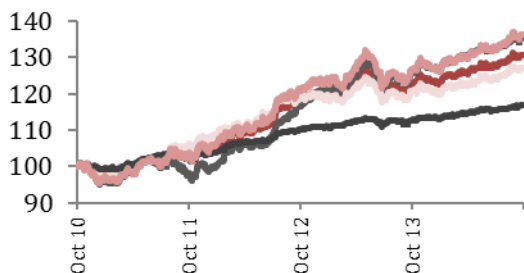


Strong quarter for the ORB

- FTSE ORB index rose by 3.6% over the quarter,
- One new issue in the quarter raising £50m - strong investor demand again leads to it closing early

ORB Index performance



Source: FTSE, Hardman & Co

RETAIL BOND REVIEW No. 7

- Investment Strategies for Retail Bonds: in this edition we focus on the risks of investing in bonds and how investors may diversify that risk.
- Bonds have certain characteristics which distinguish them from other asset classes, such as a fixed payment schedule and reinvestment risk.
- This means that as well as diversifying by company or industry, investors need to consider by term, duration, credit risk and liquidity. Laddering is one strategy which can help with term/duration risk.
- Although not a diversifying strategy, a Serial Stag approach to new issues may be a way of enhancing returns.
- 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

Introduction

This is the seventh issue of our 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 different investment strategies investors might use.

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: Investment Strategies for Retail Bonds

Executive Summary

In this article we move beyond individual bonds to consider strategies for portfolios. We consider how some of the risks for bonds differ from other assets. Some strategies naturally suggest themselves as a consequence. We consider two in particular.

Laddering is the process of spreading bond maturity dates over time. This reduces interest rate and reinvestment risk.

The other strategy, which we dub the Serial Stag, looks to capture any discount that may exist on new issues. We find that such a strategy has greatly outperformed the ORB Index in the past. Although there are caveats about costs and replicability an investor may wish to consider this as a possible way of enhancing returns.

Introduction

Much discussion of bond markets is rightly focussed on individual bonds, with portfolio considerations left to individual investors. Some of the things that investors need to take account of are similar to other assets, such as equities. Other considerations are particular to bonds and mean the approach to portfolio building needs to be a little different.

At its highest level the basic need of most investors is to diversify. Most investors start by considering their exposure to different asset classes, usually depending primarily on their broad risk and return characteristics. Factors such as age or investment targets usually figure here. One additional factor here for bonds is the liabilities an investor may have – if there are fixed outgoings at future dates then matching those with fixed coupon bonds may be appropriate.

Within a bond portfolio diversification can aim to reduce, amongst others, credit, interest rate and liquidity risk. Within ORB many retail investors will not worry too much about liquidity risk, especially for a portfolio focussed on the ORB-born bonds. As we have shown in previous reviews, liquidity is strong for those bonds and only the largest retail investors are likely to struggle to sell their investments.

In Retail Bond Review No 6 we examined interest rate risk in detail, in particular the likely effects of rising interest rates. However one of the strategies outlined below can help to reduce exposure to interest rate risk.

Caveats

In the following discussion we ignore tax, though any potential tax liabilities may be a substantial factor in an investors portfolio decisions. We also largely ignore trading costs. An investor may also have income or other requirements which may affect the choice of strategy.

Simple credit diversification

Credit risk is the risk that a creditor defaults on their bond, whether coupon or capital payments. The obvious way to reduce that risk is to spread investments across a variety of different issuers. Although the diversity of issuers on ORB has grown, it is worth noting that about 80% of ORB born bonds have come from financial services companies. There is greater variety amongst the non-ORB born issuers, so an investor can still achieve reasonable diversification by issuer and sector on ORB.

Investors may wish to diversify by quality of credit risk. Generally high quality credits trade at a small spread to the relevant gilt, with lower quality companies at larger spreads. As well as different returns, each category often see its spread move in a different way. Depending on an investors risk tolerance they may wish to include a mix of high and low quality credits.

Laddering

Laddering is a systematic way of diversifying the outstanding term to maturity of a bond portfolio. The bonds are chosen to have maturity dates that occur at regular intervals, typically a year. This has two advantages for investors:

- By having exposure across a range of durations the investor is avoiding taking a view on what interest rates will be available for reinvestment when bonds mature.
- For smaller investors it may avoid minimum investment sizes. For example, a £10,000 portfolio with a 5% running yield will give £500 per annum for reinvestment, which is less than the £1000 minimum most bonds require. If the portfolio was split across 5 bonds maturing over the next 5 years then there would be £2,500 to invest in the first year with growth in each subsequent year.

It should be noted that the yield curve usually rises with outstanding term, which can lead to a potential disadvantage. Currently ORB bonds with a year to maturity have an average gross redemption yield of around 1% compared to 4% for a 5 year bond. So starting the laddering one year from now would currently reduce the return substantially, but an investor could easily start the laddering at a more distant time.

