



Asset Allocation Game Plan

May 2010

Agenda

▪ Asset Allocation.....	3
▪ Equity vs. Bonds.....	4
▪ US Equities.....	5
▪ UK Equities.....	6
▪ Continental European Equities.....	7
▪ Japanese Equities.....	8
▪ Asia Pacific Equities.....	9
▪ Emerging Markets Equities.....	10
▪ Euro Government Bonds.....	11
▪ US Treasuries.....	12
▪ UK Gilts.....	13
▪ Euro Corporate Bonds.....	14
▪ Sterling Corporate Bonds.....	15
▪ Global High Yield Bonds.....	16
▪ Emerging Market Bonds.....	17
▪ Convertible Bonds.....	18
▪ UK Property.....	19

Asset Allocation

Overweight

Neutral

Underweight

Asset Class Allocation

Equities
Fixed Income
Convertibles

Cash

Equities – regional selection

UK
Emerging Markets

Developed Pacific ex-Japan

US
Japan
Continental Europe

Fixed Income selection

Global Credit
High Yield
Emerging Market Debt
Long Duration Credit

Sovereign Bonds
Index-linked Bonds

Equities v. Bonds

Economics

- Rising productivity, low wage inflation and improving economic growth prospects bode well for profits.
- An appreciating renminbi and the end of quantitative easing will create some uncertainty.

Strategy/Outlook

- We remain overweight equities as the global economic backdrop is in aggregate supportive of further progress, particularly as GDP and profits growth data are coming in ahead of expectations.
- Concerns over the Greek sovereign debt issue remain a threat.
- Our preference within fixed income remains for corporate bonds, which are underpinned by falling expectations of defaults.

Risks

- The growth/inflation/interest rate mix will become more challenging for markets.

Overweight

- Equities
- Fixed Income
- Convertibles

Underweight

- Cash

Economics

- The ISM said US manufacturing grew in April at its fastest pace in almost six years and at a rate that was above expectations. Furthermore, consumer spending increased as expected, continuing to contribute to the recovery. The Federal Reserve insisted that interest rates will remain low despite economic activity strengthening. The Fed stated that the pace of economic recovery is likely to be moderate for a time.
- We believe the economy has further potential to surpass expectations and our forecast is for GDP to expand by 4% in 2010 as unemployment eases from its peak and productivity growth continues.

Strategy/Outlook

- We continue to expect around 4% growth once unemployment begins to fall away from its peak and productivity expansion continues.

Risks

- Persistent high levels of inflation.

- The F&C North America portfolios employ a purely quantitative stock selection approach. We apply a proprietary alpha model and portfolio construction methodology to come to an active portfolio, without taking exposures to styles - market direction, momentum, market capitalisation, value - industries and countries.

UK Equities

Economics

- The UK economy grew by a tepid 0.2% in the first quarter.
- Merger and acquisition activity is returning.
- UK borrowing hit £163.4bn for 2009/10.

Strategy/Outlook

- With the market now fairly valued, stock picking will be key to adding value.
- We favour companies with strong overseas earnings, particularly from non-OECD countries, and those with high returns on equity.

Risks

- Regulatory risk is rising, especially within the financial and oil/mining sectors.
- Concerns over sovereign risk is pushing up risk premiums.

Overweight

- Oil & Gas
- Food Producers
- Aerospace & Defence

Underweight

- Beverages
- Support Services
- Banks

Continental European Equities

Economics

- Concerns over sovereign debt dominated. Greece activated the EU/IMF bailout package and other periphery states including; Portugal (downgraded), Spain and Ireland came under severe pressure.
- Economic data in core Europe continues to encourage however, with manufacturing and industrial production on a positive trend. Employment statistics highlight divergence within the region with Germany bettering expectations but Spain's unemployment breaching 20% in March.

Strategy/Outlook

- Market valuations are reasonably attractive but we remain relatively cautious on the economic outlook.
- We continue to focus on quality companies and believe the market will increasingly differentiate between good and bad businesses. Proven management, high and rising barriers to entry and attractive growth prospects are just some of the characteristics we favour.

