COLUMBIA THREADNEEDLE INVESTMENTS 天利

Your success. Our priority.

THREADNEEDLE GLOBAL EXTENDED ALPHA FUND

DELIVERING ALPHA FROM WINNERS AND LOSERS IN GLOBAL EQUITIES.

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SIMPLE APPROACH, POWERFUL STRUCTURE

AN INTRODUCTION TO EXTENDED ALPHA INVESTING

Extended alpha strategies combine a traditional long-only portfolio with a short portfolio.

The short positions not only act as a source of additional alpha, they also enable the portfolio manager to increase holdings in favoured stocks while maintaining a net equity market exposure of 100%, thereby 'extending' the scope for alpha generation.

Extended alpha strategies can come in a variety of forms: some take a quantitative approach to stock selection in both the long and short books; some will be run top-down; whilst others are bottom-up.

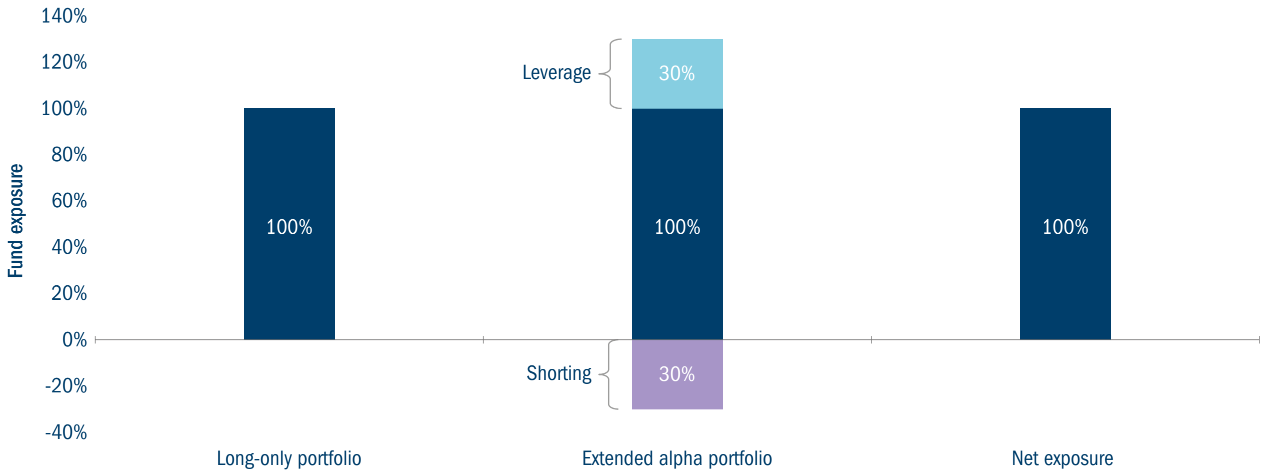
THE THREADNEEDLE GLOBAL EXTENDED ALPHA FUND

The Threadneedle Global Extended Alpha Fund is about fundamental stock picking and we employ the same disciplined research-driven approach in the short book as we do in the long book.

The portfolio managers have a huge opportunity set from which to select the best ideas globally, including both developed and emerging economies. With a focus on quality, we aim to build a well-diversified long portfolio of competitively advantaged stocks. We believe that competitive advantages allow companies to sustain high returns and grow their earnings over time, and that this is undervalued by the market. This allows us to capture the additional shareholder value that these companies can create.

We seek the opposite for the short book. Not all companies are of high quality and we look to exploit companies that are structurally challenged, typically with low or falling returns on capital and/or a deteriorating competitive position.

Figure 1: How alpha extension works in our Global Extended Alpha portfolio



For illustrative purposes only. In this example there is 130% long and 30% short.

