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Market Update

For immediate release

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UK bank-bail out - a new era for global banking

Commentary from Paul Niven, Head of Asset Allocation at F&C:

Those who have studied previous instances of banking crises will have come to the conclusion well in advance of recent historic events that the Government would inevitably have to play a role in the recapitalisation of the banking sector through partial or full nationalisation. Nonetheless, the events of today, where the UK Government will be taking stakes in a swathe of domestic institutions, coupled with events abroad where there have been a succession of 'bailouts' (nationalisations) and governmental guarantees shock nevertheless.

It is too soon to make strong conclusions over the long term impact of the move on the Banks themselves but, in our view, we have now entered a new era for global banking. In return for taxpayers money the State will gain a level of control over their governance, pay, and lending practices. Regulation will increase markedly and controls on all elements of banking practices will rise.

The broad details of the UK bailout are that £50bn of capital (£25bn to be invested shortly with a further £25bn if required) will be made available to UK banks and building societies in the form of preference shares, PIBS, or equity. In addition, the government will guarantee all short and medium term debt issuance, and will make available a £200bn Special Liquidity Scheme. Institutions who have committed to raise Tier 1 capital by a collective £25bn are: Abbey, Barclays, HBOS, Lloyds TSB, Nationwide, RBS, and Standard Chartered (the original list that was announced incorrectly included HSBC). The Government will take into account dividend policies and executive compensation practices and will require a full commitment to support lending to small businesses and home buyers.

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F&C Asset Management plc is the listed holding company of the F&C Group.

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After much recent uncertainty, clarity over the plan is welcome and will help to reduce speculation over just how much existing bank investors' stakes could be diluted. The detail of individual capital injections should be available in coming days. The move by the UK government looks to be aggressive with a firm intention to kick-start domestic lending and provide a stronger capital base in the face of huge investor concern. It was important that the package is viewed as a 'one-off' deal of sufficient scale that further action will not be required next week or next month. Whether the sums involved and scale of plans are sufficient remains to be seen.

While the moves by the UK have to be viewed positively, and a step in the right direction, we are still seeing piecemeal actions by governments to address their domestic issues. For these individual actions to be effective we need much more from countries which have done little, as yet, to directly address the issue of bank recapitalisation, arguably including the US. The UK has set out a model which shows the banks having to bow to the State in terms of national versus shareholder interest. The new model for capitalism has been set out.

Paul Niven
Head of Asset Allocation
8 October 2008

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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.

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- 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 £96.5 billion (€121.9 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, enhanced alpha funds 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 30 June 2008.