

IFDS BROWN SHIPLEY STERLING BOND FUND
Institutional Investors Report

“A Risk Conscious Route to Income”

February 2010

For Professional Investors Only

This document should not be circulated to Retail Investors

Introduction

- ⊕ The aim of the **IFDS Brown Shipley Sterling Bond Fund** is to offer investors a “Risk Conscious Route to Income”. The fund seeks to achieve this aim by generating a highly competitive level of income, whilst seeking to preserve capital over the medium term. In tandem, the fund aims to deliver a low volatile experience for unit holders.
- ⊕ Specifically, the fund is mandated to be amongst the top decile of income generators within the IMA £ Corporate Bond sector, whilst preserving capital over the course of a complete interest rate cycle.
- ⊕ The Institutional Investors Report is designed to provide professional investors with a level of disclosure exceeding that displayed by the competition.

Should you have any questions or comments about the report or any other fund related matter, please do not hesitate to contact one of the team:



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Risk Warning

- ⊕ This report, which is issued by Brown Shipley & Co (BSCo), contains information gathered by fund managers and analysts at BSCo and is being provided to professional investors and advisors for information purposes only.
- ⊕ This information has been provided by BSCo as discretionary fund managers who may have acted upon it for their own purposes. It does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a recommendation for any investment.
- ⊕ Neither BSCo nor any of its officers or employees give any representation or warranty, nor will accept any liability, in relation to the accuracy or completeness of any information contained within this report.
- ⊕ The income and redemption yields on the fund may change over time, due to future changes in the average maturity date of the bonds held by the fund or changes in current or perceived future interest rates.
- ⊕ If the redemption yield is lower than the income yield, the investor is buying income at the expense of capital. As with all bond funds, there is a risk of default on either the income payment or capital payment or both by the underlying investments of the fund.
- ⊕ The value of investments and the income from them are not guaranteed and therefore investors may not get back the full amount invested. Past performance is no guarantee of future performance. The investment management charge on the fund is levied against the capital property, which may constrain capital growth.
- ⊕ A simplified prospectus is available from our website and a company prospectus can be obtained by calling the IFDS Brown Shipley helpline on 0870 043 4830. For security purposes, telephone calls may be monitored or recorded.
- ⊕ Registered office: Founders Court, Lothbury, London EC2R 7HE.



IFDS BROWN SHIPLEY STERLING BOND FUND
Market Review

“A Risk Conscious Route to Income”

February 2010

Gilt Curves

Though essentially unchanged over the course of the entire month, Gilt yields underwent something of a roller-coaster ride during February as the competing influences of Quantitative Easing and budgetary arithmetic vied for investors' attentions.

As is commonplace for the month of February, the Bank of England's *Inflation Report* dominated much of the early calendar. Despite current inflation readings continuing to show inflation measures ahead of target (sufficiently so to warrant a letter from the Governor to the Chancellor), the *Report* forecast CPI to be materially below the 2% rate at the end of the forecast horizon.

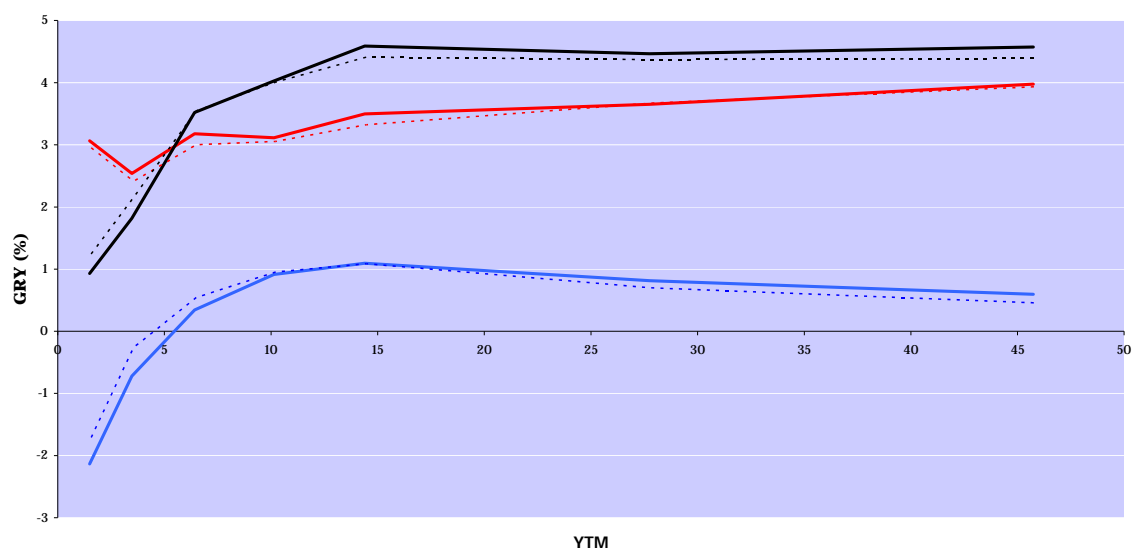
In response to the findings of the report, the MPC retained the pause on QE at £200bn, but refused to indicate such emergency measures were now at an end. Instead preferring to keep the market guessing, for some traders the fear of being caught the wrong side of the market prompted a rally in Gilt prices.

Such exuberance however was short lived. Data on the 18th February detailed the parlous state of the Government finances such that for the first time on record, the public sector net cash requirement (PSNCR) fell into a deficit for the month of January. Given the importance of the January tax collections to the overall "take", this news sparked a slight panic as to the validity of even the Government's near term fiscal projections.

Compounding the market nervousness, with the general election increasingly looming on the horizon, reports of a Labour party resurgence in opinion polls fuelled talk of a hung parliament. The uncertainty was unwelcome.

