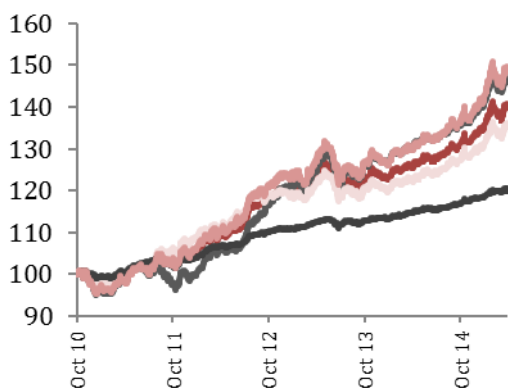


RETAIL BOND REVIEW No. 8

Strong quarter for the ORB

- FTSE ORB index rose by 3.3% over the quarter,
- One new issue in the quarter raising £150m – with two others announced

ORB Index performance



Source: FTSE, Hardman & Co

- Credit Risk for Bonds: in this edition we look at what credit risk is and how investors may assess it in bonds.
- Income risk, which roughly corresponds to coupon payments depends on a company having a steady income to make payments.
- Maturing payments can depend on balance sheet strength and the liquidity of assets, but more typically on a company's ability to refinance the loan.
- The position in the event of a default is harder to assess, with the investor having to judge how a balance sheet will look when the company is distressed and where the bond sits in the ranking of creditors.
- 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 eighth 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: Credit Risk for Bonds

Executive Summary

The old cliché says that equity investors consider the upside of their investments, but bondholders only consider the downside. Credit risk can be seen as a complicated topic for the casual bond investor, but the rewards can be well worth the effort of going beyond the basic terms and conditions.

In this article we divide the risk into three aspects and look at income, balance sheet and ranking risks. For each we ask what should the investor consider to give themselves deeper insight and consider how the company will repay them.

Introduction

Whenever a bond is bought, whether as a new issue or in the secondary market, the purchaser is effectively making a loan to the issuer. As with any loan, there is a risk that the issuer will not be able to fund the payments. This is credit risk.

Although the basic concept is the same, it can be helpful to think of the risk taking three forms:

1. Will there be funds to pay each coupon?
2. Will there be funds to repay the capital at maturity?
3. If there is a default, will there be sufficient funds to repay the capital?

In broad terms they can be thought of as corresponding to income/cash flow, balance sheet and capital ranking respectively, though we should stress that none of these are independent of the others. And, of course, a company can pay interest from capital or repay a debt from operating cash flow if it is adequate, though these would be unusual situations.

We should add three comments before our descriptions below. The first is that while it is often easy to financially measure the risks now, judging how these will evolve in the future contains an element of art as well as science.

As a consequence an issuer usually makes promises, called covenants, about how it will behave in the future. This may include, for example, maintaining a minimum interest cover or maximum loan to value ratio. It is worth noting that a company will usually have different covenants on each of debts, including those to banks. Breaching a covenant will normally mean that the company has to repay the loan early and will constitute a default event.

Finally there is a price for every risk, which means bonds with wildly different risks can each be good investments so long as they are priced appropriately. For example, with all other things being equal, a bond from a company with low interest cover will probably trade with a higher yield than one from a company with higher interest cover. And there can be tradeoffs: for example, a bond with a low expected recovery in the event of default but a low risk of defaulting may be worth the same as a bond with a higher default risk but higher expected recovery. Most credit ratings work by aggregating these to give a single rating based on expected loss.

Income & Cash Flow Risk

The primary focus here is to ask whether the company is generating enough cash flow from its operations to cover interest payments. The key measure is interest cover, and this is usually defined as something similar to operating profit (or EBITDA) divided by total interest payments in a financial year. This ratio is normally subject to company covenants. Usually this includes a margin reflecting the potential volatility of the company's revenues.

It may also be important to consider the company's ability to generate capital. When a loan matures it can either fund the repayment from existing resources or from refinancing it elsewhere. One way of doing the former is to accumulate capital from earnings. This is not very popular just now, due to the tax subsidy of debt and the low interest rates for cash balances. As we have seen in recent years, financial markets can become difficult for borrowers and it is appealing to an investor for a company to have that option.

Balance Sheet Risk

Sometimes a bond may be backed by particular assets, but generally it represents a call on the company's balance sheet as a whole. For companies such as REITs, whose business is primarily investing in assets, the usual criteria is the loan-to-value ratio. For other companies it is gearing that counts, though it really another way of saying the same thing.

In theory, having assets give comfort that a company could repay its debt by selling them. In practice it is rare for this to happen – more typically a company will refinance them on maturity. This can be either by raising more debt, whether from a bank or another bond issue, or by issuing equity. An investor should monitor what happens to other debts prior to a bond's maturity. If a company is having difficulty refinancing them then this could be a sign of potential problems when the bond is due.

