

## Foreign & Colonial chief builds war chest to scoop up market bargains



One of the UK's most popular savings vehicles for small investors, the 140-year old Foreign & Colonial Investment Trust, is preparing to go bargain hunting after sharp falls in the stock market.

Speaking to analysts at the Foreign & Colonial Investment Trust interim results presentation today, fund manager Jeremy Tigue (picture) revealed that he is looking to increase 'gearing' from current levels of 11% to about 15% in order to take advantage of "the bottom of the market".

Tigue said: "Most markets fell during the first half of 2008 and the financial sector suffered severely. The impact of the credit crunch on financials has been sustained and debilitating. In this environment Foreign & Colonial had a robust first half, moving broadly in-line with our benchmark after a very strong 2007. Performance was supported by an underweight exposure to the global financial market, strong UK equity performance and positive returns from our portfolio of 14 private equity funds".

Foreign & Colonial Investment Trust began increasing its gearing at the start of 2008 in Yen and US dollar borrowings but later switched these into US dollar, Euro and Sterling reflecting a more cautious stance. Tigue explained: "Caution is imperative in gearing and we have been taking out short term loans in sterling for the first time in 16 years as we expect the Pound to be weak". Looking to the future, Tigue expects volatility to prevail. "The UK is currently amongst the worst placed economies in the developed world. The housing market is following the US, inflation is high and government finances are messy so I expect the UK economy and Sterling will be weak. But UK equities are almost as cheap as they have been at any

time in the last 20 years. While it is difficult to call the bottom of the market with precision, history suggests that when the streets look pretty bloody and doom and gloom prevails, that is a buying opportunity for long-term investors."

He added: "Our strategy is to take advantage of expected volatility to increase gearing to about 15% at the bottom of the market so as to be well positioned for a recovery into 2009. For now we intend to remain underweight in financials and will diversify the portfolio, looking for the best buying opportunities available".

Tigue also disclosed that while investor sentiment is widely regarded as having taken a battering this year, Foreign & Colonial Investment Trust's own army of small investors has been steadily growing. The savings plans, which now own 36.9% FCIT's shares, up from 35.1% a year ago, saw their first net inflow since 2003 compared to a net outflow of £19.3m in the first half of '07.

"We continue to welcome new shareholders through our Child Trust Fund and have started to see the first signs of evidence that this is translating into support from parents and relatives into or other savings scheme," concluded Tigue.

### ALL EYES ON BANK INTERIMS...

As the interim reporting season for UK banks kicks off, Julian Cane, manager of the F&C UK Equity Income Fund, believes that the information to be released over the next couple of weeks will paint a clearer picture as to whether the worst is over for the sector.

According to Cane one of the main issues people are going to be looking at is what the banks will be saying about their treasury assets – including CDOs and other exotic instruments. "We have seen Merrill Lynch announcing the sale of part of their exposure to this type of instruments at 22% of face value and people wonder whether some UK banks will follow the same route," he said. "We will also look at what is happening to bad debt related to traditional banking activities such as mortgages and unsecured loans to individuals." Cane

added: "Up to this point bank losses have come from the treasury assets side but we are now getting to the point where, as the economy weakens, bad debt related to the more traditional banking cycle will start causing more pain."

The reporting season will also reveal the banks' forecasts for their own businesses and the economy as a whole. "It will be interesting to see what the banks think about their own outlook, capital positions and the broader economic environment," he explained. Lloyds TSB, that reported worse than expected results on Tuesday, was quite optimistic, predicting a slow down as opposed to a recession.

"This reporting season will give us a lot of information about the 6 to 12 months outlook for the sector," he said. "On balance we are still very cautious about the UK banks and we remain underweight. However, we are not adverse to change if we see clear signs that things are really getting better."

### RICH PICKINGS IN ENERGY STOCKS

Continental European smaller cap share prices traditionally begin each year energetically, yet 2008 was distinctly different. "There was no anticipation of upbeat trading statements from company managers as the impact of the credit crisis lingered" said Crispin Longden, manager of the European Assets Trust. "European economic data was better than feared, at least for quarter one, whilst there were few negative surprises following annual results. However, concerns persist over rising energy and food prices stimulating underlying inflation and sabotaging economic growth".

Unsurprisingly, the energy sector bucked the downwards trend but the smaller company universe also has rich pickings. "Our Continental European small cap portfolios have recently benefited from holdings such as oil drilling component specialist Schoeller Bleckmann of Austria, who appreciated 13.4%," said Longden. Whilst uncertainty prevails, caution over companies with a limited trading history is prudent says Longden. "It's easier to arrive at a valuation for stocks whose longevity through the economic ups and downs allows forecasts to be accurately modeled rather than simply guessed at".

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