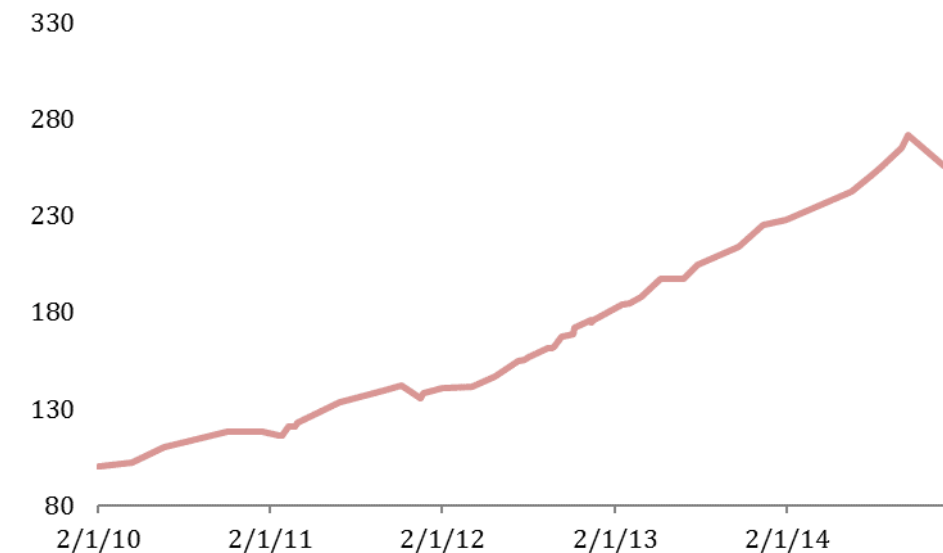
Combining laddering with credit diversification can go much of the way to giving investors a suitably diversified strategy. Essentially they are buy-and-hold strategies, but we can also suggest something a little more active.

Serial Stag

We observed in Retail Bond Review No 3 that new issues have tended to move to a premium in their first month of trading, with average price growth of 2.3% plus accrued interest of 0.5%. This is understandable, as a new issue could be seen as excess supply and hence justify a discount in the price. This suggests that there could be a profitable strategy of buying new issues and selling them in a short timescale.

We illustrate this with a very simple example – that of buying each new issue as it lists and selling the prior position to do so. We can calculate how this strategy would have done in the past. This is illustrated in Figure 1.

Figure 1: Indexed performance of a simple Serial Stag strategy (Index=100 at 1st February 2010)



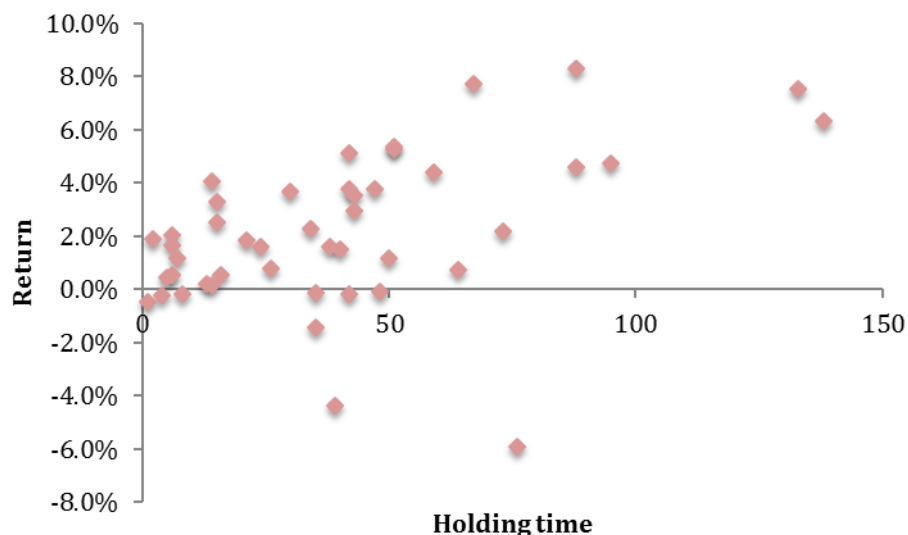
Source: FTSE, London Stock Exchange, Hardman & Co

Note that on 1 November 2010 two Royal Bank of Scotland bonds were issued. We have split the investment over the two for that period.

Although the FTSE ORB Index only started in October 2010, it has risen 35% since then and we can see that this strategy would have comfortably outperformed it over this period.

Each trade made an average return of 2.15%, of which 1.57% came from price movement and the balance from accrued interest. The average holding time was 40 days. Ten of the 46 trades were loss making with only three losing more than 1%, the largest being in the latest new issue, Eros International.

It is interesting to compare the return on a trade with the holding time, which is shown in Figure 2.

Figure 2: Trade return compared to holding time

Source: London Stock Exchange, Hardman & Co

There is a significantly positive correlation (0.48) between the length of time that a position is held and the return on that position. If we exclude accrued income that falls to 0.32, still statistically significant. This should not be a surprise for two reasons. Firstly over this period the ORB market as a whole has been largely rising. Secondly, although ORB has had very limited periods of market declines, experience from elsewhere suggests that new issues become fewer when market conditions are difficult. It does suggest that it may be possible to improve on this strategy by excluding the very short holding times – simply holding each new issue for a month gave a slightly better return. An interested investor could analyse deeper, though with less than 50 trades so far we would caution about reading too much into any results.

We have to add three significant caveats to this analysis. One is the usual one about past performance being no guide to the future. The second is the above takes no account of trading costs. In crude terms a 1% trading cost would reduce the final return to 63% from 156%. Of course, holding the index would entail costs too and an investor would need to allow for those. Thirdly the strategy given only holds one position at a time and will not give the same diversification benefits as the ideas mentioned previously.