Fundraisings via share issues can be a good or bad sign for investors. For a good company debt is typically easier and cheaper to use than equity. So a growing company will often borrow to fund expansion, resorting to equity less regularly when it gets close to its covenant limits. On the other hand, using equity instead of borrowings may be an indication that it can't borrow money and a sign of problems. An investor needs to examine each case on its merits.

There are a lot of other factors which may be significant and depend on a company's industry. Banks and some other financial companies can be particularly complicated. Investors may need to consider asset/liability mismatches, liquidity requirements, contingent liabilities or regulatory capital needs.

Capital / Ranking Risk

An investor almost never buys a bond expecting it to default, but they do need to consider what will happen if it does. Although it is seen as a disastrous event, in practice it is rare for an investor to lose everything – Moody's assess the average loss in the event of a default at around 50% of capital. What is almost always true is that resolution takes time and the remaining capital is tied up, possibly for years, and probably not earning interest in that period. A recent example is the UK part of Lehmans, where creditors have pretty much had all their capital returned, but some of that has taken more than five years to arrive.

Sometimes a company may be heading for default, but never actually reach it because the debt is restructured. These deals typically involve some sort of capital reduction for bond investors, with the aim of creating a viable business going forward. Sometimes they may get equity as compensation, so if the restructuring is successful they may regain some of the capital lost. For ORB investors the most prominent restructuring in recent years was that of Cooperative Bank, though technically it was addressing a regulatory capital shortfall. Many bondholders received equity as part of that restructuring.

Assessing the risk to capital in the event of a default can be a tricky business. Almost by definition it is only going to happen when a company is already in difficulties and it is likely that the business, and its finances, will look significantly different compared to when the lending took place. To make things harder, deterioration can sometimes be quick. For example, in a property crash prices can fall very fast. If that happens then liquidity can evaporate meaning assets cannot be sold, or if they can it is only at a further discount to market value which compounds the situation further.

So an investor needs to consider what is likely to cause a default event, and what effect it will have on the company. Fortunately history can give us some perspective – for debt defaults it can repeat itself.

Once an investor has assessed the likely position of a company's balance sheet, they need to consider where they rank in the allocation of assets. If they are very lucky then the company's equity may have absorbed all the losses and creditors get everything back, but this is very rare. More likely is that the residual assets are not enough to meet the liabilities and the former need to be allocated amongst the creditors somehow.

When a company is wound up then there are some statutory priorities which have to be satisfied, such as employee wages, before debtholders can get anything. At this point the ranking of the debt comes into play. There are a myriad of variations, but broadly there are three types of debt:

- Secured: the debt is backed by certain assets and they are used to pay back the debt. In the event of a shortfall the residual may or may not rank ahead of other creditors.
- Senior unsecured: not backed by any particular assets, but ranking ahead of subordinated debt.
- Subordinated: generally the lowest ranking, and hence riskiest debt.

Clearly this is in order of increasing risk, and investors will generally look for higher yields when investing in subordinated bonds compared to the others.

Investors should also note that while these labels are often used, a company often won't have all types of debt. So a senior bondholder could be taking more risk than the name might suggest if there is no subordinated debt. And if all debt is subordinated, and ranks *pari passu* with each other or the company has low gearing, then there may be a low risk of a large capital loss. In larger companies the ranking is rarely as simple as this, and terms such as senior subordinated are not unknown, especially in banks.

On ORB there are very few secured bonds (Brunwood Investments was the most recent one). Quite a few of the ORB born issues are subordinated, either explicitly or through the lack of lower ranked debt. Investors can find the full range of options by examining the various prospectuses.

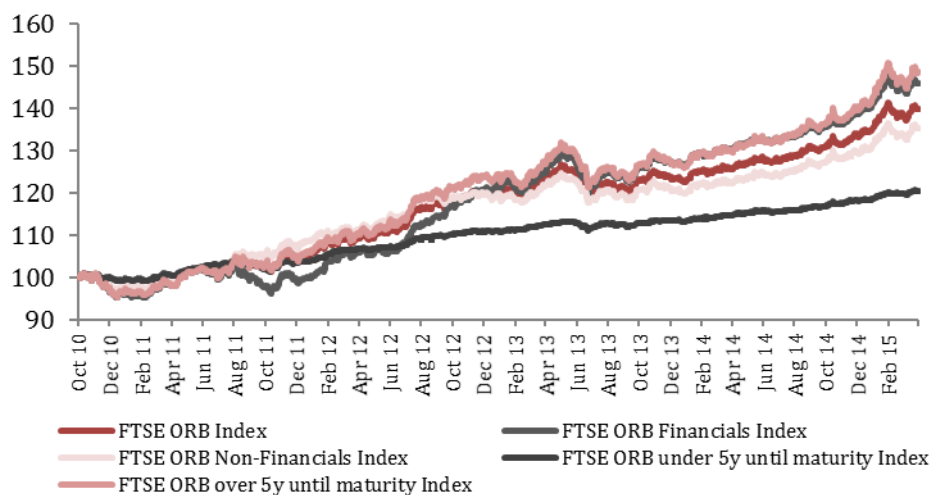
Another item investors should look for is a negative pledge. A company could issue a bond, then effectively reduce its credit quality by issuing higher ranking debt. While loan-to-value or interest cover restrictions may help, an investor may look for a commitment to either not issue or limit the issuance of higher ranking debt. This will help to reduce the risk of a ranking reduction.

