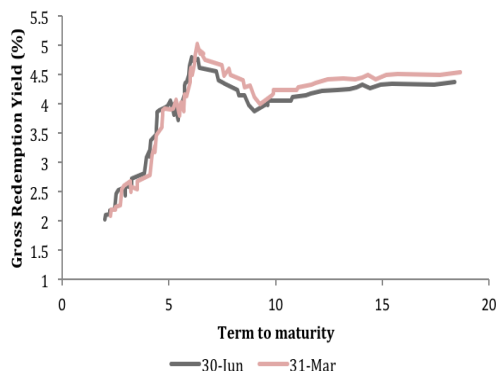


## Steady progress for the ORB

- Over quarter, FTSE ORB index rose by 2.2%
- One new issue in the quarter raising £100m - strong investor demand again leads to another early closure

## Yield curve changes over quarter



Source: London Stock Exchange, Hardman & Co

## RETAIL BOND REVIEW No. 5

- Retail Charity Bonds: in this edition we focus on the recent initiative to fund charities through retail bonds.
- Retail Charity Bonds PLC has been created by Allia to issue bonds onto ORB with the proceeds being passed to charities. The first issue has been funded, with Golden Lane Housing, a Mencap creation, raising £11m.
- We note that there are already two bonds issued onto ORB which come from organisations with the primary aim of supplying a social benefit.
- There are some charity bonds in existence and we look at the business models which back these. As well as the rented property model there is an example which has been used to fund expansion of a charity shops chain.
- 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.

## Introduction

This is the fifth 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 the new Retail Charity Bond initiative and what investors may see from it.

## 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: Retail Charity Bonds

### Executive Summary

*New initiative may see a different sort of retail bond*

One of the more interesting announcements in early June was the creation of Retail Charity Bonds, a platform which will allow charities to borrow money through bonds that are ultimately listed on ORB. At the end of the month the first issue, from Golden Lane Housing, was launched. While Charity Bonds have been around a little longer than ORB, they are still uncommon and little known. Here we look at some of those issued to date and what we might see coming to ORB in the near future.

### What is Retail Charity Bonds?

Retail Charity Bonds plc (RCB) is a special purpose vehicle that is an initiative of Allia, a charitable community benefit society, in conjunction with Cannacord Genuity. The idea is that RCB be the actual issuer of any bonds, with the proceeds being passed to the individual charities. As far as we can tell the intention is that bonds will be conventionally structured and will offer 'market-related returns'. The first issue, from Golden Lion Housing, appears to fit these criteria and we discuss it further below.

This initiative has a couple of obvious virtues. There has been a lot of discussion about how to invest in projects that have social benefit. While there has been some progress, it has been limited and this may provide a better route to market for many projects. In particular it will bring some liquidity for investors, which has been very limited in earlier attempts. The second virtue is that there currently seems to be significant untapped demand for bonds from retail investors. As we have noted in previous issues of the Retail Bond Review, the pace of new ORB issues has been much slower over the last year than it was previously. Those bonds that have been issued have closed their order books early under strong investor demand. This initiative could help fill that gap.

Of course, it is hardly a panacea for charities or investors. One of the reasons for slow progress in previous initiatives is that the primary aim of charities is not revenue generation, raising obvious questions about how interest or capital might be repaid. We'll see in the examples below how this has been addressed.

### Socially beneficial bonds already on ORB

Some investors may not have realised that there are already bonds listed on ORB that have been issued by organisations who, while not charities, have the aim of providing a social benefit. Places for People and A2Dominion (via A2D Funding) are Registered Providers (housing associations) who have issued 3 ORB bonds between them. These bonds have been issued on commercial terms, with their slightly lower than average yields reflecting the financial strength of the organisations. This is a consequence of the conservative way that these organisations are run compared to comparable commercial companies.

These would seem to be natural organisations to consider funding by bond issues. They need capital to invest in affordable housing and receive a steady rental income from their properties. So long as they don't take on too much borrowing it is relatively easy to structure a bond that is attractive to investors. To illustrate this the A2D Funding issue in October 2013, despite having a larger size and lower yield than most recent retail bond issues, was closed early due to strong investor demand.

### **Other charity bonds**

The recent bond from Golden Lane Housing (GLH) is not their first experience of bond issuance as they have already issued two of the higher profile examples. Established by Mencap in 1998, it works with people with a learning disability to provide supported housing around which they can build their lives. They have invested £83m in 400 properties, with another 275 that are leased and 25 that they manage. Typically it costs around 10% of the purchase price to bring a property into line with their required standard.

In 2003 it was one of the first charities to issue a bond, raising £1.8m via a 10 year bond which was repaid last year. Given GLH only had net assets of £280,000 at the time this was very significant for it. Earlier this year it did a second issue, raising £10m over 5 years at 4% p.a. This bond can be traded on a matched bargain basis via Ethex. We understand liquidity is very limited.

