

## FRIC Sterling Bond Fund Manager Change

We have changed the manager mix of the FRIC Sterling Bond Fund, replacing M&G Investment Management Limited (M&G) with Western Asset Management (Western). The Fund has an equal weight to Western and Merrill Lynch Investment Management (MLIM).

### Why the change?

Russell has decided to replace M&G with Western in order to benefit from Western's greater willingness to take advantage of its high conviction investment views. Western's investment strategies are similar to those of M&G, with a focus on duration, asset allocation and issue selection. We believe these are important sources of excess return and want to have them specifically covered by a manager in the fund. Western has a disciplined value oriented investment process supported by excellent research capabilities and is well placed to generate high conviction value adding strategies. Consequently, we believe that Western's addition to the fund will enhance the fund's performance.

### Who is Western Asset Management?

Founded in 1971, Western Asset Management is a large specialist fixed income manager. Western manages over £112bn of bonds globally and over £12.8bn in UK bond mandates. Western is a wholly owned subsidiary of Legg Mason, a global financial services company which owns other asset management firms such as Brandywine Asset Management and Batterymarch Financial Management. Western has over 480 staff in its offices in Pasadena (US), London and Singapore. Of these around 60 (with 12 based in London) are investment professionals.

### Western's Investment Process

Western has a long term, value orientated approach to investing. The firm aims to add value from duration and yield curve strategies in the UK government bond market, and will also make considerable use of overseas bonds (predominantly hedged back to sterling) and non-government debt. The UK fixed income team aims to establish diversifying strategies and positions, not wanting any one strategy to overwhelm the portfolio.

Duration and yield curve strategies are developed in a global context and are based on fundamental economic analysis, reflecting Western's underlying belief that interest rates are primarily determined by the level and direction of inflation. The team's focus is to identify and utilise long-term trends, rather than attempt to time the market. The firm's ability to exploit relative value between UK government bonds and those of other markets is an attractive aspect of this product. On the non-government debt side, we believe Western possesses significant analytical advantages over many UK fixed income managers and brings the benefit of a robust international valuation perspective to the analysis of UK issues.

As with all good bond managers, Western makes use of derivative instruments in order to construct portfolios efficiently and to protect the portfolio from unexpected shocks.

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## Diversification to MLIM

Western's focus on long term investments and on fundamental market drivers makes them a good complement to MLIM, the more tactical UK bond manager in our mix. The factors which differentiate Western from MLIM at this time are:

- **Greater fundamental valuation focus.** Whilst all UK bond managers use value screens, Western places more emphasis on valuation than other managers such as MLIM.
- **Long term view.** Western places more weight to strategic long term views than MLIM who balance its strategic view with a highly tactical short term approach.
- **Expertise in non-sterling markets.** Although we believe MLIM is very well placed to add value from allocations between gilts, bonds and treasuries, Western offers a far richer expertise in the non-sterling debt markets. This provides the fund with a wider range of markets and sectors to consider.

## Number of Managers

As always, whenever a manager change is considered the optimal number of managers in the fund is considered. Given the relatively modest size of the UK manager universe and the range of outperformance drivers available to these managers, we felt it appropriate to maintain a two manager structure.

## Summary

In order to maintain the diversification benefits of a multi-manager structure and to sustain the expected return of the FRIC Sterling Bond Fund, we have replaced M&G with Western Asset Management, as a complement to Merrill Lynch Investment Management.

## Manager Weights

Manager	Previous Fund Weight	New Fund Weight
M&G	50%	0%
MLIM	50%	50%
Western	0%	50%