Final Comments

An investor should, of course, be reducing credit risk by the diversification strategies we discussed in the *Retail Bond Review No. 7*. But an investor should also be cognoscent of the risks they are taking. A higher yield is rarely a free lunch, but an investor that is willing to carefully assess credit risk will find both opportunities and comfort from doing so.

Market Performance

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



Source: FTSE, Hardman & Co

The first quarter of 2015 again saw a rise across the ORB as bond yields largely fell. It was a very uneven quarter though, with the market peaking at the end of January. February was very weak, though most of that was recovered in March. Financials remained a bit stronger than non-financials, but, as in 2014, the biggest gains were in long dated stocks.

Index Data tables

Performance & Volatility – Total Return (GBP)

Index	No Issues	Nominal £bn	Performance to 31/3/15 (%)			
			3M	12M	2yr	4yr
FTSE ORB Index	89	22.39	3.33	11.43	13.74	41.85
FTSE ORB Financials Index	48	10.11	3.56	12.30	17.10	48.82
FTSE ORB Non-Financials Index	41	12.28	3.13	10.74	11.32	36.87
FTSE ORB under 5y until Maturity Index	40	8.67	1.53	5.14	7.11	19.89
FTSE ORB over 5y until Maturity Index	49	13.72	4.27	14.54	17.05	51.39

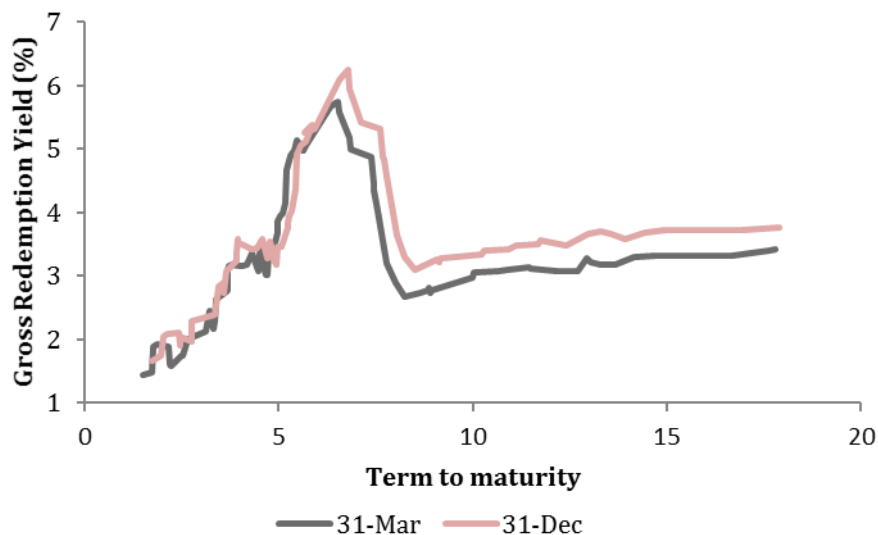
Index Characteristics

	Gross redemption yield (%) *			Modified Duration *		
	3mths ago	Now – 31/3/15	change	3mths ago	Now – 31/3/15	change
FTSE ORB Index	3.46	3.09	-0.38	7.06	7.01	-0.05
FTSE ORB Financials Index	3.66	3.31	-0.35	7.51	7.52	0.02
FTSE ORB Non-Financials Index	3.27	2.87	-0.40	6.65	6.58	-0.08
FTSE ORB under 5y until Maturity Index	2.48	2.10	-0.37	3.00	2.90	-0.10
FTSE ORB over 5y until Maturity Index	3.63	3.26	-0.37	9.10	9.32	0.23

*See glossary

Yield Curve

Figure 2: Yield curves for bonds in the FTSE ORB Index



Source: FTSE, Hardman & Co

The first quarter of 2015 saw less dramatic changes in the yield curve compared to the last quarter. As we highlighted in the last review, the big increase in the 'hump' of the ORB yield curve was mostly down to three bonds (from EnQuest, Premier Oil and Eros International). This quarter saw all three recover some of their losses, with EnQuest's yield decreasing by almost 1.4%.

Outside those particular stocks the pattern was reasonably straightforward. Gilt yields fell across the whole curve, with moves of around 5bps at the short end of the curve and 15-20bps at the long end. There was also a slight improvement in credit spreads, particularly for weaker credits.

