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Press Release

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Forecasts 'might underestimate Russia's economic recovery in 2010', says F&C's Morgan

President Dmitry Medvedev painted a gloomy picture of the Russian economy this weekend by admitting the country will be hit harder than expected, with GDP dropping by around 7.5% this year, compared to earlier forecasts of 3 to 3.5%. The figures didn't take investors by surprise but the focus is now on what 2010 will bring in terms of economic recovery.

Earlier this year, the collapse in commodity prices led to a sharp correction in Russia's GDP estimates. However, these initial forecasts had probably underestimated the amount of leverage that corporate Russia and their core shareholders were exposed to – unlike the banking crisis in the West, Russia's bad debt was mainly concentrated in the corporate sector.

Concerns rose that non-performing loans (NPLs) in the system could get to the 40% levels of 1998 and hence Russia went into a cash preservation mode: banks wouldn't lend to other banks and corporates stopped investing and instead chose to de-stock. To help confidence, the authorities provided short term funding from reserves to key indebted corporates and the banking system whilst the Central Bank managed a depreciation in the Rouble rather than opting for a one-off step devaluation – which in hindsight helped prevent a full blown banking crisis.

Recent data suggests that the Russian economy was past the worst in the second quarter, with the recovery in commodity prices and exports demand being the major drivers leading the country out of the crisis.

Russian steel and mining companies have benefited from a weaker Rouble and demand for raw materials from Asia and, in recent months, have been running domestic operations at near full capacity.

Gareth Morgan, Emerging Equities Manager at F&C, commented: “Domestic consumption remains weak but sentiment is improving as unemployment rates are falling from previous highs. Despite the most recent month-on-month data showing some positive trends, investment spending remains sluggish especially in the construction sector and, as we enter winter, it is likely we won’t see much improvement until next year.”

He added: “However, where forecasts at the end of 2008 for the following year’s growth underestimated the scale of the downturn, we believe that current estimates for 2010 are probably underestimating the scale of recovery. GDP growth estimates are 2-4% range, but actual growth could quite conceivably exceed 5%. Having said that, the outlook for the Russian economy will remain dependent on a positive global outlook.”

- 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 £88.3 billion (€103.7 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, private equity funds 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, 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 June 2009.