The impact of Brexit and the outlook from here

For professional investors only

September 2016

Political Landscape looking forward

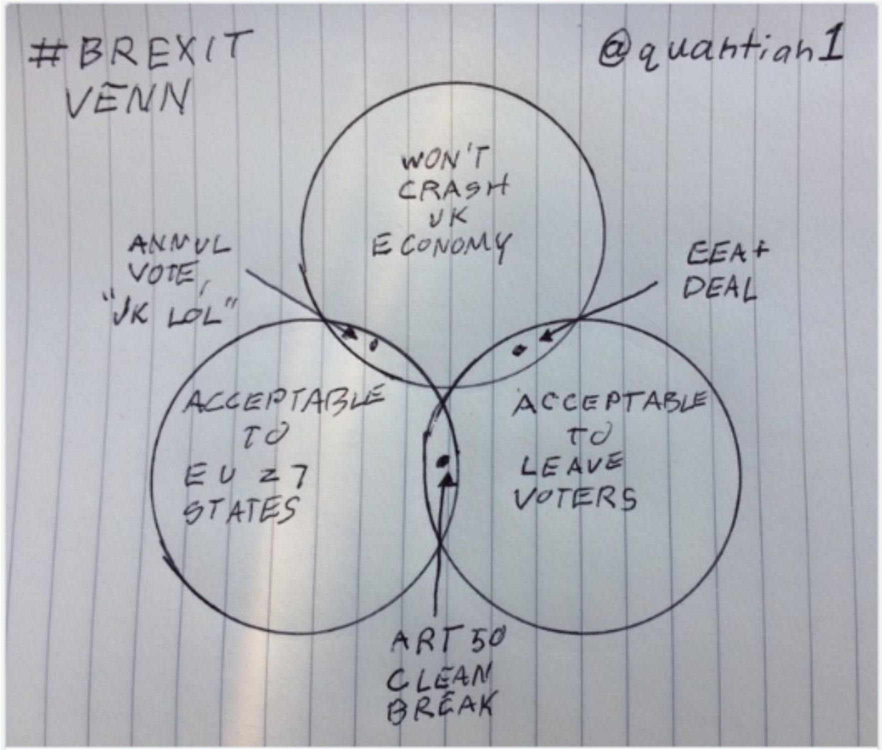
Where to start...?

- Theresa May installed as Prime Minister gives some clarity – "Brexit means Brexit"
  - The amount of Market access May is aiming to prioritize is currently unknown.
  - Hardest red line appears to be freedom of movement. Ability to negotiate own trade agreements appears highly prized.
- Trading relationship with the EU expected to be unclear for a prolonged period.
  - Risk is tilted to significantly reduced market access.
  - Merchandise trade amounts to 44.3% of GDP, with half of trade with EU
- No discussions on relationship until Article 50 is triggered.
- What should we be focussed on?
  - Non-tariff barriers are probably more important that tariff discussions
  - UK financial passport

COLUMBIA THREADNEEDLE INVESTMENTS

"Brexit Means Brexit"

The satirist's view



Quantian
@quantian1

Follow

Our team of top Morskiologists at Quantian Capital have been working nonstop for days to produce this diagram:

7:47 PM - 3 Jul 2016

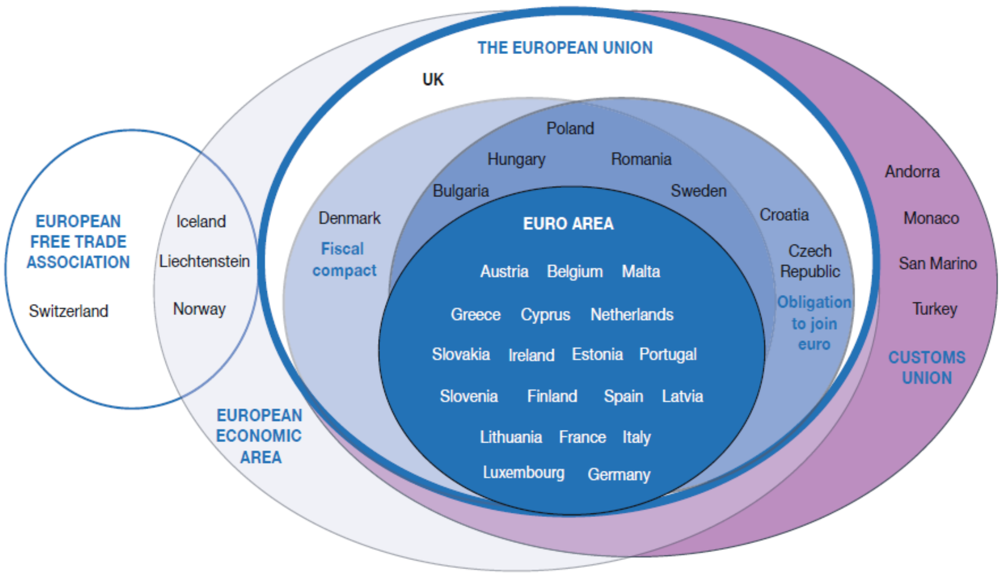
1,661 1,289

Source: Twitter.com

“Brexit Means Brexit”

There are lots of arrangements

The world today



Key Upcoming Events

2016

16-Sep	EU post-Brexit Summit
25-28 Sep	Labour Party Conf
02-Oct	Austrian Pres Election re-run
02-Oct	Hungarian referendum on refugee quota
2-5 Oct	Conservative Party Conf
Nov-Dec	Italian constitutional referendum

2017

Q1	UK Activates Article 50?
Q1	Dutch General Elections
April-May	French Presidential Elections
Autumn	German Federal Elections

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/517415/treasury_analysis_economic_impact_of_eu_membership_web.pdf, Freshfields September 2016 ; Columbia Threadneedle Investments September 2016

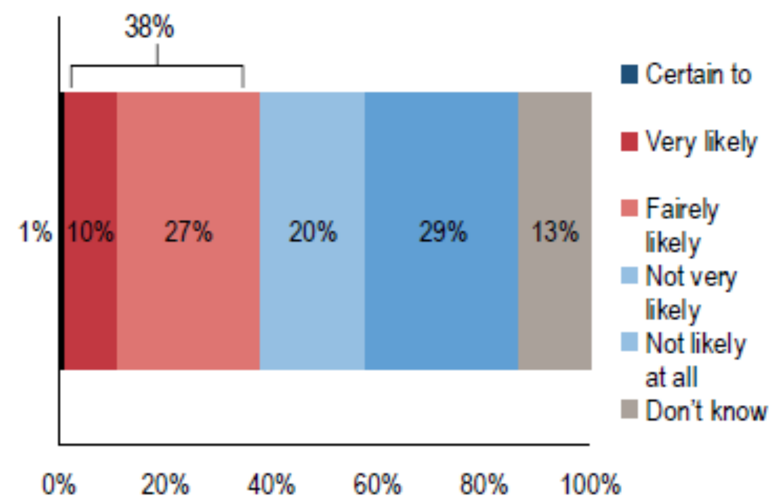
“Brexit Means Brexit”

Canada Plus?

		Tariff-free access to Single Market - Goods (Rules of Origin)	Subject to EU Regs	Subject to EU Tariff policy	Accept Free Movement	Financial Contribution	Tariff-free access to Single Market - Finl Svs, Agriculture	Access to Single Market - no Rules of Origin & Non-Tariff Barriers	Design EU Rules	Single Monetary Policy
Eurozone Member	Eurozone	x	x	x	x	x	x	x	x	x
EU member	(UK, Denmark)	x	x	x	x	x	x	x	x	
European Economic Area	(Norway, Iceland)	x	x	x	x	x				
European Free Trade Assoc	(Switz)	x	x	x	x	x (-)				
Customs Union	(Turkey, Andorra)	x	x	x						
Free Trade Area	(Albania, Serbia)	x	x							
Brexit ambition?	**None**	x					x			
Canadian Model	Canada	x								
Most Favoured Nation	RoW									

- Financial services reliant upon ‘passporting’ regime.
- Will non-financial businesses relocate out of the UK?
- Will labour costs rise?

