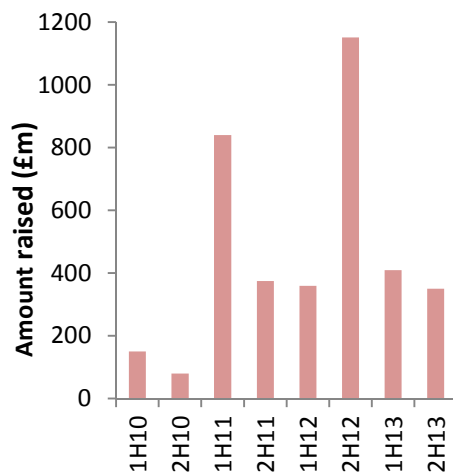


## A solid quarter for the ORB

Amount raised by ORB new issues in each half year



Source: London Stock Exchange, Hardman & Co

## RETAIL BOND REVIEW No. 3

Over the last quarter, the FTSE ORB index fell by 0.1%. Investor demand for new issuance has remained strong with a healthy £340m raised in new issues and taps. Books were closed early for both new issues. In this Review, we look in greater depth at how new issues have fared, historically.

- The first few years of the ORB saw a big variety in new issue characteristics with variable and fixed payments, a wide range of coupon rates and terms to maturity.
- Over the last year, new issues have had less variation in profile with only fixed rate bonds and a narrower range of coupon rates and terms to maturity.
- The new issues market has been particularly attractive for new investors, with an average price return (which excludes interest accrual) in the first month after issue of 2.3%.
- Most bonds have experienced a rising interest rate environment between announcement and listing, boding well for the market if gilt yields rise in the medium term as expected.
- Reflecting the growing importance of this market to both retail investors and issuers, Hardman & Co has produced the following detailed report. This work has been undertaken by our financials analyst Brian Moretta.

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**London**  
Stock Exchange

A range of source data for retail bonds traded on London Stock Exchange, in addition to further information on the ORB market, is available at:

[www.londonstockexchange.com/retail-bonds](http://www.londonstockexchange.com/retail-bonds)

## Introduction

This is the third issue of what is intended to be a regular publication on the retail bond market. Its aim is to offer a comprehensive periodic review of this growing market. As well as providing information on the performance of this security class and a reference on individual bonds within it, each issue will also carry a feature article covering a topical issue. This edition explores the range of yields on the retail bond market.

## About Hardman & Co

Hardman & Co is a research company based in London which has been established for nearly 20 years. We have a team of experienced investment analysts which provides research that is distributed globally. Research is undertaken on quoted and private companies as well as individual projects. We cover both equity and bond markets. Sector expertise includes: Agriculture, Building & Construction, Business Services, Education, Financial Services, Healthcare & Biotech, Media, Mining, Oil & Gas, Property, Technology and Retail Bonds. Research is only one part of the suite of services which we offer to enable investors and companies to engage with each other.

## Brian Moretta, Financials Analyst

Brian has had a 20 year career in financial services, including over a decade as a fund manager. He started as a trainee actuary, but followed that with a spell in academia, where he completed his actuarial qualification and gained a PhD in Applied Probability. He then joined SVM Asset Management, where he specialised in analysing financial services companies. While there, Brian managed two traded endowment funds and an equity fund, worked on hedge funds and the quantitative risk management function. Since leaving SVM he has followed a pluralist lifestyle, mixing financial/investment consulting with spells lecturing on actuarial science and financial economics.

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## Feature Article: ORB New Issues

*Massive rise in retail trading*

**Executive Summary:** In this article we consider the ORB new issues market. If we look at the nature of issues in the first couple of years of the market we can see a wide variety of term to maturity, coupon rates and type. More recently we have seen no new variable rate issues, with a narrower range of terms and coupon rates.

We also look the yields on new issues. We show that new issues have generally come at a higher rate than the market as a whole. The average price return on the first month after listing is 2.3% with only two bonds experiencing marginal falls, illustrating the cost of the supply/demand imbalance for a new issue. Interestingly interest rates have been rising over period from pricing to listing for 62.5% bonds with an average rise of 4bps. This gives encouragement that rising interest rates (the consensus medium term outlook) should not be an impediment to future new issues.

*ORB created to attract retail investors*

**Background:** The ORB was launched in February 2010. Initially the bonds available for trading on it were existing corporate bonds and Gilts which had their minimum trading size reduced to a retail level. The first ORB dedicated issue, from Royal Bank of Scotland, was launched almost simultaneously with the market. Now forty new bonds have been issued onto the ORB from twenty six different issuers, raising a total of £3.8bn.

The new issues market is a continual topic of discussion amongst investors, being seen as both a sign of health for the market and possible money making opportunity for both investors and other market participants. In this article we look a little deeper into this aspect of the ORB.

**Data:** The data in this article was primarily drawn from the London Stock Exchange database. For comparisons we have also used data from the FTSE ORB Index where available.

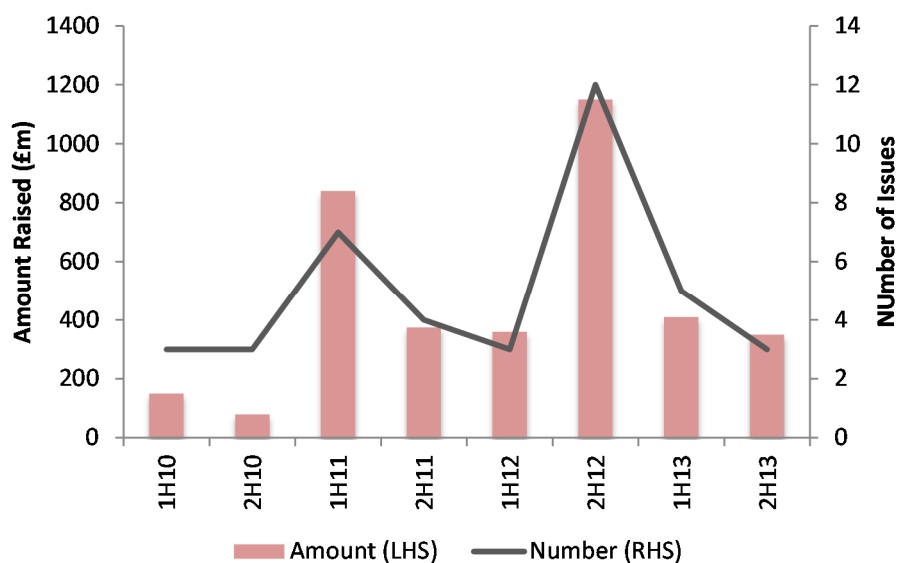
We note that of the forty issues, nine have variable coupon rates – usually either index-linked or LIBOR linked. For most of the descriptions we will refer to all the bonds, but when we look at coupon/interest rates we only consider the thirty one that are fixed rate.

### Summary

As indicated above, there have been 40 new issues on the ORB since its launch. Of the £3.8bn raised £74m came through taps, further issues of the same bond at the later date. These are usually done at a slight discount to the prevailing the market price, rather than par which is normal for new issues. We will look at taps later, and restrict our main analysis to the actual issues.

In Figure 1 below we show the total amount raised and the number of new issues in each half year since the inception of the ORB.

