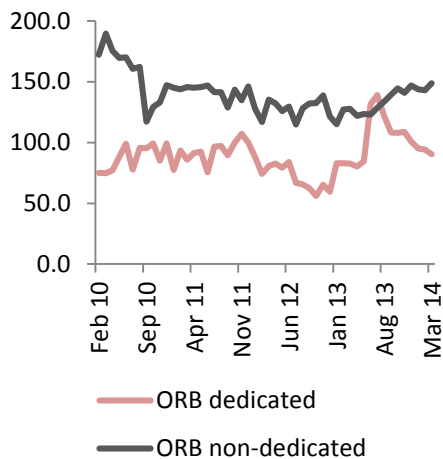


Positive start to the year for the ORB

- Over quarter, FTSE ORB index rose by 2.2%
- One new issue in the quarter raising £125m - strong investor demand leads to another early closure

Comparison of spreads for ORB dedicated and non-dedicated issues



Source: London Stock Exchange, Hardman & Co

RETAIL BOND REVIEW No. 4

- Liquidity Revisited: in this edition we examine spreads on ORB traded corporate bonds.
- For some pre-existing bonds we estimate that the introduction of the ORB has reduced the spreads on pre-existing corporate bonds by around half.
- ORB dedicated issues have a greater benefit, typically having a 30-70bp narrower spread than non-dedicated bonds.
- The correlation between liquidity and spreads is weak for the ORB market as a whole, but much more apparent for the ORB dedicated issues.
- 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.



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

Brian Moretta

+44 (0)20 7929 3399

bm@hardmanandco.com

Introduction

This is the fourth 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 how spreads have varied in the retail bond market. We also published a note on the 4th Anniversary of the ORB market on 7th February.

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.

Contents

Feature Article: Liquidity Revisited	Pg.4
Market Performance:	Pg.9
Index Data Tables: Performance and volatility	Pg.9
Yield Curve: biggest movements for 10-15 year bonds	Pg.10
New Issues: 1 new issue this quarter	Pg.11
Significant Economic & Market News: signs of progress in most places	Pg.11
Glossary:	Pg.13
Bond Statistics:	Pg.14
Hardman Team:	Pg.20

Feature Article: Liquidity Revisited

Executive Summary

Massive rise in retail trading

The advent of the ORB has had a positive effect on the spreads that investors have incurred when trading bonds. By analysing a small sample of pre-existing bonds we estimate that on average the ORB has reduced a typical spread by around half. Investors in the ORB dedicated issues have seen a greater benefit, with these bonds typically having a 30-70bp advantage over the non-dedicated issues.

Intriguingly we find that, contrary to the usual assumption, there is no correlation between liquidity and spreads across the ORB as a whole, though there is for the ORB dedicated issues, i.e. those bonds which are traded on ORB only. We propose an explanation based on the residual institutional investor base of the non-dedicated ORB bonds and the lumpiness of their trading.

Background

ORB created to attract retail investors

In *Retail Bond Review No 1* we looked at ORB trading volumes. This is only part of the story for investors, who are concerned about the cost of liquidity as well as its availability. While commissions are subject to arrangements, the difference between the buying and selling price in the market (the spread) is linked to the market structure. Generally higher liquidity is expected to produce lower spreads (i.e. negative correlation) and we look for evidence of such an effect on the ORB.

Data: The data in this article was primarily drawn from the London Stock Exchange database. We will focus on spread data rather than the volume data that we examined in *Retail Bond Review No 1*. The measure that is used is the time weighted average spread for each month expressed in basis points (bp). The spread data goes back further than the volume data, to August 2009 in some cases¹, which is before the inception of ORB in February 2010 (at ORB inception the listed bonds were issues that were already extant). In the first month of the ORB there were 89 bonds, which rose over time and by 2013 reached the current level of 116.

As before we only consider the corporate bond segment of the ORB in this report. We note that gilts generally have a much lower spread than corporate bonds. For example in March 2014 the median gilt spread was 29.0bp compared to 128.0bp for the corporate bond market. Actually no corporate bond had a spread as low as 29bp. This probably reflects the much greater scale of the gilt market, where issue sizes are measured more in £billions than £millions with correspondingly deeper liquidity.

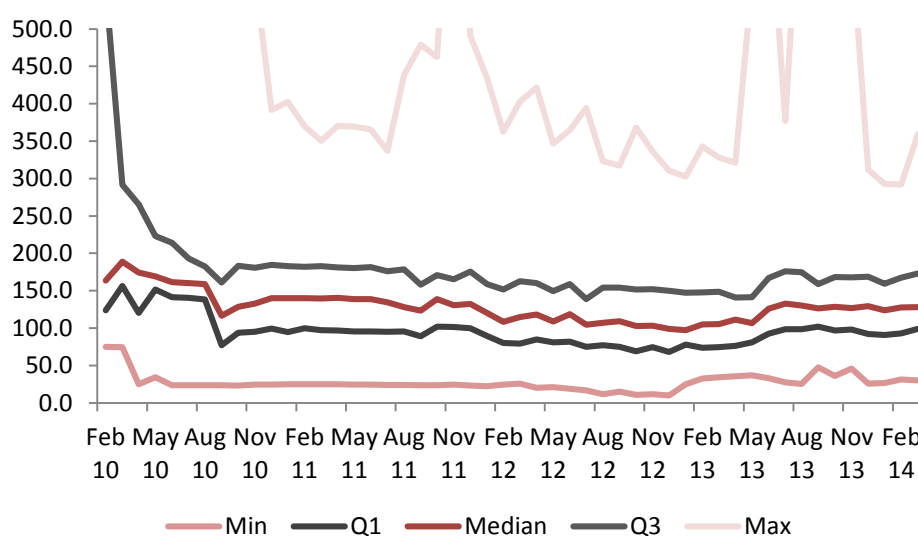
As we did in *Retail Bond Review No 1* we have made some adjustments to the volume data. In particular for some of the new issues we have ignored the first month of trading where this is very out of line with subsequent trading.

¹ We actually have some data from before August 2009, but only for two bonds – insufficient to perform any meaningful analysis.