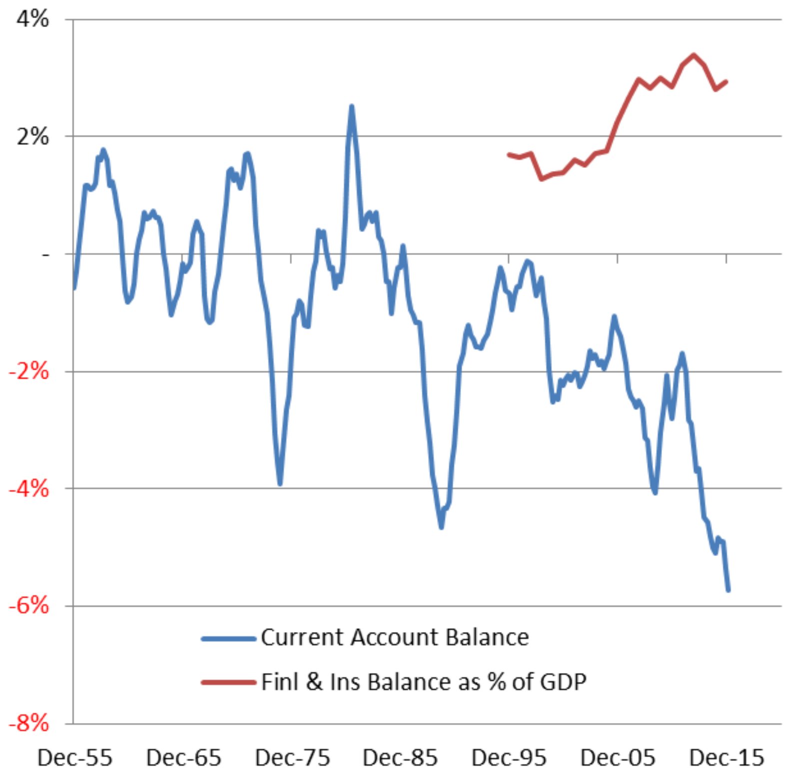
IPSOS MORI poll- In a scenario where the UK left the Single Market, how likely is it that your firm would relocate at least some of its headcount from the UK to a location within the Single Market?



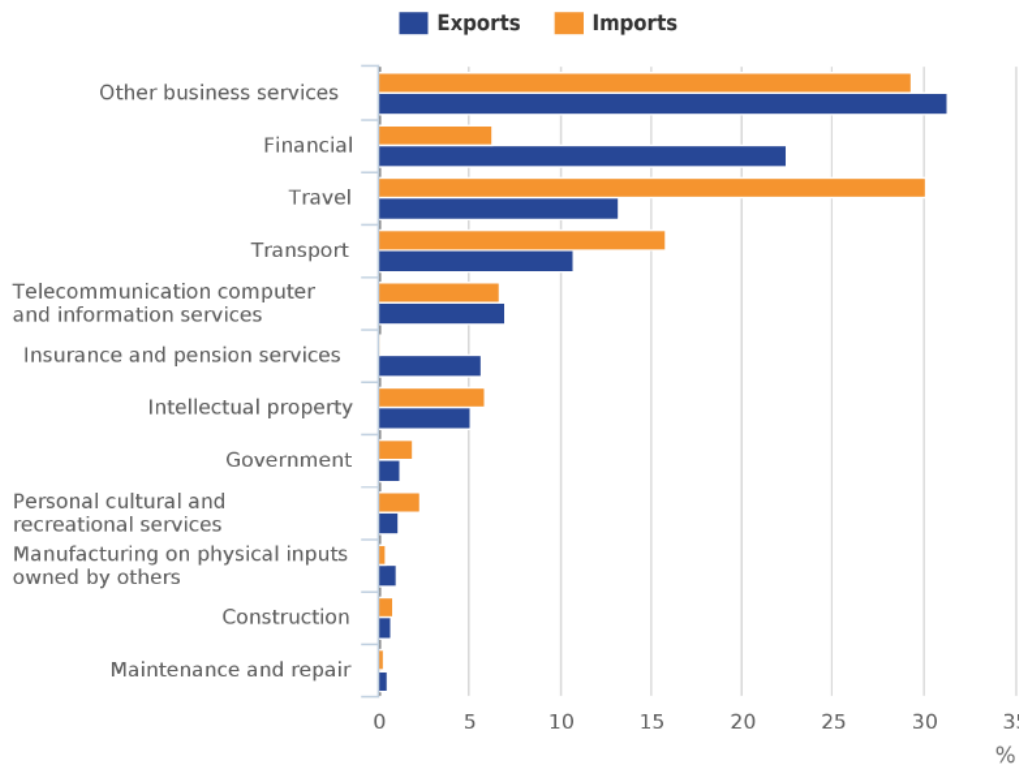
"Brexit Means Brexit"

International Trade and the UK's Financial Sector

Current account and Financial Sector trade balance



UK trade in services export and import proportions by type, current prices, 2015



Source: ONS, September 2016.

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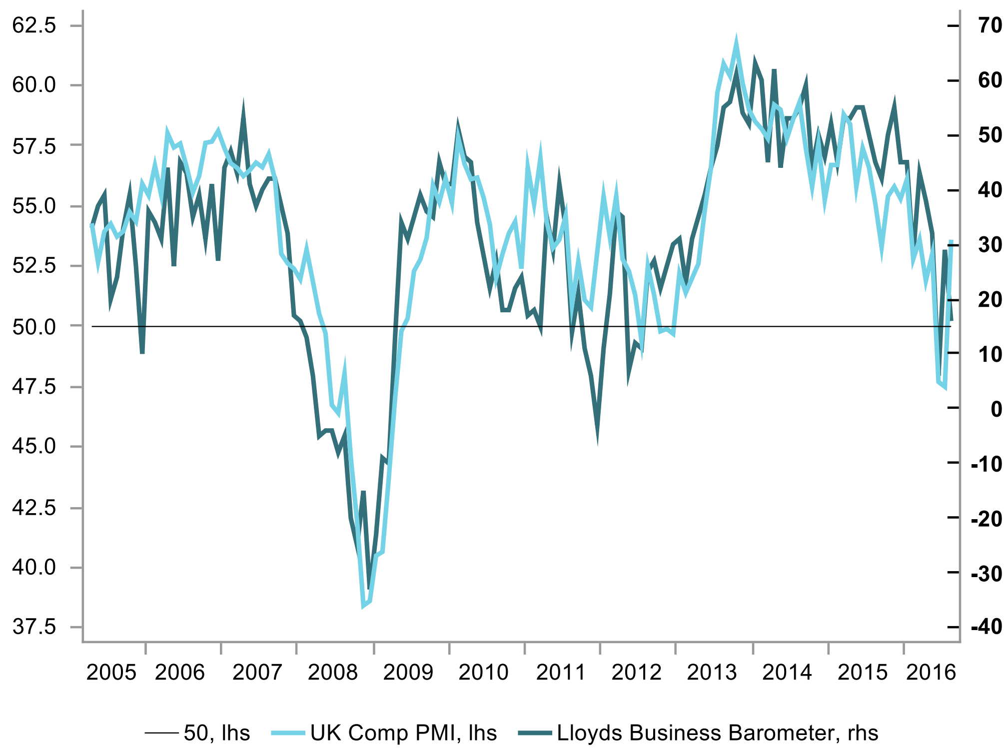
Data Since Brexit
Leading Indicators Weaker

