

F&C Managed Portfolio Trust

Diverse exposure with income and growth options

Initiation of coverage

Investment trusts

F&C Managed Portfolio Trust (FMPT), launched in 2008, comprises two listed investment portfolios – an income portfolio (FMPI) and a growth portfolio (FMPG) – this is a differentiated structure for an investment trust. These portfolios provide investors with a long-term savings vehicle. Both portfolios hold at least 25 investments (currently concentrated portfolios of c 40 investment companies); they are benchmarked against the FTSE All-Share index, however, there are no maximum levels set for underlying exposures to geographic regions or sectors. A unique feature of FMPT is that any net income generated by FMPG is transferred to FMPI in exchange for capital, which benefits the income prospects for FMPI and potential capital growth prospects for FMPG. NAV total returns for both portfolios have outperformed the benchmark over one, three and five years.

12 months ending	FMPI share price (%)	FMPI NAV (%)	FMPG share price (%)	FMPG NAV (%)	FTSE All-Share (%)
28/02/13	18.7	18.4	17.0	17.6	14.1
28/02/14	13.6	10.3	19.4	17.8	13.3
28/02/15	8.7	8.4	7.0	5.0	5.6
29/02/16	(7.7)	(7.2)	(4.7)	(3.9)	(7.3)
28/02/17	24.7	24.9	22.1	23.7	22.8

Note: Twelve-month rolling discrete total return performance.

Investment strategy: Potential for income and growth

Manager Peter Hewitt draws on his considerable experience in closed-end funds to construct two relatively concentrated portfolios aiming to deliver an attractive level of income with some capital growth (FMPI) or capital growth (FMPG). F&C's multi-manager team provides input on the macro environment, although portfolio holdings are selected by Hewitt on a bottom-up basis based on an absolute-return mentality. Currently, the manager is pursuing a value-led bias, preferring overseas to UK equities. Gearing is not normally expected to exceed 20% of the total assets of FMPI and FMPG.

Market outlook: Stocks supported by earnings

Despite significant total returns from both UK and overseas equities in 2016, share prices have continued to appreciate so far in 2017, hitting new highs in the UK and US. The consensus outlook for corporate earnings growth is robust, and while likely to move higher over the course of the year, interest rates remain very low versus history. For investors wanting exposure to global equities, these portfolios offering diversified exposure with the potential for above-average income or above-average capital growth, may be of interest.

Valuation: Shares generally trade close to NAV

The board ensures that shares trade close to NAV by an active programme of buybacks when appropriate. This enables issuance of shares to meet demand, ensuring good liquidity. The unique structure of FMPT means that FMPG does not pay a dividend, while FMPI's current 3.9% dividend yield compares favourably with its peers in the AIC Global Equity Income sector.

22 March 2017

FMPI; FMPG

Price 136.0p; 177.0p

Market cap £57m; £60m

AUM £59m; £60m

NAV* 132.0p; 179.0p

Premium(+)/discount(-) to NAV +3.0%; -1.1%

NAV** 132.9p; 179.0p

Premium(+)/discount(-) to NAV +2.4%; -1.1%

*Excluding income. **Including income. As at 17 March 2017.

Yield 3.9%; 0.0%

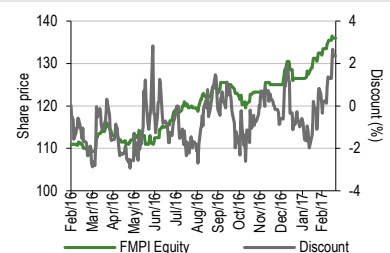
Ordinary shares in issue 41.6m; 33.7m

Code FMPI; FMPG

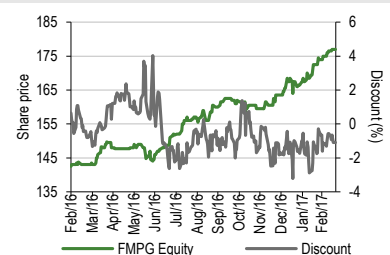
Primary exchange LSE

AIC sector Global Equity Income; Global

FMPI one-year performance



FMPG one-year performance



FMPI gearing

Net gearing* 6.8%

FMPG gearing

Net cash* 2.1%

*As at 28 February 2017.

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Exhibit 1: FMPI at a glance

Investment objective and fund background

F&C Managed Portfolio Trust Income Portfolio (FMPI) aims to provide an attractive level of income, with the potential for income and capital growth from a diversified portfolio of investment companies. Underlying investment exposure is across a range of regions and sectors – the focus is on offering an income yield above the benchmark FTSE All-Share index.

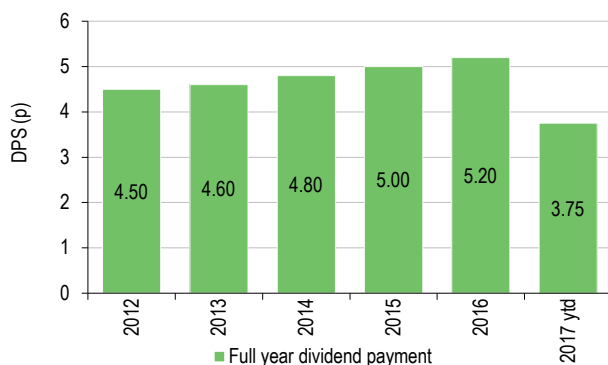
Recent developments

- 8 March 2017: Announcement of third interim dividend of 1.25p per share versus 1.20p in the prior year.
- 19 January 2017: Interim results for six months ending 30 November 2016. NAV TR +10.0% versus benchmark TR +9.6%.
- 7 December 2016: Announcement of second interim dividend of 1.25p per share versus 1.20p in the prior year.
- 7 September 2016: Announcement of first interim dividend of 1.25p per share versus 1.20p in the prior year.