Risks

- A sustained period of deflation, as ongoing problems in the financial sector lead to further credit contraction.

Overweight

- Consumer Discretionary
- Food Producers
- Insurance

Underweight

- Oil & Gas
- Telecommunications
- Personal Goods

Japanese Equities

Economics

- Interest rates have been kept on hold in an effort to thwart deflation.
- Stronger corporate earnings have boosted sentiment towards equities.

Strategy/Outlook

- We remain cautious on the global recovery as persistent economic imbalances have been masked by government stimulus programmes.
- We recognise the improving fundamentals and, whilst we believe that investment opportunities are becoming more limited in global exporters and cyclicals, we do believe that the situation in the domestic economy is also improving.
- We have been adding to domestic cyclicals such as general retailers and real estate and attractively valued global cyclicals.

Risks

- Deflation means consumer demand fails to materialise.
- A greater than expected slowdown in the export led recovery.
- A stronger yen.

Overweight

- General Retailers
- Fixed-Line Telecoms
- Financial Services

Underweight

- Electricity
- Leisure Goods
- Travel & Leisure

Asia Pacific Equities

Economics

- Fundamental data out of Asian countries suggest the recovery is on track. The regional economy looks strong.
- Policy tightening and property measures in China have dampened market sentiment. Concerns about fixed asset investment may ease demand for commodities.

Strategy/Outlook

- Whilst stronger-than-expected recovery in Western economies has revived the outlook for Asian exporters, we remain positive on areas of secular growth and resilient pricing power. The main focus is on consumer companies with unique market positions and financials with strong franchises.
- Our thematic focus remains on mid to large cap companies with strong balance sheets and exposure to domestic economies, as more fragile recoveries are forecast for Japan and western economies.

Risks

- Inflation rises above expectations and prompts interest rate hikes.

Overweight

- India
- Indonesia

Underweight

- Australia
- Malaysia

Emerging Markets Equities

Economics

- We continue to believe that emerging markets will outperform their developed counterparts in 2010.
- A key consideration is the gradual withdrawal of the economic stimulus and excess liquidity that have helped pull the developed economies out of recession.

Strategy/Outlook

- We currently favour Mexico, India, Indonesia, Russia and Peru and are starting to direct more focus towards smaller emerging markets – such as Colombia, Egypt and Nigeria – given that their more modest growth rates should not necessitate interest rate hikes.
- China remains less favoured as the authorities there continue to take steps to rein in the economy.

Risks

- Interest rates and inflation in many emerging markets will rise.
- Worries concerning Greek debt will continue to cast a shadow.

Overweight

- Indonesia
- India
- Mexico

Underweight

- Taiwan
- Korea
- China

Euro Government Bonds

Economics

- Concerns over sovereign debt dominated. Greece activated the EU/IMF bailout package and other periphery states including; Portugal (downgraded), Spain and Ireland came under severe pressure.
- Economic data in core Europe continues to encourage however, with manufacturing and industrial production on a positive trend. Employment statistics highlight divergence within the region with Germany bettering expectations but Spain's unemployment breaching 20% in March.

Strategy/Outlook

- We remain more optimistic than the consensus on the economic outlook. Our modestly short duration position and yield curve flattening stance are maintained.
- Country spreads offer scope for profit but we are mindful of risks and continue to adopt a balanced approach with ongoing monitoring of risk within the portfolios.

Risks

- Further risk reduction resulting in spread widening and a steeper yield curve.

Interest rate direction

- Short-dated bond yields should go up

Duration

- Modestly short

Yield Curve

- Flattening bias

Asset Allocation

- Overweight covered bonds
- Overweight Ireland
- Underweight Belgium, Spain & Portugal

US Treasuries

Economics

- The US economic recovery is gathering momentum with both leading (industrial production) and lagging (employment numbers) indicators now on an improving trend. Even the housing market is showing signs of revival.
- From a technical perspective, recent Treasury auctions have been helped by worries over Southern European debt following the problems in Greece.