Funds

An easy way for an investor to achieve diversification is to invest in a bond fund. As yet there are no funds specialising in the ORB market, but plenty with a wide exposure to different categories of bonds. There are downsides too. The first is that funds charge fees, which may not be attractive - especially in times of low interest rates. The second is that funds have to mark prices to market. So if interest rates rise then fund prices fall, but all other things being equal the future return of the fund will improve. Holding a bond to maturity would see a smoother progress and hence is much better for cash flow matching.

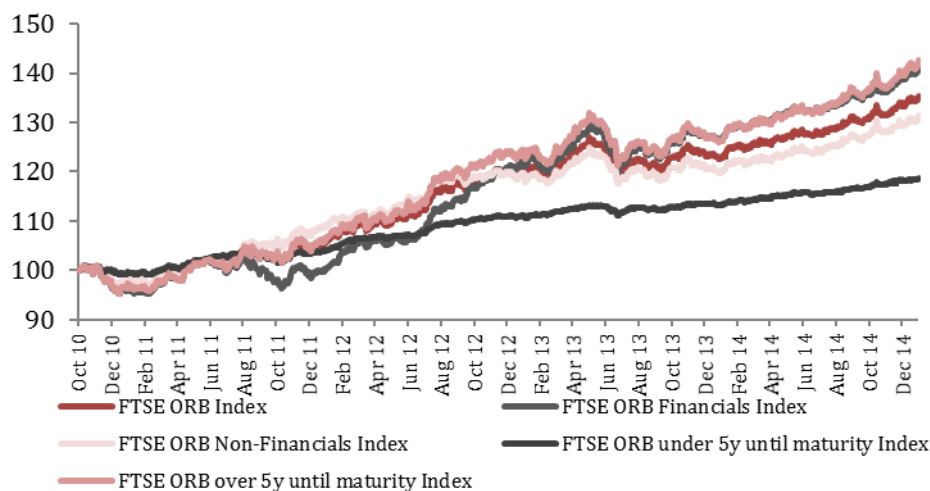
Summary

ORB investors should be considering buying more than one bond. It is not difficult to diversify risks, and the strategies above can improve your portfolio's risk profile significantly.

Not all strategies are about reducing risk, and there are some that may enhance returns out there. Data remains limited to give anything with any degree of confidence.

Market Performance

Figure 3: ORB Total Return Indices from inception (1/10/10=100)



Source: FTSE, Hardman & Co

The fourth quarter of 2015 saw a rise across the ORB as bond yields largely fell. The rise was fairly steady over the quarter, with only October seeing a little volatility. The Non-Financials underperformed the Financials, with bonds from oil companies in particular holding back the former (see the market news section below).

Index Data tables

Performance & Volatility – Total Return (GBP)

Index	No Issues	Nominal £bn	Performance to 31/12/14 (%)			
			3M	12M	2yr	4yr
FTSE ORB Index	86	21.66	3.59	10.27	12.14	38.31
FTSE ORB Financials Index	41	9.15	4.07	11.33	15.57	45.63
FTSE ORB Non-Financials Index	42	13.56	3.20	9.44	9.72	33.25
FTSE ORB under 5y until Maturity Index	25	6.12	1.60	4.81	6.82	19.02
FTSE ORB over 5y until Maturity Index	58	16.59	4.55	12.84	14.59	46.27

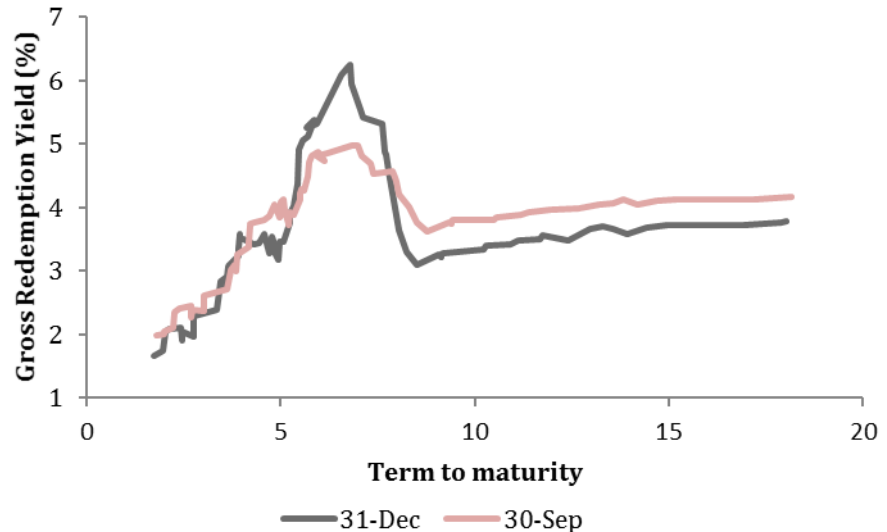
Index Characteristics

Index	Gross redemption yield (%) *			Modified Duration *		
	3mths ago	Now – 31/12/14	change	3mths ago	Now – 31/12/14	change
FTSE ORB Index	3.80	3.46	-0.34	6.55	7.06	0.50
FTSE ORB Financials Index	4.04	3.66	-0.38	6.70	7.51	0.81
FTSE ORB Non-Financials Index	3.62	3.27	-0.35	6.44	6.65	0.21
FTSE ORB under 5y until Maturity Index	2.70	2.48	-0.22	2.86	3.00	0.15
FTSE ORB over 5y until Maturity Index	3.98	3.63	-0.35	8.23	9.10	0.87

*See glossary

Yield Curve

Figure 4: Yield curves for bonds in the FTSE ORB Index



Source: FTSE, Hardman & Co

The final quarter of 2014 saw some significant changes in the yield curve compared to those we have seen in previous quarters. The rise in the 'hump' of the ORB yield curve is mostly down to 3 bonds – those from EnQuest, Premier Oil and Eros International. All have seen their yields rise over the quarter, with the oil sector being highlighted in our market news below and EnQuest finishing the year with a yield over 12%.