Forthcoming		Capital structure		Fund details	
AGM	September 2017	Ongoing charges	1.09%	Group	BMO Global Asset Mgmt (BMO)
Final results	July 2017	Net gearing	6.8%	Manager	Peter Hewitt
Year end	31 May	Annual mgmt fee	0.65% (see page 11)	Address	80 George St, Edinburgh, EH2 3BU
Dividend paid	Quarterly	Performance fee	Yes (see page 11)	Phone	+44 (0)131 718 1000
Launch date	April 2008	Trust life	Indefinite	Website	fcmmanagedportfolio.co.uk
Continuation vote	2018, then five-yearly	Loan facilities	£7m (FMPT)		

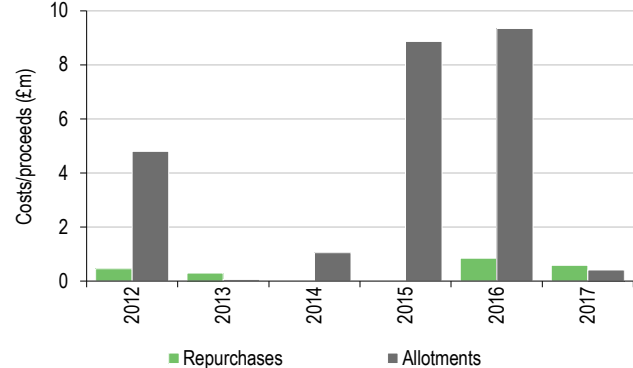
Dividend policy and history (financial years)

Dividends are paid quarterly in October, January, April and July.

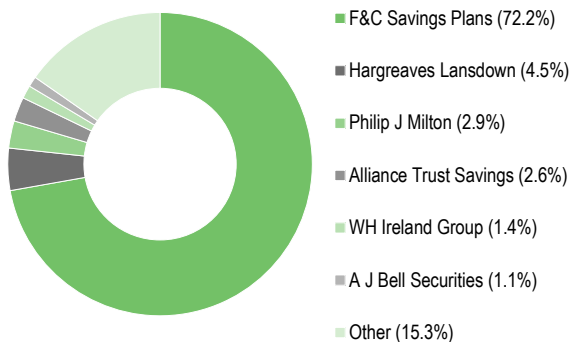


Share buyback policy and history (financial years)

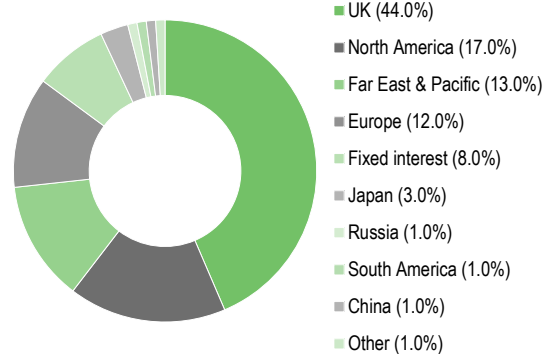
Renewed annually, the ability to repurchase up to 14.99% and allot up to 10% per year.



Shareholder base (as at 31 January 2017)



Portfolio look-through exposure by geography (as at 28 February 2017)



Top 10 holdings (as at 28 February 2017)

Trust	Sector	Portfolio weight %	
		28 February 2017	29 February 2016*
Murray International Trust	Global Equity Income	3.7	N/A
Law Debenture Corporation	Global	3.6	3.3
NB Private Equity Partners	Private Equity	3.3	N/A
BB Biotech	Biotech & Healthcare	3.2	N/A
City of London Investment Trust	UK Equity Income	3.2	3.3
Temple Bar Investment Trust	UK Equity Income	3.2	N/A
Perpetual Income & Growth Investment Trust	UK Equity Income	3.1	N/A
Schroder Oriental Income Trust	Asia Pacific - Excluding Japan	3.1	N/A
Henderson International Income Trust	Global Equity Income	3.1	N/A
Invesco Perpetual UK Smaller Companies	UK Smaller Companies	3.1	2.8
Top 10		32.6	32.4

Source: F&C Managed Portfolio Trust Income Portfolio, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in February 2016 top 10.

Exhibit 2: FMPG at a glance

Investment objective and fund background

F&C Managed Portfolio Trust Growth Portfolio (FMPG) aims to provide capital growth from a diversified portfolio of investment companies. Underlying investment exposure is across a range of regions and sectors aiming to maximise total returns, primarily through capital growth. FMPG is benchmarked against the FTSE All-Share index.

Recent developments

- 19 January 2017: Interim results for six months ending 30 November 2016. NAV TR +10.0% versus benchmark TR +9.6%.
- 27 July 2016: Annual results for 12 months ending 31 May 2016. NAV TR -4.5% versus benchmark TR -6.3%.

Forthcoming

AGM	September 2017
Final results	July 2017
Year end	31 May
Dividend paid	None
Launch date	April 2008
Continuation vote	2018, then five-yearly

Capital structure

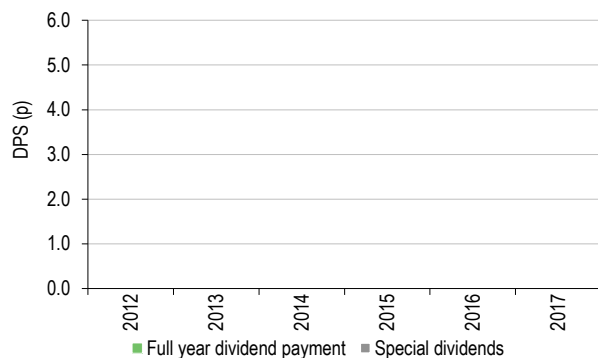
Ongoing charges	1.09%
Net cash	2.1%
Annual mgmt fee	0.65% (see page 11)
Performance fee	Yes (see page 11)
Trust life	Indefinite
Loan facilities	£7m (FMPT)

Fund details

Group	BMO Global Asset Mgmt (BMO)
Manager	Peter Hewitt
Address	80 George St, Edinburgh, EH2 3BU
Phone	+44 (0)131 718 1000
Website	fcmmanagedportfolio.co.uk