The security of these bonds is very similar to the housing associations – investing in property and repaying the borrowings using a secure rental stream. Like all the other bonds mentioned so far they have, understandably, been unsecured.

A different example is that of Scope. In October 2011 they announced a £20m bond programme. This was set up under a Medium Term Note system in Luxembourg, which allowed for investor liquidity and gave them the flexibility to issue bonds in tranches. The initial, and so far only, issue was for £2m over the first six months of the programme with a 3 year maturity. The capital was again unsecured and the coupon was 2% p.a. The low coupon would suggest a charitable element to the investment decision, though the yield was not much lower than comparable retail bonds at the time.

The stated objective was to invest the proceeds to expand the 'unrestricted income' of Scope, specifically through new charity shops. Each of these cost around £50,000 or less to acquire leases on, fit out and get ready for trading. We understand that each shop generates (once fully established) £20,000 net surplus per annum or more. There was also an aim to improve Gift Aid income by locating the new shops in areas with different demographics from the existing portfolio. During the eighteen months after the fundraising 13 shops were opened, with a plan to expand by about 40 in total.

Prior to the expansion Scope had total income of around £100m p.a., of which £23m came from its charity shops. With a payback period of around two and half years on the investment in new shops and established annual income well beyond the capital borrowed there is a clearly a sound case for both Scope to

borrow and investors to feel secure in their investment. The business plan behind it could be a model for other charities looking to grow their funding base.

### **The first Retail Charity Bond**

As we indicated earlier, towards the end of June the first issue by Retail Charity Bonds was announced, with the net proceeds going to GLH. The terms of the bond are slightly unusual for ORB, with an option to extend the bond beyond its intended redemption date. The basic terms are a 4.375% coupon with a maturity date of 29 July 2021. GLH has the option to extend the maturity date by two years, to 29 July 2023, but for those final two years the coupon will be raised to 5.375% i.e. an extra 1.000%. The targeted amount was £11m, and this was raised comfortably with the book closing two weeks early.

The net proceeds of the fund raising will be passed by RCB to GLH in the form of a loan. The bond holders will have limited recourse to RCB, otherwise a default on a loan by one charity might affect other issues. GLH intends to use the funds raised to purchase properties for rental, in the same way that it has for the other bonds it has issued.

### **Other models**

Allia already has a track record in this area. It has a bond programme for charities where the proceeds are invested with Places for People at a commercial mortgage rate. The interest is split between the investor and a charity, with the latter being responsible for the promotion of it.

This is a variation on the charity bonds promoted by some building societies, who typically pay a normal interest rate to the investor and also give 25bps or so to the charity concerned.

The other model much mentioned in the same context is social impact bonds. These have a very different structure, where an organisation invests in services and gets paid on the basis of an improved outcome. The first example (in September 2010) raised £5m to be spent over 6 years to improve reoffending rates for short term prisoners in Peterborough. So, for example, a 10% reduction in reoffending would result in 7.5% annualised return.

It should be noted that for Social Impact Bonds there is no guaranteed capital return and a reduction in reoffending of less than 7.5% would have seen impairment of the investment. As such the investment is perhaps more equity than bond in its nature. As such it is unlikely we will see any of these coming to ORB soon.

It can be seen that obtaining funding via ORB will bring several advantages to investors over the existing options. The main one is that of liquidity, with the presence of market makers and an established retail forum of great help. If bonds are as small as the GLH one though then liquidity is likely to be limited for larger investors, but larger bonds should trade similarly to existing issues. There are also regulatory advantages, such as ISA eligibility and the higher regulatory

standards that being listed demands. These may help give investors greater confidence in RCB issues on ORB compared to other channels.

### **Funds**

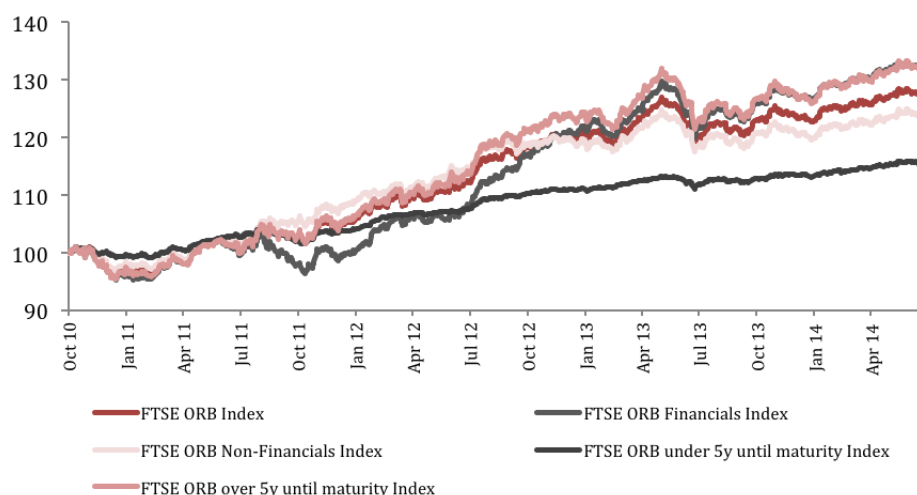
Both Deutsche Bank and Threadneedle Investments have created funds to invest in these areas as well. The size of both remains small, which given the limited assets available for investment may be just as well. But if we see growth in the Charity Bond market it is likely that we will see them grow or have more competition.