Strategy/Outlook

- The Fed's expressed commitment to low interest rates continues to underpin the market. In the longer term, however, a flattening of the yield curve has to be expected
- Reflecting the bearish environment we are underweight duration. On the yield curve we have a modest curve flattening bias.

Risks

- A sustained rise in prices, triggering inflation concerns.

Interest rate direction

Up

Duration

Modestly underweight

Yield curve

Underweight under 10 year

Overweight 10+year

Economics

- April manufacturing data, at its strongest since 1994, points to the UK economy picking up pace. A weak exchange rate has helped boost exports but on downside it has also fuelled imported inflation. The March CPI reading was 3.4%, up from 3.0% in February. The Bank of England's target rate is 2.0%.
- Economic data has been pushed into the background somewhat, however, by national elections in the UK.

Strategy/Outlook

- Ahead of much uncertainty on the political front, a huge fiscal funding deficit and a heavy pipeline of new issuance, we are cautiously positioned.
- We expect to trade duration tactically from an underweight position. On the yield curve we retain a flattening bias. Given a structural shortage of inflation-linked assets and central bank fuelled inflation risks, we hold a modest position in inflation-linked gilts.

Risks

- A further steepening of the curve.

Duration

Underweight

Yield curve

Underweight shorter-dated gilts
Overweight longer-dated gilts

Euro Corporate Bonds

Economics

- While the risks to the banking and financial sectors have eased, recent events in Greece have highlighted the continued vulnerability of financial markets in the aftermath of the credit crisis.
- Considerable refinancing is due in the second quarter of 2010 and volatility is expected to continue. Sovereign debt and fiscal deficit are likely to lead to higher fiscal burdens on consumers and, after the initial strong economic recovery post the recession, we believe growth will remain lower for a longer period of time.

Strategy/Outlook

- We still believe that credit spreads in general offer value and therefore we remain positive on the asset class overall.
- Although merger and acquisition activity and leveraged buy-outs are rising again, bringing more risk to company balance sheets, we remain positive and are factoring in the prospect of volatility in the market.

Risks

- Increased turmoil around sovereign risk due to the large increases in fiscal deficits and debt burdens.

Overweight

- Banking (incl. subordinated)
- Metals & Mining
- Tobacco
- BBB Credits

Underweight

- Non-Corporate
- Energy
- Capital Goods
- AAA & AA Credits

Duration

- Broadly neutral

Sterling Corporate Bonds

Economics

- UK corporate bonds started 2010 as they ended 2009 with spreads continuing to tighten as credit fundamentals improved and demand for bonds remained high.
- Issuance has been lower than expected as many companies have already taken advantage of historically lower interest rates to refinance the debt they have maturing over the next couple of years.

Strategy/Outlook

- We still see pockets of value and view the additional yield offered within certain sectors of investment grade as attractive. We will therefore continue to add to our positions where we see value.
- We do, however, remain wary that the technical picture can turn very quickly and that volatility will remain.

Risks

- The government's strategy of quantitative easing proves to be insufficient and the market reacts to a second round of systemic risk.

Overweight

- Insurance
- Financial services

Underweight

- Industrials
- Telecoms

Duration

- Short to Neutral

Global High Yield Bonds

Economics

- It looks like the US economy is growing steadily albeit at a slow pace. All of the indications are that recovery has now been established and the next question relates to when and at what pace support is removed.
- Greece and sovereign contagion do remain issues to contend with and could impact European recovery. Interest rates are likely to remain low or unchanged for sometime.

Strategy/Outlook

- The primary market remains strong as companies take advantage of attractive yields to push out debt maturity profiles.
- Recent demand has been extremely strong as the search for yield continues.

Risks

- The sustainability of the recovery is a key risk as is concern over sovereign debt levels.

