COMPANY PROFILE - Man with a Plan

After a period of losses and unrest at F&C, a series of new initiatives by the board and a progressive CEO are turning the company's fortunes around. By *Angelique Ruzicka*...

Since its merger with ISIS Asset Management things have not been plain sailing for F&C Asset Management (F&C) or its investors. Things went awry when Resolution Life announced it was terminating its contract with F&C following its merger with Britannic in 2005. It subsequently lost other mandates including one with pension fund Vervoer and last year underlying earnings per share dropped after clients walked out the door.

F&C's Jason Hollands, director and head of comunications, refuses to pin the blame squarely on the company's shoulder. "They [Resolution Life] were very happy with what we were doing for them but as a result of the merger with Britannic they brought asset management in-house. We also lost assets from Dutch investors who were shifting their business from balanced mandates to multi-manager models called fiduciary management.

"This is a major trend within the Dutch pension fund market and, yes, we lost some clients from that, notably a very large scheme called Vervoer but the key point is that these outflows were not performance related. Some of the press have talked about performance woes and troubles at F&C and while it's not good news to lose assets it's important to understand this was not as a result of poor performance. On Vervoer we had 140 basis points outperformance and this is at a time when we were making large changes," he says.

Whether the mandate losses and subsequent outflows were the fault of F&C or not the subsequent damage was enough to prompt the board of F&C to make changes to implement a fire fighting strategy. The comeback plan, which is to be carried out over three years, will see the introduction of new specialist products and the targeting of newbusiness in higher margin areas.

At the moment 27% of F&C's assets under management are from third-party institutional clients, while 57% come from insurance clients and the remainder are from managing retail assets under sub-advisory agreements.

Under the three-year plan this client dynamic will change. "The general direction is towards more retail and more exposure to alternatives. That diversity is very important to us – while it is fashionable in the bull market to be a retail equity fund manager, that can leave you very exposed in a market downturn and one of our strengths is our broad mix of clients and we want to retain that," says Hollands.

F&C has a separate alternatives hedge fund business called F&C Alternatives but the fire fighting strategy will see the group expand this business and introduce more alternative products that charge higher fees to boost its revenues. Some of the new products it wants to introduce have already been created and have a team to manage them. In February this year F&C hired a fixed income hedge fund team from London & Capital to manage its new fixed income hedge fund – the F&C Tourmaline Fund.

Its fund of hedge funds business, F&C Partners, started recruiting staff in 2004 just after its merger with ISIS. Currently, F&C want to build up this arm by creating a listed fund of hedge fund – the F&C Event Driven Fund. "We haven't finalised a timetable yet but look to list this fund at the end of June this year," says Hollands.

Meanwhile, its private equity funds team, which is based in Edinburgh, was mostly poached from Martin Currie. F&C's head of private equity Hamish Mair joined F&C in 2005 from Martin Currie.

To aid change further, F&C's CEO Alain Grisay, who joined the company a year and a half ago, embarked on a mission to streamline the staff structure. "Alain Grisay has made considerable changes to the business, overhauling management, bringing in a new chief financial officer and removing six tiers of management," says Hollands.

To ensure that its front office ran more as a business unit F&C replaced its chief investment officer with a head of investments. F&C's Hollands explains: "The head of investments is, as such, a business manager. He needs to challenge them [the team] and ensure they deliver what they set out to do. It is a role very much focused on team output but also ensuring that they have the right resources to deliver the role. What the role does not entail is making decisions on whether we should be long on equities or bonds; instead we have an asset allocation team dedicated to this task."

The reshuffle has resulted in F&C running its business in much the same way that a smaller asset manager would.

"We've moved to a model where accountability and ownership for investment process and products is very much at desk level. Which means a much smaller team with a more valued approach, but which doesn't compel the team to fall into some overall house style because we are not aiming for that anymore. We need to have pockets of excellence in a number of areas where the teams are accountable for performance and are remunerated directly for their [own] performance rather than overall investment performance across the business," says Hollands.

New products and staff incentives are only part of the three-year plan. F&C plans to increase its distribution network and expand the business geographically too. But Hollands is emphatic about the fact that the company only intends to expand its business on and close to home ground.

"We are not going to be the next asset manager to set up a joint venture in Shanghai," he admits. "Others are doing it but at the moment the strategy is to focus on the UK and Europe. We think there is a lot to go for in Europe and we don't want to spread ourselves too thinly."

While F&C has a sales and marketing office in Boston it is essentially a pan-European business. The UK remains its biggest market but it has a significant presence in the Netherlands too. It is one of the largest asset managers in Portugal, thanks to its sub-advisory relationship with Millennium BCP, where it manages retail clients' funds.

But the UK, Portugal and Holland will hardly be F&C's only concern. Its office in Frankfurt will see additional marketing and sales staff added to it this year and plans for a presence in Switzerland are well under way. "In Switzerland we are hoping to tap into the private banking market particularly now that we are launching more high alpha and alternative products. We think this will suit the Swiss market," says Hollands. From its office in Geneva F&C also intends to market products to Austria and further down the line hopes to reach out to clients in the Nordics. "We are looking to grow our footprint in Europe, whether it be through local partners or adding more sales and marketing people," adds Hollands.

With new product launches, changes in management, introduction of incentives and further expansion into Europe, no one can accuse F&C of not giving its all to change its fortunes around. Its major shareholders, Friends Provident and Eureko, have remained true to F&C and Grisay's new three-year strategy and have agreed to cut dividends to reinvest in the business. Only time will tell whether all this effort will be enough.

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