### **Demand from Charities**

It will probably come as a surprise to many that charities are able to borrow money. They can, and to date have primarily used banks. Like many, they have found this market more difficult over the last few years. While the recent easing of lending conditions may mean we are past the most difficult times, any broadening of funding sources will be welcomed. It will be interesting to see how this market segment develops.

## Market Performance

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



Source: FTSE, Hardman & Co

The second quarter of 2014 saw the markets defy the expectations of pundits yet again with a rise in the FTSE ORB Index of 2.2%. The gains came in April and May as the market made steady progress. June was flatter, with the rise in interest rate expectations roughly offset by accrued income. The recent pattern of financials and longer dated bonds outperforming continued, with short dated bonds in particular falling back in June as rises in base rates loomed closer.

## Index Data tables

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

Index	No Issues	Nominal £bn	Performance to 30/06/14 (%)			
			3M	6M	12M	36M
FTSE ORB Index	83	21.18	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

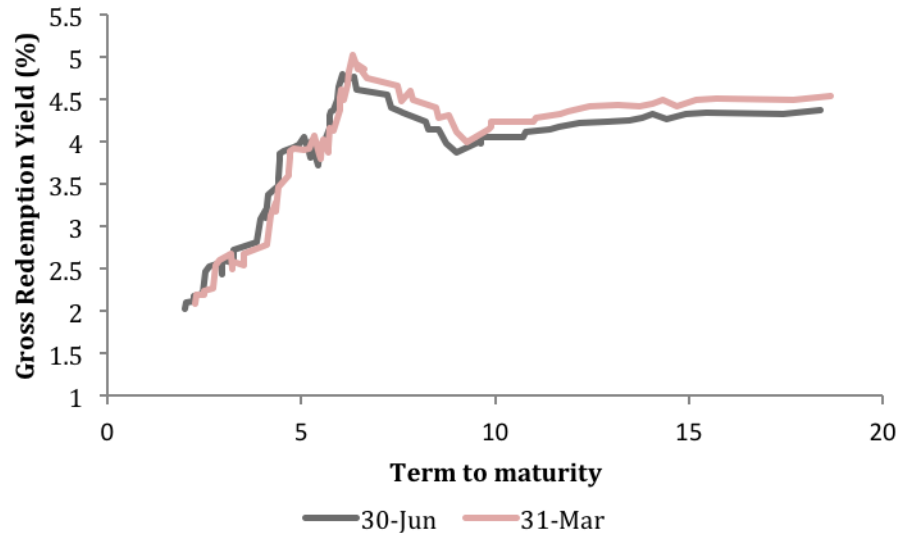
Index	Gross redemption yield (%) *			Modified Duration *		
	3mths ago	Now 30/6/14	– change	3mths ago	Now 30/6/14	– change
	FTSE ORB Index	4.10	3.97	-0.13	6.72	6.64
FTSE ORB Financials Index	4.32	4.18	-0.14	6.80	6.72	-0.08
FTSE ORB Non-Financials Index	3.92	3.80	-0.12	6.67	6.58	-0.09
FTSE ORB under 5y until Maturity Index	2.79	2.75	-0.04	3.08	2.98	-0.10
FTSE ORB over 5y until Maturity Index	4.30	4.16	-0.14	8.23	8.25	0.02

\*See glossary



## Yield Curve

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



Source: FTSE, Hardman & Co

The second quarter of 2014 continued the pattern of the previous few months with the yield curve flattening as the long and short ends of the curve moved in different directions. The short end saw yields rise as market participants brought forward their expected date of the first rise in base rates. The long end was dominated by a compression in credit spreads as confidence in the recovery of UK economy improved.

Gilt yields showed a similar pattern of changes to the retail bond market. Yields at the shorter end rose by up to 30bps. At the longer end there was a slight fall in rates, but only by a handful of basis points.

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. This brings the total amount raised during the first half of 2014 to £225m.

**Figure 3: New corporate bond issues 1/4/14 to 30/6/14**

Company	Date Listed	Issue Size (£m)	Maturity Date	Coupon
Ladbrokes	16 Jun 2014	100	16 Sep 2022	5.125%

*Source: London Stock Exchange*

This was the first retail bond issued by Ladbrokes and the first from a company in the Travel & Leisure sector. As with all the bonds issued since last summer orders reached the required level very quickly and offer was closed earlier than planned.

As discussed in the main article there was a new issue from Golden Lane Housing which closed after the quarter end. It raised £11m and also closed 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

The second quarter of 2014 saw some changes in expectations in Europe and the UK as their economies continued to diverge significantly.