Real, Nominal and Implied Inflation Gilt Yield Curves

Source: Bloomberg



Recent: 26 February 2010
Historic: 31 January 2010

— Real Yield
- - - Real Yield (Historic)

— Implied Inflation
- - - Implied Inflation (Historic)

— Nominal Yield
- - - Nominal Yield (Historic)

Credit Spreads

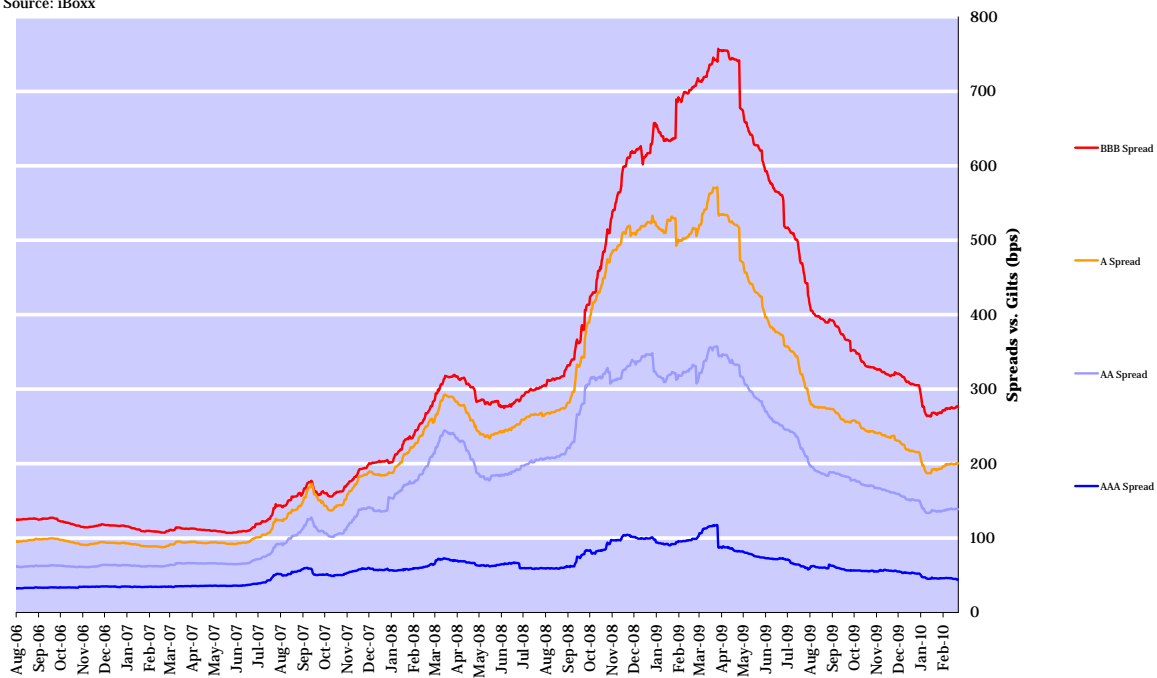
Post the “lung-busting” start to the New Year, February saw credit markets slow down in pace in order to catch some breath.

After such a strong start, it was perhaps inevitable that spreads could widen slightly. Representing the first concerted move wider since March 2009, during which time spreads on BBB-rated issues have declined by c.470bps, the 9bps of widening should not be seen as a material event.

It was surprising therefore to see issuers of corporate bonds deciding to pull planned issuance into the market. Whether this marks a belief of issuers that their bonds should trade at lower yields or the desire of investment bankers to protect their franchise remains to be seen, but for those issuers with the need to replace banking finance with more reliable sources of capital, we would expect these delays as mere pauses in the issuance pipeline.

Credit Spreads

Source: iBoxx





IFDS BROWN SHIPLEY STERLING BOND FUND

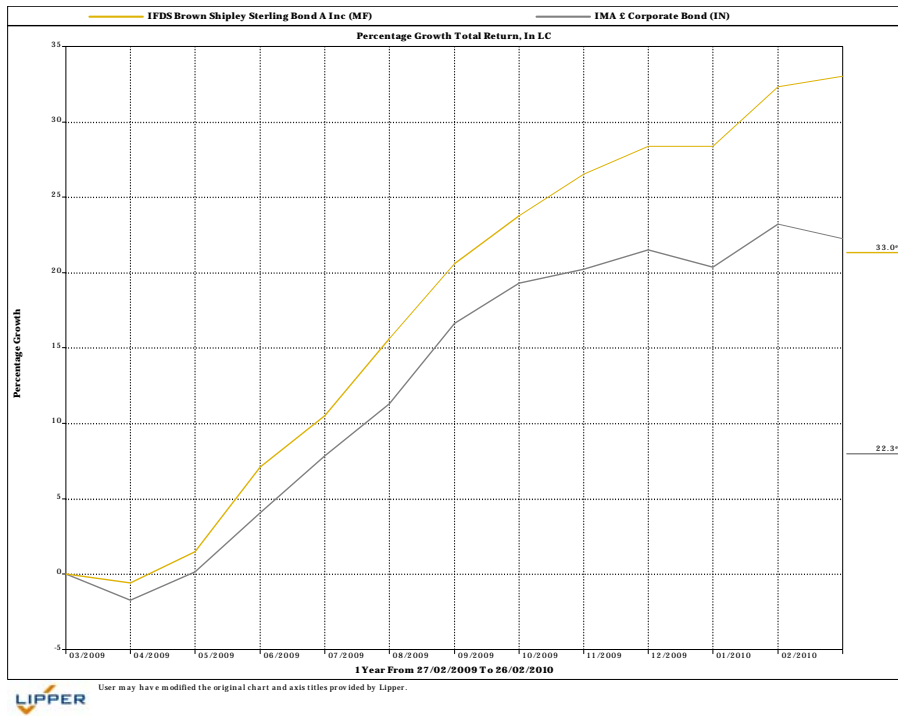
Performance Review

“A Risk Conscious Route to Income”