Outside those particular stocks we have seen a more complicated pattern emerge. Gilt yields fell across the whole curve, with movements of over 50bps at the long end. The credit picture is more complex, though spreads generally widened a bit over the quarter. This was less pronounced for lower yielding bonds than higher yielding, suggesting a slight loss of confidence in weaker quality creditors.

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 Retail Bond Review No 2 looked at this in more detail.

One good sized issues in Q1

New Issues

After a strong 3rd quarter, the 4th quarter saw a return to the pattern of the last year or so with one new bond being issued. This brings the total amount raised during 2014 to £536m.

Figure 5: New corporate bond issues 1/10/14 to 31/12/14

Company	Date Listed	Issue Size (£m)	Maturity Date	Coupon
Eros International	16 Oct 2014	50	15 Oct 2021	6.5%

Source: London Stock Exchange

The one new issue this quarter came from Eros International, a producer and distributor of Bollywood films. The coupon of 6.5% is higher than other issues we have seen this year, suggesting investors see the risk profile of this issue as being a bit higher too. Interestingly, Eros shares used to be listed in the UK but moved to the US about a year ago. Perhaps this illustrates the attractiveness of ORB to issuers. The offer closed early, as has been the pattern for other recent ORB issues.

The supply/demand imbalance in the market continues to vex many ORB participants. Investor demand clearly has been and remains very strong – we are unaware of any failed issues this year and it has been some time since an issue did not close early. However, the supply remains weak. Whether this is due to availability of funds elsewhere or a lack of corporate demand due to either strong balance sheets or insipid growth is not clear.

Although not new issues, on 1st December five existing corporate bonds were added to ORB – one each from Standard Chartered (a perpetual bond), Lloyds, Wessex Water Services, Nestle and Toyota Motor Credit.

Significant Economic and Market News

Falling oil price having many consequences

Unusually the biggest news in fixed-income markets has been a commodity price. The sharp fall in the price of oil has created a reaction in both oil companies and the wider markets. Given the size of the movement in the oil price it is little surprise that most oil companies have seen the prices of their bonds fall and yields rise. The main concern seems to be the shale producers in the US. A large number have been primarily debt funded, taking advantage of the low cost that US Fed policy has brought. They have suffered a double shock as not only is the oil price below break even for many of them, but concerns about how long production can last have appeared. Oil service companies have also been badly hit as even the solid companies look to delay some capex. On ORB, EnQuest fits that category and has seen the yield on its bond rise to over 12%. Premier Oil is a more diversified producer, but has still seen the yield on its bond rise to almost 8%.

Although the falling oil price has raised some general questions about the strength of the global economy, monetary policy largely followed the pattern of the previous few months with the US and UK continuing to move in a different direction from Europe. The universal theme has been a flight to safety by investors with bond yields in the highly rated countries – UK, US, Germany – continuing to fall further. The US 10 year yield fell from 2.5% to 2.2%. The UK went even lower, falling from 2.4% to 1.8%. The German 5 year yield briefly became negative. Meanwhile some countries saw substantial yield increases: the Greek 10 year yield rose from 6.6% to 9.7% over the quarter.

*ECB QE policy
remains a
possibility*

European policies are seeing increasing divergence between the monetary needs and political positions. The ECB, or at least Mario Draghi, would clearly like to start a full on QE programme. However the legal restrictions limit the options available and the conservative members of the Euro, most notably Germany, are still set against it. Meanwhile the southern part of Europe continues to struggle, with Portugal and Greece again seeming to be in the most difficult positions. The former continues to be hit by banking difficulties. The latter is having a snap general election, with the strongest party likely to be one who wants to renegotiate the terms of the debt restructuring deal and could be willing to pull out of the Euro if this isn't achieved. Very unsettled times there.

*US QE purchases
finish*

Meanwhile the US continues with a measured recovery. As expected the Federal Reserve stopped its QE purchases in October, with no adverse effect on the Treasury market. As we indicated in the last Retail Bond Review, discussion is now focussing on the first interest rate rise. Consensus currently focuses on the middle of 2015, though this has been rather unreliable in the past! The UK is in a similar position, though the general election may affect the timing of the first base rate rise.

In the UK we seem to be seeing a reduction in retail eligible bonds. The UK government announced the redemption of War Loan, a perpetual bond which can trace its roots back to the 19th Century. In aggregate this nominal value of around £2bn of nominal. Lloyds Bank has also applied for early redemption of a over £1bn of ECNs and over £1bn of retail bonds matured in 2014. This may be part of the reason for strong retail demand that we keep seeing in the new issues market.

