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## Press Release

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**For immediate release  
12th February 2009**

### **F&C unveils enhancements to its multi-manager process with the ‘next generation’ of TLA**

F&C's multi-manager team have implemented a number of significant enhancements to the firm's proprietary fund screening tool, Traffic Light Analysis, after a period of intense development work initiated by Dean Cheeseman. This follows Cheeseman's appointment as F&C's Head of Retail Multi-Management in 2008.

TLA has been a core component of the F&C multi-manager process for seven years as way of helping identify "consistently consistent" funds from the total universe of eligible investments and to enable the multi-manager team to focus their detailed fund research on a narrower universe of funds. The process to-date has focused on six key screens - Correlation, Performance, Alpha, Volatility, Maximum Loss and Information Ratio – under which each fund is rated as either a red (avoid), green (potentially buy) or amber (watch).

Having strengthened the team with the appointments of quantitative expert Paul Carne, formerly Head of Risk & Portfolio Analysis Crosby Forsyth, and Oliver Sonnlichler, former Head of Third-Party Funds at Morgan Stanley Private Bank, the team have conducted rigorous back testing of each TLA screening criteria to identify those which have proven to add value, as well as model other factors that can further enhance the process.

Cheeseman commented: "TLA has never been a black box approach to multi-management. It is however an important fund screening tool and it remains part of the bed rock of the F&C multi-manager process. In expanding the multi-manager team we have strengthened our quantitative skills significantly and this has

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enabled us to invest in developing both the TLA system and add new analytical tools to assist with fund screening and portfolio construction. Existing factors which can continue to add value will remain and new factors have been added to augment our screening capabilities”.

Cheeseman explains that the next generation of Traffic Light Analysis has a blend of evaluating historic consistency using risk and risk/reward factors as well as a new shorter-term model. The inclusion of this momentum and mean reversion model helps to balance the results and make the overall score more responsive to changes in fund performance, either macro or alpha driven. The quality factors, Performance, Alpha, Information Ratio and Sharpe Ratio, filter each fund within their respective sector over multiple randomly constructed 12-month time periods, based on historic performances. A new factor, Early Warning System has been created to help account for shorter-term style-adjusted market movements. The EWS factor monitors a weighted basket of metrics over multiple time periods such as volatility, tracking error and performance in order to highlight those funds behaving differently from their sector and help predict turning points in relative performance. TLA then ranks each sector and scores the top 25% Green, the bottom 25% Red and the balance of 50% Amber on each of the 5 independent factors. A further enhancement has been a final TLA score being awarded to each fund which is a weighted blend of the 5 independent factors.

Other enhancements to the TLA system include the extension of its database to include off-shore funds with three-year track records but TLA will proactively remove all passive funds as well as esoteric sectors which are outside the current mandates managed by the Team, including fund of funds products, so as to reduce ‘noise’ in the universe of eligible funds. Those independent factors previously used which, after rigorous back testing, were found not to add value to the effectiveness of the overall screen have been dropped.

Cheeseman concluded: “The inclusion of eligible offshore funds means that we can cast our net wider in terms of using the screening process to help identify potential funds which may merit detailed research and add competitive edge. The new elements – particularly the addition of sharpe ratio and an Early Warning System – are likely to ensure the screen is now more dynamic and less backward looking. These improvements will ensure that the latest generation of TLA will be more responsive to changing market conditions.”

“Our approach to qualitative research and detailed due diligence of course remains the same albeit with a team whose collective experience is now significantly more advanced than anything previously seen at F&C. The qualitative assessment continues to involve significant and regular face-to-face contact with fund managers in order to understand their investment and risk management processes and the key drivers of performance. Through this qualitative work we now star rate all funds in the portfolio based on our degree of conviction in the manager and the suitability of their strategy to the current market environment. Holdings are further classified into core or satellite buckets depending on their levels of risk and whether they are used strategically or tactically. This classification is used for risk management, an integral part of our portfolio

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construction process and this is yet another area which has been significantly tightened under the current Team.”

- Ends -

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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 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.

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