February 2010

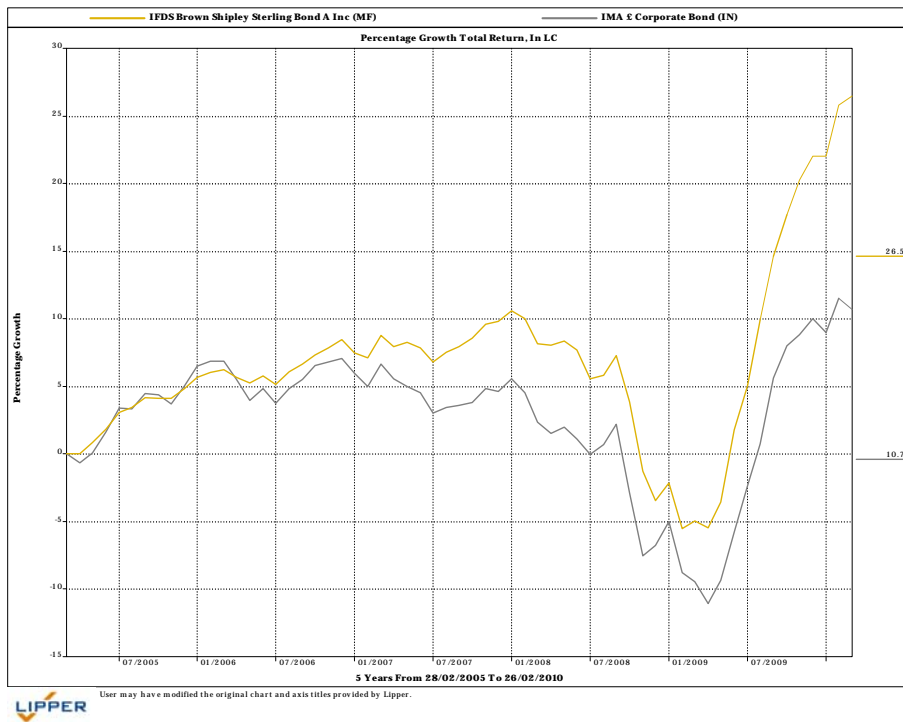
Performance Charts

1 Year



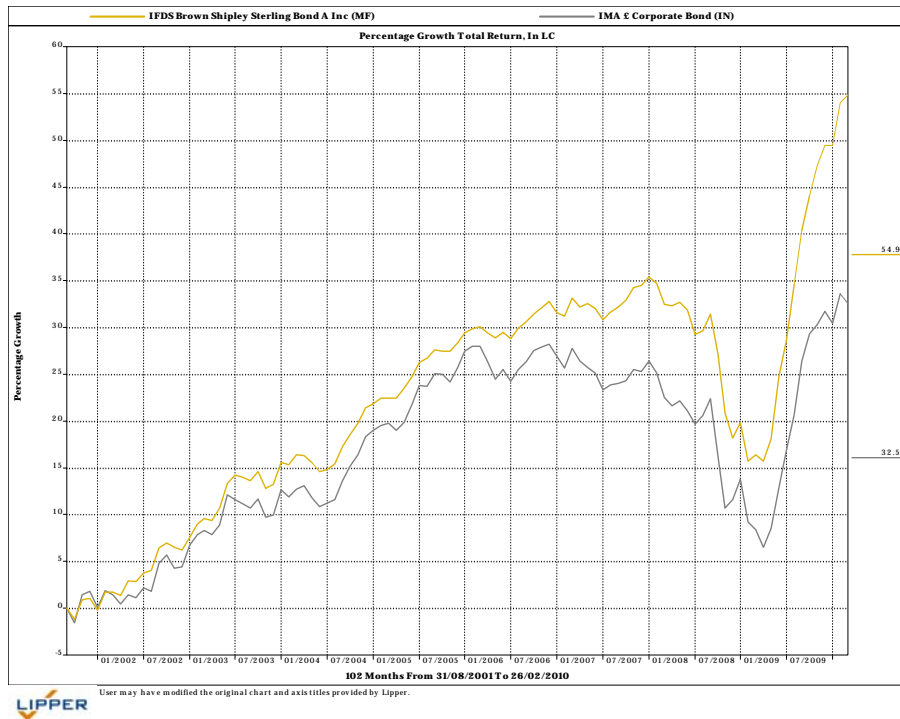
Mid to mid, gross income reinvested in UK Sterling.

5 Year



Mid to mid, gross income reinvested in UK Sterling.

Since Manager



Mid to mid, gross income reinvested in UK Sterling.

Mandate Objectives

Top Decile Income Generation

Since changing manager (31 August 2001), the fund has generated £491.32 respectively per £1,000 invested. This places the fund within the top decile of income generators amongst the IMA £ Corporate Bond sector.

Capital Preservation

The fund continues to hold the Lipper Leaders award for Capital Preservation.

Low Volatile Experience

The fund is currently amongst the least volatile funds within the IMA £ Corporate Bond sector as measured by standard deviation of monthly price movements since August 2001.

