



# F&C Asset Management plc

## Interim management statement

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**31 October 2008**

F&C Asset Management plc (“F&C”) is today issuing an Interim Management Statement as required by the UK Listing Authority’s Disclosure and Transparency Rules. This statement covers the three months to 30 September 2008. It also includes an update regarding the intentions of F&C’s majority shareholder with regards to its 52% holding.

- **Assets Under Management of £93.3 billion<sup>1</sup> 3% lower than levels at 30 June 2008**
- **Resilient revenues with management fees 4% lower than Q3 2007 despite market conditions**
- **Satisfactory progress in executing a £12 million cost reduction programme**
- **Continued discussions with interested parties; F&C remains in Offer Period**

Alain Grisay, Chief Executive of F&C, said: *“These are without doubt challenging times for the whole financial sector as markets remain volatile and trust in the financial system is being tested to its limits. However, F&C remains in a strong financial position and continues to demonstrate the resilience of its business model. I am very confident that the company, with its strong cash generation arising from its diverse sources of revenue by asset class, geography and client type and underpinned by long-term contracts, is well positioned to take advantage of opportunities as they develop.”*

### **Assets Under Management**

Over the period since our interim results, financial markets have deteriorated significantly with the collapse and bailout of a number of financial institutions and extreme equity market volatility. In the UK, the FTSE 100 index opened the quarter at 5625 points and fell by some 13% to close the quarter on 30 September at 4902 points. Further significant market declines have followed during October. In recent weeks these events have necessitated unprecedented levels of governmental and regulatory intervention in the financial system including the partial nationalisation of a number of large financial institutions.

With some of our revenue streams correlated to equity market levels, this turbulence has had an impact on our business. However, despite these adverse market conditions, our model of being a well diversified business by asset class, client type and geography has provided a significant degree of support to our assets under management which at £93.3 billion<sup>1</sup> as at 30 September 2008 were just 3% lower than the levels at 30 June 2008.

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<sup>1</sup> Includes assets added during the quarter through the merger of F&C Property and REIT, being £3.2 billion as at end of September.

## Assets Under Management by Client Category

<b>Sterling</b>	<b>30 Sep 2008 £bn</b>	<b>30 June 2008 £bn</b>	<b>31 Dec 2007 £bn</b>
Insurance Funds	52.6	55.7	58.9
Institutional Funds	27.1	25.4	27.3
Sub-Advisory	4.6	5.6	6.5
Investment Trusts	5.4	5.9	6.6
UK Retail (Mutual Funds)	2.6	2.8	3.3
International Wholesale (Mutual Funds)	1.0	1.1	1.0
<b>Total</b>	<b>93.3</b>	<b>96.5</b>	<b>103.6</b>

<b>Euros</b>	<b>30 Sep 2008 €bn</b>	<b>30 June 2008 €bn</b>	<b>31 Dec 2007 €bn</b>
Insurance Funds	66.7	70.4	80.2
Institutional Funds	34.4	32.1	37.1
Sub-Advisory	5.8	7.0	8.9
Investment Trusts	6.9	7.4	9.0
UK Retail (Mutual Funds)	3.3	3.6	4.5
International Wholesale (Mutual Funds)	1.3	1.4	1.3
<b>Total</b>	<b>118.4</b>	<b>121.9</b>	<b>141.0</b>

## Assets Under Management by Asset Class

<b>Sterling</b>	<b>30 Sep 2008 £bn</b>	<b>30 June 2008 £bn</b>	<b>31 Dec 2007 £bn</b>
Fixed Interest	53.0	55.1	53.5
Equities	25.5	31.3	37.0
Property	8.2	5.2	5.3
Other Alternative Investments	1.6	1.6	1.9
Money Market	5.0	3.3	5.9
<b>Total</b>	<b>93.3</b>	<b>96.5</b>	<b>103.6</b>

	<b>30 Sep 2008 €bn</b>	<b>30 June 2008 €bn</b>	<b>31 Dec 2007 €bn</b>
Fixed Interest	67.3	69.6	72.9
Equities	32.3	39.6	50.3
Property	10.4	6.5	7.3
Other Alternative Investments	2.1	2.0	2.5
Money Market	6.3	4.2	8.0
<b>Total</b>	<b>118.4</b>	<b>121.9</b>	<b>141.0</b>

## Fund Flows

Excluding inflows related to the acquisition of REIT we experienced net outflows across client categories during Q3 totalling £2.6 billion. Approximately 60% of these net outflows were of insurance assets which is our lowest fee margin client category and has historically seen net outflows in part due to the maturity profile of the underlying funds.