Composite PMI and Business Barometer



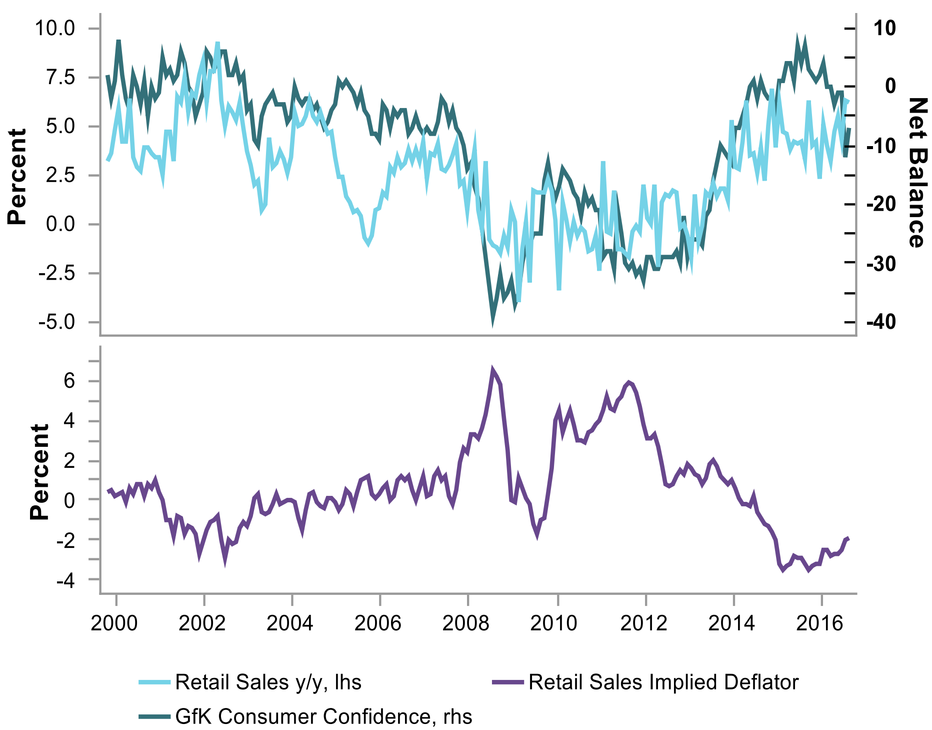
- Markit produced a flash PMI for the UK to give a snapshot post Brexit.
- Tumbling to 47.7 at the composite level indicates a poor Q3 out turn for the UK, but some rebound in August..
- Provided a soft enough outlook for the MPC to ease in August.
- Investment the missing piece.

Source: Macrobond and Columbia Threadneedle Investments, as at September 2016.

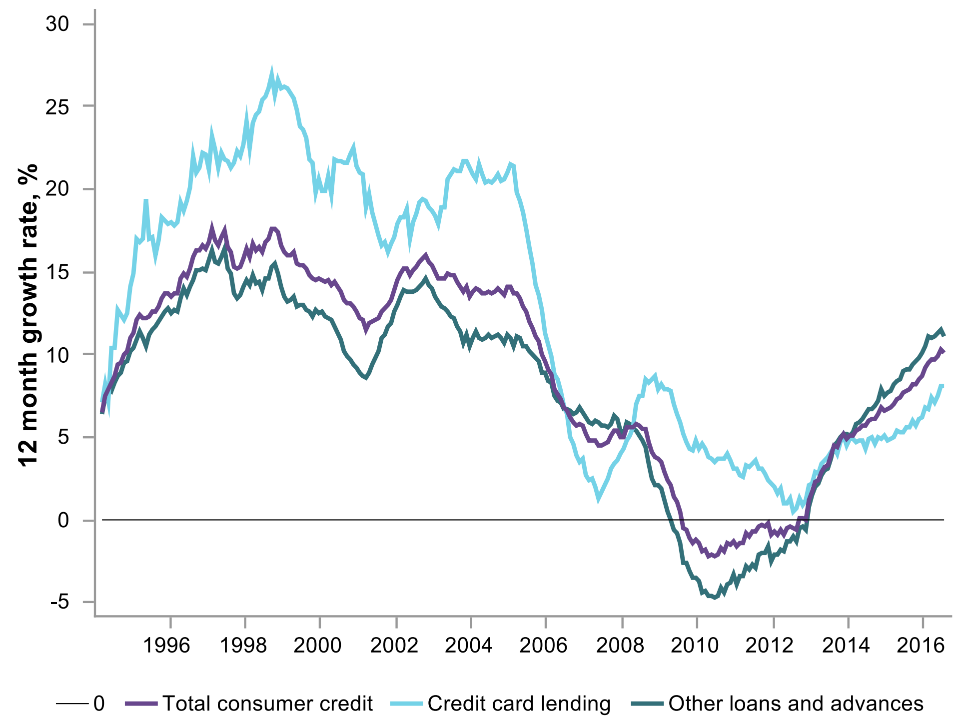
Data Since Brexit

Retail Sales holding in, supported by credit growth

Retail Sales and Deflator



Credit growth rising

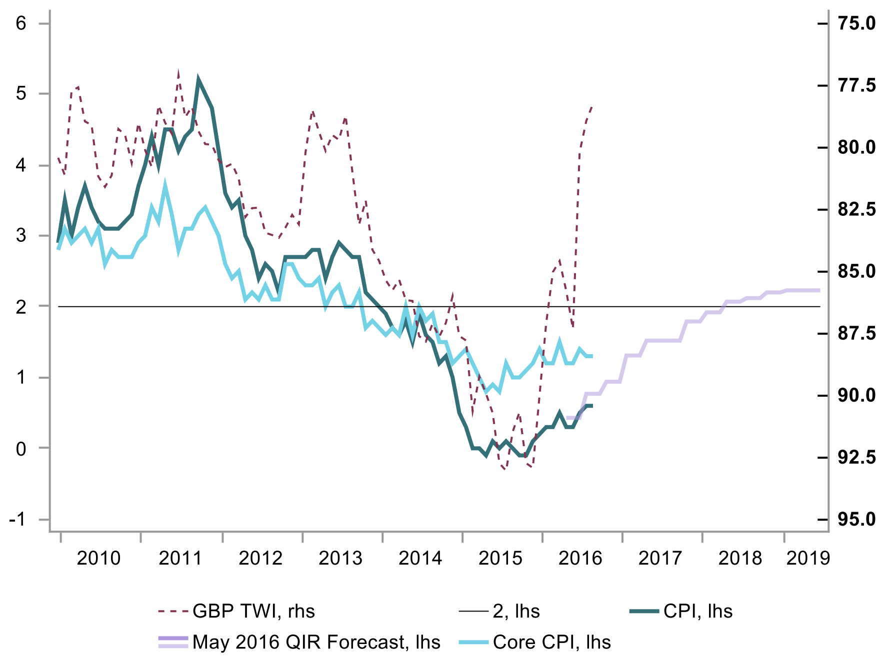


Source: Macrobond and Columbia Threadneedle Investments, as at June 2016.

Data Since Brexit

Small bounce in July inflation an indication of things to come?

CPI, Core CPI and BoE Forecast (May)



- Trade weighted sterling has fallen 12% since before the referendum
- The BoE's rule of thumb is for a 20-30% pass through to CPI when the FX shock sources are global supply / demand factors.
- However the move we've seen can be put down to domestic factors plus an exogenous exchange rate shock, and the BoE suggests the effect on CPI could be significantly lower. Sub 10% maybe.

Source: Macrobond and Columbia Threadneedle Investments, as at June 2016.

Data Since Brexit

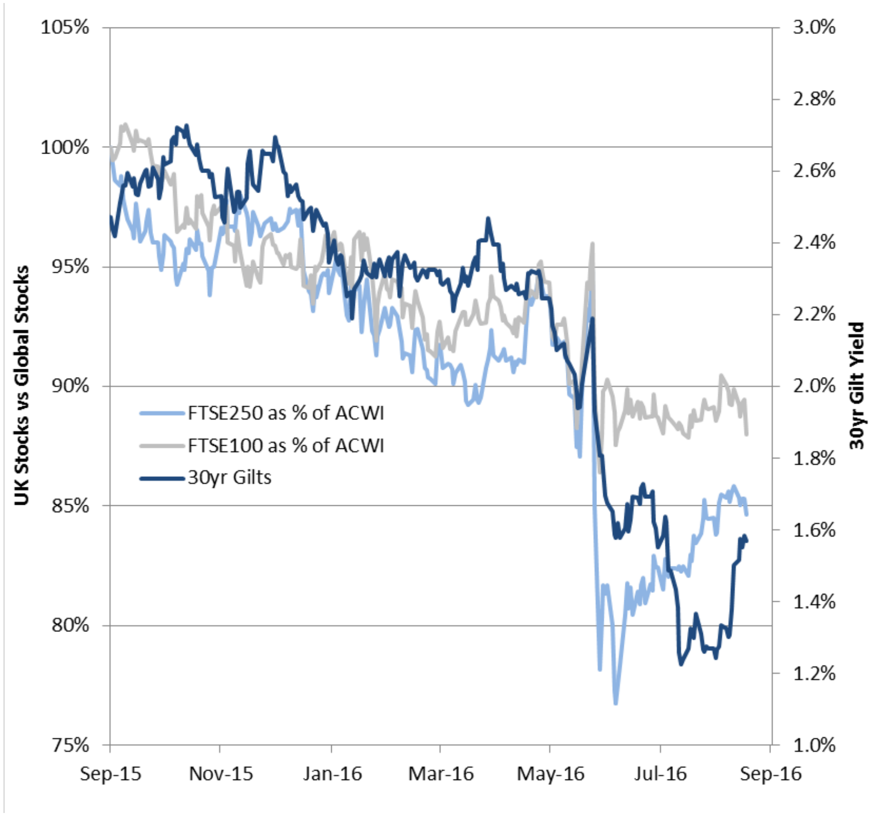
UK Economy Heatmap

Source: Pantheon Economics as at September 2016.