IFDS Brown Shipley Sterling Bond Fund

29/01/2010

SS

VAL

26/02/2010

SS

VAL

ID ISIN	Issuer	Cpn	Maturity	Holding	Price	Value	%	Holding	Price	Value	%	Performance	Performance Contribution
Government Securities													
Supranationals													
Monoline Wraps													
Mining													
XSO288783979	Glencore	6.5	27/02/2019	0	102.43	0.00	0.00%	1,500,000	100.03	1,500,481.73	1.40%	0.00%	0.00%
XSO366204393	Xstrata	7.375	27/05/2020	1,450,000	111.40	1,615,287.10	1.52%	1,450,000	109.14	1,582,518.91	1.47%	-1.52%	-0.02%
XSO301024895	Anglo American	6.875	01/05/2018	1,300,000	110.08	1,430,989.82	1.35%	1,300,000	108.40	1,409,263.57	1.31%	-1.04%	-0.01%
Oil & Gas Producers													
XSO145515655	Talisman Energy	6.625	05/12/2017	1,200,000	109.25	1,311,000.00	1.24%	1,200,000	109.39	1,312,680.00	1.22%	0.59%	0.01%
Chemicals													
XSO123344529	Linde	6.5	29/01/2016	1,050,000	109.37	1,148,342.53	1.08%	1,050,000	109.51	1,149,904.25	1.07%	0.59%	0.01%
Construction & Materials													
XSO360236789	CRH	8.25	24/04/2015	1,000,000	114.46	1,144,550.00	1.08%	1,000,000	115.02	1,150,158.60	1.07%	1.04%	0.01%
XSO169259420	Flinzing International	5.625	30/05/2013	998,000	103.79	1,035,774.30	0.98%	998,000	104.31	1,041,019.99	0.97%	0.92%	0.01%
Aerospace & Defence													
Industrial Engineering													
XSO176337599	Tomkins	6.125	16/09/2015	1,200,000	103.39	1,240,620.66	1.17%	1,200,000	103.83	1,246,011.48	1.16%	0.89%	0.01%
XSO297507773	General Electric	5.625	25/04/2019	3,300,000	101.89	3,362,403.00	3.17%	3,300,000	101.35	3,344,632.50	3.12%	-0.11%	0.00%
XSO276102285	Hutchinson Whampoa Finance	5.625	24/11/2017	1,300,000	104.11	1,353,367.47	1.28%	1,300,000	104.14	1,353,829.69	1.26%	0.45%	0.01%
Automotives & Parts													
Beverages													
BEG00183349	Anheuser Busch	6.5	23/06/2017	1,400,000	110.70	1,549,770.46	1.46%	1,400,000	110.69	1,549,677.57	1.44%	0.44%	0.01%
Food Producers													
XSO377058614	Cadbury Schweppes	7.25	18/07/2018	1,100,000	111.93	1,231,188.53	1.16%	1,100,000	113.11	1,244,198.18	1.16%	1.55%	0.02%
XSO430699008	Carlsberg	7.25	28/11/2016	1,500,000	112.60	1,689,032.93	1.59%	1,500,000	113.10	1,696,557.75	1.58%	0.94%	0.01%
Health Care Equipment & Services													
Personal Goods													
Pharmaceuticals & Biotechnology													
Tobacco													
XSO182188366	British American Tobacco	6.375	12/12/2019	1,400,000	108.11	1,513,609.65	1.43%	1,400,000	107.58	1,506,057.00	1.40%	-0.05%	0.00%
XSO133179818	Imperial Tobacco	7.75	24/06/2019	1,500,000	116.00	1,740,032.33	1.64%	1,500,000	115.55	1,733,316.00	1.62%	0.13%	0.00%
General Retailers													
XSO421003665	John Lewis	8.375	08/04/2019	1,300,000	120.39	1,565,070.00	1.47%	1,300,000	119.40	1,552,135.00	1.45%	-0.29%	0.00%
XSO289903869	Next	5.875	12/10/2016	1,500,000	104.99	1,574,894.70	1.48%	1,500,000	105.22	1,578,288.80	1.47%	0.64%	0.01%
Travel & Leisure													
XSO181013607	FirstGroup	6.125	18/01/2019	1,600,000	102.77	1,644,320.32	1.55%	1,600,000	102.09	1,633,476.08	1.52%	-0.20%	0.00%
XSO145190921	Hilton Group	7.125	11/07/2012	965,000	104.63	1,009,631.25	0.95%	965,000	106.26	1,025,409.00	0.96%	2.09%	0.02%
XSO163019143	Enterprise Inns	6.5	06/12/2018	3,750,000	87.59	3,284,687.06	3.09%	3,750,000	85.92	3,221,855.81	3.00%	-1.34%	-0.04%
XSO206404724	Spirit Issuer	1.685	28/12/2011	1,200,000	72.50	870,000.00	0.82%	1,200,000	72.50	870,000.00	0.81%	0.18%	0.00%
Media													
XSO233131118	BSkyB	5.75	20/10/2017	1,500,000	105.68	1,585,149.83	1.49%	1,500,000	105.79	1,586,854.13	1.48%	0.52%	0.01%
XSO109428705	DMGT	7.5	29/03/2013	1,300,000	103.08	1,340,040.00	1.26%	1,300,000	103.76	1,348,880.00	1.26%	1.22%	0.02%
XSO294391684	WPP	6	04/04/2017	1,550,000	103.64	1,606,461.62	1.51%	1,550,000	103.26	1,600,474.05	1.49%	0.07%	0.00%
XSO23337233	ITV	5.375	19/10/2015	1,500,000	93.63	1,404,382.50	1.32%	1,500,000	92.23	1,383,450.00	1.29%	-1.05%	-0.01%
Support Services													
Industrial Transport													
XSO383000329	BAA	12.45	31/03/2018	1,640,000	135.91	2,228,870.04	2.10%	1,640,000	135.74	2,226,150.92	2.07%	0.58%	0.01%
XSO124609370	Birmingham Airport	6.25	22/02/2021	0	97.45	0.00	0.00%	1,782,000	98.78	1,760,259.60	1.64%	0.00%	0.00%
Food & Drug Retailers													
XSO093004736	Wm Morrison	6.125	17/12/2018	1,500,000	108.39	1,625,821.73	1.53%	1,500,000	108.65	1,629,804.38	1.52%	0.68%	0.01%