Spread Summary

Initially we consider the pattern of spreads since the inception of the ORB, shown in Figure 1 below. Note that the data is somewhat skewed (statistically) with a wide and varying range, with the maximum value going as high as 1006bp. This means the mean is more volatile than the median, varying from being almost the same to over 30bp higher over the period. Thus to give a clearer idea of trends we focus on the median.

Figure 1: Median, quartile, minimum and maximum time weight average spread for each month since October 2010



Source: London Stock Exchange, Hardman & Co

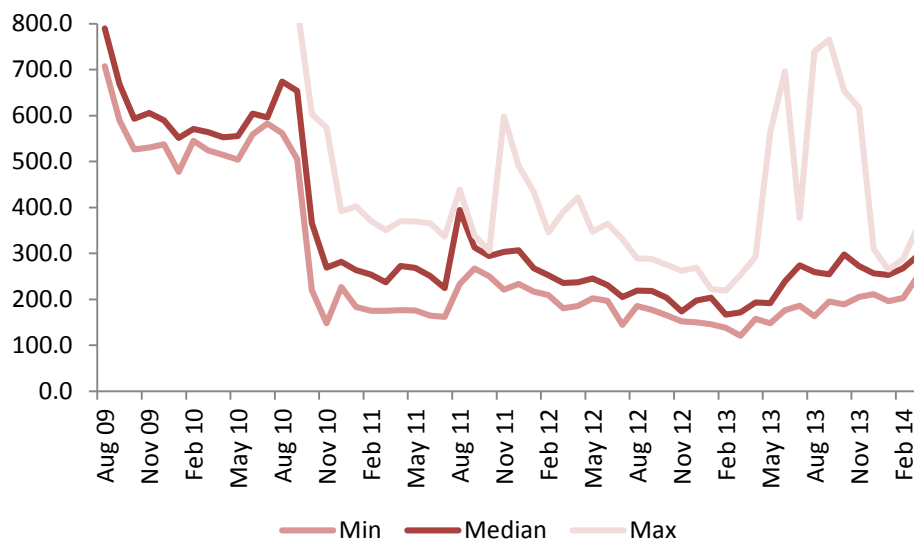
Note: Q1 is lower quartile and Q3 is upper quartile.

We can see that from the inception of the ORB until the start of 2013 there was a steady decline in spreads. In the first few months of 2010 the median average spread was around 170-200bp, but by January 2013 that had declined to 97bp. Since then that trend has gradually reversed and in the first quarter of 2014 the median was 126bp. Still lower than back in 2010, but not as tight as it was.

While we can say that for a typical trade there has been considerable improvement, this is not the case across the board. With an interquartile range usually around 60-70bp and a maximum that has only fallen below 300bp in the last quarter it is fair to say that many bonds have much higher or lower spreads.

The benefit of the ORB can be seen more clearly if we consider the time prior to its creation in 2010. As we indicated above we have some data prior to the inception of the ORB for six bonds. Although a small sample, five are still listed on ORB and we can track what has happened to those just those bonds. Figure 2 gives a summary.

Figure 2: Median, quartile, minimum and maximum time weight average spread for each month since February 2010 for bonds for which data exists prior to ORB creation



Source: London Stock Exchange, Hardman & Co

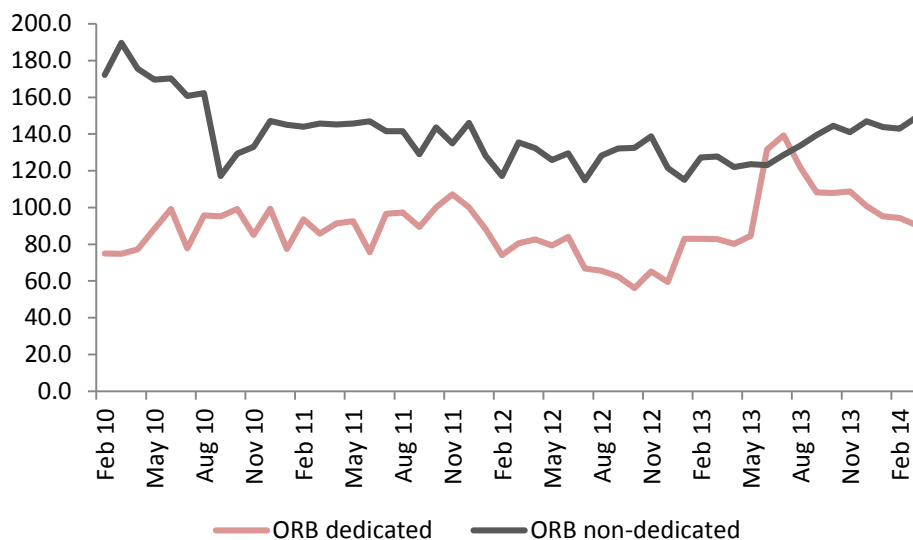
The first observation is that the median for this group is consistently above the third quartile for the market as a whole, suggesting this group may not be truly representative. With that caveat it is clear that for this group there has been a large decline in spreads compared to before the ORB's creation. Prior to February 2010 the median average spread each month was around 550-790bp. Although ORB didn't have an immediate impact, since the end of 2010 this has declined to around 200-300bp. This suggests that the ORB roughly halved spreads for these bonds compared to previously.

Although this group is not representative, there is the question of how new issues compare to pre-existing ones. We have seen repeatedly in our previous reports that recent issues often behave differently from older issues so we examine this next.

ORB Dedicated Issues

As we have noted before there have now been 41 ORB dedicated issues and they are currently just over a third of the corporate bonds listed on the ORB. In the Figure 3 we split the market into ORB dedicated and non-dedicated issues and compare the median average spread each month for these two groups. Note that in 2010 there was a very small number of ORB dedicated issues.

Figure 3: Median time weight average spread for each month since February 2010 for bonds ORB dedicated and non-dedicated issues



Source: London Stock Exchange, Hardman & Co

Given the differences between Figures 1 and 2 that we noted above, that ORB dedicated bonds generally have lower spreads is hardly a surprising result. Since the middle of 2010 the difference between the two medians has, with the exception of June-July 2013, varied between 30bp and 70bp each month.