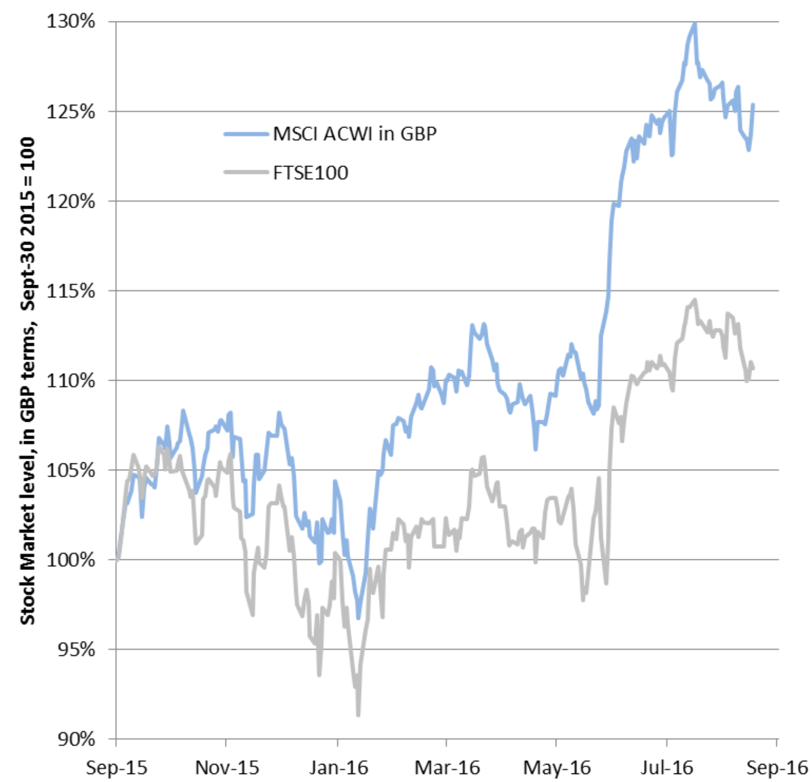
"Brexit Means Brexit"

Market impact on financial markets

Brexit has led UK yields lower and UK stocks lower from a global perspective



Sterling weakness has boosted GBP asset holders' returns

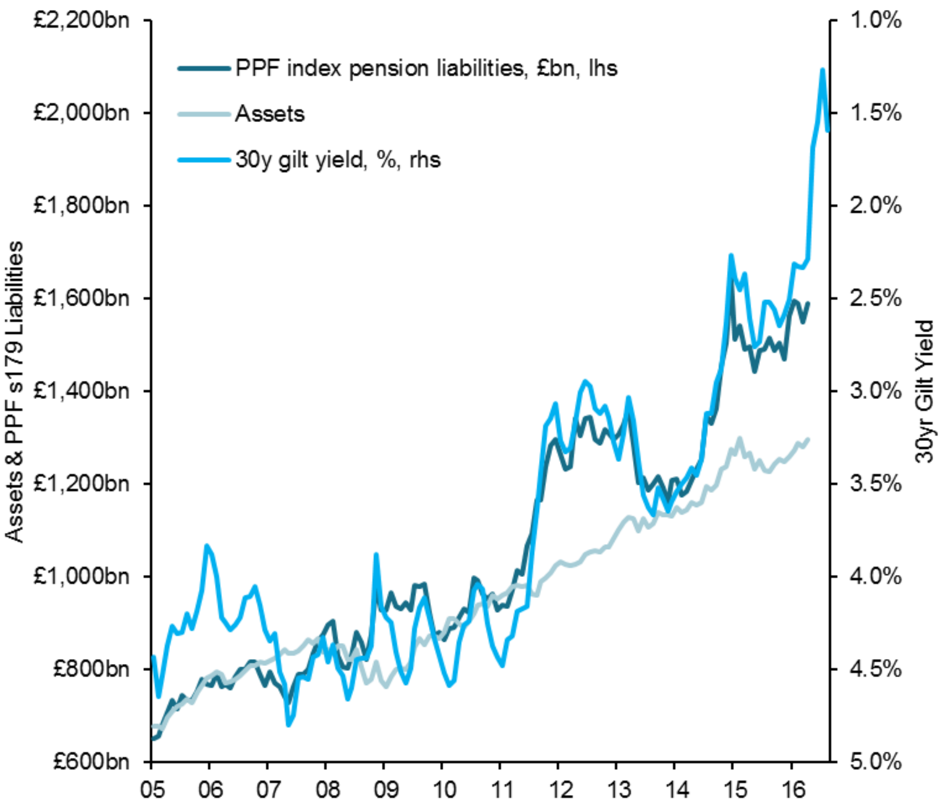


Source: Bloomberg, September 2016

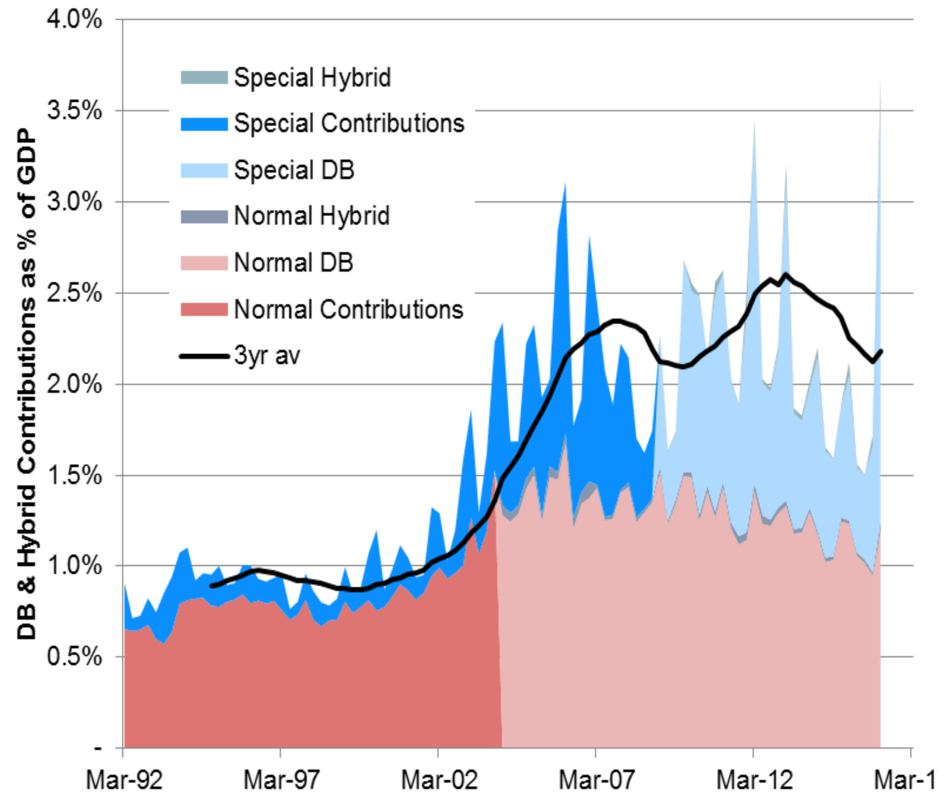
"Brexit Means Brexit"