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.

New Issues

One good sized issue in Q1

Although the first quarter of 2015 only had one issue completed, it finished with two further offers being open. This brings the total amount raised during 2014 to £536m.

Figure 3: New corporate bond issues 1/1/15 to 31/3/15

Company	Date Listed	Issue Size (£m)	Maturity Date	Coupon
Intermediate Capital Group	24 Mar 2015	160	24 Mar 2023	5.0%

Source: London Stock Exchange

The completed new issue in the first quarter came from Intermediate Capital Group, a supplier of senior and mezzanine finance to mid-market companies. This was their third issue on ORB and was both their largest issue and lowest coupon to date. It was expected that the notes would attract a BBB- rating from both S&P and Fitch. The offer continued the pattern of recent new issues and closed its books early due to strong demand.

The two other offers open at the quarter end were also from existing ORB issuers. Provident Financial, a personal credit provider, has been one of the largest issuers on ORB and already has 4 bonds listed. The newest issue is a 5.125% fixed rate issue due on 9 October 2023. Despite overlapping with another issue it too closed early.

The other offer was from International Personal Finance, which was once Provident Financial's international operation. This would have been their second ORB issue, though the first one did have a further tap several months after its listing in May 2013. The new issue was a 5.875% fixed rate bond due on 14 October 2022. The offer was withdrawn on 8th April citing insufficient demand from investors to ensure adequate liquidity in the secondary market.

Since the quarter end another offer has been announced. This is the second one from Retail Charity Bonds, and is a 4.40% bond due April 2025 on behalf of Hightown Praetorian & Churches Housing Association Limited, a social housing provider. With rumours of other issues coming soon, it is good to see some strength in the ORB issuance market.

Significant Economic and Market News

ECB QE finally starts

Although much of the significant news in the first quarter hasn't been a surprise, it has still been a momentous quarter in many ways. Perhaps the most significant was the start of a quantitative easing programme by the ECB. In advance there appeared to be many technical hurdles, including the question of whether the ECB was allowed to do a programme itself. Under the plan the ECB will buy €60bn of bonds a month until September 2016, with some of the purchases being shared with national central banks.

The programme was announced in January, but didn't start until March. This hasn't prevented there being a pronounced effect on both bond markets and other central banks. The biggest surprise to the markets, although it predated the QE announcement, was the breaking of the Swiss central bank's cap on the Franc-Euro exchange rate. For 3 years it had maintained a floor at SFr1.20 per Euro. Given an effect of a QE programme is to weaken the currency, the Swiss obviously felt it was no longer an affordable policy. This has had a disruptive effect and the Swiss central bank cut its benchmark interest rate to -0.75.

Negative yields becoming a norm!

Negative interest rates are becoming the norm in Europe. The Swedish Riksbank has had to follow its neighbours, cutting its overnight rate to -0.1. German bunds have seen negative rates spread across the yield curve, with bonds beyond 5 years now having yields below zero. And, remarkably, we have seen some short term corporate bonds trade with negative interest rates. What all this means in the long run is far from clear, but Europe looks set to be in a difficult economic situation for some time.

There are exceptions, and Greek bond yields have broadly increased over the quarter. Although the new government was elected on a platform of changing the conditions of its bailout, it has not succeeded in getting any real concessions. With the new government having effectively said that Greece won't be able to repay its debts and an austerity policy that continues to make that harder rather than easier, this is a saga that will continue to run.

US move getting closer?

Meanwhile the US recovery remains reasonably steady and economic debate is fixated on when the Federal Reserve will start to raise interest rates. The removal of the word 'patient' suggests that it will be this year, but Janet Yellen was keen to stress the data dependence of the decision. With no signs yet of wage pressure, no consumer inflation thanks to the falling oil price and weakness elsewhere leading to US Dollar strength there seems to be no immediate pressure. The decision may ultimately be driven as much by a desire to start to normalise policy as anything else.

UK in a holding position

The UK continues to tread a path between the EU and US, albeit probably closer to the latter. Inflation has also hit zero, and interest rate rises do not seem to be imminent. Gilt yields continued to fall, with the 10 year yield moving from 1.76% to 1.58% and similar moves across the rest of the yield curve. In an interesting, though in some ways academic move, the chancellor announced the outstanding perpetual gilts will be redeemed in July. The nominal amount is not large relative to most other gilts, but it still feels like it will be the end of an era when they disappear.

In February ORB celebrated its 5th birthday with a well attended event at the London Stock Exchange headquarters. There was a general feeling that the market has not yet achieved its full potential, but is heading in the right direction.

