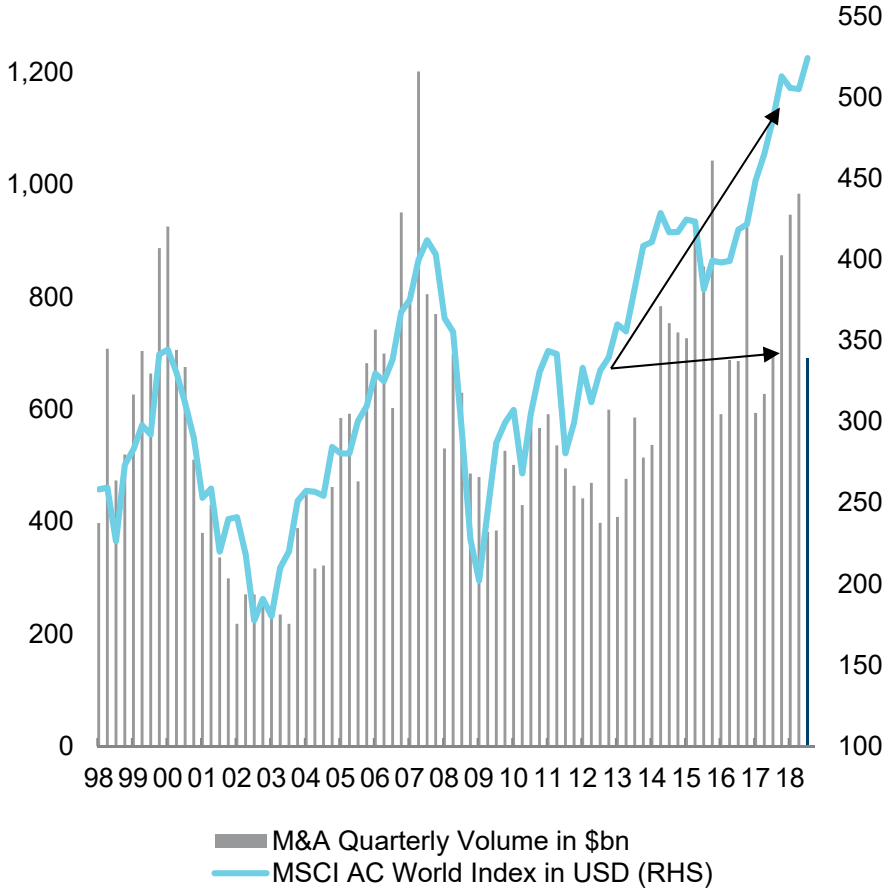
Performance relative to FTSE All Share
3-year performance[2]



Source: 1 FactSet, as at 30 September 2018 in GBP. Photo: itvstudios.com.

M&A activity in the UK market set to rise

Global M&A (£bn) - always late cycle…



Source: Citi, as at 30 September 2018.

Companies held by Richard Colwell which have been subject to takeovers

Threadneedle UK Equity Income Fund	
	Year
GKN	2018
WS Atkins	2017
Booker	2017
BG	2016
Funds run prior to joining Columbia Threadneedle in 2010[1]	
	Year
Cadbury	2009
Scottish & Newcastle	2008
Hanson	2007
Gallaher	2006
Scottish Power	2006
BOC	2006
BAA	2006
Allied Domecq	2005

Source: Columbia Threadneedle, as at March 2018. The information provided is purely for illustrative purposes only, to demonstrate Richard Colwell's consistent record of picking stocks subject to takeover bids. Due differences in fund structures, this information should not, under any circumstances, be used as a basis for investing in the Threadneedle UK Equity Income Fund. The mention of stocks is not a recommendation to deal.

QE to QT …what happened to “back the Fed”?!