*UK interest rate rise expected in 2014*

In the UK a solid first quarter GDP figure has been revised upwards to an annualised growth rate of 3%, driven by increased business investment. While perhaps not sustainable for the full year, it has suggested that the UK is leading the recovery in the developed world. This has had the effect of changing interest rates expectations, with the Bank of England hinting that base rates may now start to rise this year. The effect on the long term interest rates has been muted by suggestions that the new normal may be more like 2.5% than 5%. Ten year gilts actually finished the quarter with a marginally lower yield of 2.67% (compared to 2.74% at the start.) The two year yield rose though, from 0.71% to 0.87%.

This has also had an effect on exchange rates, with sterling reaching an 8 year high against the US dollar and the trade weighted index reaching multi-year highs too. Although the UK is not as dependent on exports as it once was, this is now something of a headwind to the ongoing recovery.

*ECB uses negative deposit rates*

In contrast monetary policy in the Eurozone is moving in the opposite direction. Their policy statement in June included a range of measures, the most radical of which was a negative interest rate on bank deposits held at the ECB. The rate was reduced from zero to -0.1% in an attempt to encourage banks to lend more. The benchmark interest rate was also cut from 0.25% to 0.15%, a level the ECB president sees as continuing for some time. He also made a firm statement that there is more that the ECB will do if necessary. Although some economies within

the Eurozone are recovering, as whole it is still struggling with growth and inflation clearly lower than the ECB is comfortable with.

*US taper continues  
while GDP  
disappoints*

US monetary policy continued on a steady course over the quarter despite disappointing economic news. Quantitative easing purchases have continued to be reduced at the rate of \$10bn each Federal Reserve meeting and the July figure will be \$35bn. The reduction appears to have had little effect on bond yields, possibly as expectations for the first interest rise have been firmly put back to at least 2015. The main reason for this has been disappointing GDP growth. While the negative figure for the first quarter was widely attributed to bad weather, early indications are that there has not been sizeable rebound in the second quarter which that theory would suggest.

While employment within the US continues to grow, Janet Yellen has cited the lack of wage pressure as a sign that the recovery is still fragile. With people who had previously left the job market now returning it would seem that upward pressure on wages is likely to remain weak. Even if GDP growth bounces back, interest rate rises are unlikely to follow on quickly from the end of QE.

*Chinese measures  
bearing fruit*

After some concerns about the state of the Chinese economy earlier in the year the government there has taken some measures to stimulate the economy. These included targeted reserve requirements for banks, quicker fiscal disbursements and faster building of public sector infrastructure and housing projects. This appears to have had an immediate effect on the economy, with several indicators in June showing improvement. While this does not remove all concerns, it does demonstrate some robustness in the Chinese economy.

On the ORB the most interesting announcement has been the introduction of Retail Charity Bonds, which we discuss fully in the main article of this edition.