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 March 2015

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 Sep 15	6 month	106.5	4.23	3.83	9.17	2387057
A2D FUNDING PLC A2D FUND. 22	XS0975865949	18 Oct 22	4.75	18 Apr 15	6 month	110	4.32	3.27	6.35	2945178
ALPHA PLUS HOLDINGS PLC ALPHA PLUS 19	XS0853358801	18 Dec 19	5.75	18 Jun 15	6 month	107.62	5.34	3.99	4.14	1311793
ANGLIAN WATER SERVICES FINANCING PLC ANG.W.S.F.5.25%	XS0211684831	30 Oct 15	5.25	30 Oct 15	12 month	102.47	5.12	0.97	0.58	1515048
ANGLIAN WATER SERVICES FINANCING PLC ANGLIANWTR6.875	XS0089553282	21 Aug 23	6.625	21 Aug 15	12 month	133.12	4.98	2.25	6.75	148813
ANHEUSER-BUSCH INBEV NV AB INBEV 6.50%	BE6000183549	23 Jun 17	6.5	23 Jun 15	12 month	111.7	5.82	1.11	2.05	311281
AVIVA PLC AVIVA 6.125%36£	XS0138717441	14 Nov 36	6.125	14 Nov 15	12 month	117.43	5.22	4.81	13.01	5401892
B.A.T. INTERNATIONAL FINANCE PLC B.A.T.IF6.375%	XS0182188366	12 Dec 19	6.375	12 Dec 15	12 month	121.315	5.26	1.61	4.18	4363400
BARCLAYS BANK PLC BARCLAYS.5.75%	XS0134886067	14 Sep 26	5.75	14 Sep 15	12 month	118.925	4.84	3.69	8.72	4150889
BEAZLEY PLC BEAZLEY 5.375%	XS0827693663	25 Sep 19	5.375	25 Sep 15	6 month	105.095	5.11	4.16	4.03	2101953
BRITISH TELECOMMUNICATIONS PLC BR.TEL.5.75%BDS28	XS0097283096	07 Dec 28	5.75	07 Dec 15	12 month	128.44	4.48	3.15	10.18	4219671
BRITISH TELECOMMUNICATIONS PLC BR.TEL.8.625%	XS0052067583	26 Mar 20	8.625	26 Mar 16	12 month	131.13	6.58	1.98	4.34	774692
BRITISH TELECOMMUNICATIONS PLC BRIT.TEL.NTS16	XS0123682758	07 Dec 16	7.5	07 Dec 15	12 month	112.17	6.69	0.26	1.62	282862
BRUNTWOOD INVESTMENTS PLC BRUNTWOOD 6%	XS0947705215	24 Jul 20	6	24 Jul 15	6 month	106.025	5.66	4.76	4.59	853644
BURFORD CAPITAL PLC BURFORD 22	XS1088905093	19 Aug 22	6.5	19 Jul 15	6 month	105.625	6.15	5.64	5.97	3211466
CLS HOLDINGS PLC CLS HDGS 19	XS0820711215	31 Dec 19	5.5	30 Jun 15	6 month	104.625	5.26	4.45	4.19	844208
DAILY MAIL & GENERAL TRUST PLC DMGT.5.75%18	XS0170485204	07 Dec 18	5.75	07 Dec 15	12 month	113.025	5.09	2.03	3.38	487571
EASTERN GROUP EAST.GP.8.5%2025	XS0058209106	31 Mar 25	8.5	31 Mar 16	12 month	149.455	5.69	2.76	7.66	396100
EASTERN POWER NETWORKS PLC EAST.POWER5.75%	XS0187202303	08 Mar 24	5.75	08 Mar 16	12 month	124.46	4.62	2.64	7.39	45740
ENQUEST PLC ENQUEST 22	XS0880578728	15 Feb 22	5.5	15 Aug 15	6 month	75.675	7.27	10.85	5.56	9597867
ENTERPRISE INNS PLC ENTER INNS 2018	XS0163019143	06 Dec 18	6.5	06 Jun 15	6 month	107.3	6.06	4.37	3.27	4544079
EROS INTERNATIONAL PLC EROS INT 21	XS1112834608	15 Oct 21	6.5	15 Apr 15	6 month	96.075	6.77	7.40	5.22	3302169
EUROPEAN INVESTMENT BANK EIB 3% 2015	XS0497463777	07 Dec 15	3	07 Dec 15	12 month	101.5	2.96	0.80	0.69	118294333