*Japan boosts its QE
programme*

Unlike the ECB, Japan has no restrictions on its ability to indulge in QE and on 31 October announced an expansion of its programme. There is a political determination to drive out deflation, but so far the economics refuse to cooperate. Inflation fell back below 1% and the 2% target has been given an indefinite date rather than by this April, two years from the initial announcement. The Government Pension Investment Fund has committed to almost halving its bond holdings to buy equities, which has been positive for the stock market. Despite this success is far from certain and the timing of any tapering not even under consideration.

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 31st December 2014

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 II PLC A2D FUND.26	XS1103286305	30 Sep 26	4.5	30 Mar 15	6 month	104.225	4.32	4.08	9.20	9453818
A2D FUNDING PLC A2D FUND. 22	XS0975865949	18 Oct 22	4.75	18 Apr 15	6 month	107.81	4.41	3.62	6.59	3837506
ALPHA PLUS HOLDINGS PLC ALPHA PLUS 19	XS0853358801	18 Dec 19	5.75	18 Jun 15	6 month	108	5.32	3.99	4.39	725553
ANGLIAN WATER SERVICES FINANCING PLC ANG.W.S.F.5.25%	XS0211684831	30 Oct 15	5.25	30 Oct 15	12 month	103.51	5.07	0.98	0.83	7964107
ANGLIAN WATER SERVICES FINANCING PLC ANGLIANWTR6.875	XS0089553282	21 Aug 23	6.625	21 Aug 15	12 month	131.87	5.02	2.48	6.99	61084
ANHEUSER-BUSCH INBEV NV AB INBEV 6.50%	BE6000183549	23 Jun 17	6.5	23 Jun 15	12 month	111.685	5.82	1.61	2.29	8212183
AVIVA PLC AVIVA 6.125%36£	XS0138717441	14 Nov 36	6.125	14 Nov 15	12 month	113.85	5.38	5.06	13.11	3265804
B.A.T. INTERNATIONAL FINANCE PLC B.A.T.IF6.375%	XS0182188366	12 Dec 19	6.375	12 Dec 15	12 month	120.35	5.30	2.00	4.42	983156
BARCLAYS BANK PLC BARCLAYS.5.75%	XS0134886067	14 Sep 26	5.75	14 Sep 15	12 month	113.4	5.07	4.27	8.89	13218617
BEAZLEY PLC BEAZLEY 5.375%	XS0827693663	25 Sep 19	5.375	25 Mar 15	6 month	107.67	4.99	3.62	4.19	1752097
BRITISH TELECOMMUNICATIONS PLC BR.TEL.5.75%BDS28	XS0097283096	07 Dec 28	5.75	07 Dec 15	12 month	122.8	4.68	3.63	10.34	8453519
BRITISH TELECOMMUNICATIONS PLC BR.TEL.8.625%	XS0052067583	26 Mar 20	8.625	26 Mar 15	12 month	129.98	6.64	2.44	4.31	5252999
BRITISH TELECOMMUNICATIONS PLC BRIT.TEL.NTS16	XS0123682758	07 Dec 16	7.5	07 Dec 15	12 month	113.28	6.62	0.58	1.87	2643611
BRUNTWOOD INVESTMENTS PLC BRUNTWOOD 6%	XS0947705215	24 Jul 20	6	24 Jan 15	6 month	107.575	5.58	4.49	4.72	1415378
BURFORD CAPITAL PLC BURFORD 22	XS1088905093	19 Aug 22	6.5	19 Feb 15	6 month	101.925	6.38	6.27	6.00	4212774
CLS HOLDINGS PLC CLS HDGS 19	XS0820711215	31 Dec 19	5.5	30 Jun 15	6 month	106.37	5.17	4.12	4.44	1409807
DAILY MAIL & GENERAL TRUST PLC DMGT.5.75%18	XS0170485204	07 Dec 18	5.75	07 Dec 15	12 month	113.03	5.09	2.24	3.62	861329
EASTERN GROUP EAST.GP.8.5%2025	XS0058209106	31 Mar 25	8.5	31 Mar 14	12 month	146.725	5.79	3.10	7.46	1538391
EASTERN POWER NETWORKS PLC EAST.POWER5.75%	XS0187202303	08 Mar 24	5.75	08 Mar 15	12 month	121.87	4.72	2.99	7.28	1197
ENQUEST PLC ENQUEST 22	XS0880578728	15 Feb 22	5.5	15 Feb 15	6 month	70	7.86	12.21	5.54	14466170
ENTERPRISE INNS PLC ENTER INNS 2018	XS0163019143	06 Dec 18	6.5	06 Jun 15	6 month	104.45	6.22	5.30	3.51	5146801
EROS INTERNATIONAL PLC EROS INT 21	XS1112834608	15 Oct 21	6.5	15 Apr 15	6 month	92.725	7.01	8.06	5.45	NA
EUROPEAN INVESTMENT BANK EIB 3% 2015	XS0497463777	07 Dec 15	3	07 Dec 15	12 month	102.33	2.93	0.49	0.93	68264908