## 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 30<sup>th</sup> June 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 Oct 14	6 month	105.285	4.51	4.03	6.93	3407012
ALPHA PLUS HOLDINGS PLC ALPHA PLUS 19	XS0853358801	18 Dec 19	5.75	18 Dec 14	6 month	105.56	5.45	4.64	4.77	1030249
ANGLIAN WATER SERVICES FINANCING PLC ANG.W.S.F.5.25%	XS0211684831	30 Oct 15	5.25	30 Oct 14	12 month	105.575	4.97	0.99	1.28	1945760
ANGLIAN WATER SERVICES FINANCING PLC ANGLIANWTR6.875	XS0089553282	21 Aug 23	6.625	21 Aug 13	12 month	124.1	5.34	3.50	7.05	34516
ANHEUSER-BUSCH INBEV NV AB INBEV 6.50%	BE6000183549	23 Jun 17	6.5	23 Jun 15	12 month	113.185	5.74	1.90	2.81	14452682
AVIVA PLC AVIVA 6.125%36£	XS0138717441	14 Nov 36	6.125	14 Nov 14	12 month	109.23	5.61	5.40	12.73	5831372
B.A.T. INTERNATIONAL FINANCE PLC B.A.T.IF6.375%	XS0182188366	12 Dec 19	6.375	12 Dec 14	12 month	117.295	5.44	2.89	4.69	1473807
BARCLAYS BANK PLC BARCLAYS.5.75%	XS0134886067	14 Sep 26	5.75	14 Sep 14	12 month	109.305	5.26	4.73	8.88	14210936
BEAZLEY PLC BEAZLEY 5.375%	XS0827693663	25 Sep 19	5.375	25 Sep 14	6 month	104.775	5.13	4.39	4.58	1296678
BP CAPITAL MARKETS PLC BP CAP. 14	XS0436300247	29 Dec 14	4	29 Dec 14	12 month	101.54	3.94	0.88	0.50	7536598
BRITISH TELECOMMUNICATIONS PLC BR.TEL.5.75%BDS28	XS0097283096	07 Dec 28	5.75	07 Dec 14	12 month	115.4	4.98	4.29	10.22	10095066
BRITISH TELECOMMUNICATIONS PLC BR.TEL.8.625%	XS0052067583	26 Mar 20	8.625	26 Mar 15	12 month	129.235	6.67	2.99	4.81	3024273
BRITISH TELECOMMUNICATIONS PLC BRIT.TEL.NTS16	XS0123682758	07 Dec 16	7.5	07 Dec 14	12 month	115.3	6.51	1.10	2.25	12359784
BRUNTWOOD INVESTMENTS PLC BRUNTWOOD 6%	XS0947705215	24 Jul 20	6	24 Jul 14	6 month	107.675	5.57	4.59	5.08	1911540
CLS HOLDINGS PLC CLS HDGS 19	XS0820711215	31 Dec 19	5.5	30 Dec 14	6 month	104	5.29	4.72	4.83	1365714
COMPASS GROUP PLC COMPASS 7%BDS14	XS0100559037	08 Dec 14	7	08 Dec 14	12 month	102.7	6.82	0.80	0.44	1061370
DAILY MAIL & GENERAL TRUST PLC DMGT.5.75%18	XS0170485204	07 Dec 18	5.75	07 Dec 14	12 month	111.025	5.18	3.05	3.95	1389328
EASTERN GROUP EAST.GP.8.5%2025	XS0058209106	31 Mar 25	8.5	31 Mar 14	12 month	138.62	6.13	4.00	7.86	162789
EASTERN POWER NETWORKS PLC EAST.POWER5.75%	XS0187202303	08 Mar 24	5.75	08 Mar 15	12 month	115.045	5.00	3.86	7.72	5856754
ENQUEST PLC ENQUEST 22	XS0880578728	15 Feb 22	5.5	15 Aug 14	6 month	102.85	5.35	5.11	6.22	6382703
ENTERPRISE INNS PLC ENTER INNS 2018	XS0163019143	06 Dec 18	6.5	06 Dec 14	6 month	108.7	5.98	4.37	3.93	11834742
EUROPEAN INVESTMENT BANK EIB 3% 2015	XS0497463777	07 Dec 15	3	07 Dec 14	12 month	102.95	2.91	0.92	1.41	87769432
EUROPEAN INVESTMENT BANK EURO.I.BK.16	XS0602217159	07 Dec 16	3.25	07 Dec 14	12 month	104.4	3.11	1.40	2.35	37453492

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
EUROPEAN INVESTMENT BANK EURO.IV.8.75	XS0055498413	25 Aug 17	8.75	25 Aug 14	12 month	121.45	7.21	1.70	2.75	1298512
FIRSTGROUP PLC FIRSTGROUP6.125	XS0181013607	18 Jan 19	6.125	18 Jan 15	12 month	110.36	5.55	3.61	4.03	4665988
GE CAPITAL UK FUNDING GE CAP.UK 18	XS0381559979	06 Aug 18	6.75	06 Aug 14	12 month	116.68	5.79	2.42	3.56	1471853
GE CAPITAL UK FUNDING GE CAP.UK 33	XS0340495216	18 Jan 33	5.875	18 Jan 15	12 month	121.84	4.82	4.16	12.19	77398
GE CAPITAL UK FUNDING GE CAP.UK5.625%	XS0297507773	25 Apr 19	5.625	25 Apr 15	12 month	112.94	4.98	2.72	4.34	4068535
GKN HOLDINGS PLC GKN 6.75% BDS19	XS0103214762	28 Oct 19	6.75	28 Oct 14	12 month	115.995	5.82	3.41	4.52	2838854
GLAXOSMITHKLINE CAPITAL PLC GLAXOSMSC 5.25%	XS0140516864	19 Dec 33	5.25	19 Dec 14	6 month	116.01	4.53	4.09	12.94	750388
HAMMERSON PLC HAMMERSON 6%26	XS0184639895	23 Feb 26	6	23 Feb 15	12 month	117.785	5.09	4.05	8.81	211699
HAMMERSON PLC HAMMERSON 7.25%28	XS0085732716	21 Apr 28	7.25	21 Apr 15	12 month	129.995	5.58	4.32	9.67	1600532
HAMMERSON PLC HAMMERSON6.875%	XS0109514538	31 Mar 20	6.875	31 Mar 14	12 month	118.805	5.79	3.23	4.94	845968
HELICAL BAR PLC HELICAL B.20	XS0942129957	24 Jun 20	6	24 Dec 14	6 month	106.025	5.66	4.89	5.13	1944850
HSBC BANK PLC HSBC BK.5.375%	XS0174470764	22 Aug 33	5.375	22 Aug 14	12 month	107.025	5.02	4.80	12.13	1138081
HSBC BANK PLC HSBC BK.6.5%NT2	XS0088317853	07 Jul 23	6.5	07 Jul 15	12 month	117.675	5.52	4.11	6.89	2850524
ICAP PLC ICAP 5.50%	XS0805454872	31 Jul 18	5.5	31 Jul 14	6 month	106.55	5.16	3.79	3.64	4728853
IMPERIAL TOBACCO FINANCE PLC IMP.TOB.FIN.6.25%	XS0180407602	04 Dec 18	6.25	04 Dec 14	12 month	114.16	5.48	2.80	3.91	1152936
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP	XS0716336325	21 Dec 18	7	21 Dec 14	6 month	108.78	6.44	4.85	3.93	318215
INTERMEDIATE CAPITAL GROUP PLC INT.CAP.GRP20	XS0818634668	19 Sep 20	6.25	19 Sep 14	6 month	107.3	5.83	4.93	5.20	2049702
INTERNATIONAL PERSONAL FINANCE PLC INTER.PERS.20	XS0919406800	08 May 20	6.125	08 Nov 14	6 month	104.325	5.87	5.32	4.98	4721969
KINGFISHER PLC KINGFISHER5.625	XS0178322474	15 Dec 14	5.625	15 Dec 14	12 month	102.03	5.51	1.16	0.46	213215
LADBROKES GROUP FINANCE PLC LADBROKES GP.22	XS1066478014	16 Sep 22	5.125	16 Sep 14	6 month	102.95	4.98	4.69	6.73	NA
LBG CAPITAL NO.1 PLC LBG CAP 1 19	XS0459086749	12 May 20	3.794	17 Jun 15	12 month	109	3.48	2.14	5.37	1825801
LBG CAPITAL NO.1 PLC LBG CAP 1 20	XS0459086582	12 May 20	7.975	12 May 14	6 month	108.5	7.35	6.22	4.80	7178058
LBG CAPITAL NO.2 PLC LBG CAP 2 20	XS0459088109	07 Feb 20	9.334	07 Feb 15	12 month	111.75	8.35	6.73	4.53	1242718
LEGAL & GENERAL FINANCE PLC LEG&GEN.5.875%	XS0121464779	11 Dec 31	5.875	11 Dec 14	6 month	120.455	4.88	4.25	11.71	802
LLOYDS BANK PLC LLOYDS 5.375%	XS0517466198	07 Sep 15	5.375	07 Sep 14	6 month	104.465	5.15	1.54	1.14	1366257
LLOYDS BANK PLC LLOYDS BK 5.50%	XS0604804194	25 Sep 16	5.5	25 Sep 14	6 month	107.74	5.11	1.94	2.10	1152623
LLOYDS BANK PLC LLOYDS BK. 25	XS0503834821	22 Apr 25	7.625	22 Oct 14	6 month	126.125	6.05	4.59	7.85	5331247