Figure 1: Total amount raised and number of bonds issued in each half year



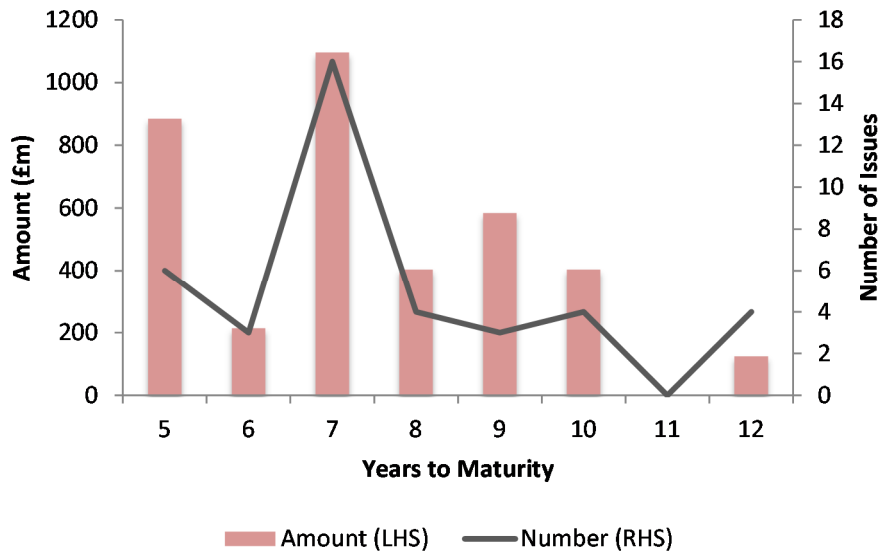
Source: London Stock Exchange, Hardman & Co

A couple of things are clear from this. In 2010 the amount raised in the new issues market was reasonably small, but with 3 issues in each half it wasn't that far behind in number of issues. In 2010 the mean issue size was only £38m, but since then the average in each half has been between £82m and £120m with an overall average of £95m.

The second clear feature is the large amount raised in the first half of 2011 and the second half of 2012. The former is somewhat distorted by an issue of £350m from the European Investment Bank. Excluding that bond the total raised would be £490m, still a little better than most of the other half years but not outstandingly so. The second half of 2012 however stands out as particularly strong. The large amount raised was driven by the number of new issues. Although there was another large issue from the London Stock Exchange of £300m, the average amount raised per issue in the half year was £96m, almost the same as the overall average.

In Figure 2 we look at the split by term to maturity of the bonds that were issued.

Figure 2: Total amount raised and number of bonds issued with given term to maturity (rounded down)



Source: London Stock Exchange, Hardman & Co

Bonds purchased in an ISA must have a minimum term to maturity of 5 years at the time of purchase<sup>1</sup>. Given this is a significant proportion of the retail market it is hardly a surprise that there have been no new issues with shorter terms.

When the first bonds were issued onto the ORB we saw quite a variation in term to maturity at the time of issue. The range in 2010 was 5.25 years to 12 years, with an average of 10.5 years. Since then the average has fallen to 7.8 years, with this figure being consistent since the middle of 2011. However, the range has narrowed considerably with all new bonds in 2013 having a term to maturity between 7 and 9 years.

As has been noted by many observers, the range of issuers has in some senses been quite limited. Thirty four of the forty issues have come from Financial companies<sup>2</sup>, with the balance being from the Utilities, Oil & Gas and Consumer Services sectors with one supranational. It is perhaps worth noting that three of the last nine issues have come from non-financial companies, which suggests the diversity is improving.

Figure 3: Split of bonds by Index of issuer

FTSE100	FTSE250	Small Cap	Not listed	Total
13	15	3	9	40

Source: London Stock Exchange, Hardman & Co

As we indicated in the analysis in Retail Bond Review No.2, the new issues have had a good proportion from Mid- and Small cap stocks. The proportion of

<sup>1</sup> See news on page 14 for a probable change to this rule.

<sup>2</sup> For the purposes of this analysis we have classified Tesco Personal Finance as an unlisted bank. Although strictly it is the subsidiary of a FTSE100 retailer, it is functionally a privately owned bank.

FTSE100 stocks here is higher with seven of the nine variable rate bonds and one of the two new issues last quarter having come from FTSE100 companies.

## **Taps**

There have been six taps of previously existing bonds raising a total of £74m. They have been very unevenly spread, with four in 2011 and two in the last quarter of 2013. In most cases the amounts involved have been small relative to the original issue, the main exception being the recent tap from International Personal Finance who raised £31.5m on top of their initial £70m. Given the small numbers and amounts it is hard to draw any meaningful conclusions and we do not examine these further.

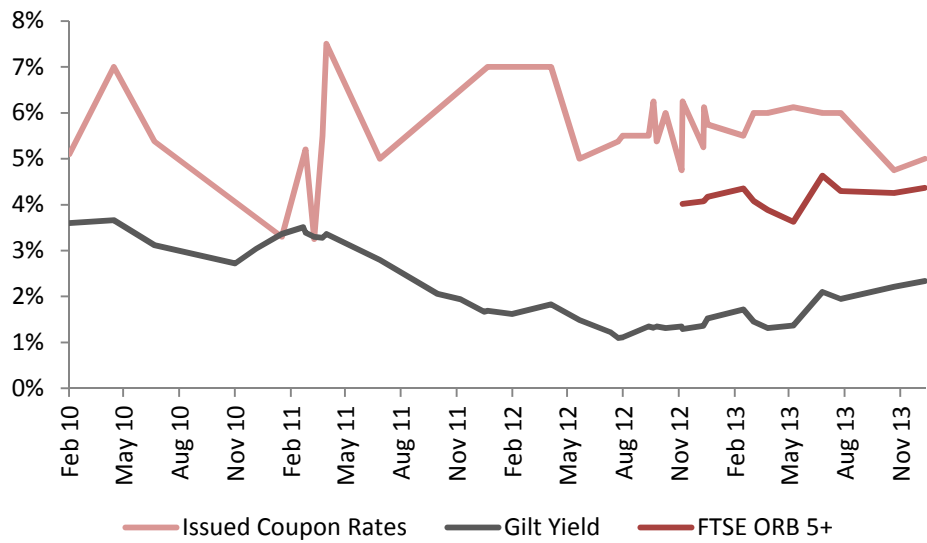
## **Yields on New Issues**

In this section we look at the yields offered on new issues. As indicated above we restrict the analysis to the thirty one new issues that have fixed coupon rates. The nine with variable rates raised £545m, leaving £3.17bn at fixed rates. It is perhaps interesting that the last variable rate bond was issued in July 2012, with the nineteen issues since then all having fixed coupon rates.

It is difficult to be definitive with the analysis as the coupon rate can depend on many factors. These include credit quality, term to maturity, risk free rate and issue size. For example, the lowest coupon rate on an issue was the European Investment Bank bond in 2011 at 3.25%. This can be considered as a high quality sovereign credit as it has a AAA credit rating from S&P and equivalents from other rating agencies. Few corporates anywhere can match that security, and most coupons on the ORB have been significantly higher than that.

The highest coupon was for the Provident Financial bond issued in March 2011 (three weeks after the EIB issue) which was 7.5%. However it has also issued two other bonds at 7% and its most recent was at 6%. Generally yield curves are rising, which means that if all other things are equal we'd expect longer maturity bonds to have higher yields. Yet the highest yielding of those Provident Financial bonds had the shortest term at issue.