THREE WAYS TO TACKLE DISRUPTIVE INNOVATION

The impacts of disruptive innovation on business models are bigger than ever. A long/short structure ensures we can capitalise on both the market's secular winners and losers, setting us apart from peers. We can invest in businesses that are difficult to disrupt; the disruptors themselves; and those at threat from disruption.

i. *We primarily seek businesses that are difficult to disrupt:* one such example is Mastercard, which dominates the global electronic payments space with Visa. The brand, network and scale of the company mean extremely high barriers to entry for aspiring competitors. Having delivered over 22% earnings growth, 40% return on invested capital and a 30% total shareholder return per annum over the past 10 years, Mastercard remains well-placed to capitalise on the secular shift from cash to card, and the added tailwind of e-commerce growth.

ii. *We invest in some disruptors that fit our criteria:* an example is Amazon, which thinks differently and is challenging and dominating businesses every week. Amazon Web Services (AWS) alone is a $30 billion revenue business growing at over 40% per annum with margins of around 30%.

iii. *We short businesses that are being disrupted:* this includes retailers, where changing demographics and technology mean that high streets are changing. Online competition continues unabated and bricks-and-mortar retailers continue to feel pressure from the change in consumers' buying habits. Similarly, technology and media companies which lack the willingness or flexibility to adapt will come under increasing threat in our rapidly evolving world.

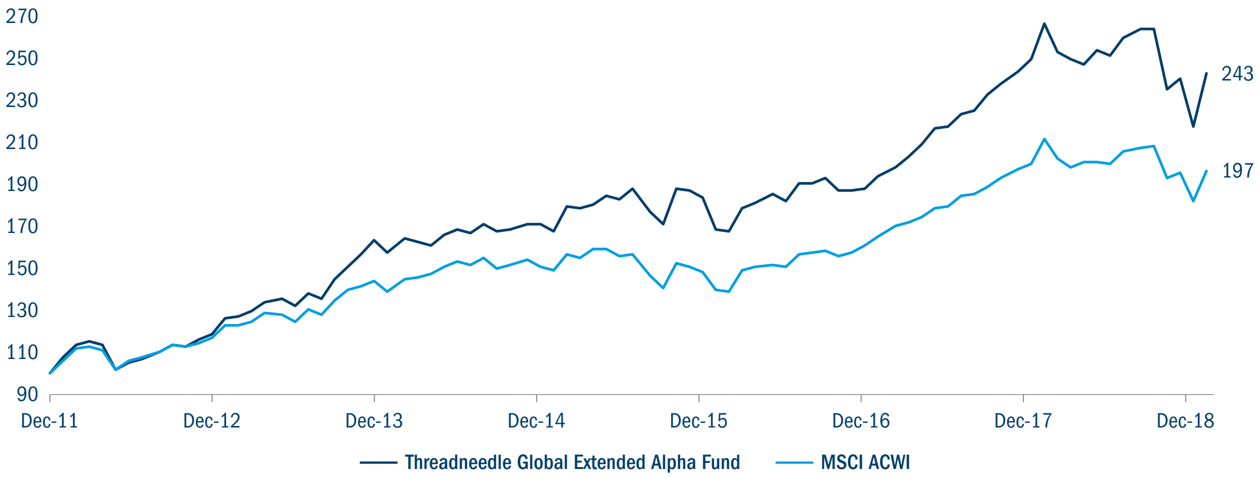
All of these examples indicate that disruption can be a key source of alpha for investors – particularly for those with the ability to take advantage of its winners and losers.

> "This fund has the same benchmark as traditional funds but with a much more powerful engine. We have the flexibility to take larger positions in attractive, growing companies, and add value by taking short positions in companies we think are challenged."
>
> **Neil Robson/Ashish Kochar, portfolio managers**

STRONG LONG-TERM RETURNS

The Threadneedle Global Extended Alpha Fund has a strong track record of alpha generation, with both the long and short portfolios contributing to the fund's outperformance of the benchmark (see Figure 2).

