

Take Note

GLOBAL BOND FUND (RIC, RIC II, MSMM) – ADDING LOOMIS

We are improving the manager line-up in the RIC, RIC II euro-hedged, MSMM and MSMM euro-hedged Global Bond funds by adding Loomis, Sayles & Company.

Reasons for the change

The main reasons for adding this manager are to increase process diversification and to enhance the Fund's ability to meet its performance target. The introduction of Loomis does not reflect a reduction of confidence in the existing managers but is a chance to further broaden the Fund's return potential.

In terms of the Fund structure, Loomis will provide global exposure across a number of disciplines, complementing the existing managers PIMCO (sector specialist), Colchester (macro value) and Morgan Stanley Investment Management (multi-sector value).

At the sector level, this manager is a good complement to PIMCO, which has significant expertise in mortgage-backed securities (MBS). Loomis believes the market for corporate bonds is inefficient and favours these over MBS.

Furthermore, and in contrast to more benchmark-aware managers such as PIMCO and Morgan Stanley, Loomis runs a product that has a higher tracking error. In particular, the manager can aggressively pursue allocations to country or currency, while the manager can invest up to 20% of its portfolio in a combination of developed market high yield and corporate bonds along with emerging market issuance.

In the past, this manager has taken large positions where it believed it could exploit value opportunities and maximise total returns. Indeed, during 2003-2004, Loomis held up to 50% of the portfolio in credit (40% corporate bonds including high yield and 10% in emerging market debt).

Who is Loomis?

Loomis is a highly-regarded global bond manager which seeks to add value using a combination of currency, country, interest rate, sector and issue-specific exposures. Boston-based Loomis is a wholly-owned subsidiary of IXIS Asset Management North America. IXIS is, in turn, owned by the French financial institution CDC. The global fixed income team is led by two portfolio managers and also comprises five sovereign analysts and one credit analyst. The team also benefits from the input of Loomis' broader fixed income resources. Loomis' CIO of fixed income is Jae Park.

Bond-picking is key to the team's process and this is backed by extensive research resources in corporate and sovereign debt. We believe this is a key strength of the team.

The team takes country and currency positions on the basis of its assessment of fundamental economic conditions and market valuations, an area where we believe the senior investors are highly skilful. Loomis has substantial internal credit and equity research resources, while the manager also commits significant resources to analysing high yield companies and emerging market debt.

As of December 2005, Loomis had \$74.5 billion under management of which \$56.2 billion was in fixed income.

Manager weights

Manager	Key skill	Old weight (%)	New weight (%)
PIMCO	US non-Govt market	42.5	32.5
Morgan Stanley	Seeks value across all sectors	42.5	27.5
Colchester	Country and currency selection	15	15
Loomis	Security selection	-	25

Will the Fund characteristics be affected?

The Fund's portfolio characteristics – such as country and sector exposure relative to the benchmark – will not be materially affected by the addition of this manager. The Fund's ability to achieve its alpha target will be enhanced but the overall objectives, strategies and principal risks will remain consistent with its original mandate. While the Fund's tracking error target will not change, the addition of Loomis is expected to increase the Fund's actual tracking error slightly.