

Client: Thesis Asset Management
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F&C still feeling pain of Lehmans collapse

Fatima Luis, fixed income manager at F&C, held a 2012-dated Lehman bond yielding 5.37 per cent in her 228.6m F&C Strategic Bond and 124.1m F&C Extra Income Bond funds. Fatima Luis, fixed income manager at F&C, held a 2012-dated Lehman bond yielding 5.37 per cent in her 228.6m F&C Strategic Bond and 124.1m F&C Extra Income Bond funds. As of 31 August, just two weeks before Lehman's bankruptcy, the bonds constituted 1.55 per cent and 1.51 per cent of the funds, respectively, according to Trustnet.

The positions formed the Strategic Bond fund's seventh-largest holding and the Extra Income Bond fund's ninth-largest position.

Following the US investment bank's demise, ratings agencies downgraded the bonds to a triple-C-rating. A spokesman for F&C said it has since been selling down the positions.

The asset manager already announced it had 1.8 per cent of its 87.4m Money Markets fund and 1.3 per cent of its 71.7m Sterling Enhanced Cash fund in Lehman paper when the institution folded.

The funds were forced to jettison these holdings as they were no longer investment grade.

Steven Richards, investment manager at Thesis Asset Management, held 15 per cent of his Optima Multi-Asset Strategy fund in the F&C Money Markets fund when Lehman collapsed. But he said he had no holdings in Fatima Luis's portfolios. 'Fatima is a high-profile individual in the industry, but they do market their bond funds on the basis of their income yield, which is why they're looking at these special situation opportunities.' He added he had stuck with the F&C Money Markets fund and appreciated its diversification relative to its peer group. 'We haven't sold the holding,' he said. 'We don't necessarily choose to punish houses by taking money away. The diversification of the fund came into play, even if they had made a bad decision in buying Lehman's paper. The cash market is very small, so there are not a lot of opportunities you can invest in.' Tom Meade, head of cash management at Royal London Asset Management, said the UK cash market was now stable, despite large withdrawals from US money market funds and the Federal Reserve's \$540bn (308bn) intervention in the sector. He said: 'The triple-A-rated institutional funds have seen some redemptions, but nothing like in the US. The approach the government announced has done a lot to increase confidence.' He said UK retail cash funds were also extremely unlikely to have invested in floating-rate notes linked to asset-backed securities, which had led redemptions from some funds to be suspended after managers proved unable to value them. Mr Meade said: 'We've only ever invested in bank deposits or CDs. By and large, we've been plain vanilla and conservative.' After Lehman's dissolution, the F&C Sterling Enhanced Cash fund became one of the first money market funds in 2008 to lose money over one year. To 13 October, it lost 2 per cent over 12 months and 5.3 per cent over three.

Despite losing 0.4 per cent over the last three months, the F&C Money Markets fund is in the black for the year with returns of 3.9 per cent. The average return for the peer group is 3.3 per cent.

The Extra Income Bond and Strategic Bond funds both lost more than 14.5 per cent over three months against a Strategic Bond sector average of 8.3 per cent. Losses over one year were more than 600 basis points greater than the peer group.

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