Figure 4: Coupon rates, Gilt and Index yields at bond issue dates

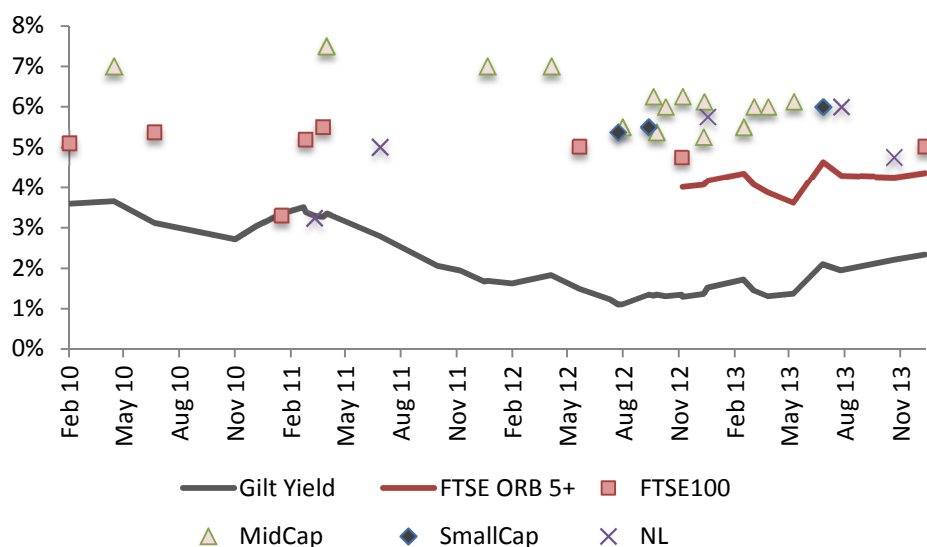


Source: London Stock Exchange, FTSE International, Hardman & Co

In Figure 4 we compare the coupon rates on new issues with yields on comparable gilts and the FTSE ORB over 5y until Maturity Index (for the latter we only have data going back to the index’s creation in 2012.) There is no clear pattern or trend over time, with bonds having been issued both at near Gilt rates and at significant yield premiums. The typical yield premium over Gilts perhaps widened a bit in the second half of 2012, but it is hard to say that it was a significant change.

To gain more insight we use the size risk classification that we used in Retail Bond Review No.2. Briefly we can broadly use the size of the issuing company as an approximation to risk<sup>3</sup>. The results of this are shown in Figure 5 below.

Figure 5: Coupon rates, Gilt and Index yields at bond issue dates



Source: London Stock Exchange, FTSE International, Hardman & Co

<sup>3</sup> Note we have returned Tesco Personal Finance to the FTSE100 category in this chart.



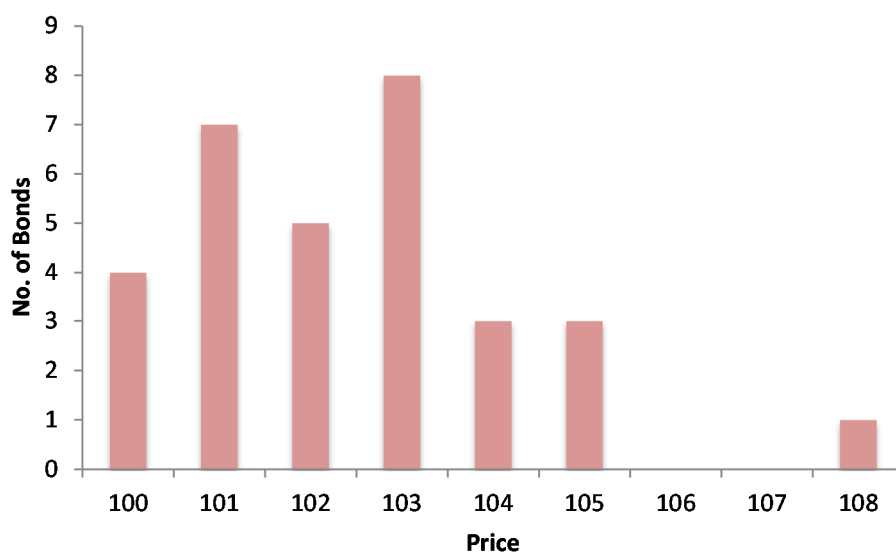
Here we see a similar pattern to what we saw in the analysis of market yields in the last quarterly. Broadly issues from MidCap companies come to market with a higher yield than those from FTSE100 companies. The SmallCap companies are comparable with MidCaps. As before there are two reasons for this: their market capitalisation is at the upper end of the SmallCap range and it seems that only better quality SmallCaps are in a position to issue bonds.

Interestingly all the issues in the last 14 months have been at a yield premium to the FTSE ORB over 5y until Maturity Index, despite many of the bonds having similar or shorter durations. Existing bonds are priced off a balanced supply and demand position in the market, whereas new bonds have a much greater supply. This should lead to a lower price and higher yield<sup>4</sup>.

Although Gilt yields have been falling for most of the time since the ORB was created, in fact we can see from above that most of the issues have taken place in a time of rising rates. In the new issue market a bond is typically priced at the time of the announcement, leaving it potentially vulnerable to changes in interest rates during the book building process. Interestingly, on average Gilt yields have risen by 4bps over the period between a bond's announcement and its listing date. Given that's an average of 19 days, that 4bps translates to an annualised interest move of 73bps, not insubstantial for bond markets. Actually rises in Gilt yields in that period were almost twice as common as falls, with the largest rise being 31bps. A similar pattern can be seen for the FTSE ORB over 5y until Maturity Index in the period for which we have data. Although a little simplistic, hopefully this gives some reassurance to those who are nervous about the effect of rising rates on the ORB new issues market.

The market for new issues after listing is also of interest and we show post-listing price movements in Figure 6.

Figure 6: Bond price distribution 1 month after listing date



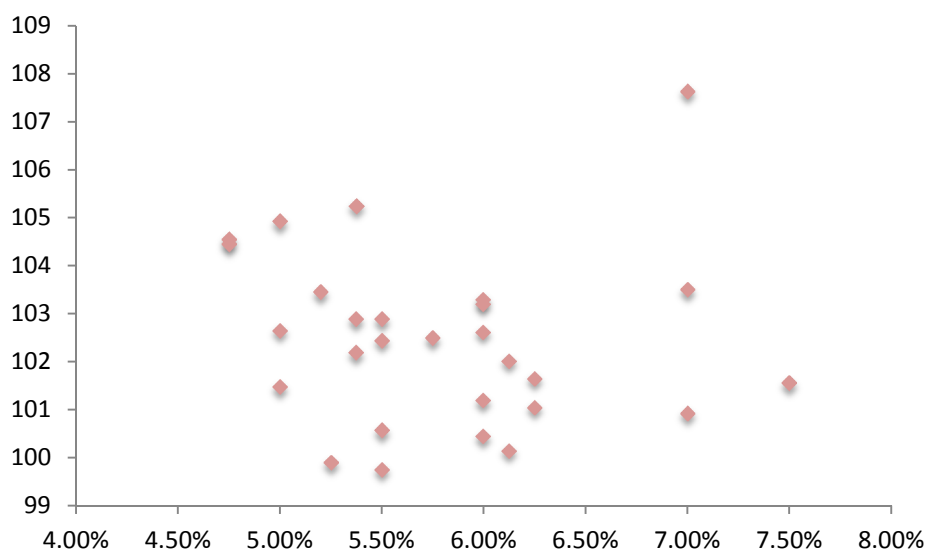
Source: London Stock Exchange, Hardman & Co

<sup>4</sup> If this is not clear then it may think to help of it as the opposite to a corporate take over, where a premium is paid to buy all the equity.