We generated gross inflows of £440 million of institutional business during the quarter at fee rates above our average fee margin, despite the poor market conditions and the continued impact of corporate uncertainty on our institutional consultant ratings. Overall we saw net institutional outflows of £737 million during the quarter. However this is partly mitigated by an unfunded pipeline of institutional mandates which exceeded £400 million at 30 September.

We have also seen particular success in winning new mandates for our fee-based shareholder responsible engagement overlay product, reo®, on externally managed assets including three such mandates in the Netherlands, four from churches in Germany and, in the UK, we have been appointed to provide engagement services to the UK Pensions Protection Fund and the Lloyds Central Fund.

Retail investor sentiment has deteriorated materially and the outlook remains weak for the foreseeable future. However, year to date net sales remain positive in both these higher margin categories with net flows into SICAV funds for the first nine months of 2008 some 347% higher than those achieved over the same period in 2007. We experienced small net outflows over the quarter in both UK Retail and International Wholesale which was our first period of mutual fund net outflows this year.

### Fund flows for the quarter to 30 September 2008

Client Category	Inflows £m	Outflows £m	Net £m
Insurance Funds	N/A	N/A	(1,550)
Institutional	440	(1,177)	(737)
Acquisition of REIT	3,218	--	3,218
Sub Advisory	92	(283)	(191)
Investment Trusts	71	(81)	(10)
UK Retail (Mutual Funds)	83	(152)	(69)
International Wholesale (Mutual Funds)	64	(78)	(14)
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>647</b>

## Fund flows for the nine months to 30 September 2008

Client Category	Inflows £m	Outflows £m	Net £m
Insurance Funds	N/A	N/A	(3,261)
Institutional	1,163	(3,781)	(2,618)
Acquisition of REIT	3,218	--	3,218
Sub Advisory	287	(1,141)	(854)
Investment Trusts	114	(218)	(104)
UK Retail (Mutual Funds)	372	(355)	17
International Wholesale (Mutual Funds)	545	(285)	260
<b>Total</b>	<b>N/A</b>	<b>N/A</b>	<b>(3,342)</b>

## Financial Results

From a financial perspective, our performance remains robust against the hostile market backdrop. In Q3 2008, our management fees were some 4% lower than our management fees for the same period in 2007<sup>2</sup>. This resilient performance reflects a combination of our business model and our strategic focus of growing our higher fee margin business.

In particular, as indicated above, we have benefited from:

- our favourable asset mix which is substantially biased to institutional and insurance assets and closed end funds, relative to open ended retail funds. This has resulted in F&C being less impacted by retail investor outflows than many other asset managers;
- our high weighting in fixed income assets, which, whilst undergoing a difficult period, particularly in credit, are less volatile in current markets than equities;
- our geographic mix, with almost half of our revenues denominated in non-Sterling currencies; and
- our ability to generate non management fee income, in areas such as property fees and overlay services (shareholder engagement, voting programmes).

The revenue outlook for the remainder of the year will principally be driven by market levels, investment performance and fund flows.

During 2007, we earned performance fees of some £20.8m, which was a record level for our business. We retain the ability to earn performance fees under a wide variety of arrangements across asset classes, product types and calculation methodologies, and a significant proportion of our historical performance fees were earned on relative, rather than absolute, return bases. As the majority of our performance fees only crystallise at year end it is difficult at this stage to be definitive regarding their level for 2008, the final outcome being impacted by the profoundly difficult market conditions both in terms of volatility and liquidity. However we anticipate that 2008 performance fees will be lower than those achieved in 2007.