The exceptional months in 2013 coincided with the change in interest rate expectations which led to a short sell off on ORB. We have noted before that the ORB dedicated bonds have a greater proportion of retail investors than the non-dedicated bonds. This suggests retail investors were more likely to be selling out than institutional ones, causing spreads to widen as the supply/demand balance changed.

Although the gap tightened through 2013 the last quarter has seen it expand again and in March it was 58bp. It is clear that the typical cost of trading ORB dedicated issues has been consistently lower than trading the ORB non-dedicated issues.

Of course there is nothing special about the ORB dedicated bonds other than where they were issued and the investor base. As we described in *Retail Bond Review No 1* this has led to greater liquidity in these issues. However greater liquidity alone does not explain the lower spreads – the correlation coefficient between the two across all corporate bonds is only -6.6%. Intriguingly there is difference in the correlation for each group with the ORB dedicated issues having coefficient of -30.5% whereas for ORB non-dedicated bonds it is 3.3%. the -30.5% figure is statistically significant, suggesting only that part of the ORB satisfies the usual expectation that higher volumes lead to lower spreads.

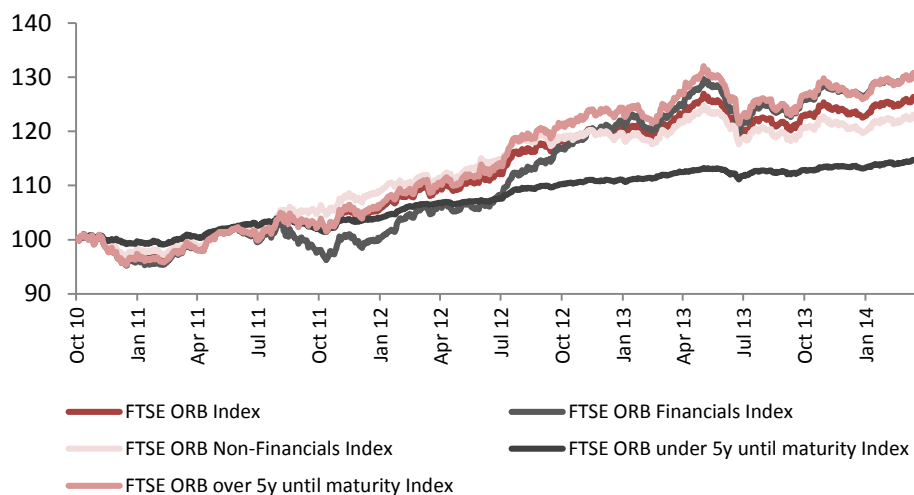
We can still use these figures to propose an alternative hypothesis, albeit one based more on logic than evidence. As well as having higher overall liquidity the ORB dedicated issues dominate trading on the order book itself. In particular

there is a much steadier flow of trades than for the non-dedicated issues, with most trades being from retail investors and having a smaller average trade size. The non-dedicated bonds still have a strong institutional investor base who tend to be less frequent traders than retail investors and deal in larger sizes.

We suggest that these large trades actually widen the spread as they unsettle the supply/demand balance much more than for the bonds dominated by retail investors which have steadier trading flows. This explains the (very small) positive correlation between spread and volumes and the different characteristics of the two groups of bonds.

Market Performance

Figure 4: ORB Total Return Indices from inception (1/10/10=100)



Source: FTSE, Hardman & Co

The first quarter of 2014 saw a change from the uncertain markets of the last few months with a healthy rise in FTSE ORB Index of 2.2%. Most of this came in January, with February and March relatively flat in price terms and growth mainly coming from accumulated income. As in the previous quarter financials and longer dated bonds led the way, with their indices outperforming.

Index Data tables

Performance & Volatility – Total Return (GBP)

Index	No Issues	Nominal £bn	Performance to 31/03/14 (%)			
			3M	6M	12M	36M
FTSE ORB Index	82	21.26	2.25	2.18	2.07	27.29
FTSE ORB Financials Index	41	9.15	2.67	3.34	4.27	32.52
FTSE ORB Non-Financials Index	42	13.56	1.93	1.33	0.52	23.59
FTSE ORB under 5y until Maturity Index	25	6.12	1.21	1.57	1.87	14.03
FTSE ORB over 5y until Maturity Index	58	16.59	2.72	2.46	2.19	32.17

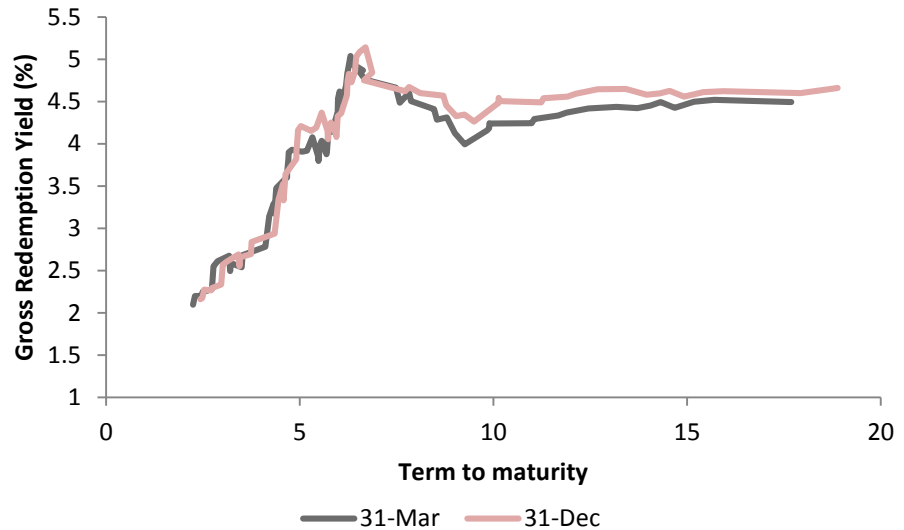
Index Characteristics

Index	Gross redemption yield (%) *			Modified Duration *		
	3mths ago	Now – 31/3/14	change	3mths ago	Now – 31/3/14	change
FTSE ORB Index	4.26	4.10	-0.16	6.75	6.72	-0.02
FTSE ORB Financials Index	4.52	4.32	-0.21	6.68	6.80	0.11
FTSE ORB Non-Financials Index	4.06	3.92	-0.13	6.79	6.67	-0.12
FTSE ORB under 5y until Maturity Index	2.86	2.79	-0.07	3.13	3.08	-0.05
FTSE ORB over 5y until Maturity Index	4.48	4.30	-0.19	8.28	8.23	-0.04

*See glossary

Yield Curve

Figure 5: Yield curves for bonds in the FTSE ORB Index



Source: FTSE, Hardman & Co

Yet again there was a distinct split in movements of different parts of the yield curve over the quarter. During January yields fell sharply across the board. February and March saw slow and volatile rise by a much smaller amount, with longer dated bonds, especially those in the 10-15 year range, having a larger movement. Consequently yields for bonds with maturities over 10 years finished the quarter roughly 20bps below where they started. Shorter dated bonds again had little net movement.

