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Press Release

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Convertibles manager moves to 'balance', as asset class keeps positive momentum

Convertible bonds continued their positive momentum during the traditionally quiet summer months, recovering strongly since the lows of October 2008 and the unprecedented sell off of the asset class during the second half of last year.

In particular, since early March 2009 convertible valuations benefited to a great extent from rising equity markets as well as tightening credit spreads. In addition, the new issues market offered appealing long-term investment opportunities with low conversion prices and relatively high coupons.

Anja Eijking, manager of the F&C Global Convertible Bond Fund, said: "New issues included British Airways, Intel, KFW / Deutsche Post, Capitaland, Wereldhave and Alcatel, some of which are offering attractive earnings growth potential on the back of company restructurings. With shares trading at mid-1990 levels and strong profit recovery potential in a strengthening economic environment, their convertibles should benefit from this added stock price potential".

On the back of the strongly improving secondary market for convertibles and active new issues market, the F&C Convertibles team has gradually moved the fund back towards a so-called 'balanced' profile. Balanced convertibles are expected to participate in circa 40 to 50% in the upward price movement of the underlying equity, but have limited downside risk when stock prices decline. It means that credit spread contraction will be a less dominant contributor to returns going forward. Potential losses are limited to the part above the bond value of the convertible and are cushioned by the repayment of the nominal value of the convertible on maturity.

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F&C Asset Management plc is the listed holding company of the F&C Group.

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By focussing on the balanced part of the market, the best advantage is taken of the a-symmetrical risk (limited)/reward (unlimited) profile that convertibles offer. The manager aims to be invested in this part of the convertibles universe throughout market cycles.

Eijking explained: "The current profile of the fund demonstrates that it is nearing a balanced status again as it is positioned with 2.5% yield to maturity (put) and an estimated 42% participation in any equity upside. Total return potential of the convertible bonds remains attractive, as they stand to benefit from share price recovery during the anticipated economic recovery, whilst providing some degree of downside protection, and offering a base yield of 2.5% per annum."

Year-to-date the F&C Global Convertible Bond Fund's performance is at 31.05% gross of fees outperforming the index by 6.13%*. Returns were driven by spread tightening and equity market recovery and were further enhanced as additions were mostly focussed on cyclical sectors such as Basic Materials, Media and Industrials in anticipation of an economic recovery. The F&C Global Convertible Bond fund has also outperformed its index over the last 8 calendar quarters, a demonstration of the successful manager's investment philosophy in both down and up markets.**

Eijking maintains her cautiously optimistic outlook for the asset class. On the macro economic side, inventory and export levels are recovering, combined with downsized company operations. This bode well for earnings and a somewhat weaker than usual V-shape recovery should last into the second half of 2010. Convertibles are expected to continue to provide exposure to the long term appreciation potential of the equity markets in a risk adjusted manner.

"We are mindful of rising convertible valuations as liquidity in the balanced segment has been dampened somewhat by the reduced hedge fund activity, while new inflows into the asset class seem to come from investors with a more buy and hold strategy. However, the new issues trend is expected to continue, albeit at a slower pace", she concluded.

* Source F&C, 1 January 2009 to 30 September 2009. F&C Global Convertible Bond Fund (Euro Hedged).

** Source F&C, F&C Global Convertible Bond Fund (Euro Hedged) Gross of fees

- 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 £88.3 billion (€103.7 billion) 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 such as Socially Responsible Investment funds, hedge funds, private equity funds and Liability Driven Investments. F&C invests globally and has been a longstanding investor in emerging markets.
- 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 30 June 2009.

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