Impact of Yield move on UK Pension Funds

DB Assets, PPF s179 Liabilities, and 30yr Gilt yields 2005-2016



Contributions to DB schemes as % of GDP, 1992-2016

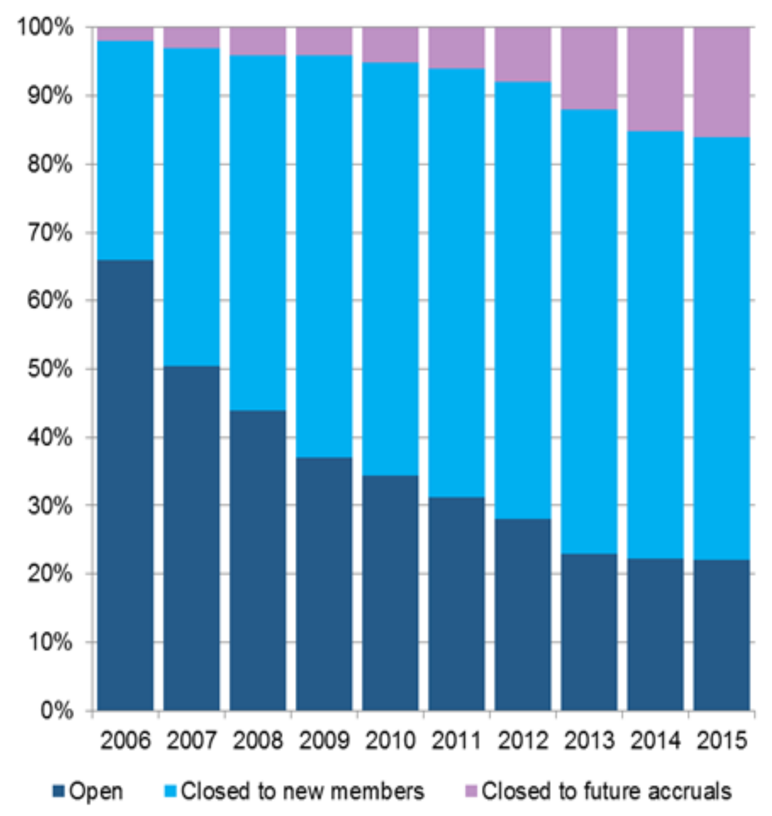


Source: ONS, September 2016

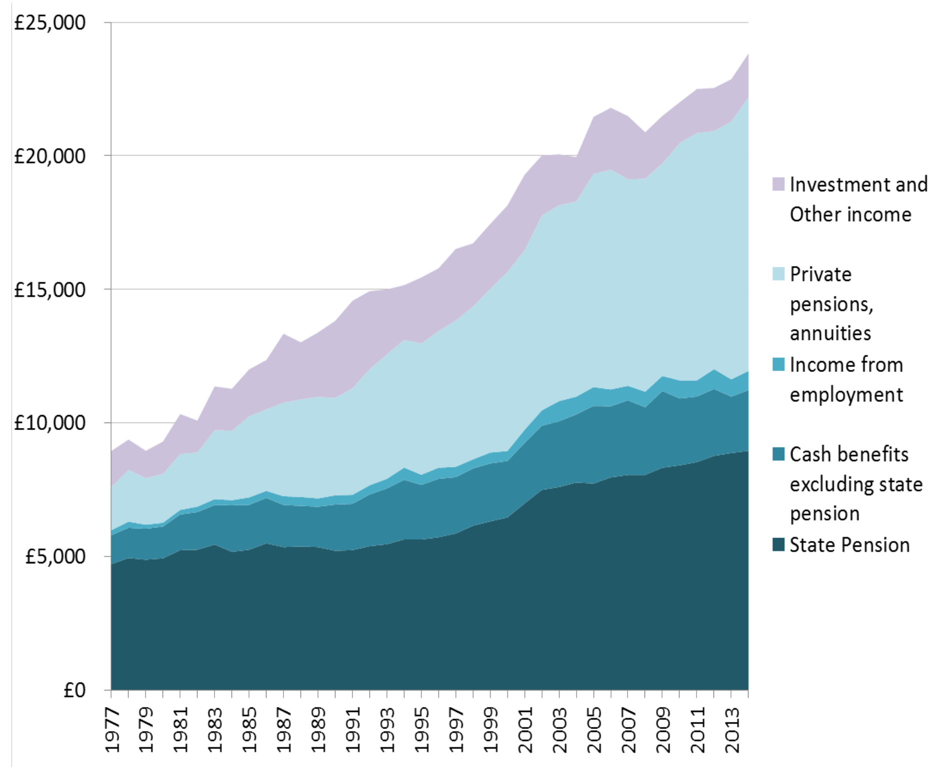
"Brexit Means Brexit"

Peak Pension?

Distribution of DB membership by scheme status



Gross income of retired households by component, 1977 to 2014/15 (2014/15 prices)



Source: ONS (http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2015) as at 31 January 2016; PPF Purple Book 2016

Outlook Summary

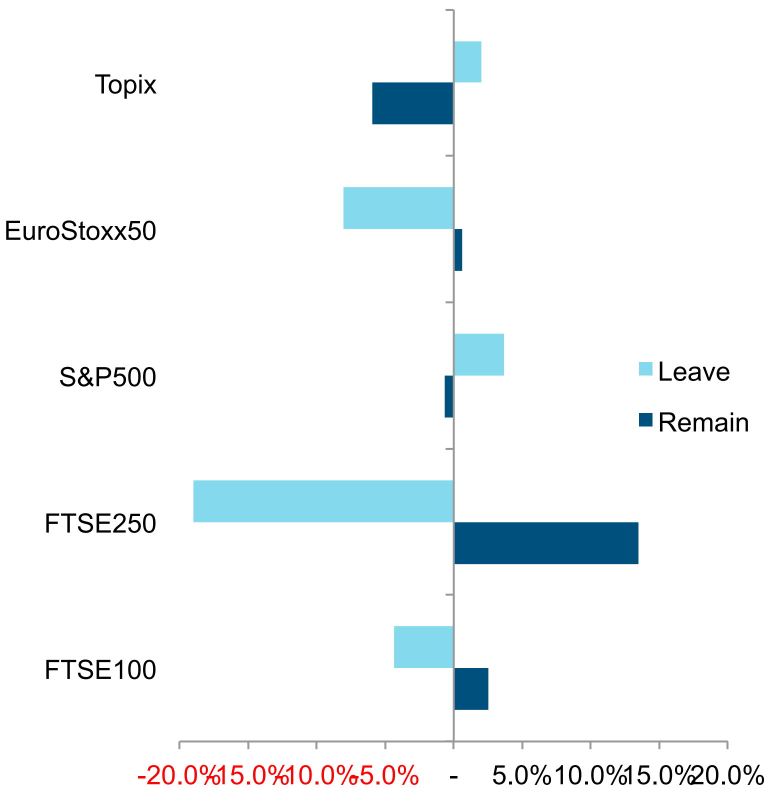
November is a key month; QIR and Autumn Statement

- Growth risks remain to the downside following Brexit, our base case however is that a recession is avoided in 2016 and 2017.
- Actual Brexit is obscure and years away, uncertainty is high over future trading arrangements but will be protracted over time.
  - Risk is tilted to significantly reduced market access, “Hard exit”.
- Q2 growth held in well at 0.6%qoq. Private consumption rose strongly at 0.9%, against our expectations of pre-referendum weakness.
- Bank of England over-delivered at the August QIR, another cut before year end is on the table but not priced for the September meeting.
  - Easing in November likely dependent on the out turn of Q3 GDP published on October 27. Forecast from August QIR for Q3 GDP is 0.1%qoq.
- Hammond to depart from Osborne’s fiscal tightening and reset policy at the Autumn Statement on 23 November.
- Long end of UK to remain supported amidst the relentless bid from pension funds plus ongoing QE