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
EUROPEAN INVESTMENT BANK EURO.I.BK.16	XS0602217159	07 Dec 16	3.25	07 Dec 15	12 month	104.75	3.10	0.77	1.90	9967916
EUROPEAN INVESTMENT BANK EURO.IV.8.75	XS0055498413	25 Aug 17	8.75	25 Aug 15	12 month	120.7	7.25	0.83	2.44	1589910
FIRSTGROUP PLC FIRSTGROUP6.125	XS0181013607	18 Jan 19	6.125	18 Jan 15	12 month	110.6	5.54	3.28	3.52	366588
GE CAPITAL UK FUNDING GE CAP.UK 18	XS0381559979	06 Aug 18	6.75	06 Aug 15	12 month	117.62	5.74	1.64	3.25	5231796
GE CAPITAL UK FUNDING GE CAP.UK 33	XS0340495216	18 Jan 33	5.875	18 Jan 15	12 month	133	4.42	3.40	11.98	4914774
GE CAPITAL UK FUNDING GE CAP.UK5.625%	XS0297507773	25 Apr 19	5.625	25 Apr 15	12 month	115.31	4.88	1.88	3.84	665971
GKN HOLDINGS PLC GKN 6.75% BDS19	XS0103214762	28 Oct 19	6.75	28 Oct 14	12 month	119.305	5.66	2.45	4.28	3260961
GLAXOSMITHKLINE CAPITAL PLC GLAXOSMSC 5.25%	XS0140516864	19 Dec 33	5.25	19 Jun 15	6 month	127	4.13	3.35	13.03	954332
HAMMERSON PLC HAMMERSON 6%26	XS0184639895	23 Feb 26	6	23 Feb 15	12 month	126.425	4.75	3.15	8.42	274206
HAMMERSON PLC HAMMERSON 7.25%28	XS0085732716	21 Apr 28	7.25	21 Apr 15	12 month	140.7	5.15	3.39	9.35	621279
HAMMERSON PLC HAMMERSON6.875%	XS0109514538	31 Mar 20	6.875	31 Mar 14	12 month	121.85	5.64	2.38	4.45	24210
HELICAL BAR PLC HELICAL B.20	XS0942129957	24 Jun 20	6	24 Jun 15	6 month	104.925	5.72	5.02	4.75	2310820
HSBC BANK PLC HSBC BK.5.375%	XS0174470764	22 Aug 33	5.375	22 Aug 15	12 month	113.4	4.74	4.31	12.42	2930054
HSBC BANK PLC HSBC BK.6.5%NT2	XS0088317853	07 Jul 23	6.5	07 Jul 15	12 month	120.7	5.39	3.62	6.79	2709071
ICAP PLC ICAP 5.50%	XS0805454872	31 Jul 18	5.5	31 Jan 15	6 month	107.3	5.13	3.34	3.23	2869490
IMPERIAL TOBACCO FINANCE PLC IMP.TOB.FIN.6.25%	XS0180407602	04 Dec 18	6.25	04 Dec 15	12 month	115.33	5.42	2.12	3.60	1109255
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP	XS0716336325	21 Dec 18	7	21 Jun 15	6 month	107.625	6.50	4.92	3.53	576879
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP20	XS0818634668	19 Sep 20	6.25	19 Mar 15	6 month	105.75	5.91	5.14	4.82	1609333
INTERNATIONAL PERSONAL FINANCE PLC INTER.PERS.20	XS0919406800	08 May 20	6.125	08 May 15	6 month	104.1	5.88	5.30	4.61	2895657
LADBROKES GROUP FINANCE PLC LADBROKES GP.22	XS1066478014	16 Sep 22	5.125	16 Mar 15	6 month	100.45	5.10	5.12	6.36	5453354
LEGAL & GENERAL FINANCE PLC LEG&GEN.5.875%	XS0121464779	11 Dec 31	5.875	11 Jun 15	6 month	130.075	4.52	3.54	11.71	1280032
LLOYDS BANK PLC LLOYDS 5.375%	XS0517466198	07 Sep 15	5.375	07 Mar 15	6 month	103.25	5.21	0.59	0.67	177557
LLOYDS BANK PLC LLOYDS BK 5.50%	XS0604804194	25 Sep 16	5.5	25 Mar 15	6 month	106.9	5.15	1.42	1.64	8148079
LLOYDS BANK PLC LLOYDS BK. 25	XS0503834821	22 Apr 25	7.625	22 Apr 15	6 month	129.55	5.89	4.12	7.62	13678339
LLOYDS BANK PLC LLOYDS BK.40	XS0543369184	17 Sep 40	6.5	17 Sep 15	12 month	144.475	4.50	3.77	14.99	429833
LLOYDS BANK PLC LLOYDS BK.6.625	XS0109722990	30 Mar 15	6.625	30 Mar 14	12 month	101.38	6.54	1.04	0.25	2780091
LLOYDS BANK PLC LLOYDS BK.9.625%	XS0043098127	06 Apr 23	9.625	06 Oct 15	12 month	138.4	6.95	4.05	6.10	1007877
LONDON POWER NETWORKS PLC LONDON POW.27	XS0148889420	07 Jun 27	6.125	07 Jun 15	12 month	128.2	4.78	3.32	9.23	64175
LONDON STOCK EXCHANGE GROUP PLC LON.STK.EX21	XS0846486040	02 Nov 21	4.75	02 May	6 month	110.25	4.31	3.10	5.91	11500210