Mobile Telecommunications													
XSO400780960	Vodafone	8.125	26/11/2018	1,300,000	121.66	1,581,550.43	1.49%	1,300,000	120.93	1,572,054.25	1.46%	-0.09%	0.00%
Fixed Line Telecommunications													
XSO10081782	BT	3.5	25/04/2025	1,716,000	125.36	2,151,143.28	2.03%	1,716,000	124.87	2,142,803.52	2.00%	-0.17%	0.00%
XSO06323679	Cable & Wireless	8.75	06/08/2012	1,150,000	107.51	1,236,307.50	1.16%	1,150,000	106.13	1,220,495.00	1.14%	-0.65%	-0.01%
XSO191619329	Telcelom Italia	6.375	24/06/2019	1,500,000	105.05	1,575,738.53	1.48%	1,500,000	103.65	1,554,758.03	1.45%	-0.87%	-0.01%
XSO241946044	Telefonica	5.375	02/02/2018	1,300,000	102.34	1,330,442.69	1.25%	1,300,000	101.08	1,314,101.75	1.22%	-0.83%	-0.01%
Electricity													
XSO306847016	Enel SPA	6.25	20/06/2019	1,300,000	107.92	1,403,005.05	1.32%	1,300,000	106.48	1,384,266.33	1.29%	-0.89%	-0.01%
XSO062992028	First Hydro Finance	9	31/07/2021	0	110.93	0.00	0.00%	1,000,000	114.75	1,147,500.00	1.07%	0.00%	0.00%
Gas, Water, & Multiutilities													
Banks													
XSO23423406	Nationwide	5.25	31/12/2049	1,619,000	94.85	1,535,546.14	1.45%	1,619,000	96.84	1,567,760.84	1.46%	2.52%	0.04%
XSO220428154	Anglo Irish Bank	0	29/06/2049	5,847,000	0.00	0.00	0.00%	5,847,000	0.00	0.00	0.00%	0.00%	0.00%
XSO041971275	Bank of Scotland	10.5	29/10/2049	1,500,000	119.36	1,790,349.60	1.69%	1,500,000	118.42	1,776,309.83	1.66%	0.00%	0.00%
XSO388021270	Royal Bank of Scotland	6.625	17/09/2018	1,250,000	106.88	1,336,043.44	1.26%	1,250,000	103.75	1,296,935.38	1.21%	-2.45%	-0.03%
XSO355789271	Standard Chartered	7.75	03/04/2018	1,000,000	115.07	1,150,680.70	1.08%	0	113.91	0.00	0.00%	-0.49%	-0.01%
XSO224242000	Standard Chartered	5.375	31/12/2049	0	86.15	0.00	0.00%	1,000,000	88.09	860,900.00	0.80%	0.00%	0.00%
GB0008389008	Standard Chartered	0.8125	31/12/2049	3,300,000	60.00	1,980,000.00	1.87%	4,000,000	60.00	2,400,000.00	2.24%	0.10%	0.00%
FR0010306787	BNP Paribas	5.945	19/04/2018	6,250,000	86.63	5,414,250.00	5.10%	6,250,000	85.98	5,373,507.81	5.01%	-0.23%	-0.01%
XSO300096491	Goldman Sachs	6.125	14/05/2017	1,500,000	103.10	1,546,461.00	1.46%	1,500,000	102.45	1,536,741.83	1.43%	-0.17%	0.00%
Nonlife Insurance													
XSO251382361	Amlin	6.5	19/12/2016	6,016,000	90.83	5,464,122.24	5.15%	6,016,000	91.30	5,492,788.48	5.12%	1.07%	0.06%
XSO270707283	Beazley	7.25	19/12/2016	1,930,000	82.75	1,597,075.00	1.50%	1,930,000	81.87	1,580,071.70	1.47%	-0.39%	-0.01%
XSO405451666	QBE	10	14/03/2014	1,500,000	120.03	1,800,478.85	1.70%	1,500,000	120.61	1,809,109.50	1.69%	1.12%	0.02%
Life Assurance													
XSO092202836	AMP Financial	6.375	17/11/2010	750,000	101.61	762,071.25	0.72%	750,000	101.41	760,563.75	0.71%	0.28%	0.00%
Equity Investment Trusts													
GB0008961913	City Of London	8.5	31/01/2021	75,000	119.76	89,816.25	0.08%	75,000	119.03	89,272.50	0.08%	-0.06%	0.00%
Real Estate													
XSO573803930	Goodman Australian	9.75	16/07/2018	1,750,000	108.94	1,906,476.69	1.80%	3,000,000	110.44	3,313,080.15	3.09%	2.06%	0.04%
XSO222107186	Westfield Finance	5.5	27/06/2017	3,300,000	101.02	3,333,820.22	3.14%	1,600,000	100.94	1,615,110.88	1.51%	0.34%	0.01%
XSO231216549	Brixton Estates	5.25	21/10/2015	1,500,000	101.39	1,520,850.00	1.43%	1,500,000	102.60	1,538,925.00	1.43%	1.59%	0.02%
XSO084734127	Liberty International	6.875	05/03/2013	1,837,000	99.95	1,836,081.50	1.73%	1,837,000	100.00	1,837,000.00	1.71%	0.58%	0.01%
XSO272192682	Stockland	5.625	25/10/2015	2,145,000	100.20	2,149,185.65	2.02%	2,145,000	101.33	2,173,629.53	2.03%	1.57%	0.03%
GB0006411967	Home Group	0	11/05/2019	2,250,000	58.23	1,310,220.00	1.23%	2,250,000	58.60	1,318,410.00	1.23%	0.63%	0.01%
General Financial													
XSO233803153	Kensington Group	9	21/12/2015	3,248,000	62.50	2,030,000.00	1.91%	2,248,000	82.00	1,843,360.00	1.72%	32.30%	0.82%
XSO20965759	Provident Financial	7.125	15/06/2015	2,086,000	98.75	2,059,925.00	1.94%	2,086,000	98.75	2,059,925.00	1.92%	0.55%	0.01%
XSO459028626	Provident Financial	8	23/10/2019	3,000,000	104.64	3,139,050.00	2.96%	3,000,000	103.10	3,093,000.00	2.88%	-0.88%	-0.03%
XSO434390237	LSE	9.125	18/10/2019	1,300,000	119.84	1,557,898.55	1.47%	1,300,000	119.33	1,551,294.03	1.45%	0.18%	0.00%
XSO437404824	Tullet Prebon	7.04	06/07/2016	1,700,000	94.03	1,598,510.00	1.51%	1,700,000	94.50	1,606,500.00	1.50%	1.07%	0.02%
CASH	59	0		8,577,289.58									