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<sup>2</sup> Excludes any impact from the acquisition of the REIT group in September.

Recognising the difficult trading environment, we continue to manage our cost base to market conditions. As announced with our interim results, a cost reduction programme was launched earlier this year with the stated goal of reducing annualised operating expenses by £12m from their planned levels with full-year benefit in 2009. Progress in this area is satisfactory and we will continue to take appropriate cost actions in light of further market developments. Our operating margin for the first nine months of the year is broadly in-line with the operating margin for the first six months of the year as disclosed in our Interim Report and Financial Statements.

The company continues to be well capitalised. At 30 September shareholders' cash was in excess of £195 million. The company had £295 million of gross debt of which £260 million is represented by subordinated loan notes with interest fixed at 6.75% until 2016. These loans notes are devoid of any financial covenants and qualify as regulatory capital.

## **Property Business**

On 4 September, after receipt of relevant shareholder and regulatory approvals, we completed the combination of our property asset management division with the REIT group, to form F&C REIT Asset Management. F&C has a 70% interest in the new business. This transaction added £3.2 billion to our assets under management as at quarter end. The consideration for this transaction was settled through the transfer of our existing property business in the UK and Ireland into the new entity plus £25 million in cash and £35 million in loan notes payable to the previous owners of REIT.

We are pleased to report that the integration of F&C Property and REIT is proceeding in-line with our expectations. Whilst the commercial property market remains difficult, with a lack of liquidity arising from the credit crunch impacting property transaction volumes and valuations, the management team of F&C REIT has experience in market down turns and see opportunities to undertake transactions as well as to launch new products in 2009. They see particular opportunities arising from the forced selling of quality commercial properties.

## **Update on Friends Provident's shareholding in F&C**

On 31 January 2008 F&C's majority shareholder, Friends Provident, announced its intention to divest its 52% shareholding in the company following a review of its strategy. This concluded that it should withdraw from wealth management activities.

Further to this strategic review, the management of F&C has conducted a wide-ranging process to assist Friends Provident in achieving its stated aim of maximising the value of its majority holding in F&C. The Board of F&C notes that Friends Provident has today announced its intention to distribute its 52% shareholding in F&C to Friends Provident shareholders and that it expects to complete this by mid 2009. The Board of F&C continues to explore opportunities and F&C remains in discussions with interested parties. These discussions may or may not lead to an offer for F&C. Accordingly, F&C remains in an Offer Period as defined by the UK Takeover Code.

However, in the event that Friends Provident distributes its stake in F&C to its shareholders, this would:

- strengthen F&C's position as an independent third-party fund manager;
- have the effect of restricting Friends Provident's ability to withdraw a substantial proportion of its funds from F&C's management or ability to place monies with other asset managers, in-line with the provisions disclosed in F&C's Listing Particulars;
- substantially improve the free float in F&C's shareholder base. In the Board's view this will improve liquidity in F&C's shares and broaden the company's investor base.

We are currently engaged in negotiations with Friends Provident with regards to extending contractual arrangements with terms and conditions in line with commercial best practice and taking into account the interests of stakeholders in both companies.

Summaries of the change of control terms in our significant contracts are set out on page 28 of our 2007 Annual Report and Accounts and in Part II of our circular to shareholders dated 13 August 2008. Other than in relation to the contract with F&C REIT Asset Management (where the first change of control does not give rise to any rights) a distribution of Friends Provident's shares would not in itself constitute a change of control in relation to our long-term contracts (being contracts terminable on more than 12 months' notice).

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**Forward-looking statements**

This interim management statement may contain “forward-looking statements” with respect to certain of F&C Asset Management plc’s (FCAM) plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words “believes”, “intends”, “expects”, “plans”, “seeks” and “anticipates”, and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond FCAM’s control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation and deflation; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which FCAM and its affiliates operate. As a result, FCAM’s actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in FCAM’s forward-looking statements. FCAM undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make. Nothing in this interim management statement should be considered as a profit forecast.