



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

Market Update

For immediate release
26th March 2009

As growth recovers it will be crucial to assess how quickly authorities remove excess liquidity, says F&C's Niven

“This week saw a large upward surprise in UK inflation rates, with CPI rising to 3.2% year on year (yoy) and core inflation rising to 1.6%yoy. Relative to consensus expectations the data releases represent the fifth consecutive month of upside surprises on inflation. Despite this RPI, at 0% yoy, saw the lowest reading for almost 50 years. With CPI now running more than 1% above target, the Bank had to write another letter explaining why rates have been cut to a historic low and quantitative easing is underway, at a time when inflationary pressures may seem, on CPI measures, to be building.

This month's inflation release, while reflecting some overshoot due to a delay in the recording of recent cuts in utility prices, saw a broad based acceleration. This, in part, is being driven by the large decline in sterling which was focused on by the Governor in his letter, attributing the rises to components of the index with a large share of imported goods.

History suggests that the impact of large currency depreciations in the UK tend to have only a temporary impact on inflation rates. With the prognosis for the UK and global economy resolutely negative, the impact of the collapse in sterling will prove to be transient this time. With a widening output gap the pressure on inflation will remain on the downside in the near term and the Bank will continue its aggressive policies to reflate the domestic economy.

From a global perspective, investors seem to be becoming more concerned over future inflationary risks despite this economic downturn being the worst since the Great Depression. The key upside risk for inflation

F&C Management Limited is authorised and regulated by the Financial Services Authority (FSA) FRN: 119230. Limited by shares. Registered in England and Wales, No 517895. Registered address and Head Office: Exchange House, Primrose Street, London EC2A 2NY.

F&C Asset Management plc is the listed holding company of the F&C Group.

F&C Management Limited is a member of the F&C Group and a subsidiary of F&C Asset Management plc.

going forward is the scale of quantitative easing across the world. Monetary bases are rising in many countries, though this typically reflects a rise in commercial bank reserves, rather than a general rise in currency in circulation. Banks are clearly unwilling to lend funds due to insufficient capital, low risk appetite and poor economic conditions meaning that the stimulus is, as yet, not reaching the underlying economy. A collapse in money multipliers so far looks similar to the Japanese experience of a liquidity trap, where banks hoarded cash and quantitative easing did little to change inflationary pressure. As growth recovers it will be crucial to assess how quickly authorities remove excess liquidity as inflation may result. They will likely be hesitant in tightening policy, having faced down the prospect of economic depression and deflation and, while inflationary problems can be avoided and near term deflation is more likely, the ability of central banks to negotiate a shrinking of their balance sheets as banking system health improves will determine whether a return to growth is accompanied by a corresponding inflation shock”

-ENDS-

Press enquiries – 0207 011 4600

Jennifer Donohoe	Communications Manager (OEIC's)	+44 (0) 20 7011 5017
Veronique Sant	Communications Manager (SICAV's)	+44 (0) 20 7011 4278
Paula Garrido	Communications Manager (Institutional)	+44 (0) 20 7011 4190
Sarah Godfrey	Communications Manager (Investment Trusts)	+44 (0) 20 7011 4215

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 Management Limited is authorised and regulated by the Financial Services Authority (FSA) FRN: 119230. Limited by shares. Registered in England and Wales, No 517895. Registered address and Head Office: Exchange House, Primrose Street, London EC2A 2NY.

F&C Asset Management plc is the listed holding company of the F&C Group.

F&C Management Limited is a member of the F&C Group and a subsidiary of F&C Asset Management plc.

- F&C manages assets principally from three investment centres: London, Amsterdam and Edinburgh. The group has an office network spanning ten countries: China (Hong Kong), France (Paris), Germany (Frankfurt), Ireland (Dublin), The Netherlands (Amsterdam), Portugal (Lisbon), Sweden (Stockholm), Switzerland (Geneva), UK (London, Edinburgh, Dorking) and the United States (Boston).

*As at 31 December 2008.

F&C Management Limited is authorised and regulated by the Financial Services Authority (FSA) FRN: 119230. Limited by shares. Registered in England and Wales, No 517895. Registered address and Head Office: Exchange House, Primrose Street, London EC2A 2NY.

F&C Asset Management plc is the listed holding company of the F&C Group.

F&C Management Limited is a member of the F&C Group and a subsidiary of F&C Asset Management plc.