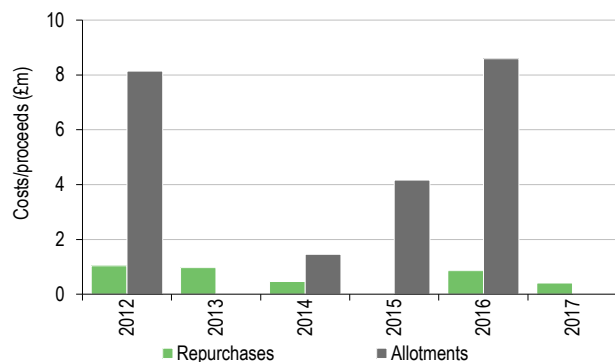
Dividend policy and history

No dividends paid – net income is reallocated to the income portfolio in exchange for capital.

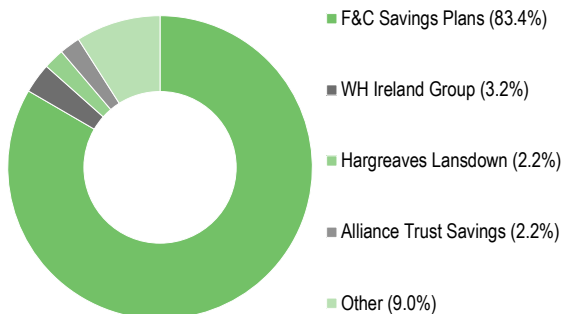


Share buyback policy and history (financial years)

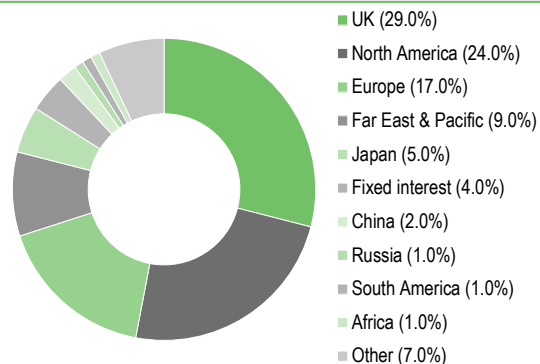
Renewed annually, the ability to repurchase up to 14.99% and allot up to 10% per year.



Shareholder base (as at 6 December 2016)



Portfolio look-through exposure by geography (as at 28 February 2017)



Top 10 holdings (as at 28 February 2017)

Trust	Sector	Portfolio weight %	
		28 February 2017	29 February 2016*
Polar Capital Technology Trust	Sector Specialist: Tech Media & Telecom	3.7	2.7
Monks Investment Trust	Global	3.2	N/A
Allianz Technology Trust	Sector Specialist: Tech Media & Telecom	3.0	N/A
Scottish Mortgage Investment Trust	Global	3.0	N/A
RIT Capital Partners	Flexible Investment	2.9	N/A
Baillie Gifford Japan Trust	Japan	2.8	N/A
Mid Wynd International Investment Trust	Global	2.8	N/A
Syncona	Flexible Investment	2.7	N/A
Fidelity Special Values	UK All Companies	2.6	N/A
Impax Environmental	Sector Specialist: Environmental	2.6	N/A
Top 10		29.3	30.3

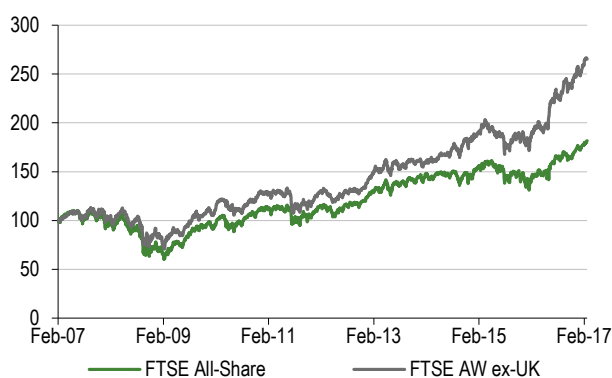
Source: F&C Managed Portfolio Trust Growth Portfolio, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in February 2016 top 10.

Market outlook: Earnings providing support to equities

Exhibit 3, left-hand side, shows the performance of the FTSE All-Share and FTSE All World ex-UK indices over the last 10 years. While posting a strong performance in 2016, the 16.8% total return of the FTSE All-Share index lagged the 30.4% total return of the FTSE All World ex-UK index in sterling terms; for UK investors, the value of overseas equities was boosted by significant sterling weakness during the year. In recent years, the relative strength of US equities has also contributed to the outperformance of the FTSE All World ex-UK index and the US now represents more than 55% of the entire index. Despite a degree of positive revaluation during 2016, equities remain supported by robust consensus earnings growth estimates for 2017. In a continued low interest rate environment, equities have appreciated further so far this year; the market for merger and acquisitions and initial public offerings is buoyant and major equity indices have been hitting new highs both in the UK and US. For investors wishing to have exposure to global assets, funds offering widely diversified exposure with either a focus on income or capital growth may appeal.

Exhibit 3: Market performance and valuation

Performance of indices over 10 years (£ terms)



Valuation metrics of Datastream indices (20 March 2017)

	Last	High	Low	10-year average	Last as % of average
UK					
P/E 12 months forward (x)	14.4	15.6	7.4	12.0	120
Price to book (x)	1.9	2.5	1.2	1.8	106
Dividend yield (%)	3.4	6.6	2.7	3.5	98
Return on equity (%)	5.9	21.2	2.5	11.0	54
World					
P/E 12 months forward (x)	15.5	16.0	8.8	13.0	119
Price to book (x)	2.1	2.5	1.1	1.8	116
Dividend yield (%)	2.4	4.6	2.0	2.6	92
Return on equity (%)	9.7	16.8	4.8	11.3	85

Source: Thomson Datastream, Edison Investment Research

Fund profile: Two portfolios – income and growth

FMPT aims to provide income and growth, while spreading risk by investing in a wide range of investment companies, diversified by geography, sector and manager. The majority of shareholders are regular savers and investors with smaller investment portfolios, so the manager is mindful of not taking undue investment risk; the trust now has more than 14,000 individual shareholders.