The figure shows the prices for individual bonds at one month after the listing date. For this Figure we have removed the Floating Rate Notes as their coupon adjusts for interest rates rather than the price<sup>5</sup>. Note also that these are 'clean' prices and do not include any accrual for coupon payments.

Of the 32 issues only two have prices below par, with the lowest 99.75. Given most of the excluded bonds are in the first year of the ORB this means that the prices of new bonds generally rose despite rising Gilt yields. The average price return for the first month after listing is 2.3%, plus interest accrual which averages 0.47% per month. This should represent a normalising of their yield relative to the broader market and illustrates the discount that new issues have to sell at in the market. It also explains their attractiveness to investors.

Figure 7: Price after one month for bond coupon rates



Source: London Stock Exchange, Hardman & Co

The correlation coefficient between the one month price and the initial coupon rate is reasonably strong at 0.50. While there is a trend for the one month price move (no interest accrual) to be larger for bonds with higher coupons, we can see there is a lot of variation for a given coupon rate suggesting other factors may be at least as relevant. The highest return was for the Provident Financial issue in 2010. This was the second bond issued onto the ORB, but the probably the first that had a truly retail investor base.

## The Future for New Issues

Forecasting is always a risky business, particularly about the future. In our conversations with market participants and investors the topic of future new issues always arises. Unfortunately we have no direct visibility on the pipeline, but we suspect that, in the absence of large or unexpected moves, concerns that rising interest rates will make new issues difficult are overdone. As our

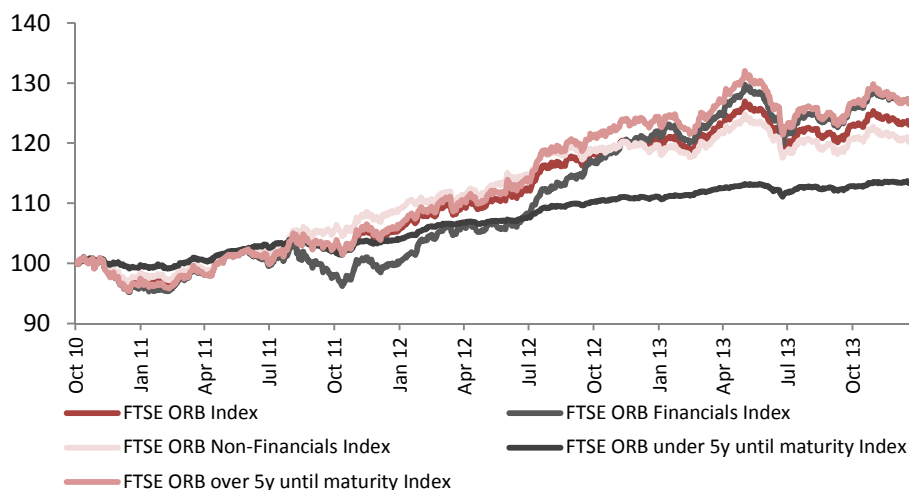
<sup>5</sup> In particular this means we have excluded all the Royal Bank of Scotland issues.

analysis shows, rising rates are not a new occurrence. If interest rates rise it is likely to be at least partially due to a recovery in the UK economy. This should be good for companies, who will be able to deploy more capital and accordingly will look to do further fundraisings. Against that there will be more sources of funds as banks continue to recover and relax their strict criteria, something we have seen signs of recently.

It is starting to look like the second half of 2012 was something of an exceptional period for the ORB. However, we do feel that demand from investors exceeds the supply of the last few months, as the early closing of the last two new issues illustrates. As the market matures and the economy recovers we expect to see a steadier supply of bonds.

## Market Performance

Figure 8: ORB Total Return Indices from inception (1/10/10=100)



Source: FTSE, Hardman & Co

The unsettled nature of the bond markets had an adverse affect on the FTSE ORB Index this quarter as it fell marginally on a total return basis. There was a greater contrast in the sub indices, as the Financials and short dated bonds outperformed the Non-Financials and longer dated indices which both fell.

Note the FTSE ORB under 5y until Maturity Index was subject to technical changes described under the Yield Curve discussion on Page 12.

## Index Data tables

### Performance & Volatility – Total Return (GBP)

Index	No Issues	Nominal £bn	Performance to 31/12/13 (%)			
			3M	6M	12M	36M
FTSE ORB Index	82	21.26	-0.07	2.54	1.70	25.43
FTSE ORB Financials Index	41	9.15	0.66	4.40	3.81	30.81
FTSE ORB Non-Financials Index	42	13.56	-0.58	1.25	0.25	21.75
FTSE ORB under 5y until Maturity Index	25	6.12	0.36	1.32	1.92	13.56
FTSE ORB over 5y until Maturity Index	58	16.59	-0.25	2.94	1.55	29.63

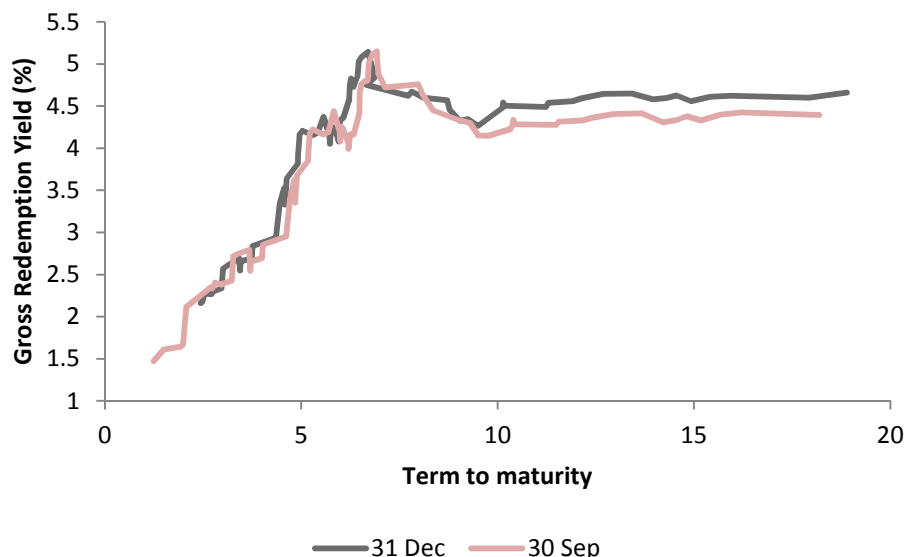
### Index Characteristics

Index	Gross redemption yield (%) *			Modified Duration *		
	3mths ago	Now – 31/12/13	change	3mths ago	Now – 31/12/13	change
FTSE ORB Index	4.06	4.26	0.20	6.62	6.75	0.13
FTSE ORB Financials Index	4.43	4.52	0.09	6.86	6.68	-0.18
FTSE ORB Non-Financials Index	3.79	4.06	0.27	6.46	6.79	0.34
FTSE ORB under 5y until Maturity Index	2.17	2.86	0.69	2.74	3.13	0.39
FTSE ORB over 5y until Maturity Index	4.31	4.48	0.18	8.12	8.28	0.15

\*See glossary

## Yield Curve

Figure 9: Yield curves for bonds in the FTSE ORB Index



Source: FTSE, Hardman & Co

Again there was a distinct split in yield movements over the quarter. During October yields fell across the board. These were reversed in November and December, with longer bonds having a larger movement. Consequently yields for bonds with maturities over 10 years finished the quarter roughly 20-30bps above where they started. Shorter bonds had little net movement.