- Compared to QE, QT will have reverse effect
- Fed tapering programme could equate to 0.75% rate hike each year[1]
- Stock markets have been key beneficiaries of money printing
- QT poses major challenge for current bull market
- **Main Street versus Wall Street**

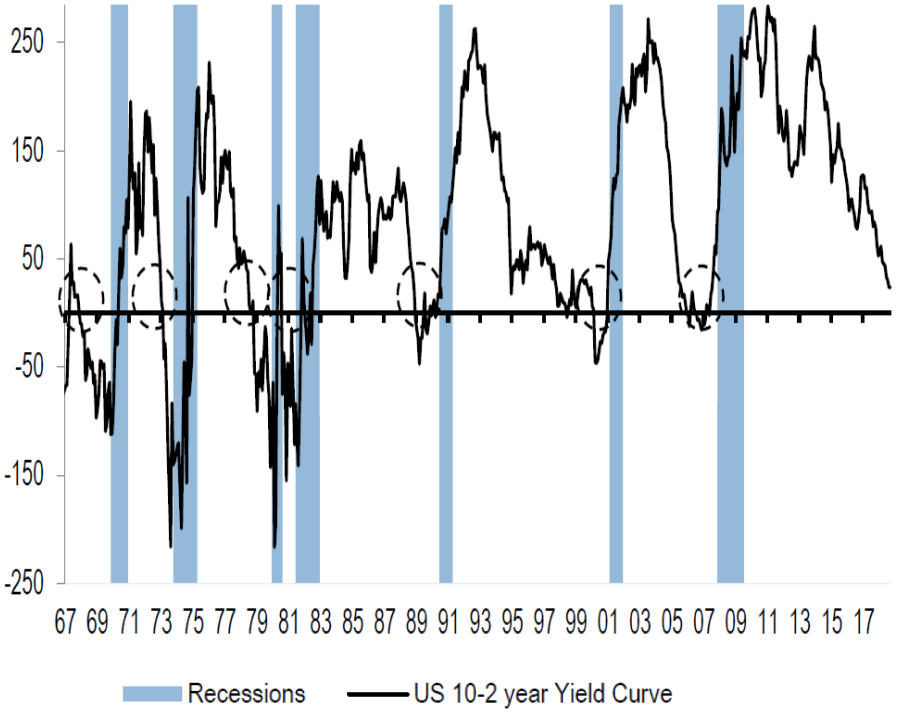
What will Quantitative Tightening mean for stocks?

1 James Ferguson, ‘Quantifying the QT plan’, Macro Strategy Partnership, as at 16 June 2017.

Source: Macro Strategy Partnership, as at August 2018.

What happened to the Reflation Trade?

US yield curve headed for inversion…



… setting the clock ticking on next US recession?

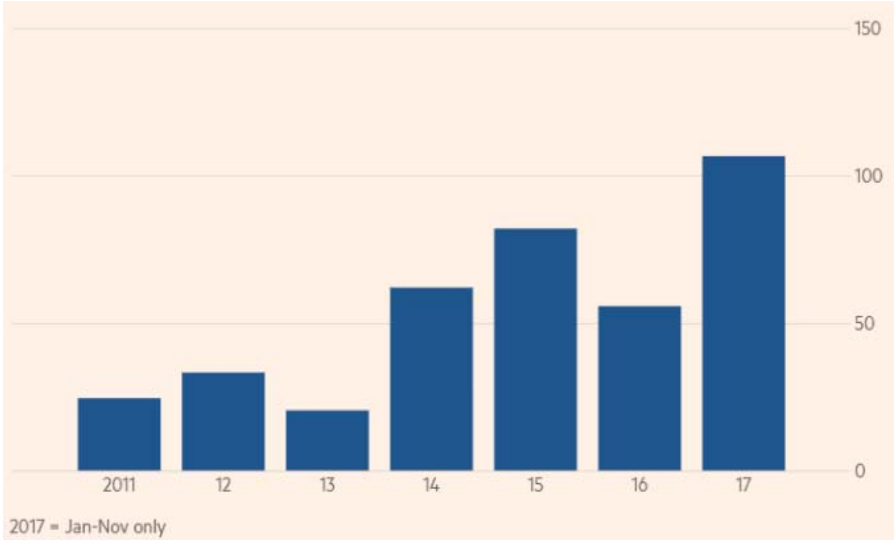
Start of US upcyle	Date of 10-2Y Curve Inversion	Date of S&P500 peak	Start of US Recession	# of months b/w curve inversion & SPX peak	# of months b/w SPX peak & recession	# of months b/w curve inversion & recession	% of cycle when curve inverts	% of cycle when SPX peaks
Mar-61	Dec-67	Nov-68	Dec-69	11	13	24	77%	88%
Dec-70	Mar-73	Sep-73	Nov-73	6	2	8	77%	94%
Apr-75	Aug-78	Jan-80	Jan-80	17	0	17	70%	100%
Jul-80	Sep-80	Nov-80	Jul-81	2	8	10	17%	33%
Dec-82	Dec-88	Jun-90	Jul-90	18	1	19	79%	99%
Apr-91	Feb-00	Aug-00	Mar-01	6	7	13	89%	94%
Dec-01	Aug-06	Oct-07	Dec-07	14	2	16	78%	97%
Average				**11**	**5**	**16**	**70%**	**86%**

Source: DataStream, NBER, JPMorgan, as at September 2018.