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
15										
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID 5.875%	XS0094073672	02 Feb 24	5.875	02 Feb 14	12 month	125.87	4.67	2.63	7.19	2070769
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID6.50%£	XS0132735373	27 Jul 28	6.5	27 Jan 15	12 month	136.3	4.77	3.16	9.85	4289724
NATIONAL GRID GAS PLC NAT.GRD.G 6%	XS0141704725	07 Jun 17	6	07 Jun 15	12 month	111.695	5.37	1.07	2.26	243521
NESTLE FINANCE INTERNATIONAL LTD NESTLE FIN 23	XS0860561942	30 Nov 23	2.25	30 Nov 15	12 month	102.22	2.20	1.98	8.17	220504
NORTHUMBRIAN WATER FINANCE PLC NTHNBN.WTR.6%17	XS0139335029	11 Oct 17	6	11 Oct 15	12 month	112.19	5.35	1.46	2.61	2504925
PARAGON GROUP OF COMPANIES PLC PARAGON GP20	XS0891023086	05 Dec 20	6	05 Mar 15	6 month	102.725	5.84	5.51	4.80	1641963
PARAGON GROUP OF COMPANIES PLC PARGN 6.125%	XS1018830270	30 Jan 22	6.125	30 Jan 15	6 month	103.625	5.91	5.57	5.72	3306216
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 5%	XS0635014177	27 Dec 16	5	27 Jun 15	6 month	105.95	4.72	1.92	1.90	2839670
PREMIER OIL PLC PREMIER OIL20	XS0997703250	11 Dec 20	5	11 Dec 14	6 month	87.745	5.70	7.75	5.12	12009002
PRIMARY HEALTH PROPERTIES PLC PRIMARY HLTH 19	XS0795445823	23 Jul 19	5.375	23 Jan 15	6 month	106.5	5.05	3.82	4.04	2056448
PROVIDENT FINANCIAL PLC PROV.FIN 7.5%	XS0605672558	30 Sep 16	7.5	30 Sep 13	6 month	106.05	7.07	3.89	1.63	2231078
PROVIDENT FINANCIAL PLC PROV.FIN 7% 17	XS0762418993	04 Oct 17	7	04 Apr 15	6 month	106.25	6.59	4.60	2.51	2106696
PROVIDENT FINANCIAL PLC PROV.FIN6%21	XS0900863084	27 Sep 21	6	27 Mar 15	6 month	106.3	5.64	4.95	5.58	1967189
PROVIDENT FINANCIAL PLC PROVIDENT 7.00%	XS0496412064	14 Apr 20	7	14 Apr 15	6 month	112.6	6.22	4.35	4.49	400627
PRUDENTIAL PLC PRU.6 7/8%2023	XS0083544212	20 Jan 23	6.875	20 Jan 15	12 month	130.425	5.27	2.63	6.34	1312972
RETAIL CHARITY BONDS PLC RETAIL CB21	XS1066485902	29 Jul 21	4.375	29 Jan 15	6 month	103.35	4.23	3.83	5.69	312221
ROLLS-ROYCE PLC ROLLS-R 7.375%	XS0112487482	14 Jun 16	7.375	14 Jun 15	12 month	109.18	6.76	0.92	1.37	98311
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.20	GB00B3N3WC2	01 Feb 20	5.1	01 Feb 14	12 month	115.12	4.43	1.94	4.45	142101
3										
SAFEWAY PLC SAFEWAY 6.00%	XS0140144204	10 Jan 17	6	10 Jan 15	12 month	106.925	5.61	2.43	1.85	764175
SAFEWAY PLC SAFEWAY 6.125%	XS0093004736	17 Dec 18	6.125	17 Dec 15	12 month	111.1	5.51	3.09	3.63	44853
SCOTTISH POWER UK PLC SCOT.PWR.UK8TE%	XS0073359548	20 Feb 17	8.375	20 Feb 15	12 month	114.3	7.33	1.48	1.92	2525795
SEGRO PLC SEGRO 6%19	XS0179346274	30 Sep 19	6	30 Mar 15	6 month	117.07	5.13	2.19	4.18	1545983
SEGRO PLC SEGRO. 6.25%	XS0093802055	30 Sep 15	6.25	30 Sep 15	12 month	103.59	6.03	1.39	0.75	404950
SEGRO PLC SEGRO.5.75	XS0221324154	20 Jun 35	5.75	20 Jun 15	12 month	129.375	4.44	3.68	13.22	38536