During FY15, FMPT was increased in size by c 20%; the majority of share issuance was to shareholders of British Assets Trust, who elected to stay invested in an F&C product when British Assets Trust moved to an external manager. During FY16, the size of FMPT was increased by a further c 20%, primarily following its selection as the rollover option for the winding up of the Cayenne Trust.

FMPT comprises two distinct portfolios, which are listed in London – FMPI aims to provide an attractive level of income (FMPI is currently yielding 3.9% versus 3.5% for the FTSE All-Share index) plus capital growth, and FMPG aims to generate long-term capital growth. The unique feature of FMPT is that any net income generated by FMPG is transferred to FMPI in exchange for capital. Both portfolios are managed by F&C, a wholly owned subsidiary of Bank of Montreal. Manager Peter Hewitt has more than 30 years' investment experience specialising in investment companies and has run FMPT since launch, as well as having managed the predecessor managed portfolio service.

FMPI's and FMPG's investments are primarily in listed closed-ended funds, which gives investors access to a very broad range of underlying investments. The majority of holdings comprise equity investments although FMPI and FMPG are permitted to invest in other securities issued by investment companies. There are no geographic or sector restrictions, and both FMPI and FMPG are concentrated portfolios holding a minimum 25 investments (generally c 40). No holding at the time of investment may exceed 15% of NAV and a maximum of 20% in each portfolio may be invested in any other F&C fund. Derivatives may be used for efficient portfolio management, including protection against market falls. Gearing of up to 20% of NAV is permitted for both FMPI and FMPG. The benchmark for both of the discrete portfolios is the FTSE All-Share index; FMPI's NAV total returns have outperformed the benchmark in seven of the last eight financial years, while FMPG's NAV total returns have outperformed the benchmark in six of the last eight years.

The fund manager: Peter Hewitt

The manager's view: Run winning positions and managers

Last year saw a change in market leadership, with value stocks outperforming, following several years where growth stocks led the market. The manager believes this trend will continue at least until the end of 2017 and, although he prefers overseas to UK equities, he has been adding to value-tilted UK equity funds such as Temple Bar Investment Trust in FMPI and Fidelity Special Values in FMPG. He does not have a strong view about the near-term direction of stock markets, noting that events in 2016 such as Brexit and Donald Trump's success in the US presidential election would have been expected to drive equity markets lower, when the opposite has in fact been true so far. Hewitt suggests that when politics affects markets, it is important to focus on the individual good managers. Over the long term, the manager is comfortable owning trusts with a structural growth bias, such as Finsbury Growth & Income Trust.

Considering the outlook for 2017, the manager suggests that for most equity markets, fundamentals are better than had been anticipated, with investors having greater confidence for an earnings recovery in most regions. Inflation is set to move higher in the UK and US and more interest rate rises are expected in the US over the year. The outlook for the UK stock market is uncertain, given the Brexit overhang, and there is potential for further weakness in sterling.

For FMPI, the manager looks for diversity of income. He believes that in 2017, dividends from UK companies should be strong, as sterling weakness has boosted the value of their overseas earnings. However, he feels this may not be the case in subsequent years, and therefore does not want too much exposure to the big dividend-paying companies such as BP and Shell.

There are some areas for potential investment that have secular growth characteristics, such as biotech and technology. Trusts exposed to these areas are ones that the manager likes to buy and hold for the long term. Even if they see short-term declines in periods of stock market weakness, the profit is often multiple times the original purchase price. As examples, in FMPG, the manager has made significant gains from long-standing holdings Allianz Technology Trust and Polar Capital Technology Trust.

Asset allocation

Investment process: Investing for the long term

FMPT manager Peter Hewitt has an absolute-return mentality, aiming to preserve capital in difficult markets while growing it in rising markets. If he is cautious on equity markets, he can increase his cash weighting or invest more in non-equity assets, such as lower beta investments in FMPG or

infrastructure assets in FMPI, while he is able to employ gearing when he is bullish on the outlook for investment companies. The manager is unconstrained by the benchmark.

For FMPI, there has been a significant broadening of investment opportunities due to the increased number of income-focused trusts in areas such as Asia Pacific, emerging markets and natural resources, and in the FMPG portfolio, there is the potential to invest in new and existing sectors with strong growth characteristics such as technology, biotechnology, flagship funds run by specialist investment boutiques, emerging markets and private equity. Both FMPI and FMPG have a bias to global and overseas exposures. The unique feature of FMPT, whereby income generated at FMPG is transferred to FMPI, means Hewitt does not have to invest higher up the yield spectrum in search of income, and can invest in vehicles with slightly below-average yields due to the income boost from FMPG.

The manager holds some absolute return-focused, multi-asset trusts in FMPG, such as Personal Assets Trust, RIT Capital Partners and Ruffer Investment Company. He notes that growth funds such as Scottish Mortgage Investment Trust will likely underperform in weak equity markets, so when markets de-rate, it is important to have some stabilising investments. Holding these investments in the FMPG portfolio has not impinged too much on relative performance in rising stock markets, while affording a level of protection in falling markets; these trusts are not held in FMPI, as it holds other defensive investments, such as infrastructure.

The manager supplements external research on closed-end funds with his own proprietary research; a key element of which is a rigorous programme of manager meetings. Meeting with management of potential and existing holdings is an important factor in the investment process, both to identify managers who are able to consistently outperform their benchmarks (and FMPT's benchmark, the FTSE All-Share index), but also to understand the investment processes and styles of the individual managers. While a consideration is made regarding the discount of potential investments, this is not the dominant factor for stock selection, although the manager would prefer to invest at a discount than a premium. When researching a potential investment, the manager considers a series of factors, including the investment company's objective and benchmark, its dividend policy, whether there is a discount control mechanism, the level of gearing, the use of derivatives and the composition of the board. He is not averse to investing in companies that charge a performance fee if the fee is capped and sensibly structured. The manager has regular input from F&C's multi-manager team to help form his macro views, although FMPI and FMPG are principally constructed on a bottom-up basis.