Gilt yields rose for all but the shortest terms to maturity. The largest movements were in the 5-10 year range, which suggests a reduction in yield premium for corporate bonds in that range.

The shape of the curve is influenced by the variety of credit qualities available in the market. Broadly in the 5-10 year range there is a much greater GRY spread, suggesting a greater variety in credit quality. The main article in this Retail Bond Review No 2 looked at this in more detail.

Technical note: bonds with less than a year to maturity are ineligible for the FTSE ORB Index. This led to five bonds being removed from the index in December. The yield curve is calculated as a moving average, so now starts at just over 2 years rather than under 1.5 years as before. This is part of the reason for the sharp rise in gross redemption yield and modified duration for the FTSE ORB under 5y until Maturity Index, which also gained five bonds from the longer Index.

## New Issues

*Two good sized issues in Q4*

Two new bonds were issued this quarter, though there were also two taps of existing bonds. The total amount raised during the quarter was £341.5m, bringing the total for the year to £811.5m from 8 issues.

**Figure 10: New corporate bond issues 1/9/13 to 31/12/13**

Company	Date Listed	Issue Size (£m)	Maturity Date	Coupon
A2D Funding	21 Oct 2013	150	21 Oct 2023	4.75%
Premier Oil	11 Dec 2013	150	11 Dec 2020	5.00%

*Source: London Stock Exchange*

A2D Funding is a special purpose vehicle which is backed by A2Dominion Housing Group. The latter is a large housing association based in South East England. The bonds will have a nine year term and a coupon of 4.75%. The bonds were subsequently rated AA- by Fitch, which goes some way to justifying a lower coupon compared to recent ORB issues. After a quiet summer, the issue closed after only 2 days showing the ORB new issue market remains open to the right issuers.

The bond from Premier Oil was the 40th issued on the ORB and the second from an oil company. It also saw strong demand from investors and managed to close its books early.

Unusually the quarter also saw two taps, where existing issuers made follow on sales of existing bonds. In November International Personal Finance raised another £31.5m, adding to the £70m it raised when its bond was issued in May. Then in December Enquest raised £10m to follow on from the £145m it raised in February.

## Significant Economic and Market News

*US QE tapering starts*

The fourth quarter finally saw the beginning of the end as the US Treasury announced the taper of its current quantitative easing programme. Initially the reduction in bond purchases will be by \$10bn to \$75bn each month. The expectation, of course, is that we will see further reductions in the near future, though the Chairman has stressed the data dependent nature of any decisions.

The tapering did not come as a surprise to the markets. In October US government bond yields continued to fall in the relief rally that following the lack of tapering in September. But a steady flow of improved economic data saw the 10 year yield fall from a low of 2.5% in October to 3.0% at the year end.

The successor to Ben Bernanke as Chairman of the US Federal Reserve will be Janet Yellen. She has been vice chair of the central bank since 2010 and is considered to be something of a dove on interest rates having been a strong advocate of the policies to boost the US economy since 2008. She was also head of the Council of Economic Advisors for two years under Bill Clinton.

*Shock ECB rate cut*

Outside the US the biggest news was the ECB's shock rate cut in November, which saw its main refinancing rate reduced by 25bps to 0.25%. Its Chairman, Mario Draghi, gave a strong commitment to do whatever it could to promote a recovery in Europe. In particular he committed the ECB to supporting bank liquidity until mid-2015. Since then we have seen some gentle improvement in the overall economic statistics and some forecasts for 2014 are projecting significant improvement in several of the struggling southern European countries. In a positive step Ireland managed to raise funds from the markets rather than other governments signalling an end to its bailout process. Though the economy still has some way to go to fully recover, and policies will continue to remain tight, debt as a proportion of GDP is forecast to fall next year.

*Further rise in gilt yields on good economic news*

UK bond yields have continued to follow a similar trajectory to the US with 10 year Gilt yields falling to almost 2.5% in October then rising to 3.0% by the end of December. Although there were no policy changes, there was a general improvement in the economic newsflow. Perhaps most notable were the changes in forecasts from the OECD, who upgraded their 2013 and 2014 UK GDP estimate at the same time as they downgraded their global estimates. As referred to in the last ORB Review, it is looking likely that the Bank of England's unemployment target of 7% will be reached well before their initial estimate of the second half of 2016. This is likely to mean rises in the base rate before then too.

*\$1.1tn US issuance in 2013*

With the US economy going reasonably well, confidence in companies has started to return. This helped US corporates to sell \$1.1tn of investment grade bonds in 2013, only the third year that the \$1tn level has been exceeded. In the UK it would seem that banks are becoming more open to large lending again, which may have contributed to the lower ORB issuance in 2013 compared to the previous year.

*Co-operative restructuring completed*

After a period of extended negotiation the Co-operative Group got bondholders and preference shareholders to agree to its restructuring plan for Co-op Bank. Under the revised proposal the Group will have a shareholding of approximately 30% in the bank, with the balance going to senior bondholders. Lower ranked investors will receive new bonds, though at a significantly lower value than the previous holding. The Co-operative bonds that were moved onto ORB have now been moved to a different segment of the market and are no longer available on the order book.

*Further growth in ORB market making*

In his Autumn Statement the Chancellor acknowledged the success of the retail bond market, and in particular its popularity with ISA investors. He announced a possible relaxation in the rules. Currently ISA investors can only buy bonds with an outstanding term to maturity of at least 5 years. The Treasury is considering removing this restriction, making all listed bonds eligible. This would obviously strengthen the ORB market and allow a broader range of issues.

## Glossary:

**Flat (running) yield:** The interest earned expressed as a % of the price paid for the asset. Note that this ignores the capital gain or loss inherent by buying the asset at a price greater than or lower than the eventual redemption price (see Gross Redemption Yield).

**Gross Redemption Yield:** The annual interest rate at which the present value of all future payments on a bond equals its current price. It takes into account any capital gain/loss incurred as well as the coupon payments.

**Modified Duration:** The average time of future payments, weighted by their present value. It is a measure of interest rate sensitivity, with higher values denoting greater sensitivity.



