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Press Release

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Beware the Tiger

Whilst the battered and bruised West licks its wounds, China has emerged relatively unscathed from the recession and is preparing to usher in the Year of the Tiger this coming weekend. But whilst the Tiger represents courage, other attributes point to an impulsive and rebellious creature.

Speaking at a briefing in London yesterday, Mike Hanbury-Williams, Head of Pacific Equities at F&C commented: "From a macro perspective, China, and indeed many economies in Asia, remains stronger than expected and perhaps appears to be a natural choice compared to the developed markets. Nevertheless, policy change amid rising inflationary pressures is bringing heightened risks to the table this year".

Hanbury-Williams believes that the Chinese authorities have a reasonable hold on their economy for the time being however is concerned of the potential ramifications over the unwinding of the excess liquidity in the market.

"This could have a dramatic impact, no matter how gentle the authorities try to be, but I anticipate that they will endeavour to avoid the scenario of bust to boom and back to bust again at all costs. Rising inflation, risk of increasing interest rates and tightening administrative measures are exacerbating concerns in the market over China's near term economic momentum leading to investors climbing a wall of worry in response. I believe the concerns, while understandable, are exaggerated and the impact will not be as bad as anticipated," he said. "Despite headlines of stimulus policy withdrawal, particularly in asset markets susceptible to overheating, which may be construed negatively, they will ultimately prove to be in the long term best interests of the Chinese economy."

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In terms of the recovery in GDP, China is now in the enviable position of being a strong market leader indicating that overall the Asian economies have successfully decoupled, proving that they have been able to survive without the export engine. Given the concern on Western economies, exports are likely to remain subdued whilst imports into China should provide a boost to neighbouring economies in Asia which hang off the coat-tails of China.

Peter Dalgliesh, Director of Pacific Equities at F&C and manager of Pacific Assets Trust, added: "There is a case for China becoming an asset class in its own right, driven by the fact that the average daily turnover of China now exceeds that of the combined rest of Asia Pacific ex-Japan altogether. Furthermore, the organisation with the largest amount of capital in the world is now estimated to be the Communist Party in China".

While the emerging domestic consumption thematic in China has been well documented as a significant driver of China's future economic growth story, Dalgliesh has concerns that this is well discounted by the market. Nonetheless, expanding aspirations of the younger generations coupled with an improving welfare system that the authorities have begun to put in place is expected to drive the consumption story forwards. Elsewhere, he believes the authorities will embark on a measured, controlled appreciation of the currency over the coming years, prompting a renewed focus on asset plays.

Dalgliesh and Hanbury-Williams remain positive on the growth prospects for Asia as a region and China in its own right over the long-term. Nevertheless, they are cautious in the short-term as they anticipate greater risk on the downside than upside following changes in macroeconomic data pointing towards greater policy risk, in addition to a rising interest rate cycle.

They are particularly cautious within the property sector, as they expect policies will likely tighten in any areas of perceived excesses. Accordingly, they have positioned the portfolios around what they believe are key long-term structural plays which should continue to thrive.

"In terms of regions, we favour China, India and Indonesia as they will lead the interest rate cycle. Turning to favoured themes, we like healthcare, internet and the growth from the 'young aspirational consumer'", said Dalgliesh. "Investors need to be more top-line aware this year - the cost cutting has been completed and the drivers in terms of market returns are likely to be earnings-led and not a multiple re-rating as occurred in 2009. This environment should benefit both the value and stock-selection pickers who, like us, adopt a bottom-up approach".

In line with both the near-term outlook and bottom-up approach to generating alpha, Dalgliesh has adopted a barbell strategy, combining the modest revival in western demand and the proxy's to that - North Asian markets of Korea and Taiwan - with the domestic, slightly more robust stories of China, India and Indonesia.

Hanbury-Williams concluded: "Whilst we are bullish on the prospects for China over the longer-term, there are undeniable risks in the region this year. Regardless, love or hate China, it is now a formidable player in the global markets - disregard it at your own expense".

- Ends -

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Notes to Editors

F&C Investments

- F&C Asset Management (F&C) is an independent London Stock Exchange listed asset management group with around 100,000 shareholders.
- F&C traces its origins to 1868 with the launch of the Foreign & Colonial Investment Trust, the first ever publicly listed investment fund. Foreign & Colonial Investment Trust remains a client of F&C.
- F&C is an active fund manager with a multi-specialist investment model where individual teams have strong accountability for their products and processes. The group is also an active shareholder with a leading franchise in governance and sustainable investment.
- F&C manages £97.8 billion (€110.2billion) of assets* for a diverse range of institutional, insurance and retail clients across all major asset classes – equities, bonds, cash and property – as well as alternative and specialist product classes. F&C invests globally and has been a longstanding investor in emerging markets.
- F&C has three pillars to its strategy: *Advisory & Solutions* – the servicing of strategic partners and the provision of investment solutions and overlays such as shareholder engagement programmes, Liability Driven Investments, Asset & Liability Management, Multi-Manager and Fiduciary Management; *Alpha Investing* – active fund management across a diverse range of asset classes

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and markets but with a focus on UK and European equities and fixed income and Emerging Markets; *Environmental, Social & Governance Investing* – building on its market leading presence in ethical investment with new products.

- F&C REIT Asset Management is the group's global property asset management business. It was formed in 2008 from the merger of F&C's property division and REIT Asset Management. F&C REIT operates from offices in London, Dublin, Munich, Mumbai and Stockholm.
- F&C manages assets principally from three investment centres: London, Amsterdam and Edinburgh. The group has a global office network spanning a dozen countries: China (Hong Kong), France (Paris), Germany (Frankfurt & Munich), India (Mumbai), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), UK (London, Edinburgh, Dorking) and the United States (Boston).
- In March 2009 F&C signed a Memorandum of Agreement with Hua Xia Bank, one of China's twelve nationwide joint stock commercial banks, to establish a joint venture fund management company in China in which F&C will have a 19.5% interest.

* As at 31 December 2009.