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Press Release

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"It's no longer as simple as equities versus bonds," says Cheeseman

The market backdrop is changing the rules of the game when it comes to successful asset allocation, according to Dean Cheeseman, Head of Retail Multi-Management at F&C. Although many believe that in turbulent times bonds are safer than equities, the current environment [and increased correlation across asset classes] means that selecting the right strategies within asset classes has become increasingly important.

Whilst returns from Growth and Value investment styles remain relatively parallel year-to-date, equities have experienced a notable divergence between large, mid and small company stocks. Cheeseman commented: "Surprisingly, large cap stocks, which normally weather recessionary storms with relative resilience, have underperformed small caps year to date. This has been driven by losses in Financials, currently a much bigger component of the FTSE 100 than the FTSE 250".

Similarly, the gap between bond funds has widened to unprecedented levels. "Corporate bond funds have displayed huge disparity in terms of performance, at some points as much as 15%. The difference between a top quartile and bottom quartile fund, using the Lipper Corporate Bond (sterling) sector as an example, is typically in the 1-2% range over 1 year. This is 4.5% so far in 2009. This anomaly can again be attributable to Financials, specifically subordinated bank positions. The decision over whether or not to hold these stocks has meant vast difference in returns for bond managers," Cheeseman added.

The disparity in bond returns has meant that whilst equities have underperformed bonds year to date, down 11.97% and 3.06% respectively, F&C's multi-manager team don't believe this necessarily means all corporate bond managers are outperforming equity managers. On the contrary, defensive equity strategies still have the potential to outperform bond strategies, despite headline figures.

The divergences at sector level have been far more pronounced and key to achieving strong results. Paul Carne, fund manager on the F&C multi-manager team, commented: "A short position in Financials and long position in Utilities, within both equities and credit, was key to performance in the first two months of 2009. This has been a winning combination for our F&C Multi Manager Balanced fund which has beat the IMA Balanced Managed index year to date. Our strategy of low beta has meant we are less correlated with the market, which as also been good for performance."

F&C Multi Manager portfolios all have a distinctive strategic asset allocation bias and focus on "big picture" thinkers, such as the BlackRock Absolute Alpha and L&G Dynamic Bond funds, both of which have done well in relative terms. The F&C portfolios also have positions in strong, steady funds such as Neil Woodfords' Invesco Perpetual High Income, which has a low financial/high utilities focus.

"We have selected a group of managers who understand the current macroeconomic environment and demonstrate the necessary flexibility to adjust their portfolios as events unfold. Pragmatic and unconstrained top-down management – rather than picking within rigid styles and sectors - is possibly the most successful strategy now and one which has provided an opportunity to profit," Cheeseman concluded.

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Notes to Editors

F&C Investments

- F&C Asset Management (F&C) is a London Stock Exchange listed asset management group which traces its origins back 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 now manages £98.6 billion (€102.0 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, funds of hedge funds, private equity funds, Global Tactical Asset Allocation products 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, Istanbul, 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 twelve countries: China (Hong Kong), France (Paris), Germany (Frankfurt & Munich), India (Mumbai), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), Turkey (Istanbul), UK (London, Edinburgh, Dorking) and the United States (Boston).

*As at 31 December 2008.