Current portfolio positioning

As shown in Exhibits 1 and 2, at end-February 2017, FMPI's top 10 holdings accounted for 32.6% of the portfolio; broadly similar to 32.4% at end-February 2016. For FMPG, over the same period the top 10 exposure was also similar at 29.3% versus 30.3%.

Exhibit 4: FMPI's and FMPG's look-through geographic exposure (% unless stated)							
FMPI	Portfolio end-February 2017	Portfolio end-February 2016	Change (pts)	FMPG	Portfolio end-February 2017	Portfolio end-February 2016	Change (pts)
UK	44.0	47.0	(3.0)	UK	29.0	38.0	(9.0)
North America	17.0	12.0	5.0	North America	24.0	20.0	4.0
Far East & Pacific	13.0	9.0	4.0	Europe	17.0	17.0	0.0
Europe	12.0	11.0	1.0	Far East & Pacific	9.0	5.0	4.0
Fixed interest	8.0	7.0	1.0	Japan	5.0	4.0	1.0
Japan	3.0	3.0	0.0	Fixed interest	4.0	2.0	2.0
Russia	1.0	0.0	1.0	China	2.0	1.0	1.0
South America	1.0	1.0	0.0	South America	1.0	1.0	0.0
China	1.0	1.0	0.0	Africa	1.0	1.0	0.0
Other/cash	1.0	9.0	(8.0)	Russia	1.0	0.0	1.0
				Other/cash	7.0	11.0	(4.0)
	100.0	100.0			100.0	100.0	

Source: F&C Managed Portfolio Trust Growth Portfolio, Edison Investment Research

Exhibit 4 shows that both FMPI and FMPG have broad geographic exposure with more than 50% invested in the UK and North America, albeit in different proportions. In terms of changes over the last 12 months, both portfolios have decreased exposure to cash and the UK, with the largest increases in exposure to North America and the Far East & Pacific.

Since the Brexit referendum, there has been a higher level of activity than normal, so in FY17, portfolio turnover in both FMPI and FMPG will be higher than a typical level of c 20% (excluding activity from share issuance).

FMPI

New positions in FMPI include newly listed BB Healthcare Trust, Renewables Infrastructure Group and niche property specialist, Civitas Social Housing. Hewitt intends to use gearing (at a c 2% cost) to invest in certain infrastructure-related trusts, typically yielding in excess of 5%; this is of benefit to the revenue account. Illustrating the reduced UK exposure over the last 12 months, complete disposals include [Merchants Trust](#)¹, [Standard Life Equity Income Trust](#)¹ and [Standard Life UK Smaller Companies](#)¹ convertible stock. Along with BB Healthcare Trust, FMPI also owns Swiss-domiciled [BB Biotech](#)¹, which is able to pay dividends out of capital.

FMPI's largest position is Murray International Trust (3.9% dividend yield), which is a large global fund managed by Aberdeen Asset Management; it primarily invests in equities, but also holds a selection of fixed income securities. Murray International has a broad geographic exposure with c 40% exposure to Asia Pacific ex-Japan and Latin America/emerging markets. Another top 10 holding is [Henderson International Income Trust](#)¹ (3.1% dividend yield), which aims to provide a high and rising level of income as well as capital growth. The trust is unusual in that it invests solely outside of the UK; around a third is invested in the US.

FMPG

For FMPG, there are new positions in [Templeton Emerging Markets Investment Trust](#)¹ and Fidelity Asian Values and disposal of two trusts exposed to the UK: BlackRock Throgmorton Trust and Schroder UK Mid Cap Fund. Although some Asian and emerging market equities have been weak in the near term, as a result of US President Trump's talk of protectionism, the manager is positive on the asset classes for the long term and considers that they are attractively priced.

FMPG's largest position is Polar Capital Technology Trust, which invests in a diversified portfolio of global technology stocks across the capitalisation spectrum, although around two-thirds is invested in companies with a market cap above \$10bn. Polar Capital Technology's largest position by quite some margin is Alphabet, which is the parent of Google. Another top 10 holding for FMPG is classified in the AIC's Flexible Investment sector: RIT Capital Partners, which aims to generate long-term capital return while preserving capital via investment in a variety of asset classes, although more than 50% of the portfolio is in listed equities. The trust has no formal benchmark, and since inception in 1988 has generated NAV total returns of 12.7% pa.

