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Press Release

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2010 set for a “protracted, muted recovery” predicts

F&C’s Scott

Defensive growth stocks set to perform

Speaking at a briefing today, F&C’s Director of UK Strategy, Ted Scott, predicts that Q4 2009 economic data will be better than expected for the UK, which should emerge from recession in Q1 2010.

Scott anticipates that although this should give Britain a base on which to build a recovery, the pace will be nonetheless protracted and muted whilst the UK economy is facing a huge debt mountain. In order to reduce the public deficit, cuts in public spending and increases in taxation are inevitable.

Scott commented “Interest rates are being kept at a record low and consumers have grabbed the opportunity to pay down debt and repair their own balance sheets. As a result, the savings ratio has gone from zero to around 6% this year. However, despite VAT cuts and various other incentives, there is no sign that they are ready to increase spending again, particularly whilst the issue of huge public debt remains unresolved”.

Whilst Scott is concerned that the Bank of England and Government are so intent on avoiding deflation and a relapse back into recession, they seem to be prepared to run an ever-increasing deficit to compensate. Not only have interest rates reached historic lows, but the Government has endeavoured to stimulate the economy through reflationary fiscal policies as well as the introduction of the Quantitative Easing (QE) programme early in 2009.

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“One of the main objectives of the QE programme – attempting to inject money into the economy – hasn’t worked as well as initially hoped because although the narrow money supply has risen the broader supply, which reflects bank lending, has gone down as the banks have yet to begin lending again. They are more concerned with their capital strength”, Scott explained. “However, looking further ahead, when the banks finally do begin lending, QE should play a major role in providing the necessary finance for a recovery”.

The potential downside, according to Scott, is that QE could be highly inflationary. Whilst it has been very important in avoiding the stagflation scenario the market feared in the first quarter of 2009, there is no precedent on how this will work longer term. One area of concern is the much talked about exit strategy employed by the Bank of England Monetary Policy Committee. Scott cautions: “Timing is essential – exiting too soon could cause the economy to relapse back into recession quickly and exiting too late could risk higher inflation down the line”.

Scott’s view is that Government and Central Banks have so far been, and will remain, intent on doing whatever is necessary to eradicate any lingering fear of deflation as this hasn’t been wholly removed as yet.

He believes that exactly how the Government proposes to improve its balance sheet will depend on the outcome of the election, which will probably be in May 2010. Any spending cuts announced prior to this will be politically unpopular and by the time of the Election the economy should be showing more signs of recovery that will enable the incoming government to impose measures to improve the public balance sheet.

So will the stock market rally continue? It’s Scott’s opinion that, although the massive rebound since March has been partly a technical one, stocks aren’t fundamentally expensive and many have superior yields to cash and gilts.

“Whilst interest rates are low, returns from equities have been better than fixed interest investments and the market is attractive in comparison. In addition, Q2 and Q3 2009 saw a significant improvement in company earnings. The market has gone from being very cheap to being reasonably valued on a price/earnings basis. However, I do believe that the market is overbought at the moment, partly due to capitulation by a lot of the bears, and that a short term correction is possible”.

Scott is cautious on interest rate cyclical stocks such as financials and general retailers, which tend to underperform when interest rates and bond yields start to rise, but sees opportunities in good quality defensive growth stocks. The later cyclicals, such as commodity and industrial shares, should continue to do well into 2010.

“It’s worth considering that a lot of British companies, particularly the larger FTSE 100 companies, earn a significant proportion of their revenues from overseas, including the developing economies, and the UK market is therefore not as dependant on the strength of the domestic economy as some other indices. Sterling may be weak, but this has helped and will continue to help the export sector”, Scott concluded.

“I anticipate the shape of the recovery will initially be V-shaped, simply because the economy has fallen so far, but will plateau quite quickly afterwards. Whilst the UK has a long road to recovery, the economy has undoubtedly improved from a domestic point of view.”

- 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 £99.2 billion (€108.5 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

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alternative and specialist product classes. F&C invests globally and has been a longstanding investor in emerging markets.

- F&C has three pillars to its strategy: *Advisory & Solutions* – the servicing of strategic partners and the provision of investment solutions and overlays such as shareholder engagement programmes, Liability Driven Investments, Asset & Liability Management, Multi-Manager and Fiduciary Management; *Alpha Investing* – active fund management across a diverse range of asset classes and markets but with a focus on UK and European equities and fixed income and Emerging Markets; *Environmental, Social & Governance Investing* – building on its market leading presence in ethical investment with new products.
- 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 September 2009.