Process in action - Brexit

Dynamically managing the allocation to suit market opportunities

Forecasted impact of Remain or Leave in GBP terms

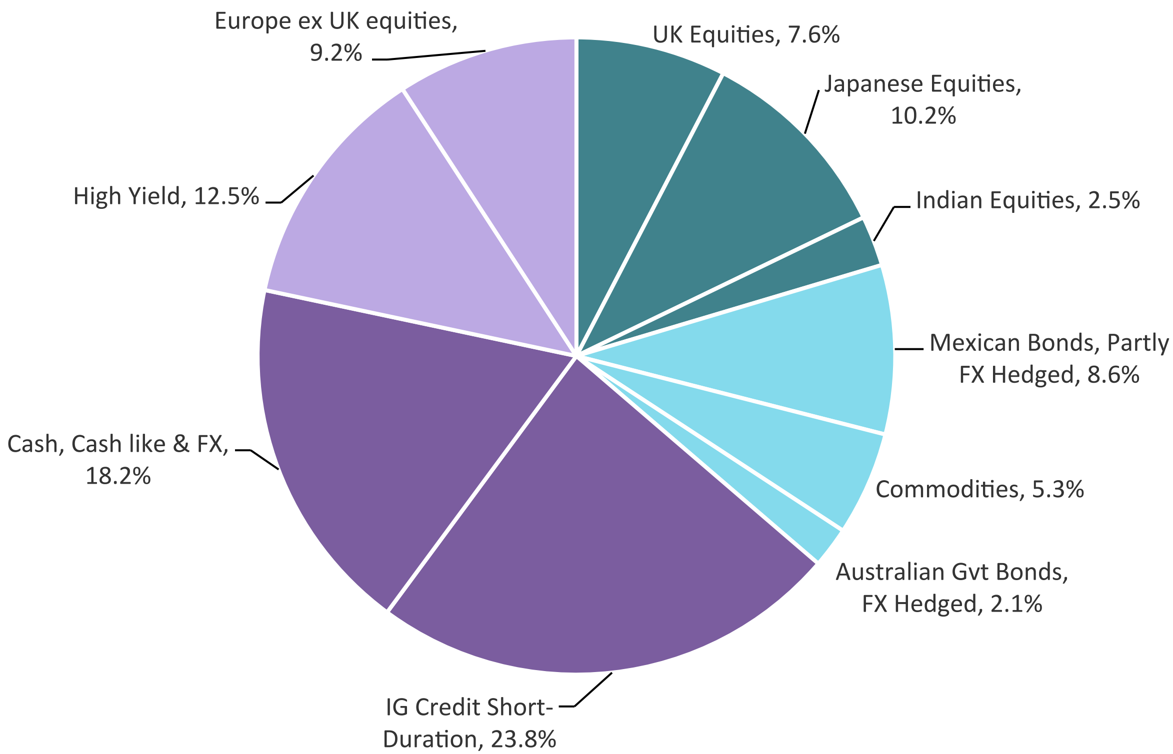


- **What**
  - Reduced risk on run up to election on 23 June 2016
- **Before 23 June**
  - Reduced
    - UK equity small cap exposure
    - European ex UK equities allocation by hedging some of the physical exposure with a EuroStoxx 50 hedge up to c.4% (which is more financials orientated compared to underlying fund)
    - Japanese equities and removed currency hedge
    - European High Yield exposure
- **Post 23 June**
  - Exited
    - UK equity small cap exposure
    - EuroStoxx 50 hedge on 24th June
    - UK Property
  - Reduced
    - physical European ex UK equity exposure
  - Un-hedged part of Mexican government bond exposure
  - Increased UK short dated corporate bonds
  - Hedged some of UK equity exposure into US dollars
- **Why**
  - AAS moved Current Risk Appetite from Neutral to Dislike
  - Initial asymmetry of trade
  - UK breakup from the EU and implications

Source: Columbia Threadneedle Investments and Bloomberg, as at 30 June 2016. Past performance is not a guide to future performance.

Appendix

How are we invested?
Dynamic, active, index-unconstrained



Earnings growth exposure – 20.4%
where company profits are underpriced

Participate but protect in EM – 15.9%
buy EM assets (participation) with AUD bonds (protection)

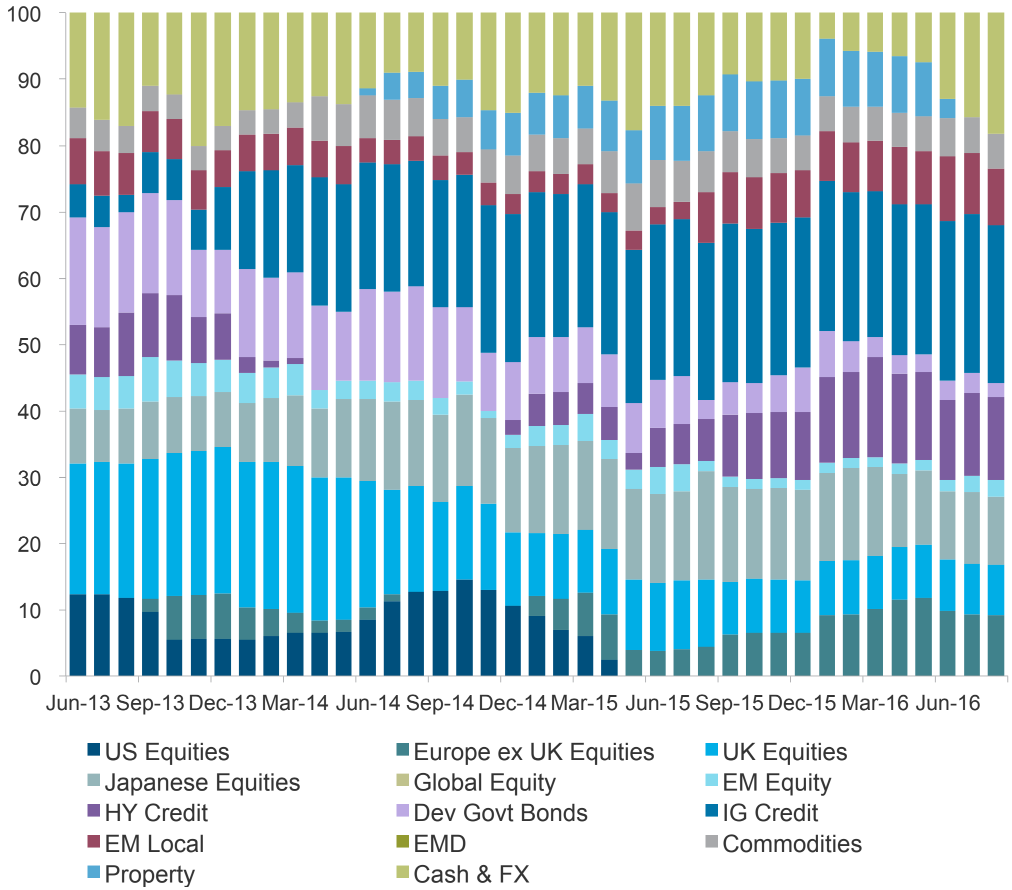
Avoid expensive duration – 40.2%
short duration assets