Performance: Medium-term NAV outperformance

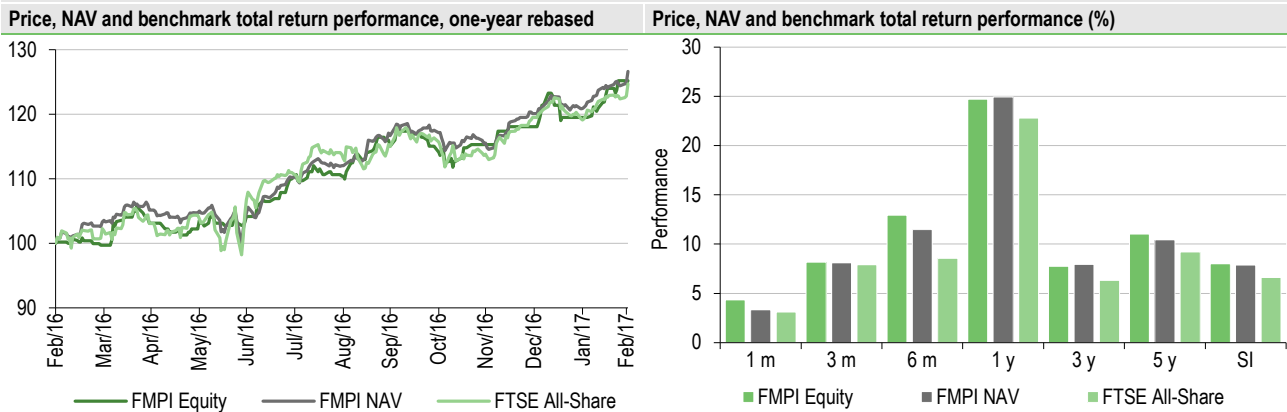
FMPI

During H117 (ending 30 November 2016), FMPI's NAV total return of 10.0% was ahead of the 9.6% benchmark total return. The unexpected Brexit vote led to significant weakness in sterling, which boosted the returns from overseas equities to sterling-based investors. The best performers were BlackRock Commodities Income Investment Trust (+34%), which benefited from improving commodity prices, and BlackRock North American Income (+26%), which benefited from a strong

¹ Client of Edison Investment Research

US equity market. Exposure to emerging markets also added to relative performance. Most of the detractors to FMPI's performance in H117 were UK equity funds, such as Aberforth Geared Income Trust (-8%) and [Standard Life Equity Income Trust](#)¹ (-7%), which has since been sold.

Exhibit 5: FMPI's performance to 28 February 2017



Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year performance figures annualised. SI is since inception on 16 April 2008.

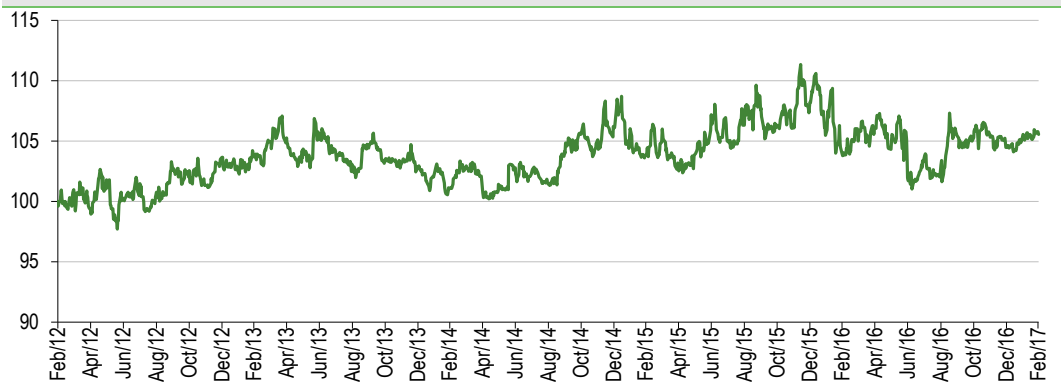
Looking at relative returns in Exhibit 6, FMPI's NAV total return has outperformed the FTSE All-Share benchmark over one, three and five years and since inception.

Exhibit 6: FMPI's share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price versus FTSE All-Share	1.2	0.2	4.0	1.5	4.1	8.6	12.3
NAV versus FTSE All-Share	0.2	0.2	2.7	1.7	4.6	5.8	11.0
Price versus FTSE All-Share Eq Invt Instr	1.1	(0.1)	2.1	(3.1)	(7.6)	(2.0)	3.0
NAV versus FTSE All-Share Eq Invt Instr	0.1	(0.1)	0.8	(2.9)	(7.1)	(4.5)	1.7

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2017. Geometric calculation.

Exhibit 7: FMPI's NAV total return performance relative to benchmark over five years

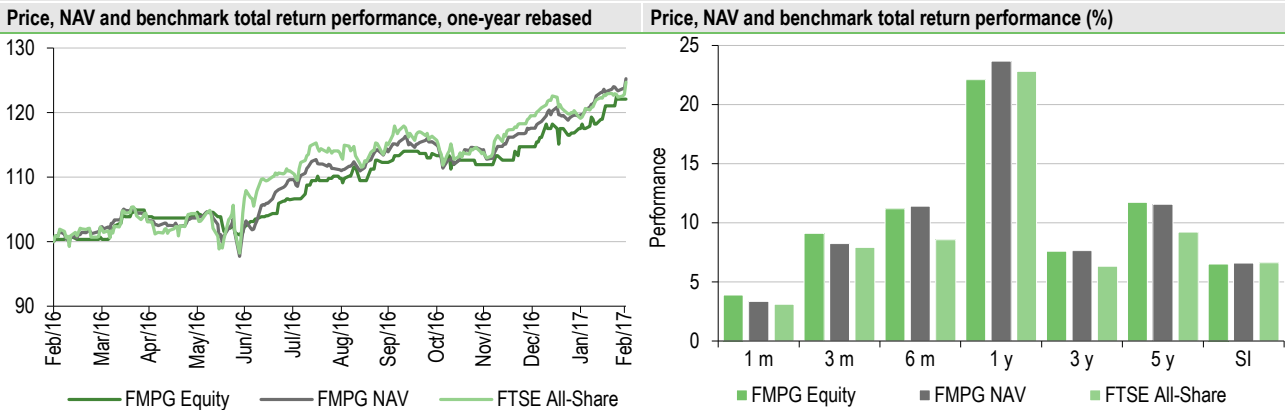


Source: Thomson Datastream, Edison Investment Research

FMPG

During H117, FMPG's NAV total return of 10.0% was ahead of the 9.6% benchmark total return. The best performers were the Polar Capital Technology Trust (+39%) and the Allianz Technology Trust (+34%); both have good long-term performance track records and have allowed the manager to gain exposure to secular growth in the technology sector. Other strong performance contributors in H117 were US equity trust Gabelli Value Plus Trust (+38%) and Monks Investment Trust (+30%), which is a global trust with c 50% of its assets in the US. The detractors to H117 performance tended to be UK and European trusts with a small-cap bias. These included UK smaller company specialist Strategic Equity Capital (-14%) and [European Assets Trust](#)¹ (-6%), which invests in mid- and small-cap European equities.