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	104.35	3.12	0.65	1.66	24951980
EUROPEAN INVESTMENT BANK EURO.IV.8.75	XS0055498413	25 Aug 17	8.75	25 Aug 15	12 month	119.43	7.33	0.58	2.19	12841580
FIRSTGROUP PLC FIRSTGROUP6.125	XS0181013607	18 Jan 19	6.125	18 Jan 16	12 month	112.3	5.45	2.66	3.47	1491571
GE CAPITAL UK FUNDING GE CAP.UK 18	XS0381559979	06 Aug 18	6.75	06 Aug 15	12 month	117.565	5.74	1.32	3.00	1102595
GE CAPITAL UK FUNDING GE CAP.UK 33	XS0340495216	18 Jan 33	5.875	18 Jan 16	12 month	139.665	4.21	2.97	12.41	221269
GE CAPITAL UK FUNDING GE CAP.UK5.625%	XS0297507773	25 Apr 19	5.625	25 Apr 15	12 month	115.51	4.87	1.64	3.59	441654
GKN HOLDINGS PLC GKN 6.75% BDS19	XS0103214762	28 Oct 19	6.75	28 Oct 15	12 month	118.895	5.68	2.33	4.02	1647434
GLAXOSMITHKLINE CAPITAL PLC GLAXOSMSC 5.25%	XS0140516864	19 Dec 33	5.25	19 Jun 15	6 month	131.525	3.99	3.05	12.90	475847
HAMMERSON PLC HAMMERSON 6%26	XS0184639895	23 Feb 26	6	23 Feb 16	12 month	129.97	4.62	2.77	8.61	173237
HAMMERSON PLC HAMMERSON 7.25%28	XS0085732716	21 Apr 28	7.25	21 Apr 15	12 month	145.195	4.99	3.01	9.18	11218
HAMMERSON PLC HAMMERSON6.875%	XS0109514538	31 Mar 20	6.875	31 Mar 16	12 month	122.985	5.59	1.98	4.44	12792
HELICAL BAR PLC HELICAL B.20	XS0942129957	24 Jun 20	6	24 Jun 15	6 month	106.02	5.66	4.74	4.51	2286874
HSBC BANK PLC HSBC BK.5.375%	XS0174470764	22 Aug 33	5.375	22 Aug 15	12 month	117.525	4.57	4.01	12.29	3139321
HSBC BANK PLC HSBC BK.6.5%NT2	XS0088317853	07 Jul 23	6.5	07 Jul 15	12 month	122.825	5.29	3.29	6.56	3260768
ICAP PLC ICAP 5.50%	XS0805454872	31 Jul 18	5.5	31 Jul 15	6 month	106.45	5.17	3.45	3.06	3622577
IMPERIAL TOBACCO FINANCE PLC IMP.TOB.FIN.6.25%	XS0180407602	04 Dec 18	6.25	04 Dec 15	12 month	115.67	5.40	1.79	3.35	404784
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP	XS0716336325	21 Dec 18	7	21 Jun 15	6 month	108.875	6.43	4.43	3.29	2220990
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP20	XS0818634668	19 Sep 20	6.25	19 Sep 15	6 month	107.475	5.82	4.73	4.72	3349112
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP23	XS1200576699	24 Mar 23	5	00 Jan 00	6 month	100.657	4.97	4.90	6.68	NA
INTERNATIONAL PERSONAL FINANCE PLC INTER.PERS.20	XS0919406800	08 May 20	6.125	08 May 15	6 month	101.925	6.01	5.76	4.35	7789603
LADBROKES GROUP FINANCE PLC LADBROKES GP.22	XS1066478014	16 Sep 22	5.125	16 Sep 15	6 month	101.825	5.03	4.89	6.27	4295429
LEGAL & GENERAL FINANCE PLC LEG&GEN.5.875%	XS0121464779	11 Dec 31	5.875	11 Jun 15	6 month	135.975	4.32	3.12	11.60	351575
LLOYDS BANK PLC LLOYDS 5.375%	XS0517466198	07 Sep 15	5.375	07 Sep 15	6 month	102.39	5.25	-0.12		2741766
LLOYDS BANK PLC LLOYDS BK 5.50%	XS0604804194	25 Sep 16	5.5	25 Sep 15	6 month	106.025	5.19	1.34	1.43	6515949
LLOYDS BANK PLC LLOYDS BK. 25	XS0503834821	22 Apr 25	7.625	22 Apr 15	6 month	133.05	5.73	3.70	7.42	4625661
LLOYDS BANK PLC LLOYDS BK.40	XS0543369184	17 Sep 40	6.5	17 Sep 15	12 month	152.35	4.27	3.39	15.03	13369428
LLOYDS BANK PLC LLOYDS BK.9.625%	XS0043098127	06 Apr 23	9.625	06 Oct 15	12 month	141	6.83	3.63	6.28	960947
LONDON POWER NETWORKS PLC LONDON POW.27	XS0148889420	07 Jun 27	6.125	07 Jun 15	12 month	131.65	4.65	2.98	9.04	30151
LONDON STOCK EXCHANGE GROUP PLC LON.STK.EX21	XS0846486040	02 Nov 21	4.75	02 May	6 month	111.275	4.27	2.88	5.67	8293035