Eurozone opportunities – 21.7%
invest in Eurozone risk assets

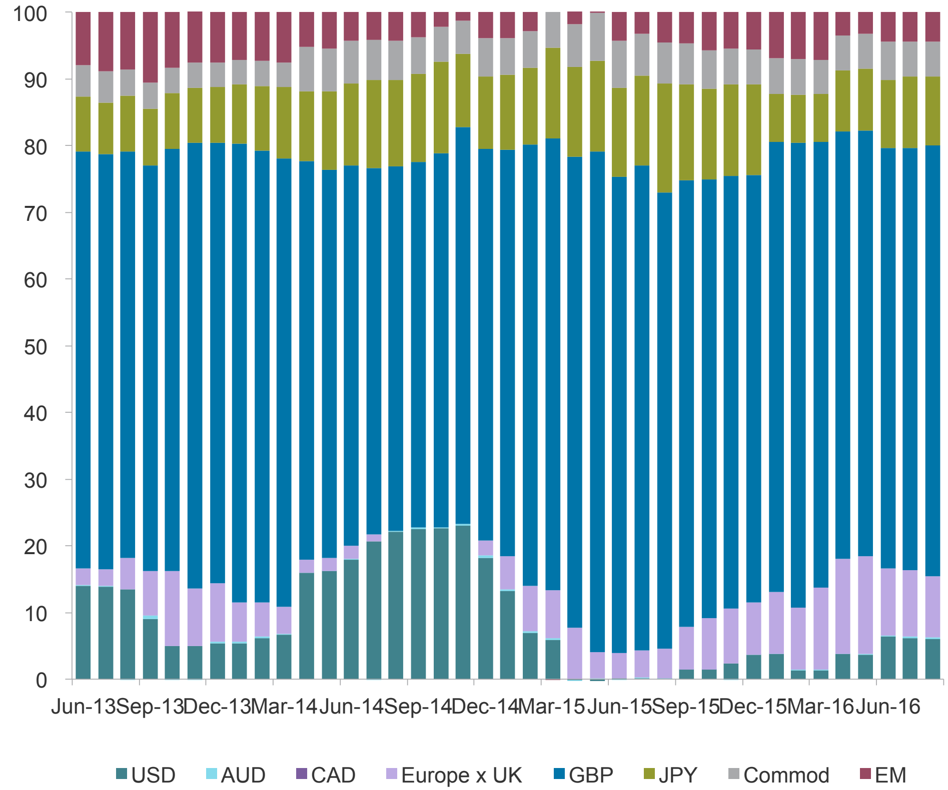
Source: Columbia Threadneedle Investments, as at 31 August 2016.
Data is shown is for the Threadneedle Dynamic Real Return Fund.

Dynamic allocation

Historic asset allocation



Historic currency allocation

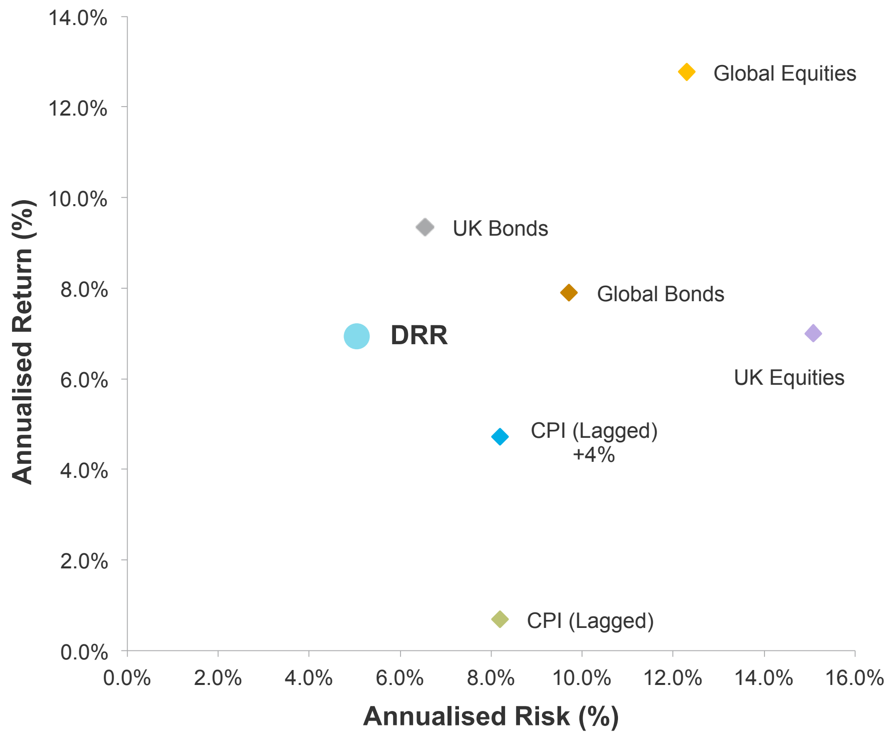


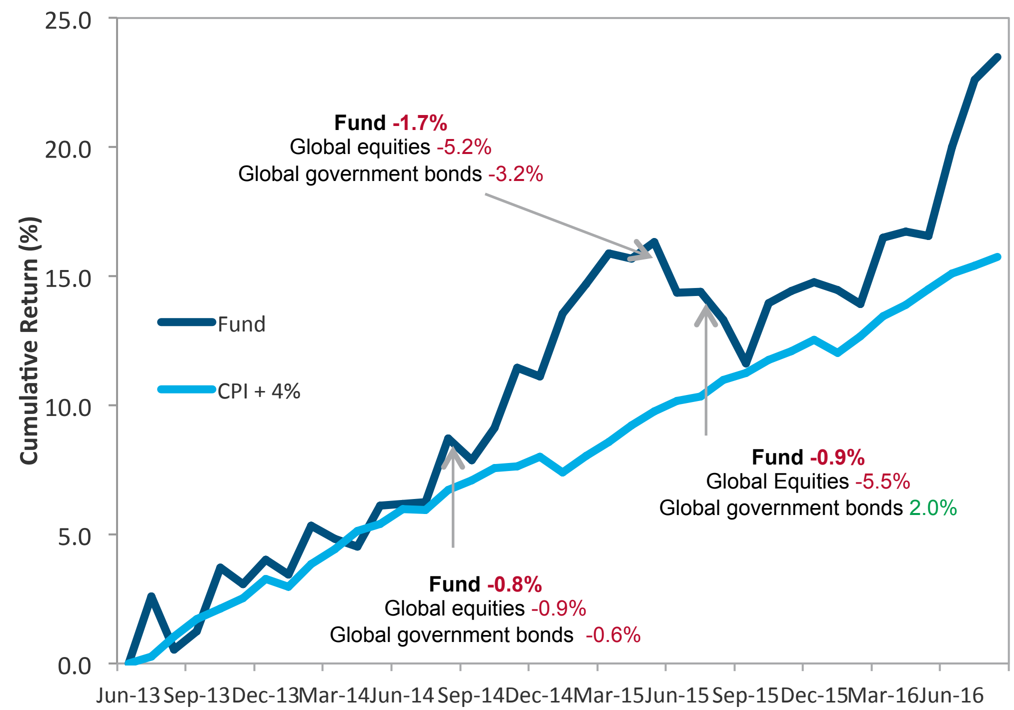
Source: Columbia Threadneedle Investments, as at 31 August 2016.
Data is shown is for the Threadneedle Dynamic Real Return Fund.

Performance

Since Inception Annualised Return and Risk Profile

	Since Inception Annualised Return	Since Inception Risk
Threadneedle Dynamic Real Return Fund	6.9%	5.0%
CPI +4% (lagged)	4.7%	8.2%





Source: Columbia Threadneedle Investments, as at 31 August 2016. Provisional performance is in GBP, on an offer-to-offer basis, gross of annual management charges, using Global Close prices. Arithmetic relative. CPI is represented with 2/3 the volatility of global equities. Past performance is no guide to future returns. The value of investments and income from them can go down as well as up. Changes in exchange rates may also cause the value of investments to fall as well as rise.