Exhibit 8: FMPG's performance to 28 February 2017



Source: Thomson Datastream, Edison Investment Research. Note: Three- and five-year performance figures annualised. SI: since inception on 16 April 2008.

Looking at relative returns in Exhibit 9, FMPG's NAV total return has outperformed the benchmark over one, three and five years, but has lagged modestly since inception.

Exhibit 9: FMPG's share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	Since inception
Price versus FTSE All-Share	0.8	1.1	2.4	(0.6)	3.6	12.1	(0.9)
NAV versus FTSE All-Share	0.2	0.3	2.6	0.7	3.8	11.3	(0.2)
Price versus FTSE All-Share Eq Invt Instr	0.7	0.8	0.5	(5.1)	(8.0)	1.2	(9.2)
NAV versus FTSE All-Share Eq Invt Instr	0.1	0.0	0.7	(3.9)	(7.8)	0.5	(8.5)

Source: Thomson Datastream, Edison Investment Research. Note: Data to end-February 2017. Geometric calculation.

Exhibit 10: FMPG's NAV performance relative to benchmark over five years



Source: Thomson Datastream, Edison Investment Research

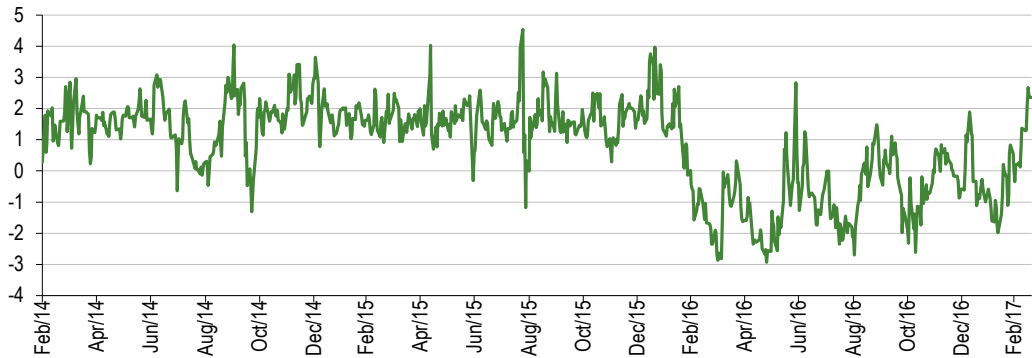
The manager notes that he was particularly pleased that both FMPI and FMPG outperformed the benchmark in H117; following the Brexit vote there was a period of meaningful underperformance versus the benchmark (Exhibits 7 and 10), given the portfolios were positioned for a remain vote, meaning they had overweight exposure to UK small- and mid-cap companies.

Discount: Normally trade close to NAVs

In normal market conditions, FMPT's board aims to maintain FMPI's and FMPG's share price discounts to NAV below 5%. FMPT has the authority to buy back up to 14.99% of shares of each portfolio in issue annually and allot up to 10% of shares to manage a discount or premium. So far in FY17, share buybacks have been modest – for FMPI, 0.5m shares have been repurchased at a cost of £0.6m and for FMPG, 0.3m shares have been repurchased at a cost of £0.4m. In practice, both FMPI and FMPG have historically traded close to NAV.

FMPI's current 2.4% share price premium to cum-income NAV compares to an average 0.7% discount over the last 12 months (range of a 2.8% premium to a 2.9% discount). The premium is modestly higher than the average of the last three years. Over the last five years the share price has averaged the level of the NAV.

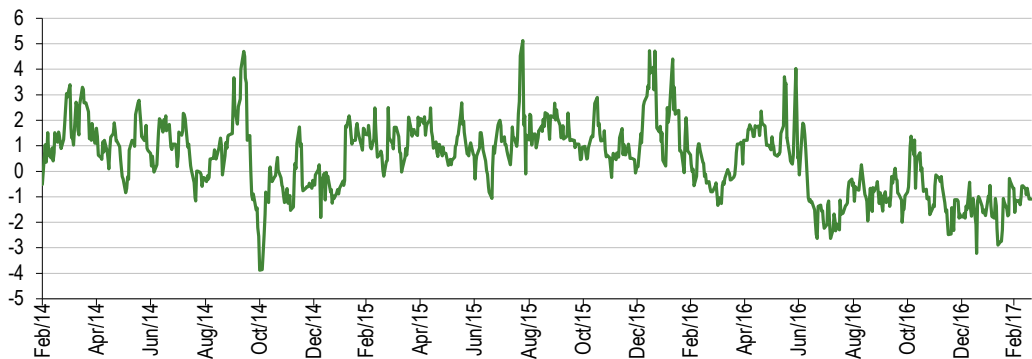
Exhibit 11: FMPI's share price premium/discount to NAV (inc. income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

FMPG's current 1.1% share price discount to cum-income NAV compares to an average 0.5% discount over the last 12 months (range of a 4.0% premium to a 3.2% discount). The discount is wider than the average 0.5% premium of the last three and the 0.5% discount of the last five years.

Exhibit 12: FMPG's share price premium/discount to NAV (inc. income) over three years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

FMPT comprises two portfolios – FMPI currently has 41.6m ordinary shares in issue, with a further 0.9m shares held in treasury, and FMPG has 33.7m ordinary shares with a further 0.6m in treasury.

During FY16, FMPT was selected as the rollover option for the winding up of the Cayenne Trust, which led to a c £12.9m inflow, (increasing the size of the trust by c 20%) with c £7.0m into FMPI and c £5.9m into FMPG; shares were issued at a c 0.85% premium to NAV. This follows a c 20% increase in the size of FMPT in FY15 as a result of shareholders electing to stay invested in an F&C product when British Assets Trust moved to an external manager.