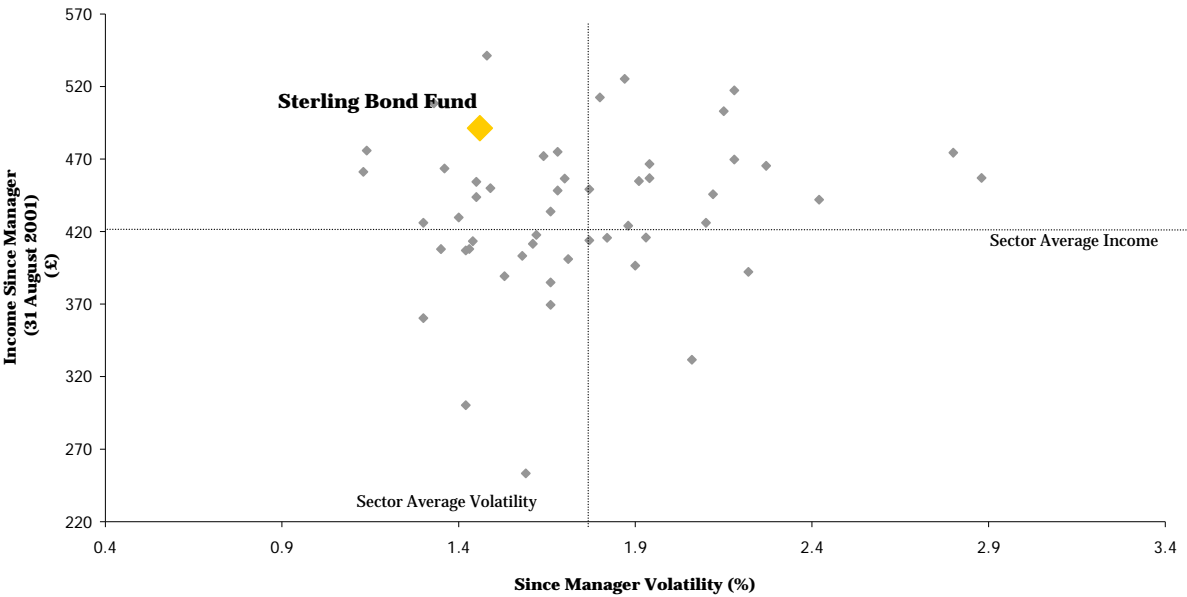
Risk Conscious Route to Income

The aim of the **IFDS Brown Shipley Sterling Bond Fund** is to offer investors a “Risk Conscious Route to Income”. The fund achieves this by generating a highly competitive level of income, whilst seeking to preserve capital over the medium term. In tandem, the fund aims to deliver a low volatile experience for unit holders.

Given the fund’s objectives, we believe that our adherence to this mandate is best displayed using the scatter plot below.

A Risk Conscious Route to Income

Source: Lipper Hindsight. Data to 26 February 2010. *Income since manager (31 August 2001) based upon £1000 initial investment



The graph plots the volatility of funds within the IMA £ Corporate Bond sector against the income generated since manager (31 August 2001) by such funds. Those funds generating above average levels of income, whilst producing below average volatility appear in the north-west quadrant of the plot.



IFDS BROWN SHIPLEY STERLING BOND FUND
Activity Review

“A Risk Conscious Route to Income”

February 2010

Transactions for February 2010

We strive to provide investors with a level of disclosure and transparency unrivalled within the sector. Our goal is to provide unparalleled access to fund managers and fund information.

To this end, we provide investors with access to details of all transactions undertaken by the fund together with the fund managers' journal entry which accompanies the trade.

Should you have any questions, our fund managers are always available to discuss any aspect of the portfolio. Please feel free to give us a call. Contact details can be found earlier in this publication.

DEALING FILE NOTE

3 February 2010

Funds Affected: Sterling Bond Fund

Security: STANLN FRN Perp

Action: Standard Chartered Top Up

We have been looking for some time to increase the funds weighting to corporate index linked bonds and floating rate notes however limited liquidity and unattractive prices have made this challenging.

This morning however one of our regular contacts made us aware of this small holding in the Standard Chartered issue that we already hold. This top up helps us to increase our weighting in Standard Chartered back to 3% within the Super 7 and also increases the funds exposure to floating rate notes, which we believe will be beneficial as interest rates rise in order to head off inflation.

BUY 500/- STANLN FRN Perp

Information Sources:

DEALING FILE NOTE

8 February 2010

Funds Affected: Sterling Bond Fund

Security: GLEINT 6.5% 2019

Action: Glencore Purchase

Having only sold out of our position in Glencore in January it is highly unusual for us to buy back into a name so quickly however the market is moving rapidly at the moment.

The sole reason for selling our Glencore holding was down to valuation. We felt that the bond had moved too far too fast, from being on a spread of >600bps last July to being <200bps over in January. At the tighter level we felt that the bond was overvalued and was vulnerable to falling however we did not anticipate how quickly this scenario would play out.

Following the 'grabathon' that marked the first two weeks of the year markets have been somewhat more measured over recent weeks. As a result the spreads on a number of credits have started to move slightly wider. In Glencore's case the spread has gone from <200bps over Gilts, where we could not justify holding it, to >230bps over Gilts at which level we are considerably more comfortable. At the higher level we are achieving a yield of close to 6.2% which in the current environment is viewed as a fair price.

BUY 1000/- GLEINT 6.5% 2019

Information Sources:

Bloomberg

DEALING FILE NOTE

8 February 2010

Funds Affected:	Sterling Bond Fund	
Security:	WDCAU	5.5% 2017
	GMGAU	9.75% 2018
Action:	Goodman into Super Seven and Westfield in Diverse Core	

Following a very successful period within the Super Seven, much of it as one of the two key 5% positions within the fund, we have decided to move Westfield back into the Diverse Core. As a retail property company with a brand that was not particularly well known in the UK, the Westfield bonds were very much out of favour at the height of the credit crunch.