Gilt yields fell for all but the shortest terms to maturity. The largest movements were in the 10-15 year range, and were probably the main influence on the movement in that range for the ORB.

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 issues in Q1

One new bond was issued this quarter. The total amount raised during the quarter was £125m - an improvement on the third quarter of last year, but less than in the fourth quarter.

Figure 6: New corporate bond issues 1/1/14 to 31/3/14

Company	Date Listed	Issue Size (£m)	Maturity Date	Coupon
Paragon	30 Jan 2014	125	30 Jan 2022	6.125%

Source: London Stock Exchange

This was the second ORB issue by the Paragon Group of Companies, which is a mortgage provider focussed on the buy-to-let market. Compared to the previous issue it had a slightly longer maturity and higher coupon. Like the two preceding ORB issues it was oversubscribed and managed to close its books early. Despite the lower rate of bond issuance over the last few months there is clearly strong investor demand out there.

Significant Economic and Market News

After several months of rather unsettled bond markets it has been a much more benign start to 2014. Economic news has overall been slightly more positive than negative. While the markets initially reacted to the events in Ukraine, that appears to have been short lived.

US QE tapering continues

In the US the tapering of quantitative easing (QE) that started in December has continued steadily with a further reduction in the purchase rate of \$10bn announced at each of the Federal Reserve meetings, taking the total purchasing rate down to £55bn per month. Statements from FOMC members have indicated that it would take very bad economic news to divert them from the current path of tapering. Although it looks like GDP growth in the first quarter will be weak, it seems the FOMC will attribute that to weather related effects and QE purchases will disappear by the fourth quarter of this year.

With the tapering path apparently set, attention has started to turn to when the FOMC will raise interest rates. Although unemployment is approaching the Fed's 6.5% target (it is currently 6.7%), the decreasing participation rate appears to have made that a less relevant target. Although some commentators are now predicting a rise this year, early 2015 seems a more likely time. With that backdrop is it perhaps surprising that 10 year bond yields have not been more volatile, falling from 3.0% to 2.6% in early February and rising to 2.7% by the quarter end. The 2 year yield has been shown a clearer pattern, rising over March from 0.30% to 0.45%.

New Zealand raises rates

In the rest of the world New Zealand hit the headlines as it raised its interest rates in March, driven by an economy boosted by strong dairy exports and, paradoxically, the rebuilding work after the Christchurch earthquake. In Europe meanwhile there have been with mixed economic signals. While there have been no great signs of improvement or deterioration, the low inflation rate

remains a concern and there is speculation the ECB may take further action to mitigate any deflation risk. Japan appears to be in a similar situation, with the economy not responding as well as anticipated to monetary easing and worries that a sales tax increase in April may be more than the economy can absorb.

*Concerns about
China*

Perhaps the most worrying news from the global economy has been the apparent slow down in China. Although the expected first quarter GDP growth of 7.3% is hardly disastrous, there are concerns about the effects on linked economies. The markets were further unsettled by the first bond default in March by a Chinese company. While in the long term it has to be positive for Chinese financial markets to behave in a normal manner, the timing of opening that process could have been better given there have been concerns for some time about the real state of the Chinese financial & banking system.

*Further rise in gilt
yields on good
economic news*

The UK seems to be following a path closer to the US than Europe, with further positive economic news. With unemployment approaching the Bank of England's 7% target for raising interest rates, the governor decided to back away from that as a target, citing wider measures of spare capacity in the economy. The markets appear to have anticipated this move, with UK 10 year yields following a similar pattern to the US and finishing the quarter at 2.7% compared to 3.0% at the start.

ORB is four

February saw the fourth anniversary of ORB, with the London Stock Exchange holding a seminar to celebrate. The discussion was wide ranging, touching on the many successes of the market, the benefits to investors and issuers and the benefits and handicaps that regulators have recently brought. The decline in new issuance over the last year was perhaps the least conclusive discussion. Participants cited regulation, notably the new UK Listing Authority plain English prospectus requirements. This analyst observes that this hasn't stopped several companies having successful issues since the rules were changed. We suspect the combined effect of a sharp change in interest rate expectations and better availability of alternative funding sources has more of an influence. With the former being more realistic and investor demand clearly being very strong we believe that ORB should still be a competitive source of funds going forward. For a fuller discussion see our publication *Happy 4th Anniversary: Retail Bond* on 7th February.