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
SEGRO PLC SEGRO.6.75	XS0107099466	23 Feb 24	6.75	23 Feb 15	6 month	130.77	5.16	2.91	7.14	32392
SEGRO PLC SEGRO5.50%	XS0221323693	20 Jun 18	5.5	20 Jun 15	12 month	112.155	4.90	1.83	3.17	145675
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.125%	XS0094475802	26 Feb 24	6.125	26 Feb 15	12 month	125.875	4.87	2.87	7.19	1306329
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.25%BD	XS0097777253	07 Jun 29	6.25	07 Jun 15	12 month	133.3	4.69	3.31	10.29	10037
SMITHS GROUP PLC SMITH IND 7.25%	XS0111725049	30 Jun 16	7.25	30 Jun 15	12 month	108.24	6.70	1.58	1.42	1127612
SSE PLC SSE.5.875%	XS0095371638	22 Sep 22	5.875	22 Sep 15	12 month	122.895	4.78	2.56	6.48	1014892
ST.MODWEN PROPERTIES PLC ST.MODWEN 19	XS0841076465	07 Nov 19	6.25	07 May 15	6 month	108.025	5.79	4.44	4.23	1523486
TESCO PERSONAL FINANCE PLC TESCO PF 5.2%	XS0591029409	24 Aug 18	5.2	24 Feb 15	6 month	102.275	5.08	4.56	3.30	6688812
TESCO PERSONAL FINANCE PLC TESCO PF 5%	XS0780063235	21 Nov 20	5	21 May 15	6 month	101.4	4.93	4.78	5.14	9939935
TESCO PLC TESCO 6%NT29	XS0105244585	14 Dec 29	6	14 Dec 15	12 month	109.25	5.49	5.10	10.46	3334571
TESCO PLC TESCO5.50% NT19	XS0159013068	13 Dec 19	5.5	13 Dec 15	12 month	108.045	5.09	3.69	4.46	11510255
TOYOTA MOTOR CREDIT CORPORATION TOY.MTR.17	XS0595707570	07 Dec 17	4	07 Dec 15	12 month	107.9	3.71	1.24	2.83	3870080
TULLETT PREBON PLC TULLETT 5.25%	XS0859261520	11 Jun 19	5.25	11 Jun 15	6 month	102.7	5.11	4.62	4.00	1930004
UBS AG UBS 16	XS0440316635	20 Jul 16	6.375	20 Jul 15	12 month	108.125	5.90	1.01	1.48	3494400
UNILEVER PLC UNILEVER 4.750%	XS0434423926	16 Jun 17	4.75	16 Jun 15	12 month	109.17	4.35	0.93	2.32	3814358
UNITE GROUP PLC UNITE GRP 20	XS0856594642	12 Jun 20	6.125	12 Jun 15	6 month	108.995	5.62	4.30	4.72	2046880
UNITED UTILITIES WATER LIMITED UTD WTR. 5.375%	XS0168054673	14 May 18	5.375	15 May 14	12 month	111.71	4.81	1.74	3.08	220269
UNITED UTILITIES WATER LIMITED UTD WTR.5.625%	XS0159728236	20 Dec 27	5.625	20 Dec 15	12 month	125.15	4.50	3.22	9.92	3722811
VODAFONE GROUP PLC VODAFONE 5.90%	XS0158715713	26 Nov 32	5.9	26 Nov 15	12 month	127.45	4.63	3.76	12.23	2740157
VODAFONE GROUP PLC VODAFONE NTS25	XS0181816652	04 Dec 25	5.625	04 Dec 15	12 month	122.5	4.59	3.16	8.68	1228653
WESSEX WATER SERVICES FINANCE PLC WESSEX 5.375%	XS0214275785	10 Mar 28	5.375	10 Mar 15	12 month	122.42	4.39	3.26	9.80	0
WESSEX WATER SERVICES FINANCE PLC WESSEX W.S.5.75	XS0178489844	14 Oct 33	5.75	14 Oct 15	12 month	129.575	4.44	3.56	12.71	23103
WORKSPACE GROUP PLC WORKSPACE 6%	XS0832324981	09 Oct 19	6	09 Apr 15	6 month	106.375	5.64	4.55	4.17	1042022

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

Definitions

Data as of 31/12/2014 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 4th quarter of 2014. 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 Jun 15	6 month	102.75	5.93	5.928	17	3,166,907	Irredeemable
EUROPEAN INVESTMENT BANK EIB FRN 2015	XS0487944752	19 Feb 15	0.66	Fixed	19 Feb 15	3 month	100.05	0.66	0.292		6,745,494	Variable Coupon rate
HSBC BANK PLC HSBC BK. 2.875%	XS0773551972	30 Apr 15	1.438	Fixed	30 Apr 15	6 month	100.00	0.00	1.435		207,557	Denominated in CNY
LEGAL & GENERAL GROUP PLC LEGAL&GEN.5.875	XS0189013823	Irredeemable	5.875	Fixed	01 Oct 14	6 month	105.68	5.56	5.556	18	619,917	Irredeemable
NATIONAL GRID PLC NAT.GRID BD 21	XS0678522490	06 Oct 21	1.25	Variable	06 Apr 15	6 month	110.98	1.13			2,961,886	Index-linked
NATIONWIDE BUILDING SOCIETY NATIONWIDE.PIBS	GB0001777449	Irredeemable	6.024	Fixed	06 Feb 15	6 month	102.13	5.90	5.897	17	2,517,896	Irredeemable
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 1%	XS0731910765	31 Jan 22	1	Variable	31 Jan 15	6 month	103.28	0.97			989,452	Index-linked
SEVERN TRENT PLC SEVERN T.22	XS0796078193	11 Jul 22	1.3	Variable	11 Jul 14	6 month	106.55	1.22			1,431,291	Index-linked
STANDARD CHARTERED BANK STAN.CH.BK5.375	XS0222434200	Irredeemable	5.375	Fixed	14 Jul 15	12 month	103.62	5.19	5.185	19	233,608	Irredeemable
TESCO PERSONAL FINANCE PLC TESCO PF 1%	XS0710391532	16 Dec 19	1	Variable	16 Jun 15	6 month	99.28	1.01			4,076,318	Index-linked

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

THIS DOCUMENT IS THE SEVENTH IN A 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.

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