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Press Release

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‘Hip’ is not a throw-away fashion

With Bank of England governor Mervyn King saying he expects interest rates to remain at historic lows for some time as the UK struggles to emerge from a protracted recession, beleaguered savers seeking to rebuild income combined with the potential for capital growth may well be considering investments which look beyond volatile equities and currently-fashionable bond funds.

Newer investment vehicles aiming to provide capital growth and pay a decent yield have quietly gathered interest over recent years and this has increased markedly since the onset of the credit crunch. Many funds, such as ‘cash plus’ and ‘target return’ vehicles, achieve this by using a combination of strategies and investing in a wide range of securities and assets that include derivatives and property assets alongside the traditional bond and equity portfolios.

In 1993, long before the term ‘absolute return’ became fashionable and the wider powers under UCIT III regulations became available, F&C launched the F&C High Income Plan (“HIP”). Since 1995, the fund has successfully adopted a strategy of targeting a yield of 2% over the UK base rate by investing in both UK and non-UK blue chip equities, Government and investment grade fixed interest securities (with a minimum single A rating) and a derivative overlay strategy.

Many of the newer ‘alternative’ retail investment products have only short-term performance figures to support their claims and investors could be forgiven for remaining sceptical – HIP is unique in that it has a proven, long-term track record. The fund has delivered a high and consistent level of income since 1995 and

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has either achieved or exceeded its performance targets in 9 out of 14 years, a record of consistency that most funds fail to match.

Additionally, it is one of only a handful of funds offering monthly income, making it a useful supplement to other sources of income. The derivative overlay strategy also provides income diversification in a time of heightened uncertainty and potential dividend cuts from equities.

Managers Christopher Childs – recently awarded an A-rating from Citywire – and Stephen Crewe have over 30 years of investment experience between them and have been involved in the running of the fund since 1995.

“The inclusion of a derivative overlay strategy means the fund is capable of delivering a significantly enhanced level of income with a cautious approach to risk. This is a prime attraction for the more cautious investor seeking a high level of income in an environment where interest rates are at a record low and likely to remain so for the foreseeable future,” says Childs.

Although the annual gross income target for the fund is UK Base Rate +2%*, with base rates near zero, Childs put in place a temporary gross income target of 5% per annum* early in 2009. “The income generated from each of the asset classes combined is specifically designed to meet the fund’s income target. The income from the fund’s fixed income holdings is relatively stable and largely known in advance, while the income generated by the equity holdings (dividends) may be less certain, particularly in times of economic distress,” Childs explains. “The overlay strategy is therefore designed to provide the yield necessary to make up any shortfall, including covering all the fund’s fees and expenses.”

The equity and bond portions are generally held for the long term, whilst the main area of active management comes through the application of the overlay strategy and the allocation between the asset classes – UK Equities, Non UK Blue Chip Equities and Fixed Income.

“Each of these three components is essential to ensure the fund meets its income target and, as with the traditional asset classes, the overlay strategy also offers the potential for capital appreciation as well as generating an income for investors,” Childs concludes. “One key advantage of the fund’s strategy is its multi-asset approach and the ability to alter the emphasis of the overlay strategy across the different markets and contracts depending on the prevailing investment conditions.”

John Yule, Head of Retail at F&C Investments, adds: “While many new and currently fashionable ‘alternative’ retail funds seek to establish their investment credentials and develop a track record, ours is already out there for everyone to see. Importantly, the inherent flexibility of our investment approach has also enabled us

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to temporarily increase the income target of the fund to 5% per annum at a time when UK interest rates are at an historic low and reliable investment income is increasingly hard to find.”

“This Fund is a hidden gem in our product range, often overlooked because it sits alongside very different beasts in the IMA Equity & Bond sector. It offers something quite unique against its peers in terms of strategy, track record, consistency against its objectives and low volatility”.

*net of fees and expenses

- 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 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.

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- 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.