Overweight

- Banking
- Services cyclical
- Media

Underweight

- Consumer Cyclicals
- Consumer Non-Cyclicals
- Transportation

Emerging Market Bonds

Economics

- Europe's slow response to coordinate a convincing aid plan for Greece resulted in risky assets being put under pressure. Further Euro-periphery concerns were reinforced by downgrades for Portugal and Spain. Although the emerging markets were impacted by these events, contagion continued to be limited.

Strategy/Outlook

- Credit rating momentum has now turned for emerging market countries and it is expected to remain positive. Generally oversubscribed new issues, limited contagion from credit-specific events and persistent inflows into the asset class suggest that appetite for emerging market assets remains strong.
- We continue to see pockets of value at both ends of the credit spectrum as well as in the quasi-sovereign and corporate segment of emerging markets. We also see value in selectively participating in new issues.

Risks

- A return of extreme risk aversion, ineffective resolution of the Eurozone sovereign debt problems, timing and significance of Quantitative Easing exit strategies, a hard landing in China that could affect commodity prices, and correlation with other asset classes.

Overweight

- United Arab Emirates
- Russia
- Argentina

Underweight

- Mexico
- Turkey
- Brazil

Duration

Flat spread and interest

rate duration

Convertible Bonds

Economics

- Despite turmoil in financial markets, triggered by sovereign debt concerns in Greece and other highly indebted European countries, convertibles posted a positive return in April. Convertibles issued by Greek, Portuguese and Italian corporates came particular pressure, depressing European investment grade only convertible returns.
- The market turbulence provides renewed opportunities to benefit from the beneficial convexity feature that convertibles offer.

Strategy/Outlook

- PIIGS (Portugal, Ireland, Italy, Greece & Spain) exposure has been limited (2.7%) and diversified, predominantly in Portugal Telecom and 4 Spanish issuers.
- The US and Asia are still expected to lead the global recovery but we maintain a positive long term outlook for Europe, based on moderate growth supported by a euro depreciation that benefits exports. Anticipated volatility in markets will be used to reinvest in sold off convertibles.

Risks

- The Sovereign debt crisis gets out of control, resulting in a liquidity crisis. China employing excessively strong measures to cool growth.

Overweight

- Asia
- US
- Oil & Gas
- Financials

Underweight

- Europe
- Electronics
- Pharmaceuticals

Economics

- Property has continued to deliver a strong performance with total returns of 5.7% being recorded in the first quarter of this year.
- Concerns remain about the occupier market with tenant demand cost sensitive, substantial incentive packages in place and voids at high levels.

Strategy/Outlook

- The pace of yield compression has slowed as the yield gap against gilts has narrowed. There is less competition for stock and transaction levels have moved lower after a frenetic end to 2009.
- Investors remain apprehensive about the banks' response to non-performing loans and refinancing terms. Consensus forecasts for total returns are positive for 2010 and beyond.

Risks

- A tightening of economic policy could affect an already fragile occupational market. Investors, in their desire to secure stock, may not fully factor in risk in their pricing calculations.

Overweight

- Income is key. We favour assets with good location, lease length, tenant covenant, voids and building quality.
- Central London offices are leading the recovery.

Underweight

- Secondary stock
- Property vulnerable to rental decline/voids

Countries

United Kingdom

F&C Management Limited
Exchange House
Primrose Street
London EC2A 2NY

Tel: **+44 (0) 20 7628 8000**
Fax: **+44 (0) 20 7770 5487**
Website: **www.fandc.com**

Authorised and regulated in the UK
by the Financial Services Authority.

Netherlands

F&C Netherlands B.V.
Jachthavenweg 109 k
1081 KJ Amsterdam

Tel: **+31 (0) 20 582 3000**

Regulated in the Netherlands
by the Autoriteit-FM.

United States

F&C Management Limited
265 Franklin Street
16th Floor
Boston MA 02110

Tel: **+1 (0) 617 426 9050**

Authorised and regulated in the UK
by the Financial Services Authority

United Kingdom

F&C Management Limited
80 George Street
Edinburgh EH2 3BU
Scotland

Tel: **+44 (0) 20 7628 8000**

Authorised and regulated in the UK
by the Financial Services Authority.