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 16	12 month	129.04	4.55	2.21	7.30	4165785
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID6.50%£	XS0132735373	27 Jul 28	6.5	27 Jan 16	12 month	142.735	4.55	2.65	9.70	166815
NATIONAL GRID GAS PLC NAT.GRD.G 6%	XS0141704725	07 Jun 17	6	07 Jun 15	12 month	111.08	5.40	0.82	2.01	122979
NESTLE FINANCE INTERNATIONAL LTD NESTLE FIN 23	XS0860561942	30 Nov 23	2.25	30 Nov 15	12 month	103.05	2.18	1.86	7.91	1590556
NORTHUMBRIAN WATER FINANCE PLC NTHNBN.WTR.6%17	XS0139335029	11 Oct 17	6	11 Oct 15	12 month	111.78	5.37	1.21	2.36	77959
PARAGON GROUP OF COMPANIES PLC PARAGON GP20	XS0891023086	05 Dec 20	6	05 Sep 15	6 month	105.195	5.70	4.95	4.70	1145418
PARAGON GROUP OF COMPANIES PLC PARGN 6.125%	XS1018830270	30 Jan 22	6.125	30 Jun 15	6 month	103.9	5.90	5.51	5.64	2765974
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 5%	XS0635014177	27 Dec 16	5	27 Jun 15	6 month	105.435	4.74	1.79	1.65	5788447
PREMIER OIL PLC PREMIER OIL20	XS0997703250	11 Dec 20	5	11 Jun 15	6 month	90.475	5.53	7.19	4.89	9450831
PRIMARY HEALTH PROPERTIES PLC PRIMARY HLTH 19	XS0795445823	23 Jul 19	5.375	23 Jul 15	6 month	105.05	5.12	4.10	3.89	1644956
PROVIDENT FINANCIAL PLC PROV.FIN 7.5%	XS0605672558	30 Sep 16	7.5	01 Sep 15	6 month	104.63	7.17	4.29	1.43	2766442
PROVIDENT FINANCIAL PLC PROV.FIN 7% 17	XS0762418993	04 Oct 17	7	04 Apr 15	6 month	105.095	6.66	4.86	2.33	4335571
PROVIDENT FINANCIAL PLC PROV.FIN6%21	XS0900863084	27 Sep 21	6	27 Sep 15	6 month	105.725	5.68	5.02	5.48	2225579
PROVIDENT FINANCIAL PLC PROVIDENT 7.00%	XS0496412064	14 Apr 20	7	14 Apr 15	6 month	112.875	6.20	4.18	4.24	366138
PRUDENTIAL PLC PRU.6 7/8%2023	XS0083544212	20 Jan 23	6.875	20 Jan 16	12 month	132.375	5.19	2.29	6.44	277591
RETAIL CHARITY BONDS PLC RETAIL CB21	XS1066485902	29 Jul 21	4.375	29 Jul 15	6 month	101.65	4.30	4.12	5.55	313885
ROLLS-ROYCE PLC ROLLS-R 7.375%	XS0112487482	14 Jun 16	7.375	14 Jun 15	12 month	107.78	6.84	0.76	1.12	86025
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.20	GB00B3N3WC2	01 Feb 20	5.1	01 Feb 16	12 month	113.05	4.51	2.22	4.39	457765
SAFEWAY PLC SAFEWAY 6.00%	XS0140144204	10 Jan 17	6	10 Jan 16	12 month	107.1	5.60	1.86	1.71	762697
SAFEWAY PLC SAFEWAY 6.125%	XS0093004736	17 Dec 18	6.125	17 Dec 15	12 month	112.45	5.45	2.55	3.38	185486
SCOTTISH POWER UK PLC SCOT.PWR.UK8TE%	XS0073359548	20 Feb 17	8.375	20 Feb 16	12 month	113.06	7.41	1.26	1.80	790988
SEGRO PLC SEGRO 6%19	XS0179346274	30 Sep 19	6	30 Sep 15	6 month	117.23	5.12	1.97	4.03	0
SEGRO PLC SEGRO. 6.25%	XS0093802055	30 Sep 15	6.25	30 Sep 15	12 month	102.46	6.10	1.26	0.50	79298
SEGRO PLC SEGRO.5.75	XS0221324154	20 Jun 35	5.75	20 Jun 15	12 month	135.085	4.26	3.33	13.14	47209

