

Threadneedle (Lux) Emerging Market Corporate Bond Fund Covering October 2011

Market Background

The sovereign debt crisis in the eurozone once again dominated investor sentiment as risk appetite continued to fluctuate in response to headlines and developments in Europe. Towards the end of the month, risk assets rallied strongly following the announcement of a raft of new measures, which surpassed the modest expectations of most investors, to address the crisis. This positive reaction reflected the market's view that an imminent collapse of the eurozone was now unlikely.

Performance

Emerging market corporate bonds regained ground lost in September although the fund underperformed over the month.

Activity

A more optimistic tone was reflected in the re-opening of the new issue market. During the month, there were new issues from Pemex, the Mexican state oil company, Codelco, the Chilean state copper mining company, and Eletrobras, the Brazilian state electric company. The fund participated in the latter. We also purchased the newly-issued bonds of Abu Dhabi's International Petroleum Investment Company in the secondary market as the new issue had traded lower. Elsewhere in the Middle East region, we reduced the fund's exposure to sovereign bonds in Lebanon and Jordan, which had performed extremely well in the recent market volatility. We used the proceeds to add sovereign bond exposure in Iraq, as we see considerable value in the bonds following recent weakness. Elsewhere we reduced the fund's overweight position in Argentina, selling the sovereign bonds into a market rally. These bonds added positively to performance during the month as they recovered from depressed levels. In a similar vein, the overweight exposure to PDVSA, the Venezuelan state oil company, also contributed significantly as these high beta bonds performed well as risk appetite recovered. We also reduced the fund's exposure to the markets most sensitive to developments in the eurozone with the sales of Hungarian sovereign bonds and OTE, the Greek telecommunications company which is part-owned by Deutsche Telekom.

Outlook

We continue to regard the asset class favourably. Emerging market fundamentals remain significantly more attractive than those of the developed world. Furthermore, despite the strong performance seen in October, corporate credit spreads remain at elevated levels, representing an attractive entry point to the asset class for investors.

Important notes

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