Borrowings

On 10 February 2017, FMPT announced it had entered into a £5m five-year loan facility with Royal Bank of Scotland at a fixed interest rate of 2.03%. This replaced a £5m unsecured revolving credit facility; the new facility was fully drawn down by FMPI. FMPT also entered into a £2m two-year

unsecured revolving credit facility with Royal Bank of Scotland. Gearing of up to 20% NAV is permitted at both FMPI and FMPG.

Management fees

F&C is paid an annual management fee of 0.650% pa of total assets in each portfolio, payable quarterly in arrears. The fee is reduced to 0.325% pa on any investments that are managed by F&C. For FMPI, the management fee is split 60:40 between capital and revenue; for FMPG, the split is 80:20 respectively. A 10% performance fee is payable on the excess total return of FMPI and FMPG versus the benchmark total return. It is capped at 0.35% of the total assets of the relevant portfolio, is charged 100% to capital and is only payable if the NAV has increased over the financial year or, in the case of FMPG, its NAV is higher than that at the date of the trust's inception and higher than the start of the financial year (the watermark NAV). If the watermark NAV has not been achieved by the end of the fourth financial year following the award of a performance fee, the performance fee will be forfeited. Any underperformance of either FMPI or FMPG versus the benchmark must be made up in any subsequent financial year before any performance fee is payable, thus creating a high watermark for the relative performance versus the benchmark.

Ongoing charges

In FY16, FMPI's ongoing charge was 1.09%, which was a 7bp reduction versus the prior year; FMPG's ongoing charge was also 1.09%, which was a 6bp reduction year-on-year. The reduced ongoing charge was helped by the rollover of Cayenne Trust, which enlarged FMPT by c 20%. It should be noted that the current ongoing charges are significantly lower than five years ago; in FY12 FMPI's ongoing charge was 1.44% and FMPG's was 1.59%.

Shareholders have the right to convert their income shares into growth shares and vice versa annually in October. This is subject to certain minimum and maximum thresholds; to date the minimum limit has not been achieved and so there have been no conversions.

Dividend policy and record

All income accrues to FMPI; any net income generated from FMPG is transferred to FMPI in exchange for an equal amount of capital. The transfer has no tax implications for shareholders, as both trusts are held in the same capital structure. This strategy boosts the income prospects of FMPI and the capital growth potential of FMPG. The natural yields of the underlying portfolios are c 4% for FMPI and c 1-2% for FMPG.

FMPI's dividends are paid quarterly in October, January, April and July. In FY16, the annual dividend of 5.20p was 4% higher than FY15 and was 1.08x times covered by revenue (1.17x covered in FY15). Annual dividends have risen for five consecutive years. At the end of FY16, the revenue reserve was c 43% of the annual dividend cost, which provides a buffer in the event of lower revenue generation. So far in FY17, three dividends have been declared – 1.25p per share in each quarter, which is a 4.2% increase versus the prior year; the fourth interim dividend will be declared based on the actual income for FY17. FMPI's current dividend yield is 3.9%, which is higher than the yield on the FTSE All-Share index (3.5%).

Peer group comparison

FMPI and FMPG are members of the AIC Global Equity Income and Global sectors respectively. However, these sectors contain a range of funds with differing mandates and geographic exposures. For example, FMPI has higher UK exposure and lower North American exposure than

the Global Equity Income peers. The manager suggests that he would find it challenging to have significantly less UK exposure, as there are not enough high-quality income-focused trusts with no UK exposure in which to invest. He also stresses that for both FMPI and FMPG, although they invest globally, the aim is to generate higher total returns than the FTSE All-Share index.

Exhibit 13: Selected peer group as at 17 March 2017

% unless stated	Market cap £m	NAV TR 1 Year	NAV TR 3 Year	NAV TR 5 Year	Discount (ex-par)	Ongoing charge	Perform. fee	Net gearing	Dividend yield (%)
F&C Managed Portfolio Income	56.5	22.9	29.6	63.8	2.8	1.1	Yes	107	3.9
F&C Managed Portfolio Growth	59.6	25.0	29.7	74.5	(1.1)	1.1	Yes	100	0.0
British Empire	830.5	49.0	45.4	77.4	(11.0)	0.9	No	105	1.7
JPMorgan Elect Managed Growth	252.5	27.2	37.7	88.1	(1.7)	0.6	No	100	1.2
London & St Lawrence	114.1	19.8	27.7	66.3	(3.0)	0.7	Yes	99	3.8
Miton Global Opportunities	59.5	39.4	46.7	69.4	(5.0)	1.2	No	100	0.0
Seneca Global Inc & Growth Trust	66.7	18.9	32.3	65.7	1.0	1.6	No	107	3.6
Simple average	205.6	28.9	35.6	72.2	(2.6)	1.0		103	2.0
FMPI rank in peer group	7	5	6	7	1	3		2	1
FMPG rank in peer group	5	4	5	3	3	4		4	6

Source: Morningstar, Edison Investment Research. Note: TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

In Exhibit 13, we highlight a selection of investment trusts that invest in collective vehicles. Although they adopt different strategies, we believe that a comparison has some relevance. FMPI lags the peer group average over one, three and five years, while FMPG is ahead of the peer group over five years and behind over one and three years. FMPI is one of only two peers trading at a premium and FMPG has the narrowest discount in the group; their ongoing charges are broadly average. FMPI has higher gearing than average and has the highest dividend yield in the peer group and as discussed in the body of the report, any net income generated by FMPG is transferred to FMPI in exchange for capital; therefore it does not have a dividend yield.

The board

There are four directors on the board of FMPT; all are non-executive, independent of the manager and were appointed on 22 February 2008. Chairman Richard Martin is an adviser to several family groups and is a director of Aurora Investment Trust. The senior independent director is David Harris; he is CEO of specialist investment and marketing group InvaTrust Consultancy and is a non-executive director on other boards including Small Companies Dividend Trust and Manchester and London Investment Trust. The other two board members are Colin McGill, who is a qualified lawyer and accountant, and Alistair Stewart, who is also a qualified accountant.

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