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 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 PLC A2D FUND. 22	XS0975865949	18 Oct 22	4.75	18 Apr 14	6 month	106.625	4.46	3.87	7.03	3166065
ALPHA PLUS HOLDINGS PLC ALPHA PLUS 19	XS0853358801	18 Dec 19	5.75	18 Jun 14	6 month	106.5	5.40	4.50	4.90	946019
ANGLIAN WATER SERVICES FINANCING PLC ANG.W.S.F.5.25%	XS0211684831	30 Oct 15	5.25	30 Oct 14	12 month	106.425	4.93	1.11	1.53	3436747
ANGLIAN WATER SERVICES FINANCING PLC ANGLIANWTR6.875	XS0089553282	21 Aug 23	6.625	21 Aug 13	12 month	122.58	5.36	3.92	7.77	178663
ANHEUSER-BUSCH INBEV NV AB INBEV 6.50%	BE6000183549	23 Jun 17	6.5	23 Jun 14	12 month	114.63	5.67	1.78	2.90	13502491
AVIVA PLC AVIVA 6.125%36E	XS0138717441	14 Nov 36	6.125	14 Nov 14	12 month	105.25	5.71	5.71	12.98	4219577
B.A.T. INTERNATIONAL FINANCE PLC B.A.T.IF6.375%	XS0182188366	12 Dec 19	6.375	12 Dec 14	12 month	118.475	5.38	2.81	4.94	9308858
BARCLAYS BANK PLC BARCLAYS.5.75%	XS0134886067	14 Sep 26	5.75	14 Sep 14	12 month	107.535	5.35	4.92	9.09	1568314
BEAZLEY PLC BEAZLEY 5.375%	XS0827693663	25 Sep 19	5.375	25 Sep 14	6 month	105.25	5.11	4.34	4.83	1368879
BP CAPITAL MARKETS PLC BP CAP. 14	XS0436300247	29 Dec 14	4	29 Dec 14	12 month	102.83	3.91	2.24	1.63	8505408
BRITISH TELECOMMUNICATIONS PLC BR.TEL.5.75%BDS28	XS0097283096	07 Dec 28	5.75	07 Dec 14	12 month	113.655	5.06	4.46	10.43	8523237
BRITISH TELECOMMUNICATIONS PLC BR.TEL.8.625%	XS0052067583	26 Mar 20	8.625	26 Mar 15	12 month	128.95	6.69	3.23	5.05	896943
BRITISH TELECOMMUNICATIONS PLC BRIT.TEL.NTS16	XS0123682758	07 Dec 16	7.5	07 Dec 14	12 month	118.14	6.41	2.21	3.24	842869
BRUNTWOOD INVESTMENTS PLC BRUNTWOOD 6%	XS0947705215	24 Jul 20	6	24 Jul 14	6 month	106.5	5.63	4.85	5.33	2191933
CLS HOLDINGS PLC CLS HDGS 19	XS0820711215	31 Dec 19	5.5	30 Jun 14	6 month	103.25	5.33	4.90	4.95	2074164
COMPASS GROUP PLC COMPASS 7%BDS14	XS0100559037	08 Dec 14	7	08 Dec 14	12 month	105.44	6.72	3.44	1.54	93138
DAILY MAIL & GENERAL TRUST PLC DMGT.5.75%18	XS0170485204	07 Dec 18	5.75	07 Dec 14	12 month	110.525	5.20	3.28	4.20	2359155
EASTERN GROUP EAST.GP.8.5%2025	XS0058209106	31 Mar 25	8.5	31 Mar 14	12 month	138.13	6.15	4.12	8.10	4323185
EASTERN POWER NETWORKS PLC EAST.POWER5.75%	XS0187202303	08 Mar 24	5.75	08 Mar 15	12 month	114.505	5.02	3.95	7.96	4628701
ENQUEST PLC ENQUEST 22	XS0880578728	15 Feb 22	5.5	15 Aug 14	6 month	100.775	5.46	5.45	6.46	6432190
ENTERPRISE INNS PLC ENTER INNS 2018	XS0163019143	06 Dec 18	6.5	06 Jun 14	6 month	105.65	6.15	5.19	4.05	4137713
EUROPEAN INVESTMENT BANK EIB 3% 2015	XS0497463777	07 Dec 15	3	07 Dec 14	12 month	103.91	2.90	1.46	2.52	43369851
EUROPEAN INVESTMENT BANK EURO.I.BK.16	XS0602217159	07 Dec 16	3.25	07 Dec 14	12 month	105.53	3.09	1.66	3.43	19578169
EUROPEAN INVESTMENT BANK EURO.IV.8.75	XS0055498413	25 Aug 17	8.75	25 Aug 14	12 month	124.94	7.09	2.57	3.67	16862620

