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Press Release

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2010 set to see renewed appetite for riskier investments, growth in absolute return retail funds and further M&A

After a two-year roller-coaster ride for fund investors, one of the UK's market-leading multi managers believes that 2010 will see both renewed interest in riskier assets as private investors migrate away from corporate bond funds and back into the equity markets as well as increased interest in the emerging universe of absolute return retail funds. Speaking a briefing in London yesterday, Dean Cheeseman, Head of Retail Multi-Management at F&C whose team runs some £1.6 billion in fund of funds portfolios, also warned that he expects further upheaval in the fund management industry predicting a second wave of consolidation among firms.

More M&A on the way

Twelve months earlier Cheeseman had cautioned that 2009 would be a year of upheaval for the industry as fund groups closed or merged subscale funds to cut costs and M&A activity increased in the industry. During the year significant deals took place between BlackRock and BGI, Aberdeen Asset Management and Credit Suisse, Henderson and New Star and the purchase of Columbia by Ameriprise. However, following the recent Aberdeen/RBS Asset Management deal, Cheeseman believes that the M&A window remains "open for now" as banks and insurers continue to restructure their operations and niche players seek to diversify.

"Despite some signature M&A deals and fund rationalisation programmes during 2009, the market remains crowded both at the company and product level. In our view further consolidation is inevitable in 2010. Despite market rises and an improving outlook for profitability, at the product level fund rationalisation remains on the agenda driven by groups taking a more holistic view of their onshore and offshore fund ranges. The removal of more ‘dead wood’ in the retail space should be welcome news and help pave the way for more innovative and better differentiated products for investors who are ready to step out of their comfort zone”, he commented.

‘Hedgies’ to make further inroads into the retail market

In particular, Cheeseman notes that a number of hedge fund groups have begun to launch open-ended fund vehicles that utilise the wider investment powers available under UCITs III. These provide retail investors with access to some of the absolute return investment strategies previously only available to wealthy and professional investors. While some commentators may regard such funds as a “fad”, Cheeseman believes that this heralds an exciting new chapter for the retail funds market as well as sign that a maturing hedge fund industry is seeking to diversify its investor base as some investors have become more sceptical towards Cayman Island domiciled vehicles.

“We are at last starting to see a raft of absolute return funds being launched to the retail market both from longstanding retail asset managers and hedge fund groups. This convergence between “traditional” and “alternative” asset managers is set to be a key theme for the years ahead. The emerging presence of hedge fund groups with proven competence in adding value through long and short trades, derivatives and with the effective risk management tools to manage such strategies is a welcome development,” said Cheeseman. “Historically retail investors have been very heavily exposed to general market movements and therefore the inclusion of some of these funds within diversified portfolios can help to reduce overall volatility.”

Within F&C’s own multi-manager range, the F&C Multi-Manager Distribution Fund, which predominantly invests in equities and bonds, has the capacity to invest up to 20% in alternative strategies and asset classes including absolute return funds and commercial property.

Offshore funds edge further on the radar

Additionally, Cheeseman highlighted the Investment Management Association is expected to incorporate details of some offshore funds at some point during 2010, typically SICAV funds, which are accessible to UK investors within their sectors. Cheeseman anticipates that whilst this may be a huge psychological barrier for UK intermediaries and investors at first, it is nonetheless a positive step as for the first time investors will be able to clearly view and compare a larger investment range.

Despite the advent in recent years of Luxembourg and Dublin based vehicles which are UK distributor friendly, both IFA’s and private investors have been reluctant to look beyond UK domiciled open-ended investment companies (OEICs). However, increasingly fund groups have chosen to launch new funds as SICAV vehicles with a view to distributing across Europe and targeting discretionary fund buyers, such as multi-managers, who Cheeseman claims are “agnostic” as to whether a fund is an OEIC or SICAV fund. As

OEICs and SICAV ranges funds increasingly appear in the same sectors, Cheeseman anticipates management groups will revisit their product ranges. Whereas fund rationalisation programmes in 2009 were driven primarily by the need to drop unprofitable products, the next phase will be about the removal of duplication.

Multi-managers will make further inroads ahead of RDR

Cheeseman is optimistic about the prospects for multi-managers. He believes that the key to their success in 2010 and beyond is how well they support IFA's with the added burden of RDR requirements.

"Product service will become increasingly important for fund of fund products due to the onset of RDR in 2012. Products, such as the F&C Lifestyle portfolios, which offer IFA'S a strong partner to aid the transition to an RDR-compliant book of business should prosper", he commented.

- 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 £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. 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 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 30 September 2009.