Why Dynamic Real Return
Focusing on high risk-adjusted returns

Macro

- Asset allocation is central to our business
- Drawing on expertise of entire investment platform
- Holistic portfolio risk awareness

Global Perspective Advantage

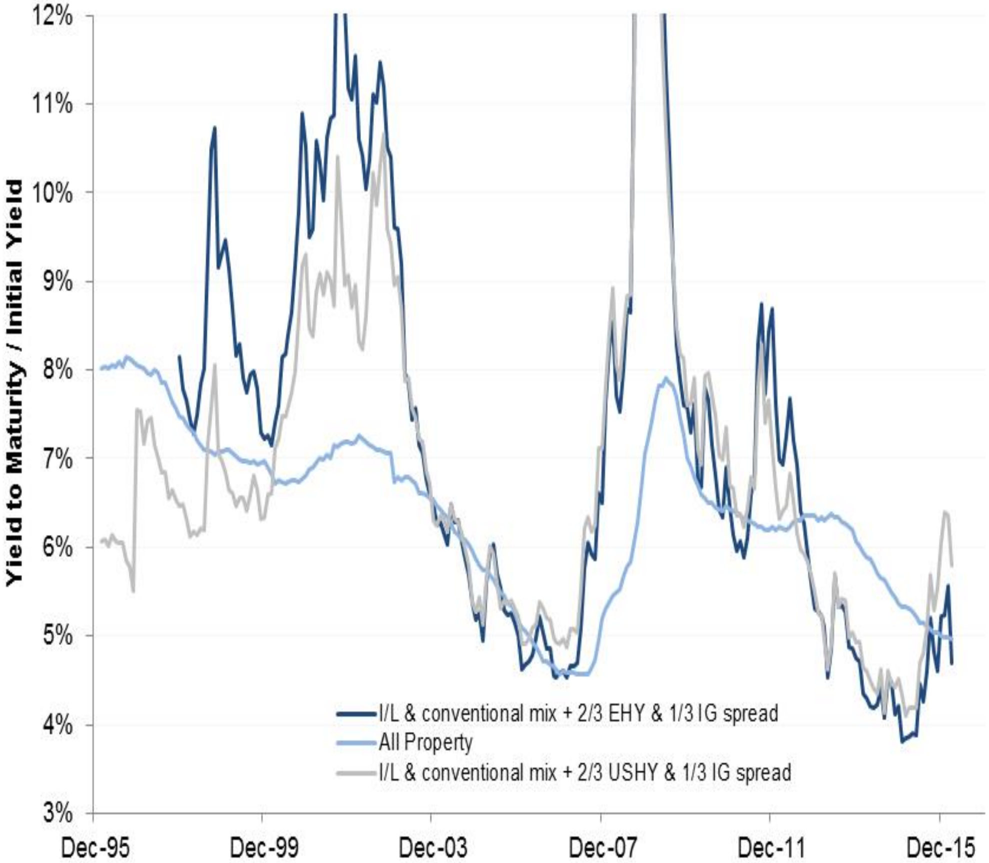
- Dynamically managed asset allocation
- Volatility controlled
- Straightforward long-only, unlevered

Micro

- Market leading security selection
- Upside participation, downside protection
- Granular understanding of portfolio risk

Process in action – UK EU Referendum

Dynamically managing the allocation to suit market opportunities



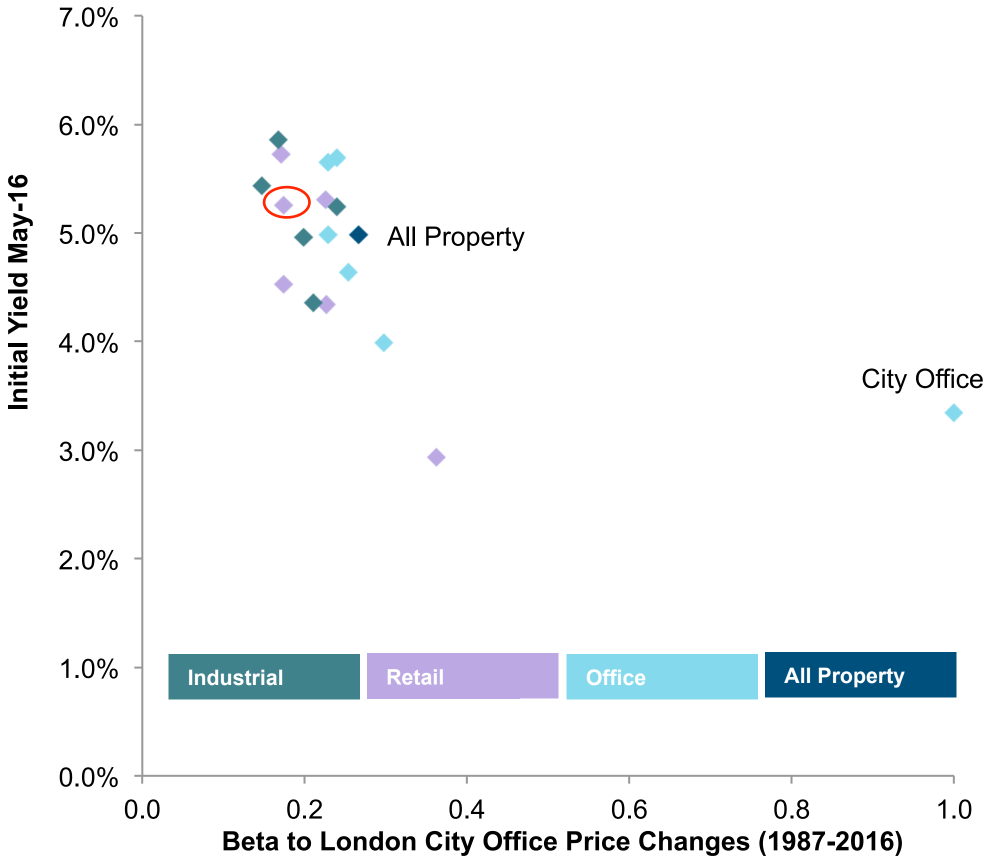
- What?
  - Exited allocation to Threadneedle's UK Property Trust, was circa 8% at end May 2016
- When?
  - Started reducing post UK's EU Referendum Leave vote
- Why?
  - While UK property retains a favourable yield characteristics there are a number of headwinds from the UK's Leave vote and as such was competed out of portfolio by other asset classes
  - However, we believe the underlying fund given its income focus resulting in a wide regional spread and small allocation to Prime London means it is more insulated than other funds
  - Major participant in the IPD Monthly Index* accounting for:
    - 11% of Index by capital value
    - 30% of Index by number of properties
- Risk
  - Liquidity – currently the fund is suspended

Source: Columbia Threadneedle Investments, IPD Property Index and Bloomberg as at May 2016

Process in action – UK EU Referendum

Dynamically managing the allocation to suit market opportunities

Retail Property Yield and Beta to London City Offices
31 May 2016



- London accounts for 20% of IPD Index
- Property outside London offers higher yield with low beta to London
- For example South East Retail
  - Yield 5.3%
  - Beta to London City Offices 0.17
  - If historical relationship maintains
    - London city offices fall by 15%
    - South East capital value falls by 2.6%
    - offset by yield of 5.3%
    - so still positive return
- Office and Industrial Property similar story
- Threadneedle UK Property Unit Trust
  - Weighted away from central London
  - Do not participate in speculative refurbishments and redevelopments
  - Smaller, multi-let assets mainly in the southern UK – where valuations and fundamentals remain supportive

Source: Columbia Threadneedle Investments and IPD, as at 31 May 2016. Past performance is not a guide to future performance.

Biography

TOBY NANGLE
Global Co-Head of Asset Allocation, Head of Multi-Asset, EMEA

Toby Nangle joined the company in 2012 and is currently Global Co-Head of Asset Allocation and Head of Multi-Asset, EMEA. In this role he is responsible for managing and co-managing a range of multi-asset portfolios, as well as providing strategic and tactical input to the company's asset allocation process.

Before joining the company, Toby worked at Baring Asset Management, initially in the fixed income team and subsequently as Director of the Multi-Asset Group. He holds degrees in History and International Relations from the University of Cambridge.

Company start date: 2012
Industry start date: 1997

Threadneedle Dynamic Real Return Fund

Objective and key risks

Objective – 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.

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

Investment in Funds – The Investment Policy allows the fund to invest principally in units of other collective investment schemes. Investors should consider the investment policy and asset composition in the underlying funds when assessing their portfolio exposure.

Currency Risk – Where investments are made in assets that are denominated in multiple currencies, changes in exchange rates may affect the value of the investments.

Investor Currency Risk – Where investments in the fund are in currencies other than your own, changes in exchange rates may affect the value of your investments.

No Capital Guarantee – Positive returns are not guaranteed and no form of capital protection applies.

Issuer Risk – The fund invests in securities whose value would be significantly affected if the issuer either refused to pay or was unable to pay or perceived to be unable to pay.

Interest Rate Risk – Changes in interest rates are likely to affect the fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

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.

Investment in Derivatives – The Investment Policy of the fund allows it to invest materially in derivatives.

Volatility Risk – The fund may exhibit significant price volatility.

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