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 15	12 month	110.13	5.56	3.77	4.28	2159703
GE CAPITAL UK FUNDING GE CAP.UK 18	XS0381559979	06 Aug 18	6.75	06 Aug 14	12 month	117.82	5.73	2.38	3.81	1167136
GE CAPITAL UK FUNDING GE CAP.UK 33	XS0340495216	18 Jan 33	5.875	18 Jan 15	12 month	120.735	4.87	4.25	12.40	851814
GE CAPITAL UK FUNDING GE CAP.UK5.625%	XS0297507773	25 Apr 19	5.625	25 Apr 14	12 month	113.75	4.95	2.68	4.38	5212357
GKN HOLDINGS PLC GKN 6.75% BDS19	XS0103214762	28 Oct 19	6.75	28 Oct 14	12 month	116.795	5.78	3.39	4.78	5770425
GLAXOSMITHKLINE CAPITAL PLC GLAXOSMSC 5.25%	XS0140516864	19 Dec 33	5.25	19 Jun 14	6 month	114.305	4.59	4.22	12.85	1015915
HAMMERSON PLC HAMMERSON 6%26	XS0184639895	23 Feb 26	6	23 Feb 15	12 month	116.445	5.15	4.21	9.04	3038354
HAMMERSON PLC HAMMERSON 7.25%28	XS0085732716	21 Apr 28	7.25	21 Apr 14	12 month	128.57	5.64	4.47	9.36	9929
HAMMERSON PLC HAMMERSON6.875%	XS0109514538	31 Mar 20	6.875	31 Mar 14	12 month	119.375	5.76	3.26	5.19	418631
HELICAL BAR PLC HELICAL B.20	XS0942129957	24 Jun 20	6	24 Jun 14	6 month	104.85	5.72	5.14	5.23	1535802
HSBC BANK PLC HSBC BK.5.375%	XS0174470764	22 Aug 33	5.375	22 Aug 14	12 month	103.27	5.21	5.10	12.24	2716441
HSBC BANK PLC HSBC BK.6.5%NT2	XS0088317853	07 Jul 23	6.5	07 Jul 14	12 month	115.925	5.61	4.37	7.11	2764701
ICAP PLC ICAP 5.50%	XS0805454872	31 Jul 18	5.5	31 Jul 14	6 month	107.025	5.14	3.76	3.90	5079360
IMPERIAL TOBACCO FINANCE PLC IMP.TOB.FIN.6.25%	XS0180407602	04 Dec 18	6.25	04 Dec 14	12 month	115.02	5.43	2.77	4.16	3454437
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP	XS0716336325	21 Dec 18	7	21 Jun 14	6 month	108.125	6.47	5.10	4.05	553625
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP20	XS0818634668	19 Sep 20	6.25	19 Sep 14	6 month	105.225	5.94	5.35	5.43	2243910
INTERNATIONAL PERSONAL FINANCE PLC INTER.PERS.20	XS0919406800	08 May 20	6.125	08 May 14	6 month	102.425	5.98	5.73	5.07	6301575
KINGFISHER PLC KINGFISHER5.625	XS0178322474	15 Dec 14	5.625	15 Dec 14	12 month	103.93	5.46	3.10	1.58	237092
LBG CAPITAL NO.1 PLC LBG CAP 1 19	XS0459086749	12 May 20	3.794	17 Jun 14	12 month	106.7	3.59	2.73	6.12	116267502
LBG CAPITAL NO.1 PLC LBG CAP 1 20	XS0459086582	12 May 20	7.975	12 May 14	6 month	106.28	7.68	6.83	5.38	263395307
LBG CAPITAL NO.2 PLC LBG CAP 2 20	XS0459088109	07 Feb 20	9.334	07 Feb 15	12 month	109.75	8.76	7.44	5.29	68282974
LEGAL & GENERAL FINANCE PLC LEG&GEN.5.875%	XS0121464779	11 Dec 31	5.875	11 Jun 14	6 month	118.795	4.95	4.39	11.63	90622
LLOYDS BANK PLC LLOYDS 5.375%	XS0517466198	07 Sep 15	5.375	07 Sep 14	6 month	106.005	5.07	1.12	1.39	2294589
LLOYDS BANK PLC LLOYDS BK 5.50%	XS0604804194	25 Sep 16	5.5	25 Sep 14	6 month	108.775	5.06	1.87	2.35	2167118
LLOYDS BANK PLC LLOYDS BK. 25	XS0503834821	22 Apr 25	7.625	22 Apr 14	6 month	121.915	6.25	5.08	7.80	7684990
LLOYDS BANK PLC LLOYDS BK.5.875	XS0149620691	20 Jun 14	5.875	20 Jun 14	12 month	102.1	5.80	3.94	1.09	550206
LLOYDS BANK PLC LLOYDS BK.6.625	XS0109722990	30 Mar 15	6.625	30 Mar 14	12 month	104.63	6.33	4.06	1.86	7010545
LLOYDS BANK PLC LLOYDS BK.9.625%	XS0043098127	06 Apr 23	9.625	06 Apr 13	12 month	133.24	7.22	4.96	6.33	3005642
LONDON POWER NETWORKS PLC LONDON POW.27	XS0148889420	07 Jun 27	6.125	07 Jun 14	12 month	117.085	5.23	4.39	9.33	1351118
LONDON STOCK EXCHANGE GROUP PLC LON.STK.EX21	XS0846486040	02 Nov 21	4.75	02 May 14	6 month	107.875	4.40	3.59	6.39	8308544

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID 5.875%	XS0094073672	02 Feb 24	5.875	02 Feb 14	12 month	117.545	5.00	3.71	7.86	2816059
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID6.50%£	XS0132735373	27 Jul 28	6.5	27 Jan 15	12 month	124.075	5.24	4.22	9.89	5456303
NATIONAL GRID GAS PLC NAT.GRD.G 6%	XS0141704725	07 Jun 17	6	07 Jun 14	12 month	112.9	5.31	1.79	2.88	3666967
NORTHUMBRIAN WATER FINANCE PLC NTHNBN.WTR.6%17	XS0139335029	11 Oct 17	6	11 Oct 14	12 month	113.045	5.31	2.11	3.22	7915970
PARAGON GROUP OF COMPANIES PLC PARAGON GP20	XS0891023086	05 Dec 20	6	05 Sep 14	6 month	103.875	5.78	5.35	5.42	2024020
PARAGON GROUP OF COMPANIES PLC PARGN 6.125%	XS1018830270	30 Jan 22	6.125	30 Jul 14	6 month	102.475	5.98	5.81	6.29	NA
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 5%	XS0635014177	27 Dec 16	5	27 Jun 14	6 month	105.775	4.73	2.81	2.56	3073575
PREMIER OIL PLC PREMIER OIL20	XS0997703250	11 Dec 20	5	11 Jun 14	6 month	102.25	4.89	4.66	5.70	8181554
PRIMARY HEALTH PROPERTIES PLC PRIMARY HLTH 19	XS0795445823	23 Jul 19	5.375	23 Jul 14	6 month	106.6	5.04	4.02	4.67	3609633
PROVIDENT FINANCIAL PLC PROV.FIN 7.5%	XS0605672558	30 Sep 16	7.5	30 Sep 13	6 month	107.05	7.01	4.53	2.32	1508701
PROVIDENT FINANCIAL PLC PROV.FIN 7% 17	XS0762418993	04 Oct 17	7	04 Oct 13	6 month	107.7	6.50	4.65	3.08	3104101
PROVIDENT FINANCIAL PLC PROV.FIN6%21	XS0900863084	27 Sep 21	6	27 Sep 14	6 month	104.45	5.74	5.34	6.16	2035617
PROVIDENT FINANCIAL PLC PROVIDENT 7.00%	XS0496412064	14 Apr 20	7	14 Apr 14	6 month	108.8	6.43	5.35	4.92	296486
PRUDENTIAL PLC PRU.6 7/8%2023	XS0083544212	20 Jan 23	6.875	20 Jan 15	12 month	124.505	5.52	3.58	7.03	4321306
ROLLS-ROYCE PLC ROLLS-R 7.375%	XS0112487482	14 Jun 16	7.375	14 Jun 14	12 month	112.6	6.55	1.50	2.01	1283927
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.20	GB00B3N3WC23	01 Feb 20	5.1	01 Feb 14	12 month	108.075	4.72	3.54	5.18	922217
SAFeway PLC SAFeway 6.00%	XS0140144204	10 Jan 17	6	10 Jan 15	12 month	108.2	5.55	2.88	2.61	3033396
SAFeway PLC SAFeway 6.125%	XS0093004736	17 Dec 18	6.125	17 Dec 13	12 month	111.255	5.51	3.49	4.19	5773171
SAFeway PLC SAFeway 6.5%NT14	XS0100362911	05 Aug 14	6.5	05 Aug 14	12 month	102.98	6.38	4.01	1.20	755974
SCOTTISH POWER UK PLC SCOT.PWR.UK8TE%	XS0073359548	20 Feb 17	8.375	20 Feb 15	12 month	117.2	7.15	2.15	2.67	758752
SEGRO PLC SEGRO 6%19	XS0179346274	30 Sep 19	6	30 Mar 14	6 month	114.675	5.23	3.10	4.81	4389403
SEGRO PLC SEGRO. 6.25%	XS0093802055	30 Sep 15	6.25	30 Sep 14	12 month	106.55	5.87	1.75	1.44	391267
SEGRO PLC SEGRO.5.75	XS0221324154	20 Jun 35	5.75	20 Jun 14	12 month	113.445	5.07	4.73	12.81	25813
SEGRO PLC SEGRO.6.75	XS0107099466	23 Feb 24	6.75	23 Aug 14	6 month	122.06	5.53	4.06	7.60	12959
SEGRO PLC SEGRO5.50%	XS0221323693	20 Jun 18	5.5	20 Jun 14	12 month	110.98	4.96	2.71	3.75	604331
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.125%	XS0094475802	26 Feb 24	6.125	26 Feb 15	12 month	118.175	5.18	3.88	7.86	32089
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.25%BD	XS0097777253	07 Jun 29	6.25	07 Jun 14	12 month	121.275	5.15	4.31	10.29	2909923
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T5.25%	XS0176529583	08 Dec 14	5.25	08 Dec 14	12 month	103.55	5.10	2.95	1.56	49735
SMITHS GROUP PLC SMITH IND 7.25%	XS0111725049	30 Jun 16	7.25	30 Jun 14	12 month	111.575	6.50	1.92	2.06	132475