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 Aug 15	6 month	132.17	5.11	2.68	7.08	90257
SEGRO PLC SEGRO5.50%	XS0221323693	20 Jun 18	5.5	20 Jun 15	12 month	112.32	4.90	1.53	2.92	96841
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.125%	XS0094475802	26 Feb 24	6.125	26 Feb 16	12 month	127.91	4.79	2.57	7.30	42183
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.25%BD	XS0097777253	07 Jun 29	6.25	07 Jun 15	12 month	137.82	4.54	2.95	10.12	1014122
SMITHS GROUP PLC SMITH IND 7.25%	XS0111725049	30 Jun 16	7.25	30 Jun 15	12 month	107.825	6.72	0.83	1.17	67922
SSE PLC SSE.5.875%	XS0095371638	22 Sep 22	5.875	22 Sep 15	12 month	124.475	4.72	2.27	6.24	654850
ST.MODWEN PROPERTIES PLC ST.MODWEN 19	XS0841076465	07 Nov 19	6.25	07 May 15	6 month	108.32	5.77	4.28	3.99	1901099
TESCO PERSONAL FINANCE PLC TESCO PF 5.2%	XS0591029409	24 Aug 18	5.2	24 Jul 15	6 month	105.625	4.92	3.45	3.14	3701096
TESCO PERSONAL FINANCE PLC TESCO PF 5%	XS0780063235	21 Nov 20	5	21 May 15	6 month	105.5	4.74	3.94	4.90	6972888
TESCO PLC TESCO 6%NT29	XS0105244585	14 Dec 29	6	14 Dec 15	12 month	113.57	5.28	4.70	10.30	6702001
TESCO PLC TESCO5.50% NT19	XS0159013068	13 Dec 19	5.5	13 Dec 15	12 month	110.3	4.99	3.10	4.22	8087795
TOYOTA MOTOR CREDIT CORPORATION TOY.MTR.17	XS0595707570	07 Dec 17	4	07 Dec 15	12 month	107.75	3.71	1.04	2.56	2885415
TULLETT PREBON PLC TULLETT 5.25%	XS0859261520	11 Jun 19	5.25	11 Jun 15	6 month	105.375	4.98	3.88	3.76	3065653
UBS AG UBS 16	XS0440316635	20 Jul 16	6.375	20 Jul 15	12 month	107.175	5.95	0.74	1.23	421006
UNILEVER PLC UNILEVER 4.750%	XS0434423926	16 Jun 17	4.75	16 Jun 15	12 month	108.85	4.36	0.67	2.07	300167
UNITE GROUP PLC UNITE GRP 20	XS0856594642	12 Jun 20	6.125	12 Jun 15	6 month	107.755	5.68	4.48	4.47	2962077
UNITED UTILITIES WATER LIMITED UTD WTR. 5.375%	XS0168054673	14 May 18	5.375	15 May 15	12 month	112.075	4.80	1.37	2.83	338607
UNITED UTILITIES WATER LIMITED UTD WTR.5.625%	XS0159728236	20 Dec 27	5.625	20 Dec 15	12 month	128.74	4.37	2.89	9.72	1527051
VODAFONE GROUP PLC VODAFONE 5.90%	XS0158715713	26 Nov 32	5.9	26 Nov 15	12 month	131.6	4.48	3.47	12.08	2695225
VODAFONE GROUP PLC VODAFONE NTS25	XS0181816652	04 Dec 25	5.625	04 Dec 15	12 month	125.55	4.48	2.82	8.46	801565
WESSEX WATER SERVICES FINANCE PLC WESSEX 5.375%	XS0214275785	10 Mar 28	5.375	10 Mar 15	12 month	126.6	4.25	2.88	10.02	854193
WESSEX WATER SERVICES FINANCE PLC WESSEX W.S.5.75	XS0178489844	14 Oct 33	5.75	14 Oct 15	12 month	135.625	4.24	3.18	12.61	2363581
WORKSPACE GROUP PLC WORKSPACE 6%	XS0832324981	09 Oct 19	6	09 Apr 15	6 month	107.925	5.56	4.10	3.93	1098120

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

Definitions

Data as of 31/3/2015 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 1st quarter of 2015. 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	103.88	5.87	5.862	17	1,307,584	Irredeemable
HSBC BANK PLC HSBC BK. 2.875%	XS0773551972	30 Apr 15	2.876	Fixed	30 Apr 15	6 month	100.00	0.00	2.842	0	-	Denominated in CNY
LEGAL & GENERAL GROUP PLC LEGAL&GEN.5.875	XS0189013823	Irredeemable	5.875	Fixed	01 Oct 15	6 month	108.18	5.43	5.426	18	1,787,713	Irredeemable
NATIONAL GRID PLC NAT.GRID BD 21	XS0678522490	06 Oct 21	1.25	Variable	06 Apr 15	6 month	111.53	1.12			7,553,025	Index-linked
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 1%	XS0731910765	31 Jan 22	1	Variable	31 Jul 15	6 month	103.90	0.96			3,258,335	Index-linked
SEVERN TRENT PLC SEVERN T.22	XS0796078193	11 Jul 22	1.3	Variable	11 Jul 15	6 month	106.88	1.22			2,244,683	Index-linked
STANDARD CHARTERED BANK STAN.CH.BK5.375	XS0222434200	Irredeemable	5.375	Fixed	14 Jul 15	12 month	104.00	5.17	5.164	19	8,917,516	Irredeemable
TESCO PERSONAL FINANCE PLC TESCO PF 1%	XS0710391532	16 Dec 19	1	Variable	16 Jun 15	6 month	100.08	1.00			3,404,888	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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