Source: Barclays Research, as at July 2018.

Low volatility ≠ low risk!

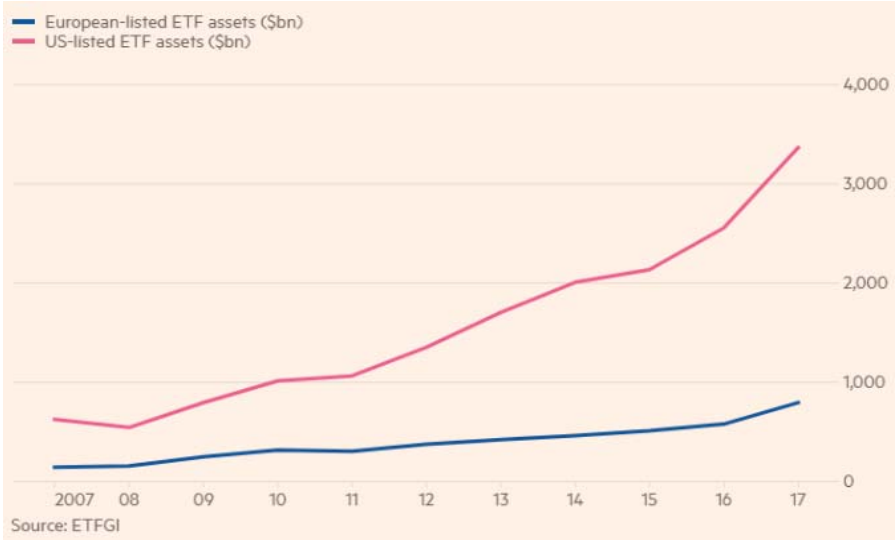
ETF inflows quintuple in less than five years: net investor inflows into European listed ETFs ($bn)



- Market has become increasingly complacent during period of low volatility
- Must not confuse low volatility with low risk
- Debt-to-GDP levels are high and growing

Source: FT.com, as at 3 January 2018.

Steady growth in Europe vs spectacular expansion in the US



- ETFs create 'Pyramid Effect' where they buy the same stocks
- This pushes prices up, drawing more flows
- **…like valves - easy to get in, but try getting out!**

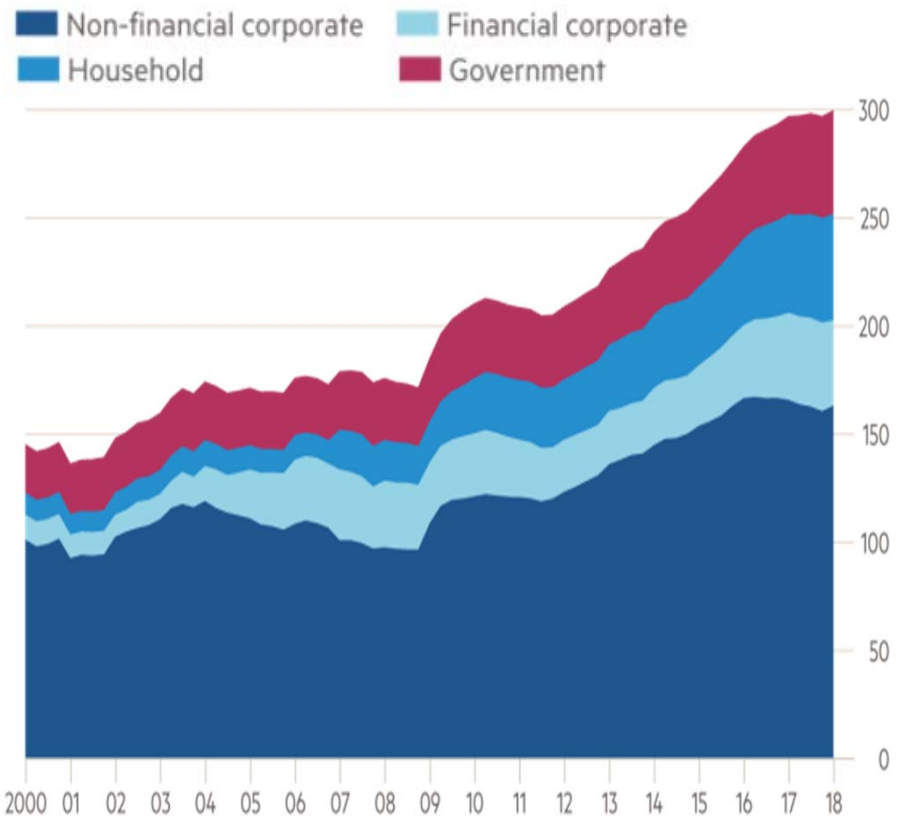
Source: FT.com, as at 3 January 2018.