We retained a high degree of confidence in the group on the back of its geographically diverse asset base, experience in the sector, national champion status in Australia and most importantly its rock solid Balance Sheet. Our conviction saw us top up this position merely a year ago at 64 (gross redemption yield of >12.0%) however things have changed quickly and today we have reduced our holding at a level in excess of par (GRY of 5.4%).

We remain entirely comfortable with Westfield as an issuer however at a yield of just over 5% it no longer remains one of our conviction positions and hence it was time to move it into the Diverse Core.

Enter Goodman, which is another Australian based property company. Goodman is an integrated property group that owns, develops and manages a variety of real estate including business parks, office parks, industrial estates, warehouses and distribution centres. Goodman also offers a range of property investment funds in which outside investors can place money. In total the group has assets under management of AUD18.5bn (£10.3bn) made up of 363 properties in 16 countries.

Goodman operates from four divisions; Property Development, Property Services, Property Investment and Fund Management.

The Development business develops high-quality commercial space with in-house teams responsible for all aspects of the development process.

All developments have in-house property services teams that attend to customers' operational needs and ensure that assets are maintained to a high standard. These teams provide the full spectrum of property services from renewing leases and ensuring the property maintains high occupancy rates to landscaping and building maintenance.

The Investment division sources and acquires investment properties and has strategic cornerstone investments in major managed funds around the world. These investments enable Goodman to maintain a strong balance sheet, satisfy the requirements of customers and deliver stable returns to investors.

Goodman also acquires and develops properties, which are then placed in specialist property investment funds. The total assets managed within the property investment funds are currently valued at \$14.3 bn (£7.9 bn).

The recent downturn has proven challenging for many property companies around the world and Goodman is no exception. In response to falling asset values and the absence of debt finance the group launched a significant recapitalisation programme. The first phase of this occurred in October 2008 when the group raised \$956m through a rights issue. Macquarie and the China Investment Corporation (CIC) then invested \$485m by way of a convertible bond. Following that in August last year the group looked to further reinforce its position through a \$1.3bn rights issue together with an additional \$500m investment from the CIC. Goodman also extended \$4.1bn of existing finance facilities across the group, which gives it enough liquidity to cover all debt maturities up to late 2012.

The reinforcement of the group's equity base has reduced gearing to a very comfortable 24.5%. At the same time the group also entered into "new strategic relationships" with both CIC and the Canada Pension Plan Investment Board (CPPIB). Both of these relationships are aimed at exploiting opportunities in the rapidly growing Chinese market.

Goodman's direct portfolio has a 96% occupancy rate and average rental growth achieved in 2009 was 3.7%. As the economic slowdown has dramatically halted the supply of new properties Goodman believes that the constrained supply should ensure vacancies remain low and prices rebound. This constrained supply is evident in Goodman's own operations

where \$864m of previously committed development projects were withdrawn during the downturn.

During the last financial year, to the end of June 2009, the group generated an operating profit of \$408m however writedowns of \$1.2bn relating to property and equity investments following a 0.75% fall in cap rates, along with a further \$280m writedown on derivative mark to markets resulted in a statutory loss of \$1.12bn.

In response to the conditions the group initiated a review of its businesses from which it is targeting a 20% reduction in operating expenses. Flexibility was evident in Goodman's cost base in 2009 with employee expenses dropping sharply from \$118m in 2008 to \$68.4m. We expect to see more benefits of the cost cutting in this financial year.

In the current financial year the group believes that asset values remained under pressure until the end of 2009 however the position is expected to have improved in 2010. At its latest update, at the end of November, Goodman reiterated that it was on target to generate an operating profit of \$310m for the 12 months to the end of June.

Over the past year and a half Goodman has gone to considerable lengths to reduce its gearing, extend its debt profile and reduce its cost base. The group has also embarked on two important strategic partnerships in fast growing markets with solid joint venture partners.

Looking through the sizable asset writedowns, operationally the group has performed reasonably solidly. As conditions now begin to stabilise or improve in many of its markets we see Goodman, with its reinforced Balance Sheet, as being in a healthy position.

After selling out of Westfield at a yield of 5.3% we have been able to increase our holding in Goodman at a yield >7.5%. We believe that this represents an attractive yield and offers some opportunity for spread tightening. This makes it an ideal candidate for a position within the Super 7.

SELL	1700/-	WDCAU	5.5% 2017
BUY	1250/-	GMGAU	9.75% 2018

Information Sources:
Bloomberg

DEALING FILE NOTE

09 February 2010

Funds Affected:	Sterling Bond Fund
Security:	STANLN 5.375% Perpetual (Callable 2020)
Action:	Standard Chartered Capital Migration Trade

One of our themes for the coming year is the identification of financial institutions whose callable debt is currently trading on a perpetual basis, but, in our opinion, the group is sufficiently strong enough to call its debts at the first available opportunity.

Backing up this theme is our analysis of the current consultation process from the Basle Committee on Banking Supervision, who are seeking to address the shortcomings of Basle II banking regulations. Amongst the possible remedies are an acknowledgement that certain parts of the banking capital structure proved not to be as “loss absorbing” as was expected and as such, banks will be required to hold increasing amounts of “genuine” Tier 1 capital in the form of equity, retained profits and (possibly) contingent capital instruments.

It is our view that as banks deploy increasing amounts of Tier 1 capital, they will look to do so via the replacement of Tier 2 capital, for which it appears they will receive lower capital credit. This capital “migration” as we have termed it affords opportunities for us to identify Tier 2 (both upper and lower) instruments which currently trade as perpetual dated bonds, but could achieve material capital appreciation in the event that they are called early, or market perceptions change to such an extent that they re-price to the first call date.

Standard Chartered is a current constituent of the Super 7 portfolio. Currently our exposure is via a Tier 1 FRN issue and a Lower Tier 2 bullet issue. Given that the bullet issue is unable to benefit from the dynamics described above, we have sought to migrate our position to other parts of the capital structure. Our trade earlier in the month increased our exposure to Tier 1, whilst today we are switching from Lower Tier 2 to Upper Tier 2.