Figure 2: A proven track record of cumulative performance

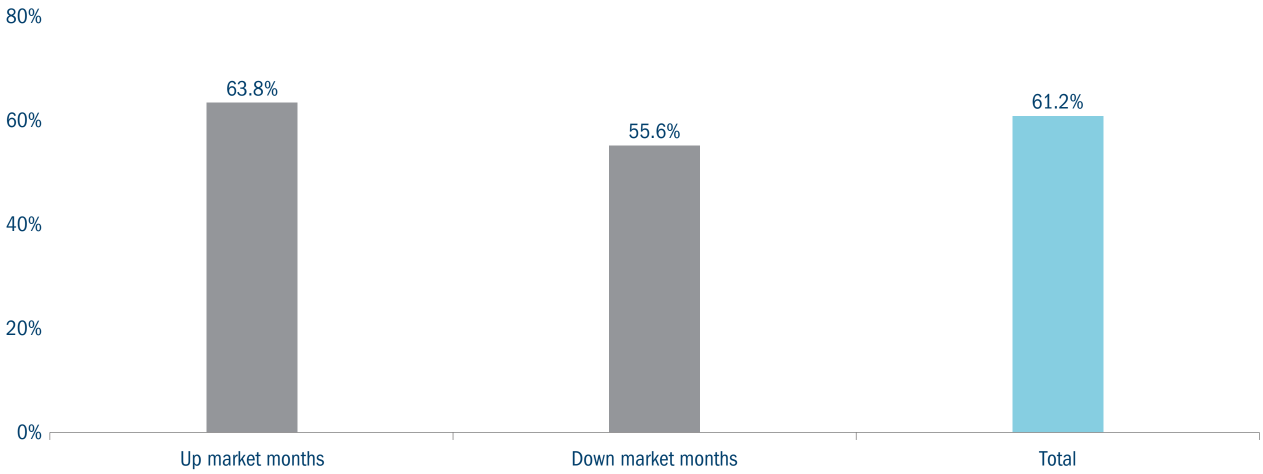


Source: FactSet, Columbia Threadneedle Investments. Cumulative performance is shown since portfolio manager start date of January 2012 to 31 January 2019, against the MSCI AC World Index. Fund gross returns include gross reinvested income and are calculated in US dollars using daily official global close valuations and daily cash flows. Past performance is not a guide to future returns.

Since the portfolio managers start date of January 2012, the Threadneedle Global Extended Alpha Fund has been recognised by Mercer Investing Consulting as having a top quartile excess return, top quartile risk-adjusted return, with top decile consistency relative to its peers.*

The fund has also been able to outperform its benchmark in both rising and falling markets (see Figure 3).

Figure 3: Outperforming in both rising and falling markets



Source: FactSet, Columbia Threadneedle Investments. Monthly performance is shown since portfolio manager start date of January 2012 to 31 January 2019, against the MSCI AC World Index. Fund gross returns include gross reinvested income and are calculated in US dollars using daily official global close valuations and daily cash flows. Past performance is not a guide to future returns.

*Source: Mercer Investment Consulting, as at 31 December 2018. Characteristics calculated monthly in US dollars versus the MSCI AC World Index. Past performance is not a guide to future returns.

MANAGED BY EXPERIENCED LONG/SHORT INVESTORS

As a firm, we have been successfully managing extended alpha equity strategies since 2003.

Neil Robson and Ashish Kochar have combined investment experience of 45 years and they have successfully co-managed the Threadneedle Global Extended Alpha Fund since January 2012. They are supported by an additional 11 members of the Global Equities team and benefit from the expansive stock coverage of our global research network of over 100 investment professionals.

Neil Robson is head of Global Equities at Columbia Threadneedle Investments and is portfolio manager for a range of global equity institutional mandates and mutual funds. He joined the company from Martin Currie where he was a global equity manager; previously, he was head of Equities at Pioneer Investments from 2003-2009.

Ashish Kochar is a portfolio manager and in addition to the Global Extended Alpha funds he manages the American Extended Alpha and American Absolute Alpha funds. He is also responsible for consumer sector research. Ashish previously worked as a senior portfolio analyst in our US Equities team before joining the Global Equities team in 2010. He joined the firm from a 'Tiger cub' US hedge fund.

Key facts

Fund inception date – September 2008

Benchmark index – MSCI AC World

Share classes available – USD Accumulation

Strategy size (as at 31 January 2019) – $351 million

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Key risks:

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. **Counterparty risk:** The fund may enter into financial transactions with selected counterparties. Any financial difficulties arising at these counterparties could significantly affect the availability and the value of fund assets. **Political and financial risk:** The fund invests in markets where economic and regulatory risk can be significant. These factors can affect liquidity, settlement and asset values. Any such event can have a negative effect on the value of your investment. **Valuation risk:** The fund's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold. **Short selling risk:** Short selling intends to make a profit from falling prices. However if the value of the underlying investment increases, the value of the short position will decrease. The potential losses are unlimited as the prices of the underlying investments can increase very significantly in a short space of time. **Investment in derivatives:** The Investment Policy of the fund allows it to invest materially in derivatives. **Leverage risk:** Leverage amplifies the effect that a change in the price of an investment has on the fund's value. As such, leverage can enhance returns to investors but can also increase losses, including losses in excess of the amount invested. **Volatility risk:** The fund may exhibit significant price volatility.

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