## Bond Statistics as of 31<sup>st</sup> December 2013

### Fixed Rate ORB Corporate Bonds (alphabetically by issuer)

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
A2D FUNDING PLC A2D FUND. 22	XS0975865949	18 Oct 22	4.75	18 Apr 14	6 month	104.5	4.55	4.18	7.25	NA
ALPHA PLUS HOLDINGS PLC ALPHA PLUS 19	XS0853358801	18 Dec 19	5.75	18 Jun 14	6 month	106.425	5.40	4.56	5.14	822,733
ANGLIAN WATER SERVICES FINANCING PLC ANG.W.S.F.5.25%	XS0211684831	30 Oct 15	5.25	30 Oct 14	12 month	106.945	4.91	1.35	1.77	997,000
ANGLIAN WATER SERVICES FINANCING PLC ANGLIANWTR6.875	XS0089553282	21 Aug 23	6.625	21 Aug 13	12 month	122.58	5.41	3.92	7.77	345,500
ANHEUSER-BUSCH INBEV NV AB INBEV 6.50%	BE6000183549	23 Jun 17	6.5	23 Jun 14	12 month	115.12	5.65	1.94	3.14	3,351,333
AVIVA PLC AVIVA 6.125%36€	XS0138717441	14 Nov 36	6.125	14 Nov 14	12 month	105.25	5.82	5.71	12.98	7,303,333
B.A.T. INTERNATIONAL FINANCE PLC B.A.T.IF6.375%	XS0182188366	12 Dec 19	6.375	12 Dec 14	12 month	118.095	5.40	3.00	5.18	3,453,333
BARCLAYS BANK PLC BARCLAYS.5.75%	XS0134886067	14 Sep 26	5.75	14 Sep 14	12 month	105.2	5.47	5.18	9.29	10,810,333
BEAZLEY PLC BEAZLEY 5.375%	XS0827693663	25 Sep 19	5.375	25 Sep 14	6 month	104.75	5.13	4.47	4.95	1,709,733
BP CAPITAL MARKETS PLC BP CAP. 14	XS0436300247	29 Dec 14	4	29 Dec 13	12 month	102.83	3.89	2.24	1.63	12,417,667
BRITISH TELECOMMUNICATIONS PLC BR.TEL.5.75%BDS28	XS0097283096	07 Dec 28	5.75	07 Dec 14	12 month	111.54	5.16	4.66	10.63	4,623,000
BRITISH TELECOMMUNICATIONS PLC BR.TEL.8.625%	XS0052067583	26 Mar 20	8.625	26 Mar 14	12 month	128.225	6.73	3.50	4.96	4,500,667
BRITISH TELECOMMUNICATIONS PLC BRIT.TEL.NTS16	XS0123682758	07 Dec 16	7.5	07 Dec 14	12 month	118.14	6.35	2.21	3.24	6,817,667
BRUNTWOOD INVESTMENTS PLC BRUNTWOOD 6%	XS0947705215	24 Jul 20	6	24 Jan 14	6 month	105.5	5.69	5.07	5.41	5,696,867
CLS HOLDINGS PLC CLS HDGS 19	XS0820711215	31 Dec 19	5.5	31 Dec 13	6 month	101.85	5.40	5.20	5.18	2,282,067
COMPASS GROUP PLC COMPASS 7%BDS14	XS0100559037	08 Dec 14	7	08 Dec 14	12 month	105.44	6.64	3.44	1.54	232,000
DAILY MAIL & GENERAL TRUST PLC DMGT.5.75%18	XS0170485204	07 Dec 18	5.75	07 Dec 14	12 month	108.605	5.29	3.80	4.43	2,595,333
EASTERN GROUP EAST.GP.8.5%2025	XS0058209106	31 Mar 25	8.5	31 Mar 14	12 month	136.24	6.24	4.35	7.84	935,333
EASTERN POWER NETWORKS PLC EAST.POWER5.75%	XS0187202303	08 Mar 24	5.75	08 Mar 14	12 month	112.98	5.09	4.16	7.80	406,000
ENQUEST PLC ENQUEST 22	XS0880578728	15 Feb 22	5.5	15 Feb 14	6 month	102.675	5.36	5.16	6.54	4,179,300
ENTERPRISE INNS PLC ENTER INNS 2018	XS0163019143	06 Dec 18	6.5	06 Jun 14	6 month	104.025	6.25	5.63	4.28	4,592,667
EUROPEAN INVESTMENT BANK EIB 3% 2015	XS0497463777	07 Dec 15	3	07 Dec 14	12 month	103.91	2.89	1.46	2.52	6,617,067
EUROPEAN INVESTMENT BANK EURO.I.BK.16	XS0602217159	07 Dec 16	3.25	07 Dec 14	12 month	105.53	3.08	1.66	3.43	8,218,667
EUROPEAN INVESTMENT BANK EURO.IV.8.75	XS0055498413	25 Aug 17	8.75	25 Aug 14	12 month	124.94	7.00	2.57	3.67	8,560,667

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
FIRSTGROUP PLC FIRSTGROUP6.125	XS0181013607	18 Jan 19	6.125	18 Jan 14	12 month	107.71	5.69	4.38	4.27	607,000
GE CAPITAL UK FUNDING GE CAP.UK 18	XS0381559979	06 Aug 18	6.75	06 Aug 14	12 month	117.35	5.75	2.67	4.04	4,042,000
GE CAPITAL UK FUNDING GE CAP.UK 33	XS0340495216	18 Jan 33	5.875	18 Jan 14	12 month	117.255	5.01	4.51	11.94	4,014,667
GE CAPITAL UK FUNDING GE CAP.UK5.625%	XS0297507773	25 Apr 19	5.625	25 Apr 14	12 month	112.32	5.01	3.07	4.61	5,419,667
GKN HOLDINGS PLC GKN 6.75% BDS19	XS0103214762	28 Oct 19	6.75	28 Oct 14	12 month	113.13	5.97	4.16	5.00	2,259,000
GLAXOSMITHKLINE CAPITAL PLC GLAXOSMSC 5.25%	XS0140516864	19 Dec 33	5.25	19 Jun 14	6 month	112.61	4.66	4.35	13.03	178,000
HAMMERSON PLC HAMMERSON 6%26	XS0184639895	23 Feb 26	6	23 Feb 14	12 month	114.6	5.24	4.42	8.79	4,206,000
HAMMERSON PLC HAMMERSON 7.25%28	XS0085732716	21 Apr 28	7.25	21 Apr 14	12 month	127.455	5.69	4.59	9.57	186,000
HAMMERSON PLC HAMMERSON6.875%	XS0109514538	31 Mar 20	6.875	31 Mar 14	12 month	119.04	5.78	3.43	5.14	210,000
HELICAL BAR PLC HELICAL B.20	XS0942129957	24 Jun 20	6	24 Jun 14	6 month	105.025	5.71	5.14	5.47	3,297,867
HSBC BANK PLC HSBC BK.5.375%	XS0174470764	22 Aug 33	5.375	22 Aug 14	12 month	104.21	5.16	5.03	12.51	625,667
HSBC BANK PLC HSBC BK.6.5%NT2	XS0088317853	07 Jul 23	6.5	07 Jul 14	12 month	114.12	5.70	4.63	7.33	1,020,000
ICAP PLC ICAP 5.50%	XS0805454872	31 Jul 18	5.5	31 Jan 14	6 month	106.775	5.15	3.90	4.03	4,400,467
IMPERIAL TOBACCO FINANCE PLC IMP.TOB.FIN.6.25%	XS0180407602	04 Dec 18	6.25	04 Dec 14	12 month	115.02	5.43	2.92	4.40	621,333
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP	XS0716336325	21 Dec 18	7	21 Jun 14	6 month	108.275	6.47	5.15	4.29	537,433
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP20	XS0818634668	19 Sep 20	6.25	19 Mar 14	6 month	105.4	5.93	5.35	5.51	2,286,000
INTERNATIONAL PERSONAL FINANCE PLC INTER.PERS.20	XS0919406800	08 May 20	6.125	08 May 14	6 month	98.05	6.25	6.61	5.28	3,963,100
KINGFISHER PLC KINGFISHER5.625	XS0178322474	15 Dec 14	5.625	15 Dec 14	12 month	103.93	5.41	3.10	1.58	6,500
LBG CAPITAL NO.1 PLC LBG CAP 1 19	XS0459086749	12 May 20	3.794	17 Jun 14	12 month	106.7	3.56	2.73	6.12	2,218,000
LBG CAPITAL NO.1 PLC LBG CAP 1 20	XS0459086582	12 May 20	7.975	12 May 14	6 month	106.28	7.50	6.83	5.38	4,467,000
LBG CAPITAL NO.2 PLC LBG CAP 2 20	XS0459088109	07 Feb 20	9.334	07 Feb 14	12 month	109.75	8.51	7.44	5.29	163,667
LEGAL & GENERAL FINANCE PLC LEG&GEN.5.875%	XS0121464779	11 Dec 31	5.875	11 Jun 14	6 month	117.545	5.00	4.49	11.83	795,333
LLOYDS BANK PLC LLOYDS 5.375%	XS0517466198	07 Sep 15	5.375	07 Mar 14	6 month	106.54	5.05	1.39	1.59	390,000
LLOYDS BANK PLC LLOYDS BK 5.50%	XS0604804194	25 Sep 16	5.5	25 Mar 14	6 month	109.7	5.01	1.83	2.53	2,574,967
LLOYDS BANK PLC LLOYDS BK. 25	XS0503834821	22 Apr 25	7.625	22 Apr 14	6 month	117.245	6.50	5.63	7.96	1,997,667
LLOYDS BANK PLC LLOYDS BK.5.875	XS0149620691	20 Jun 14	5.875	20 Jun 14	12 month	102.1	5.75	3.94	1.09	2,245,000
LLOYDS BANK PLC LLOYDS BK.6.625	XS0109722990	30 Mar 15	6.625	30 Mar 14	12 month	105.33	6.29	2.19	1.17	2,605,667
LLOYDS BANK PLC LLOYDS BK.9.625%	XS0043098127	06 Apr 23	9.625	06 Apr 13	12 month	128.82	7.47	5.55	6.51	6,866,000
LONDON POWER NETWORKS PLC LONDON POW.27	XS0148889420	07 Jun 27	6.125	07 Jun 14	12 month	116.145	5.27	4.49	9.55	1,822,000
LONDON STOCK EXCHANGE GROUP PLC LON.STK.EX21	XS0846486040	02 Nov 21	4.75	02 May 14	6 month	105.35	4.51	3.99	6.61	8,896,100