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
LLOYDS BANK PLC LLOYDS BK.6.625	XS0109722990	30 Mar 15	6.625	30 Mar 14	12 month	103.5	6.40	1.86	0.75	5331063
LLOYDS BANK PLC LLOYDS BK.9.625%	XS0043098127	06 Apr 23	9.625	06 Apr 13	12 month	136.205	7.07	4.52	6.57	2235282
LONDON POWER NETWORKS PLC LONDON POW.27	XS0148889420	07 Jun 27	6.125	07 Jun 15	12 month	118.7	5.16	4.22	9.59	104761
LONDON STOCK EXCHANGE GROUP PLC LON.STK.EX21	XS0846486040	02 Nov 21	4.75	2 Nov 14	6 month	106.5	4.46	3.76	6.27	11372135
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID 5.875%	XS0094073672	02 Feb 24	5.875	02 Feb 14	12 month	118.37	4.96	3.57	7.62	3347307
NATIONAL GRID ELECTRICITY TRANSMISSION PLC NAT.GRID6.50%£	XS0132735373	27 Jul 28	6.5	27 Jan 15	12 month	125.995	5.16	4.04	9.69	7261647
NATIONAL GRID GAS PLC NAT.GRD.G 6%	XS0141704725	07 Jun 17	6	07 Jun 15	12 month	111.72	5.37	1.85	2.77	839041
NORTHUMBRIAN WATER FINANCE PLC NTHNBN.WTR.6%17	XS0139335029	11 Oct 17	6	11 Oct 14	12 month	112.195	5.35	2.10	2.97	5699994
PARAGON GROUP OF COMPANIES PLC PARAGON GP20	XS0891023086	05 Dec 20	6	05 Sep 14	6 month	105	5.71	5.11	5.18	2322806
PARAGON GROUP OF COMPANIES PLC PARGN 6.125%	XS1018830270	30 Jan 22	6.125	30 Jul 14	6 month	103.75	5.90	5.59	6.05	7694043
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 5%	XS0635014177	27 Dec 16	5	27 Dec 14	6 month	106.8	4.68	2.18	2.37	2875317
PREMIER OIL PLC PREMIER OIL20	XS0997703250	11 Dec 20	5	11 Dec 14	6 month	102.75	4.87	4.55	5.58	7533259
PRIMARY HEALTH PROPERTIES PLC PRIMARY HLTH 19	XS0795445823	23 Jul 19	5.375	23 Jul 14	6 month	103.675	5.18	4.59	4.43	2540011
PROVIDENT FINANCIAL PLC PROV.FIN 7% 17	XS0762418993	04 Oct 17	7	04 Oct 13	6 month	107.775	6.50	4.46	2.93	2364783
PROVIDENT FINANCIAL PLC PROV.FIN 7.5%	XS0605672558	30 Sep 16	7.5	30 Sep 13	6 month	107.225	7.00	4.13	2.08	1168139
PROVIDENT FINANCIAL PLC PROV.FIN6%21	XS0900863084	27 Sep 21	6	27 Sep 14	6 month	107.9	5.56	4.75	5.94	2295676
PROVIDENT FINANCIAL PLC PROVIDENT 7.00%	XS0496412064	14 Apr 20	7	14 Oct 14	6 month	112.025	6.25	4.66	4.85	606085
PRUDENTIAL PLC PRU.6 7/8%2023	XS0083544212	20 Jan 23	6.875	20 Jan 15	12 month	124.335	5.53	3.52	6.79	658010
ROLLS-ROYCE PLC ROLLS-R 7.375%	XS0112487482	14 Jun 16	7.375	14 Jun 15	12 month	111.1	6.64	1.54	1.88	336508
ROYAL BANK OF SCOTLAND PLC ROY.BK.SC.20	GB00B3N3WC23	01 Feb 20	5.1	01 Feb 14	12 month	110.02	4.64	3.11	4.94	1042398
SAFEWAY PLC SAFEWAY 6.00%	XS0140144204	10 Jan 17	6	10 Jan 15	12 month	107.75	5.57	2.77	2.36	3329951
SAFEWAY PLC SAFEWAY 6.125%	XS0093004736	17 Dec 18	6.125	17 Dec 13	12 month	110.7	5.53	3.48	3.94	2440751
SAFEWAY PLC SAFEWAY 6.5%NT14	XS0100362911	05 Aug 14	6.5	05 Aug 14	12 month	100.4	6.46	2.24	0.10	556636
SCOTTISH POWER UK PLC SCOT.PWR.UK8TE%	XS0073359548	20 Feb 17	8.375	20 Feb 15	12 month	115.69	7.24	2.17	2.42	2699465
SEGRO PLC SEGRO 6%19	XS0179346274	30 Sep 19	6	30 Mar 14	6 month	114.175	5.26	3.08	4.57	30290