Portugal

F&C Portugal, Gestão de
Patrimónios, S.A.
Av. José Malhoa nº 27-6º Piso
1070-157 Lisboa

Tel: **+351 (0) 21 003 3200**

Regulated in Portugal by the CMVM
and the Bank of Portugal.

Switzerland

F&C Management Limited
Avenue Louis Casai 18
CH - 1209 Geneve
Switzerland

Tel: **+41 22 7477714**

Authorised and regulated in the UK
by the Financial Services Authority

United Kingdom

F&C Management Limited
Park Lodge
London Road
Dorking
Surrey RH4 1QP

Tel: **+44 (0) 20 7628 8000**

Authorised and regulated in the UK
by the Financial Services Authority.

France

F&C Management Limited
26-28 rue de Londres
75009
Paris

Tel: **+33 (0) 1 78 42 40 92**

Authorised and regulated in the UK
by the Financial Services Authority

Sweden

F&C Management Limited
Stureplan 4C, 4th floor
114 35 Stockholm
Sweden

Tel: **+46 (0) 850 901276**

Authorised and regulated in the UK
by the Financial Services Authority

United Kingdom

F&C REIT Asset Management Plc
5 Wigmore Street
London
W1U 1PB
Tel: **+44 (0) 20 7499 2244**

F&C REIT Asset Management Plc is a
wholly owned subsidiary of F&C REIT
Asset Management LLP and is
authorised and regulated by the
Financial Services Authority (FSA).

Germany

F&C Management Limited
Niederlassung Deutschland
Mainzer Landstr. 49/49a
60329 Frankfurt

Tel: **+49 (0) 69 308 55 098**

Authorised and regulated in the UK
by the Financial Services Authority

Hong Kong

F&C Management Limited
66th Floor, Suite 01
The Center
99 Queen's Road Central
Hong Kong

Tel: **+852 3965 3160**

Authorised and regulated in the UK
by the Financial Services Authority.

Ireland

F&C Ireland Limited
Block 5
Harcourt Centre
Harcourt Road
Dublin 2

Tel: **+353 (0) 1 436 4000**

Authorised in Ireland by The Financial
Regulator under the Investment
Intermediaries Act 1995.

Germany

F&C REIT Asset Management
GmbH & Co. KG
Oberanger 34-36
80331 München

Germany

Tel: **+49 (0) 89 61 46 51 0**

F&C REIT Asset Management Plc is a wholly
owned subsidiary of F&C REIT Asset Management
LLP and is authorised and regulated by the
Financial Services Authority.

India

F&C REIT Property Management India
91 Maker Chambers VI
Nariman Point
Mumbai 400 021
India

Tel: **+91 (0) 22 2282 9430**

F&C REIT India Private Limited is a wholly owned
subsidiary of F&C REIT Property Asset
Management LLP. Part of the F&C Asset
Management Plc Group

Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested. The information, opinions estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time. F&C Group Companies may from time to time deal in investments mentioned herein on behalf of their clients. The source of information in all graphs is F&C unless otherwise stated. F&C Management Limited is authorised and regulated by the Financial Services Authority (FSA) FRN:119230. Limited by shares. Registered in England and Wales, No. 517895. Registered address and Head Office: Exchange House, Primrose Street, London, EC2A 2NY, United Kingdom. F&C Asset Management plc is the listed holding company of the F&C Group. F&C Management Limited is a member of the F&C Group of companies and a subsidiary of F&C Asset Management plc. F&C, the F&C logo, REO and the 'reol' logo are registered trade marks of F&C Asset Management plc. F&C INVESTMENTS and the F&C INVESTMENTS logo are trade marks of F&C Management Limited. © Copyright F&C Management Limited 2007. All Rights Reserved. Neither this document nor any part of it may be reproduced by any party whether by photocopying or storing in any medium by electronic means or otherwise without the prior approval of F&C Management Limited.