China

On course for crunch?

- Bad banking
  - Shadow banking has grown at alarming rate
  - Opaque and complex system of debt creation amongst non-financial corporates
  - Consumer credit boom pumped out US$3.2 trillion in three years – same feat took the UK 30 years[1]
- Property addiction
  - Building boom has driven industrial demand
  - From 2009-2015, approximately 33% of all government fiscal revenues came from selling land[2]
  - 30% of all bank loans to property sector and 60% of loans are property-backed[2]
- Slowdown signals
  - Regulators cracking down on risky lending
  - Bad banks forced to stabilise balance sheets
  - Urbanisation and population trends slowing

China total debt-to-GDP by sector



Source: 1 Longview Economics, as at June 2018. 2 Mirabaud Research, as at July 2018.

Source: FT.com, Global Debt Monitor, IIF, as at June 2018.

Dynamics of the UK equity market

- Significant level of overseas earnings
- Exposure to leading global companies
- Defensive in nature
- One of the largest stock markets with high free float
- Strong regulatory framework and supportive domestic environment
- Open to overseas investors
- UK market supported by yield

COLUMBIA THREADNEEDLE INVESTMENTS

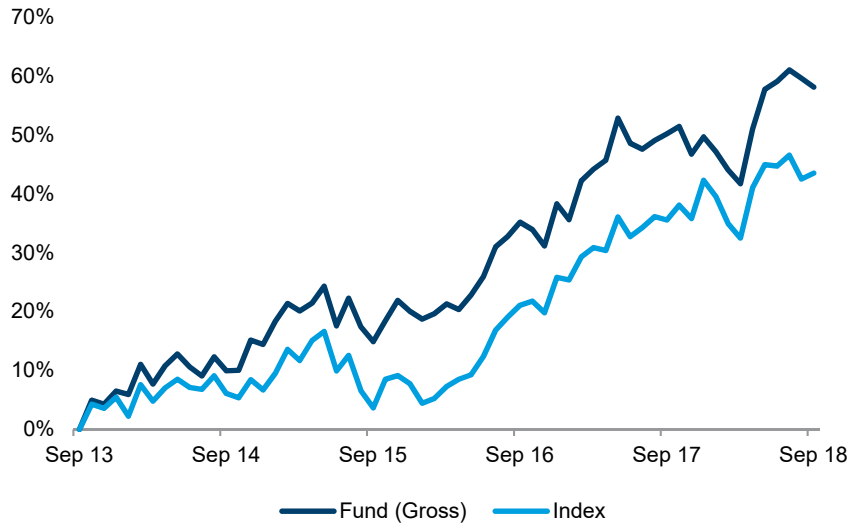
Your success. Our priority.

