

Luis looks to World Cup bonds boost



As the sporting world looks ahead to an exciting summer on South Africa's football pitches, F&C's Fatima Luis is positive on the potential of two compellingly valued South African high-yield bond issues – from companies that could well enjoy the benefits of increasing demand during the tournament, which kicks off on 11th June.

In particular, Luis favours high-yield credits from Consol Glass and Peermont, which she has added across her range of retail bond funds – the F&C Maximum Income Bond Fund, F&C Strategic Bond Fund and F&C Extra Income Bond Fund – over the last 18 months.

"Consol Glass is South Africa's number 1 producer of glass bottles for beer, wine and spirits companies. They hold the dominant share of this market and benefit from robust demand and low production costs. Their performance has been consistently strong, driven by stable demand for beer, wines and spirits, which is likely to be enhanced when the World Cup gets underway," Luis commented.

Peermont is a well-established player in South Africa's casino-resort market, with a 24% market share in Gauteng province, which itself accounts for 43% of South African gaming revenues. Profits were impacted in 2009 during the refurbishment of

Peermont's main cash-generating asset – Emperors Palace – however, this was completed in December. Luis believes the World Cup should trigger an increase in demand, and says the outlook is bright for these bonds. Luis concluded: "I continue to seek out the most compelling opportunities from well-funded businesses, identifying what I believe offers the best prospects on a stock by stock basis."

Shareholders benefit from Airgas bid

Last Friday, the stock price of US smaller company Airgas rocketed following a hostile \$60-a-share bid from Air Products. Shares subsequently closed at \$60.96, up 40% - a welcome consequence for shareholders such as F&C's Robert Siddles, who holds the stock in both the F&C US Smaller Companies investment trust and OEIC fund. Bottled gas distributor Airgas benefits from high recurring revenues from the rental of cylinders. As a result, its business is solid and has a good long term record. Ironically, some years ago Airgas purchased Air Products' bottled gas operations amidst a series of acquisitions to consolidate its business.

"The Airgas Board formally rejected the offer this week, however we are not overly concerned given that industry pricing is about to improve and the bid seems low. Airgas's shares have performed much better than its suitor's over the long term; moreover, the CEO has a 9% stake in the company. The shares are trading above the bid, which means the market expects a higher bid, either from Air Products, a competitor, such as Air Liquide, or from management to take the company private," commented Siddles.

Siddles anticipates that it will be unlikely for Airgas to remain public and independent, a disappointing

outcome given the stock has been an excellent holding since he purchased it in early 2003; during this period, it has risen around 250% compared with about 60% for the Russell 2000 Index.

He concluded: "Losing stocks to takeovers is a frequent problem due to our focus on free cashflow and cheap shares although last year there were only two, Avocent and Foundation Coal. We may lose Airgas; however we are encouraged by a bid at a large premium early on in the economic recovery."

ISIS trust snaps up Homebase branch

ISIS Property Trust, the oldest of the three property investment trusts managed by F&C, has exchanged contracts on a new property for its investment portfolio.

The £109m trust, managed by Ian McBryde at F&C REIT Asset Management, has paid £8m for the retail warehouse, by the A6 just north of Luton. The property is currently let to Homebase, with 10.75 years left on the lease term, at a rent of £570,000 a year. This is subject to five-yearly upward-only rent reviews, the next of which is due in December 2010. The £8m price tag equates to an initial yield to ISIS Property Trust of 6.75%.

F&C Monthly Lunchtime Press Briefings

The next briefing in the series, on March 24th sees the launch of the annual Responsible Investor Report which provides key trends in our shareholder votes across areas such as remuneration and capital structures along with an outlook for 2010 'hot spots'. To book your place at the event, please contact Jennifer Donohoe by email at Jennifer.Donohoe@fandc.com.

Press Contact: +44 (0)20 7011 4600

Jason Hollands (Corporate)
Tel: +44 20 7011 4168
jason.hollands@fandc.com

Paula Garrido (Institutional)
Tel: +44 20 7011 4190
paula.garrido@fandc.com

Jennifer Donohoe (OEICs)
+44 20 7011 5017
jennifer.donohoe@fandc.com

Sarah Godfrey (Investment Trusts)
Tel: +44 20 7011 4215
sarah.godfrey@fandc.com