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	117.54	5.00	3.45	6.87	890344
ST.MODWEN PROPERTIES PLC ST.MODWEN 19	XS0841076465	07 Nov 19	6.25	07 May 14	6 month	105.925	5.90	5.08	4.72	1745905
TESCO PERSONAL FINANCE PLC TESCO PF 5.2%	XS0591029409	24 Aug 18	5.2	24 Aug 14	6 month	106.625	4.88	3.59	3.98	3549583
TESCO PERSONAL FINANCE PLC TESCO PF 5%	XS0780063235	21 Nov 20	5	21 May 14	6 month	107.4	4.66	3.76	5.67	7740830
TESCO PLC TESCO 6%NT29	XS0105244585	14 Dec 29	6	14 Dec 14	12 month	111.515	5.38	4.93	10.72	216682
TESCO PLC TESCO5.50% NT19	XS0159013068	13 Dec 19	5.5	13 Dec 14	12 month	111.405	4.94	3.27	5.01	9925893
TULLETT PREBON PLC TULLETT 5.25%	XS0859261520	11 Jun 19	5.25	11 Jun 14	6 month	104.425	5.03	4.33	4.56	3064611
UBS AG UBS 16	XS0440316635	20 Jul 16	6.375	20 Jul 14	12 month	110.925	5.75	1.50	2.13	3347950
UNILEVER PLC UNILEVER 4.00%	XS0418570130	19 Dec 14	4	19 Dec 14	12 month	103.04	3.91	2.09	1.60	657188
UNILEVER PLC UNILEVER 4.750%	XS0434423926	16 Jun 17	4.75	16 Jun 14	12 month	109.85	4.32	1.57	2.96	3813232
UNITE GROUP PLC UNITE GRP 20	XS0856594642	12 Jun 20	6.125	12 Jun 14	6 month	107.075	5.72	4.85	5.19	3020884
UNITED UTILITIES WATER PLC UTD WTR. 5.375%	XS0168054673	14 May 18	5.375	14 May 14	12 month	111.135	4.84	2.49	3.66	1043653
UNITED UTILITIES WATER PLC UTD WTR.5.625%	XS0159728236	20 Dec 27	5.625	20 Dec 14	12 month	114.45	4.92	4.21	10.05	5343
VODAFONE GROUP PLC VODAFONE 5.90%	XS0158715713	26 Nov 32	5.9	26 Nov 14	12 month	115.54	5.11	4.64	12.08	3433402
WESSEX WATER SERVICES FINANCE PLC WESSEX W.S.5.75	XS0178489844	14 Oct 33	5.75	14 Oct 14	12 month	116.83	4.92	4.44	12.52	7900
WORKSPACE GROUP PLC WORKSPACE 6%	XS0832324981	09 Oct 19	6	41373	6 month	105.25	5.701	4.962	4.671	972923

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

Definitions

Data as of 31/03/2014 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 1st 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 14	6 month	100.38	5.97	6.068	17	1,338,948	Irredeemable
EUROPEAN INVESTMENT BANK EIB FRN 2015	XS0487944752	19 Feb 15	0.62	Variable	19 May 14	3 month	100.00	0.62			137,984,373	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 Oct 14	6 month	108.00	5.49	5.435	18	4,719,189	Irredeemable
NATIONAL GRID PLC NAT.GRID BD 21	XS0678522490	06 Oct 21	1.25	Variable	06 Apr 13	6 month	107.80	1.16			4,371,972	Index-linked
NATIONWIDE BUILDING SOCIETY NATIONWIDE.PIBS	GB0001777449	Irredeemable	6.024	Fixed	06 Aug 14	6 month	122.61	5.78	4.899	17	2,994,224	Irredeemable
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 1%	XS0731910765	31 Jan 22	1	Variable	31 Jul 14	6 month	107.70	0.96			779,881	Index-linked
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC NTS17	GB00B42SH312	07 Mar 17	2	Variable	07 Jun 14	3 month	103.27	1.94			12,631	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC. 20	GB00B4MTS317	06 Dec 20	0.068	Variable	06 Jun 14	3 month	103.44	0.07			38,990	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	1.72			1,912	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	3.67			33,660	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	3.76			703,410	Variable Coupon rate
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.18	GB00B442CZ84	01 Feb 18	3.3	Fixed	01 May 13	3 month	116.43	2.86			11,709	Variable redemption amount
RSA INSURANCE GROUP PLC RSA INS. 8.5%\$	XS0197028714	Irredeemable	8.5	Fixed	08 Dec 14	12 month	102.50	8.15	8.286	12	9,810,922	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 Jul 14	6 month	108.62	1.23			1,632,987	Index-linked
TESCO PERSONAL FINANCE PLC TESCO PF 1%	XS0710391532	16 Dec 19	1	Variable	16 Jun 14	6 month	105.50	0.96			1,310,663	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.