Name	ISIN	Maturity Date	Coupon Value	Next Coupon	Period of Coupon	Price	Flat Yield %	GRY (%)	Duration (years)	Liquidity (£)
SEGRO PLC SEGRO. 6.25%	XS0093802055	30 Sep 15	6.25	30 Sep 14	12 month	105.525	5.92	1.71	1.19	586827
SEGRO PLC SEGRO.5.75	XS0221324154	20 Jun 35	5.75	20 Jun 15	12 month	115.7	4.97	4.57	13.28	101942
SEGRO PLC SEGRO.6.75	XS0107099466	23 Feb 24	6.75	23 Aug 14	6 month	123.075	5.48	3.90	7.37	455375
SEGRO PLC SEGRO5.50%	XS0221323693	20 Jun 18	5.5	20 Jun 15	12 month	110.025	5.00	2.79	3.68	836508
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.125%	XS0094475802	26 Feb 24	6.125	26 Feb 15	12 month	119.04	5.15	3.74	7.63	1465382
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T.6.25%BD	XS0097777253	07 Jun 29	6.25	07 Jun 15	12 month	123.14	5.08	4.14	10.60	2560060
SEVERN TRENT UTILITIES FINANCE PLC SEVERN T5.25%	XS0176529583	08 Dec 14	5.25	08 Dec 14	12 month	101.9	5.15	0.90	0.44	117792
SMITHS GROUP PLC SMITH IND 7.25%	XS0111725049	30 Jun 16	7.25	30 Jun 15	12 month	110.425	6.57	1.87	1.93	204678
SSE PLC SSE.5.875%	XS0095371638	22 Sep 22	5.875	22 Sep 14	12 month	117.735	4.99	3.37	6.63	5682588
ST.MODWEN PROPERTIES PLC ST.MODWEN 19	XS0841076465	07 Nov 19	6.25	07 Nov 14	6 month	108.575	5.76	4.48	4.62	1847952
TESCO PERSONAL FINANCE PLC TESCO PF 5%	XS0780063235	21 Nov 20	5	21 May 14	6 month	103.95	4.81	4.33	5.53	7022325
TESCO PERSONAL FINANCE PLC TESCO PF 5.2%	XS0591029409	24 Aug 18	5.2	24 Aug 14	6 month	105.93	4.91	3.68	3.73	2347054
TESCO PLC TESCO 6%NT29	XS0105244585	14 Dec 29	6	14 Dec 14	12 month	113.795	5.27	4.72	10.52	1287163
TESCO PLC TESCO5.50% NT19	XS0159013068	13 Dec 19	5.5	13 Dec 14	12 month	111.825	4.92	3.10	4.77	3526993
TULLETT PREBON PLC TULLETT 5.25%	XS0859261520	11 Jun 19	5.25	11 Dec 14	6 month	102.825	5.11	4.66	4.41	3660396
UBS AG UBS 16	XS0440316635	20 Jul 16	6.375	20 Jul 14	12 month	109.55	5.82	1.59	1.88	362617
UNILEVER PLC UNILEVER 4.00%	XS0418570130	19 Dec 14	4	19 Dec 14	12 month	101.48	3.94	0.83	0.47	7713929
UNILEVER PLC UNILEVER 4.750%	XS0434423926	16 Jun 17	4.75	16 Jun 15	12 month	108.775	4.37	1.68	2.83	3546611
UNITE GROUP PLC UNITE GRP 20	XS0856594642	12 Jun 20	6.125	12 Dec 14	6 month	106.7	5.74	4.87	5.09	2496360
UNITED UTILITIES WATER PLC UTD WTR. 5.375%	XS0168054673	14 May 18	5.375	15 May 14	12 month	110.61	4.86	2.46	3.58	1675526
UNITED UTILITIES WATER PLC UTD WTR.5.625%	XS0159728236	20 Dec 27	5.625	20 Dec 14	12 month	115.94	4.85	4.06	9.84	177266
VODAFONE GROUP PLC VODAFONE 5.90%	XS0158715713	26 Nov 32	5.9	26 Nov 14	12 month	118.095	5.00	4.44	11.92	2356423
VODAFONE GROUP PLC VODAFONE NTS25	XS0181816652	04 Dec 25	5.625	04 Dec 14	12 month	115.545	4.87	3.91	8.70	2323390
WESSEX WATER SERVICES FINANCE PLC WESSEX W.S.5.75	XS0178489844	14 Oct 33	5.75	14 Oct 14	12 month	119.06	4.83	4.28	12.34	134242
WORKSPACE GROUP PLC WORKSPACE 6%	XS0832324981	09 Oct 19	6	09 Oct 14	6 month	105.725	5.68	4.81	4.56	3007678