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
MARKS & SPENCER PLC MARKS&SP.5.625%	XS0188430721	24 Mar 14	5.625	24 Mar 14	12 month	101.1	5.56	4.33	0.90	1,011,333
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID 5.875%	XS0094073672	02 Feb 24	5.875	02 Feb 14	12 month	115.945	5.07	3.93	7.70	406,000
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID6.50%£	XS0132735373	27 Jul 28	6.5	27 Jan 14	12 month	122.61	5.30	4.37	10.10	2,460,000
NATIONAL GRID GAS PLC NAT.GRD.G 6%	XS0141704725	07 Jun 17	6	07 Jun 14	12 month	113.28	5.30	1.94	3.11	1,330,333
NORTHUMBRIAN WATER FINANCE PLC NTHNBN.WTR.6%17	XS0139335029	11 Oct 17	6	11 Oct 14	12 month	114.12	5.26	2.06	3.46	656,500
PARAGON GROUP OF COMPANIES PLC PARAGON GP20	XS0891023086	05 Dec 20	6	05 Mar 14	6 month	102.925	5.83	5.54	5.50	2,151,767
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 5%	XS0635014177	27 Dec 16	5	27 Dec 13	6 month	106.25	4.71	2.81	2.80	3,105,000
PREMIER OIL PLC PREMIER OIL20	XS0997703250	11 Dec 20	5	11 Jun 14	6 month	101.5	4.93	4.76	6.32	NA
PRIMARY HEALTH PROPERTIES PLC PRIMARY HLTH 19	XS0795445823	23 Jul 19	5.375	23 Jan 14	6 month	104.175	5.16	4.57	4.78	3,491,567
PROVIDENT FINANCIAL PLC PROV.FIN 7.5%	XS0605672558	30 Sep 16	7.5	30 Sep 13	6 month	108.15	6.94	4.35	2.49	1,015,633
PROVIDENT FINANCIAL PLC PROV.FIN 7% 17	XS0762418993	04 Oct 17	7	04 Oct 13	6 month	107.5	6.51	4.84	3.32	1,795,300
PROVIDENT FINANCIAL PLC PROV.FIN6%21	XS0900863084	27 Sep 21	6	27 Mar 14	6 month	105	5.71	5.27	6.24	2,920,700
PROVIDENT FINANCIAL PLC PROVIDENT 7.00%	XS0496412064	14 Apr 20	7	14 Apr 14	6 month	113.25	6.18	4.60	5.19	581,251
PRUDENTIAL PLC PRU.6 7/8%2023	XS0083544212	20 Jan 23	6.875	20 Jan 14	12 month	122.85	5.60	3.84	6.87	1,946,667
ROLLS-ROYCE PLC ROLLS-R 7.375%	XS0112487482	14 Jun 16	7.375	14 Jun 14	12 month	113.885	6.48	1.53	2.25	104,667
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.20	GB00B3N3WC23	01 Feb 20	5.1	01 Feb 14	12 month	104.23	4.89	4.29	5.16	495,600
SAFEWAY PLC SAFEWAY 6.00%	XS0140144204	10 Jan 17	6	10 Jan 14	12 month	110.58	5.43	2.32	2.71	64,333
SAFEWAY PLC SAFEWAY 6.125%	XS0093004736	17 Dec 18	6.125	17 Dec 13	12 month	114.575	5.35	2.92	4.44	244,333
SAFEWAY PLC SAFEWAY 6.5%NT14	XS0100362911	05 Aug 14	6.5	05 Aug 14	12 month	102.98	6.31	4.01	1.20	3,254,000
SCOTTISH POWER UK PLC SCOT.PWR.UK8TE%	XS0073359548	20 Feb 17	8.375	20 Feb 14	12 month	117.79	7.11	2.39	2.73	180,333
SEGRO PLC SEGRO 6%19	XS0179346274	30 Sep 19	6	30 Mar 14	6 month	113.64	5.28	3.39	4.92	478,000
SEGRO PLC SEGRO. 6.25%	XS0093802055	30 Sep 15	6.25	30 Sep 14	12 month	107.15	5.83	2.01	1.68	132,000
SEGRO PLC SEGRO.5.75	XS0221324154	20 Jun 35	5.75	20 Jun 14	12 month	110.405	5.21	4.95	12.92	73,667
SEGRO PLC SEGRO.6.75	XS0107099466	23 Feb 24	6.75	23 Feb 14	6 month	119.48	5.65	4.40	7.60	170,000
SEGRO PLC SEGRO5.50%	XS0221323693	20 Jun 18	5.5	20 Jun 14	12 month	110.57	4.97	2.93	3.99	219,000
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.125%	XS0094475802	26 Feb 24	6.125	26 Feb 14	12 month	117.39	5.22	4.00	7.70	461,333
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.25%BD	XS0097777253	07 Jun 29	6.25	07 Jun 14	12 month	120.48	5.19	4.39	10.51	2,135,333
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T5.25%	XS0176529583	08 Dec 14	5.25	08 Dec 14	12 month	103.55	5.07	2.95	1.56	356,500
SMITHS GROUP PLC SMITH IND 7.25%	XS0111725049	30 Jun 16	7.25	30 Jun 14	12 month	111.26	6.52	2.51	2.30	4,566,333