Hardman Team

Investor Engagement

Max Davey +44 (0)207 148 0540 md@hardmanandco.com	Keith Hiscock +44 (0)207 148 0544 kh@hardmanandco.com	Felicity Reid +44 (0)207 148 0546 fr@hardmanandco.com
---	---	---

Analysts - +44 (0)207 929 3399

Agriculture

Doug Hawkins	dh@hardmanandco.com
Yingheng Chen	yc@hardmanandco.com
Meghan Sapp	ms@hardmanandco.com

Building & Construction

Tony Williams	tw@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Media

Derek Terrington	dt@hardmanandco.com
Adrian Kearsley	ak@hardmanandco.com

Mining

Ian Falconer	if@hardmanandco.com
Stephen Thomas	st@hardmanandco.com

Property

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Services

Adrian Kearsley	ak@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Bonds

Brian Moretta	bm@hardmanandco.com
Mike Foster	mf@hardmanandco.com

Financials

Brian Moretta	bm@hardmanandco.com
---------------	---------------------

Meditech & Healthcare

Mark Brewer	mb@hardmanandco.com
Martin Hall	mh@hardmanandco.com

Oil & Gas

Stephen Thomas	st@hardmanandco.com
Mark Parfitt	mp@hardmanandco.com

Social Impact

Mike Foster	mf@hardmanandco.com
-------------	---------------------

Special Situations

Steve Clapham	sc@hardmanandco.com
---------------	---------------------

Technology

Paul Morland	pm@hardmanandco.com
--------------	---------------------

Disclaimers

Information in this publication may or may not have been prepared by London Stock Exchange Group plc and/or its group undertakings (“LSEG”), but is made available without responsibility on the part of LSEG. All information provided by LSEG (“Information”) in this publication is provided “as is” and on an “as available” basis without warranty of any kind. No responsibility is accepted by or on behalf of LSEG for any errors, omissions, or inaccurate information. To the extent permitted by applicable law, LSEG expressly disclaims all liability howsoever arising whether in contract, tort (or deceit) or otherwise (including, but not limited to, liability for any negligent act or omissions) to any person in respect of any claims or losses of any nature, arising directly or indirectly from: (i) anything done or the consequences of anything done or omitted to be done wholly or partly in reliance upon the whole or any part of the publication and/or Information; and (ii) the use of this publication and/or the Information.

Information in this publication does not constitute an offer to buy or sell, or a solicitation of an offer to sell, any securities, and is not offered as advice on any particular matter and must not be treated as a substitute for specific advice. In particular, Information in the publication does not constitute professional, financial or investment advice and must not be used or relied on as a basis for making investment decisions and is in no way intended, directly or indirectly, as an attempt to market or sell any type of securities or financial instrument. Advice from a suitably qualified professional should always be sought in relation to any particular matter or circumstances.

Third party advertisements are clearly labelled as such. LSEG does not endorse and is not responsible for the content of any third party advertisement in this publication or otherwise.

“London Stock Exchange”, the Coat of Arms device and ORB are registered trademarks of London Stock Exchange plc. No part of these trademarks, or any other trademark owned by LSEG can be used, reproduced or transmitted in any form without express written consent by the owner of the trademark.

© October 2013

London Stock Exchange Group plc
10 Paternoster Square
London
EC4M 7LS

Source: FTSE International Limited (“FTSE”) © FTSE 2013. FTSE® is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. All rights in the FTSE indices and / or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and / or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE’s express written consent.

Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the Financial Conduct Authority under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

Hardman & Co provides professional independent research services and one or more of the companies mentioned or covered pay us a set fee in order for research to be made available. The conclusions and opinions expressed in this report reflect the views of the analysts named on the front page. Whilst every reasonable effort has been made to ensure that the information in the research is correct, this cannot be guaranteed. The report is intended to be clear, fair and not misleading.

Hardman & Co has a personal dealing policy which debars staff and consultants from dealing in shares, bonds or other related instruments of companies which pay Hardman for any services, including research. They may be allowed to hold such securities if they were owned prior to joining Hardman or if they were held before the company appointed Hardman. In such cases sales will only be allowed in limited circumstances, generally in the two weeks following publication of figures.

Hardman & Co does not buy or sell shares, either for its own account or for other parties and neither does it undertake investment business. We may provide investment banking services to corporate clients.

Hardman & Co does not make recommendations. Accordingly we do not publish records of our past recommendations. Where a Fair Value price is given in a research note this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share or bond price. Hardman & Co may publish further notes on these securities/companies but has no scheduled commitment and may cease to follow these securities/companies without notice.

This research is provided for the use of the professional investment community, market counterparties and sophisticated and high net worth investors as defined in the rules of the regulatory bodies. It is not intended to be made available to unsophisticated or retail investors. Anyone who is unsure of their categorisation should consult their professional advisors. Hardman & Co cannot engage in discussion about this note with non-professional investors.

This research is neither an offer, nor a solicitation, to buy or sell any security. Past performance of a security is not necessarily a guide to the future and the price of shares and bonds, and the income derived from them, may fall as well as rise and the amount realised may be less than the original sum invested. Shares quoted on the Alternative Investment Market (AIM) are subject to a lighter regulatory regime than those on the main

market and may, thus, be subject to more risk. Furthermore AIM shares may not be as marketable as those on the main market.

In some cases research is only issued electronically, whilst in other cases printed research will be received by those on our distribution lists later than those subscribing to research electronically. This report may not be reproduced in whole or in part without prior permission from Hardman & Co.

*Follow us on Twitter
@HardmanandCo*

*Follow us on youTube
www.youtube.com/user/hardmanandco*

Hardman & Co

11/12 Tokenhouse Yard
London
EC2R 7AS
United Kingdom

Tel: +44(0)20 7929 3399
Fax: +44(0)20 7929 3377

www.hardmanandco.com