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



**Definitions**

Data as of 30/06/2014 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 2<sup>nd</sup> 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 Dec 14	6 month	103.00	5.92	5.913	17	1,858,503	Irredeemable
EUROPEAN INVESTMENT BANK EIB FRN 2015	XS0487944752	19 Feb 15	0.62	Variable	19 May 14	3 month	100.15	0.62			21,267,653	Variable Coupon rate
HSBC BANK PLC HSBC BK. 2.875%	XS0773551972	30 Apr 15	1.438	Fixed	30 Oct 14	6 month	100.00	1.44	1.437	1	-	Denominated in CNY
LEGAL & GENERAL GROUP PLC LEGAL&GEN.5.875	XS0189013823	Irredeemable	5.875	Fixed	01 Oct 14	6 month	108.15	5.43	5.428	18	15,649,508	Irredeemable
NATIONAL GRID PLC NAT.GRID BD 21	XS0678522490	06 Oct 21	1.25	Variable	06 Apr 13	6 month	109.58	1.14			6,383,499	Index-linked
NATIONWIDE BUILDING SOCIETY NATIONWIDE.PIBS	GB0001777449	Irredeemable	6.024	Fixed	06 Aug 14	6 month	105.46	5.71	5.710	18	2,194,496	Irredeemable
PLACES FOR PEOPLE CAPITAL MARKETS PLC PLACES PEO 1%	XS0731910765	31 Jan 22	1	Variable	31 Jul 14	6 month	103.35	0.97			2,153,829	Index-linked
RSA INSURANCE GROUP PLC RSA INS. 8.5%S	XS0197028714	Irredeemable	8.5	Fixed	08 Dec 14	12 month	103.38	8.20	8.215	12	10,803,542	Irredeemable
SEVERN TRENT PLC SEVERN T.22	XS0796078193	11 Jul 22	1.3	Variable	11 Jul 14	6 month	106.60	1.22			3,646,527	Index-linked
TESCO PERSONAL FINANCE PLC TESCO PF 1%	XS0710391532	16 Dec 19	1	Variable	16 Dec 14	6 month	103.20	0.97			2,252,783	Index-linked

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

THIS DOCUMENT IS THE FIFTH 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](mailto:research@hardmanandco.com)

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10 Paternoster Square  
London  
EC4M 7LS

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## 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
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### 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

#### Financials

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

#### Media

Derek Terrington	dt@hardmanandco.com
------------------	---------------------

#### Oil & Gas

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

#### Services

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

#### Special Situations

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

#### Bonds

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

#### Consumer & Leisure

Nigel Parson	np@hardmanandco.com
Mike Foster	mf@hardmanandco.com

#### Life Sciences

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

#### Mining

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

#### Property

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

#### Social Impact

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

#### Technology

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

#### 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](http://www.hardmanandco.com)