Appendix

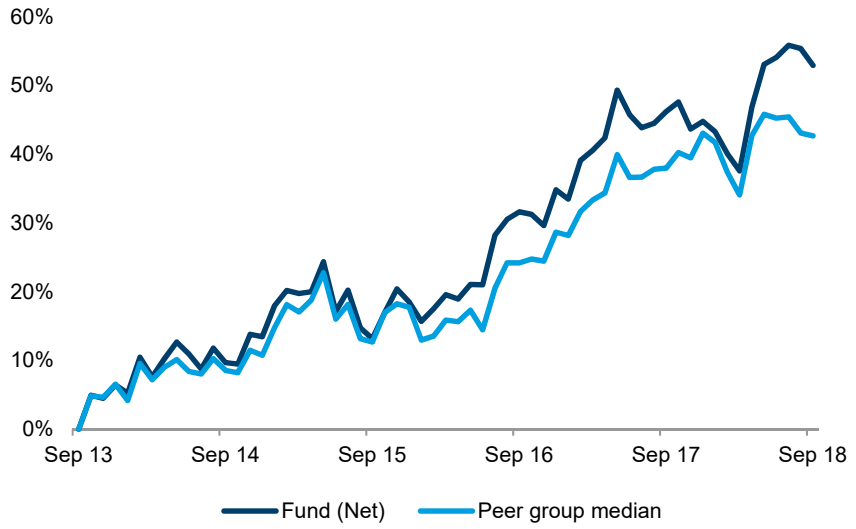
Threadneedle UK Equity Income Fund

Performance analysis

5-year cumulative gross performance versus benchmark[1]



5-year cumulative net performance versus peer group[2]



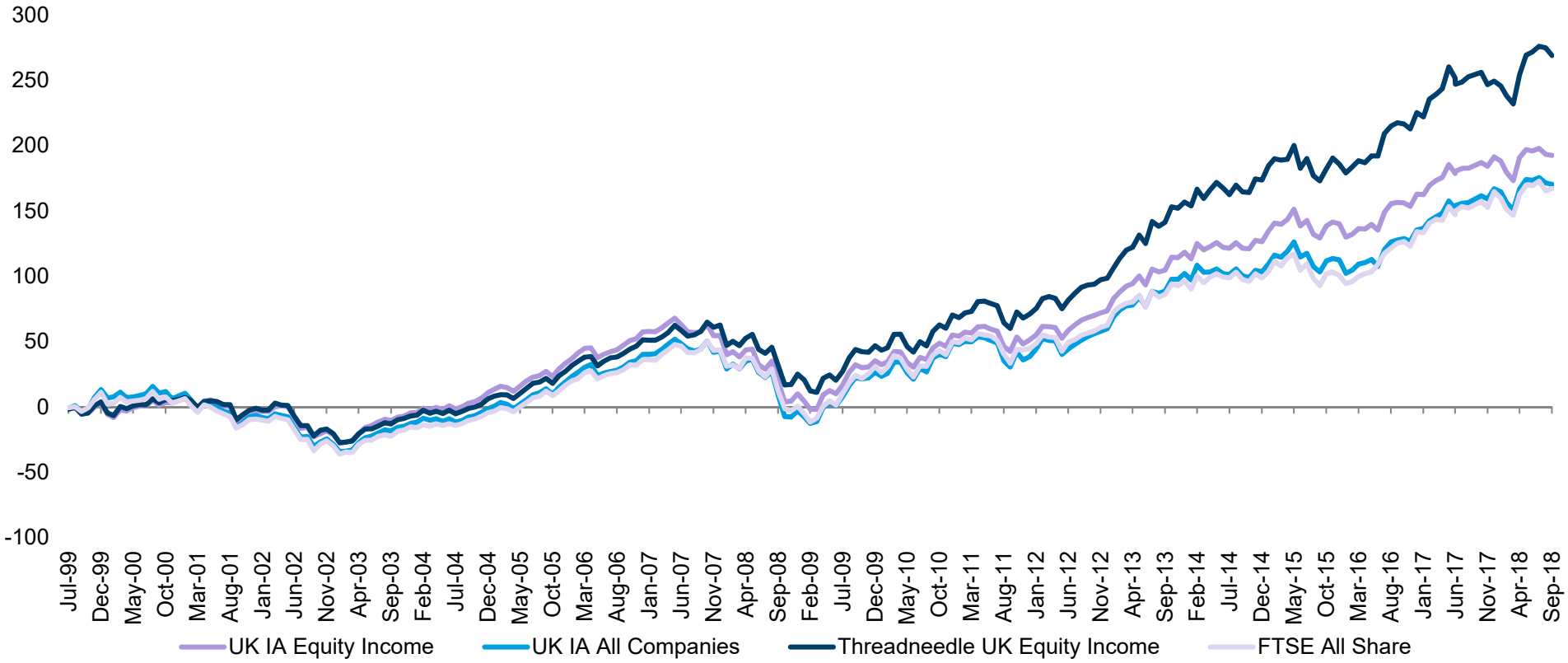
Calendar year gross performance (%)[1]	YTD	2017	2016	2015	2014	2013
Fund	5.6	8.2	15.2	4.9	7.4	30.5
Index	0.9	13.1	16.8	1.0	1.2	20.8
Relative return	**+4.7**	**-4.3**	**-1.3**	**+3.9**	**+6.2**	**+8.0**