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
SSE PLC SSE.5.875%	XS0095371638	22 Sep 22	5.875	22 Sep 14	12 month	116.58	5.04	3.62	7.10	2,265,667
ST.MODWEN PROPERTIES PLC ST.MODWEN 19	XS0841076465	07 Nov 19	6.25	07 May 14	6 month	108	5.79	4.72	4.97	2,551,800
TESCO PERSONAL FINANCE PLC TESCO PF 5.2%	XS0591029409	24 Aug 18	5.2	24 Feb 14	6 month	105.875	4.91	3.84	4.12	2,594,333
TESCO PERSONAL FINANCE PLC TESCO PF 5%	XS0780063235	21 Nov 20	5	21 May 14	6 month	104.875	4.77	4.22	5.89	5,413,133
TESCO PLC TESCO 6%NT29	XS0105244585	14 Dec 29	6	14 Dec 14	12 month	111.26	5.39	4.96	10.95	5,181,333
TESCO PLC TESCO5.50% NT19	XS0159013068	13 Dec 19	5.5	13 Dec 14	12 month	111.325	4.94	3.36	5.25	5,558,667
TULLETT PREBON PLC TULLETT 5.25%	XS0859261520	11 Jun 19	5.25	11 Jun 14	6 month	102.825	5.11	4.71	4.79	5,226,067
UBS AG UBS 16	XS0440316635	20 Jul 16	6.375	20 Jul 14	12 month	111.59	5.71	1.66	2.37	1,767,000
UNILEVER PLC UNILEVER 4.00%	XS0418570130	19 Dec 14	4	19 Dec 14	12 month	103.04	3.88	2.09	1.60	347,667
UNILEVER PLC UNILEVER 4.750%	XS0434423926	16 Jun 17	4.75	16 Jun 14	12 month	110.425	4.30	1.61	3.19	1,320,667
UNITE GROUP PLC UNITE GRP 20	XS0856594642	12 Jun 20	6.125	12 Jun 14	6 month	106	5.78	5.08	5.43	2,258,900
VODAFONE GROUP PLC VODAFONE 5.90%	XS0158715713	26 Nov 32	5.9	26 Nov 14	12 month	114.3	5.16	4.74	12.28	320,333
VODAFONE GROUP PLC VODAFONE NTS25	XS0181816652	04 Dec 25	5.625	04 Dec 14	12 month	111.51	5.04	4.36	9.13	454,333
WESSEX WATER SERVICES FINANCE PLC WESSEX W.S.5.75	XS0178489844	14 Oct 33	5.75	14 Oct 14	12 month	115.86	4.96	4.52	12.72	425,000

Source; London Stock Exchange, FTSE, Hardman & Co.

## Definitions

Data as of 31/12/2013 except liquidity:

Next Coupon – date next coupon will be paid.

Flat Yield – coupon rate as percentage of price.

GRY – Gross Redemption Yield.

Liquidity – Average monthly value traded over 4rd quarter of 2013. New issues are NA.

## Non-Standard Corporate Bonds on ORB (alphabetically by issuer)

Name	ISIN	Maturity Date	Coupon Value	Coupon Type	Next Coupon	Period of Coupon	Price	Flat Yield (%)	GRY (%)	Duration (years)	Liquidity (£)	Note
COVENTRY BUILDING SOCIETY COVENTRY.6.092%	GB00B177CL57	Irredeemable	6.092	Fixed	29 Dec 13	6 month	100.38	6.07	6.068	16	1,610,000	Irredeemable
EUROPEAN INVESTMENT BANK EIB FRN 2015	XS0487944752	19 Feb 15	0.614	Variable	19 Nov 13	3 month	100.00	0.61			49,080,000	Variable Coupon rate
HSBC BANK PLC HSBC BK. 2.875%	XS0773551972	30 Apr 15	1.438	Fixed	30 Apr 13	6 month	100.00	1.44	1.438	2	-	Denominated in CNY
LEGAL & GENERAL GROUP PLC LEGAL&GEN.5.875	XS0189013823	Irredeemable	5.875	Fixed	01 Apr 14	6 month	108.00	5.44	5.435	18	2,317,667	Irredeemable
NATIONAL GRID PLC NAT.GRID BD 21	XS0678522490	06 Oct 21	1.25	Variable	06 Apr 13	6 month	122.61	1.14			4,193,867	Index-linked
NATIONWIDE BUILDING SOCIETY NATIONWIDE.PIBS	GB0001777449	Irredeemable	6.024	Fixed	06 Feb 14	6 month	104.50	5.77	5.762	17	1,262,667	Irredeemable
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 1%	XS0731910765	31 Jan 22	1	Variable	31 Jan 14	6 month	107.70	0.93			889,400	Index-linked
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC NTS17	GB00B42SH312	07 Mar 17	2	Variable	07 Mar 14	3 month	103.27	1.94			-	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC. 20	GB00B4MTS317	06 Dec 20	0.068	Variable	06 Mar 14	3 month	103.44	0.07			48,950	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC. 2018	GB00B3YYW134	07 Nov 18	2	Fixed	07 Nov 14	12 month	115.51	1.73			3,000	Variable redemption amount
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC. 22	GB00B4RM3T66	01 Nov 22	3.9	Variable	#N/A	3 month	104.02	3.75			92,867	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC. 22	GB00B4P95L57	01 Nov 22	3.9	Variable	#N/A	3 month	100.59	3.88			690,833	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.18	GB00B442CZ84	01 Feb 18	3.3	Fixed	01 Nov 13	3 month	116.43	2.83			17,400	Variable redemption amount
RSA INSURANCE GROUP PLC RSA INS. 8.5%S	XS0197028714	Irredeemable	8.5	Fixed	08 Dec 14	12 month	102.50	8.29	8.286	12	2,309,000	Irredeemable

Name	ISIN	Maturity Date	Coupon Value	Coupon Type	Next Coupon	Period of Coupon	Price	Flat Yield (%)	GRY (%)	Duration (years)	Liquidity (£)	Note
SEVERN TRENT PLC SEVERN T.22	XS0796078193	11 Jul 22	1.3	Variable	11 Jan 14	6 month	108.62	1.20			895,767	Index-linked
TESCO PERSONAL FINANCE PLC TESCO PF 1%	XS0710391532	16 Dec 19	1	Variable	16 Jun 14	6 month	105.50	0.95			1,548,803	Index-linked

Source; London Stock Exchange, FTSE, Hardman & Co.

THIS DOCUMENT IS THE SECOND IN A PLANNED SERIES ASSESSING DEVELOPMENTS IN THE ORB MARKET. IF YOU HAVE ANY TOPICS YOU WOULD LIKE HARDMAN & Co TO FOCUS ON IN THE NEXT ISSUE, PLEASE CONTACT US ON [research@hardmanandco.com](mailto:research@hardmanandco.com).

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