



**F&C Management Limited**  
Exchange House  
Primrose Street  
London EC2A 2NY

**Telephone** +44 (0)20 7628 8000  
**Facsimile** +44 (0)20 7628 8188  
[www.fandc.com](http://www.fandc.com)

## Press Release

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**For immediate release**  
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### **Luis trims high yield exposure as ‘opportunities of a lifetime’ diminish**

F&C's Fatima Luis is significantly trimming exposure to the strong performing high yield market, in which many valuations are looking increasingly vulnerable, as the risk/reward trade-off so attractive at the beginning of 2009 subsides.

The expectation of a significant increase in defaults meant that by the end of 2008 and into early 2009 spreads on high yield issues were at historical highs – a position from which the asset class has gone onto recover strongly, against a backdrop of improving data and sentiment.

Investors who increased their exposure to riskier parts of the credit market during 2008 reaped the rewards of this summer's robust market rally and Luis' F&C Extra Income Bond and F&C Strategic Bond funds have enjoyed a substantial improvement in performance following a tough 2008. Indeed, both funds continue to enjoy impressive returns – year-to-date, F&C Extra Income Bond Fund has returned 34.75% whilst F&C Strategic Bond Fund has returned 36.46% against their benchmark, the IMA Strategic Bond sector, which returned 19.73% during the same period. Of course, investors should be aware that the value of investments can fluctuate and past performance is not necessarily a guide to the future.

Luis commented: "From our perspective the 'opportunity of a lifetime' has largely passed by and arguably we are now in a position where valuations are taking too sanguine a view of both default risk and the economic outlook from here."

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“That isn’t to say that there is selective value in riskier assets, however many of the gains have already been made and are unlikely to continue at the same level”.

Luis believes the emphasis should shift to the protection of capital as 2009 draws to a close. “Throughout the post-March rally we adopted an active approach, locking in gains across a range of our riskier positions. Many of these had recovered to around par following periods earlier in the year where they were trading at around half that value. Our emphasis on well funded businesses means that we remain comfortable with the vast majority of our holdings but with prices having recovered so strongly the risk/reward pay-off is looking less compelling”.

Given Luis’s broader assessment for potential high yield gains in the near future, she has taken a more aggressive stance and since September has been locking in gains with a view to taking their overall exposure lower by at least 10%.

To date, proceeds from sales have been primarily reinvested into the selective opportunities within the securitised debt sector and financial sector and the new money will be retained as cash. Luis explained: “Our cash weighting was previously low as we looked to maximise the big run up in credit prices. Unlike high yield where scope for further appreciation seems limited, selective Asset Backed Securities (ABS) appear compellingly valued on a longer term view, particularly as distressed sellers look to offload holdings. Our exposure to quality assets issued by the likes of Tesco Property Finance, Sainsbury’s and Eurotunnel is now around 15% of the portfolio – a weighting we are comfortable with”

Looking forward to 2010, Luis anticipates that the wall of supply coming to the bond market offers a new and exciting opportunity. “Going into the credit crisis the banks played a huge role in financing many businesses with corporate bank lending in Europe amounting to between €40-60bn each month. With this source of funding now severely depleted many companies are seeking alternative routes and the credit markets are among them”, she commented.

“Subsequently, the outlook for new issuance is bright as corporates target the credit markets through attractively valued issues”.

Importantly, this will broaden the opportunity set available to bond investors who will be able to pick from the potential of a more diverse range of companies and sectors. Participation in new issues will be on a stock by stock basis, with a likely emphasis on non-cyclical businesses which are not overly encumbered by debt – characteristics that are inherently attractive in a reliable bond holding. Whilst exposure to riskier credits may tick upwards again through the course of 2010 as new issues come to market, Luis will closely monitor the progress of the economic recovery mindful that any signs of a pause will impact on risk assets.

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Far from this being the end of the high yield road, Luis believes there are still opportunities in the secondary market but selectivity is crucial. She is particularly focused on the outlook for new issuance within both high yield and investment grade. “2009 proved to be a bumper year for new investment grade issues with their attractive valuations ensuring that they soaked up much of the massive inflows into the asset class over the summer months. More latterly and into 2010, I believe it will be the new high yield issues that will offer the most compelling opportunities as a raft of companies come to market” she concluded.

“The economy has arrived at a ‘new normal’ and identifying the key areas of opportunity will be vital to success in 2010”.

The UK is undoubtedly struggling amidst a jobless recovery, high property and commodity prices and the collapse of the main currencies. Fiscal stimulus measures have so far shown no signs of invigorating GDP growth, expectations of which are unrealistically high following company results ahead of expectations this quarter, particularly in the US. Despite some encouraging figures, companies are under enormous pressure to maintain this during 2010 and it is likely they will disappoint.

Luis feels that deflation will be the prevalent pressure over the short-term and that any inflation over the longer-term will be imported to the UK via the weaker sterling. If this persists, it could in fact offset deflation. “As these are one-off hits, we don’t anticipate this type of inflation will feed down through to wages, particularly where continued high levels of unemployment have left workers in a weaker position in terms of demanding higher wages” she commented.

The biggest risk is that the government funding crisis may cause yields to significantly and suddenly increase.

“Impending inflation will not arrive in its traditional guise and in such an unnatural environment perhaps focus should be not for signs that inflation is picking up but instead on considering the government funding crisis, as this is keeping yields artificially low at the same time as providing high levels of stimulus. Fiscal stimulus could push yields higher and central banks will have to act on a likely asset bubble as this cash gradually finds its way in to asset prices” he concluded.

**- Ends -**

## Press enquiries – 0207 011 4600

Jennifer Donohoe	Communications Manager	+44 (0) 20 7011 5017
Sarah Godfrey	Communications Manager	+44 (0) 20 7011 4215
Paula Garrido	Communications Manager	+44 (0) 20 7011 4190
Veronique Sant	Communications Manager	+44 (0) 20 7011 4278

## 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 £99.2 billion (€108.5 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).

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- 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 September 2009.

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