Calendar year net performance (%)[2]	YTD	2017	2016	2015	2014	2013
Fund	5.6	7.4	13.8	4.5	6.6	29.4
Peer group median	0.4	11.6	8.5	6.3	3.6	25.3
Percentile rank	**5**	**90**	**16**	**76**	**13**	**29**

Source: FactSet and Morningstar, all data as at 30 September 2018 and in GBP. Past performance is not a guide to future returns.
1 Fund returns gross of fees and management expenses for comparison with FTSE All-Share Index. Gross performance from 31 March 2010 onwards is based on daily cash flows and valuations, from 1 January 2008 to 31 March 2010 based on Global Close prices, and prior to January 2008 based on 12pm prices. Relative return is shown on a geometric basis. 2 Fund returns based on official NAV performance and net of fees and include reinvested unadjusted income.

Cumulative performance of UK Equity Income Fund

From 31 July 1999



Annualised Fund performance (3 years net)		Annualised Fund performance (5 years net)		Absolute Sharpe ratio (3 years net)
Fund 10.6%	Peer group 8.4%	Fund 8.9%	Peer group 7.4%	1.2

Source: Columbia Threadneedle Investments and Morningstar, as at 30 September 2018. Fund performance is net of fees in GBP. Past performance is not a guide to future performance.

Low volatility – Not good for your health!

"If you want to have a better performance than the crowd, you must do things differently from the crowd." **Sir John Templeton**

Time period	Our thinking
2007-08	Don't chase returns, given high debt levels and signs of stress in bond markets and the broader financial system; focus on capital preservation
2009-2011	Be aggressive; take advantage of the wide range of valuation opportunities
2012-2014	Run with the 'winners' and focus on compounding of returns; 'rifle shoot' selective stock ideas
2015-	To use a football analogy, 'get men behind the ball'; revisit 'ugly ducklings' which are suffering from operational pressures but benefit from a valuation cushion

Biography

CAROLINE CANTOR
Client Portfolio Manager

Caroline Cantor is a client portfolio manager in the UK Equities Team. In this role, she is responsible for providing clients, prospective clients and consultants with detailed information on the company's UK equity capabilities and investment views.

Before joining the UK equities team in 2015, Caroline worked as a project analyst in the Reporting & Information Services team who are responsible for providing performance and client reporting.

Caroline holds a Bachelors in Engineering from Durham University. She also holds the Chartered Financial Analyst designation as well as the Investment Management Certificate.

Company start date: 2009
Industry start date: 2009

Biography

RICHARD COLWELL
Head of UK Equities and Portfolio Manager

Richard Colwell is a portfolio manager and Head of UK Equities at Columbia Threadneedle. He manages the Threadneedle UK Growth & Income Fund, Threadneedle UK Equity Income Fund and the Threadneedle UK Equity Alpha Income Fund. He also co-manages the Threadneedle Monthly Extra Income Fund and has research responsibility across all sectors.

Before joining the company, Richard ran high alpha UK equity portfolios at Aviva Investors. He has also held portfolio management roles at Credit Suisse and Schroders and worked at the Bank of England.

Richard has a degree in Banking, Insurance & Finance from the University of Bangor. He holds the Chartered Financial Analyst designation and is a member of the CFA Society of the UK as well as the Chartered Institute of Bankers.

Company start date: 2010
Industry start date: 1990

Threadneedle UK Equity Income

Objective and Key Risks

Objective – 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 shares of UK companies.

Investment Risk – The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Currency Risk – Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

Derivatives for EPM / Hedging – The investment policy of the fund allows it to invest in derivatives for the purposes of reducing risk or minimising the cost of transactions.

High Volatility Risk – The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

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For internal use and for Professional and/or Qualified Investors only (not to be used with or passed on to retail clients)

Past performance is not a guide to future performance. The value of investments and any income is not guaranteed and can go down as well as up and may be affected by exchange rate fluctuations. This means that an investor may not get back the amount invested.

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