The most appropriate means of playing this trade is via the Upper Tier 2 bonds which are callable in 2020. The 2020 call date is consistent with our income generation strategy and maximises our duration exposure to this switch, whilst maintaining our preference for bonds with maturities of less than or equal to 10 years.

BUY 1,000/- STANLN 5.375% Perpetual (Callable 2020)

Information Sources:

Basle Committee on Banking Supervision Consultation Document

Bloomberg

DEALING FILE NOTE

10 February 2010

Funds Affected: Sterling Bond Fund

Security: STANLN 7.75% 2018

Action: Standard Chartered Capital Migration Trade (Part II)

Following on from yesterday's purchase of Standard Chartered Upper Tier 2 bonds, this sale of Lower Tier 2 bonds, represents the second half of our capital migration switch, which improves the yield we receive for our exposure to Standard Chartered. The switch results in us receiving an additional 2% GRY on the capital, whilst also allowing us to release some capital at the same time.

SELL 1,000/- STANLN 7.75% 2018

Information Sources:

Bloomberg

DEALING FILE NOTE

16 February 2010

Funds Affected:	Sterling Bond Fund	
Security:	BIRMIN	6.25% 2021
Action:	Birmingham Airports Acquisition	

We initially did due diligence on Birmingham Airports towards the end of last year however we were scuppered in our efforts to build a position in the issue. The issue is relatively small in size (£105m) and does not trade that often however this morning we were made aware of a possible seller.

The group's primary activity is, unsurprisingly, the operation and management of Birmingham International Airport. The aviation industry has been hit by the economic slowdown with lower levels of business travel, high fuel prices, weak Sterling and reduced disposable incomes all impacting passenger volumes.

Despite a 5% contraction in UK passenger numbers, in the group's 2009 financial year, Birmingham Airport managed to increase passenger numbers by 1.9%, to 9.5m, thanks to the phased introduction of a new Ryan Air base. The group also saw its share of UK air passengers increase to 4.1% (3.8%) and its share of the market within a 1 hour catchment area increased to 39% (36%).

The Airport generates income from charging airlines for the use of its facilities. The group also generates income from other commercial activities including car parking, retail, catering and property rental.

In the last financial year group turnover fell 2% to £107.6m (£109.9m) as aeronautical income slipped by 5% as the 'yield' (amount of income per passenger) dropped to £5.75 (£6.17). Other commercial income increased by 1.1% however on a yield basis it dropped to £5.56 (£5.60).

Operating costs increased by 0.8% to £86.5m (£85.9m) with the lion's share of the increase coming from employee costs which were 4.4% higher following an increase in headcount which has subsequently been reduced through the redundancies of >80 employees. The redundancies were part of a wider restructuring that was carried out given the challenging outlook for the aviation sector.

The overall impact of reduced revenues and higher cost was a fall in operating profit to £21.2m (£24.1m). Net interest costs increased to £6.6m (£4.7m) following lower interest rates on deposits combined with reduced cash balances (see below).

Tax last year was boosted by an £11.3m credit relating to removal of the industrial building allowance which resulted in the group having a net tax credit of £3.2m for the year. Without such a credit in the current year tax amounted to £5.8m. This resulted in a significant fall in net profit to £9.9m (£22.9m) from which a distribution of £8.5m (£11.2m) was paid to shareholders.

The group's cash balance was sharply reduced due to a significant capex programme which included a replacement international pier, the resurfacing of part of the taxiing area and an extension to the multi storey car park. These projects amounted to £44.3m of the total capex spend of £54.2m. This high level of capex resulted in a net cash out flow of £30m (£2m inflow) which reduced cash balances to £22.2m (£53.7m). In addition to these cash balances the group has a £40m undrawn loan facility.

The cornerstone of the group's Balance Sheet is tangible assets that represent the airport and total £423m (£388m) in value. Against this the group has debt of £103.8m in the form of the bond that we hold. After netting off other assets and liabilities, including a pension deficit of £19m, the group has a solid equity buffer of £259m (£263m).

Birmingham Airport has generated consistent operating cashflow of c.£39m over the past two years which, major expansionary capex aside, gives the group ample capacity to cover its interest, tax and dividend commitments.

During 2009 the airport received planning permission to extend its runway which will help to open up new long haul markets. This should also help the group in its aim to increase its market share of those passengers within a 1 hour catchment of the airport.

The near term outlook for aviation remains challenging however over the medium to long term the trends are expected to be strongly positive. The group is actively investing in its asset base and whilst profitability has been hit by the slowdown, and exacerbated by the one off tax credit last year, the Balance Sheet is strong enough to ensure that the group comfortably trades through this period.

Given the size of this deal (£782k) we will be looking to add to our position where possible in order to bring it up to 1% - 1.5% of the fund.

BUY 782/- BIRMIN 6.25% 2021

Information Sources:

Bloomberg

DEALING FILE NOTE

16 February 2010

Funds Affected: Sterling Bond Fund

Security: BIRMIN 6.25% 2021

Action: Birmingham Airports Acquisition(1)

The opportunity to top up our position in Birmingham Airports has come along somewhat sooner than we might have expected. After initiating our holding this morning we were just offered a further £1m nominal in the issue at a very competitive price. This now brings us up to a full weighting within the Diverse Core of the fund.

BUY 1000/- BIRMIN 6.25% 2021

Information Sources:

DEALING FILE NOTE

17 February 2010

Funds Affected: Sterling Bond Fund

Security: GLEINT 6.5% 2019

Action: Glencore Top Up

One of our regular contacts has made us aware of a natural seller of Glencore. We re-established our position in the bond earlier this month after selling out in January when the spread reduced to <200bps over Gilts.

On this top up we have managed to achieve more advantageous terms by securing the bonds at a spread of >240bps, representing a yield of almost 6.5%. This trade takes Glencore up to a full weighting of 1.5% within the Diverse Core of the fund.

BUY 500/- GLEINT 6.5% 2019

Information Sources:

Bloomberg

DEALING FILE NOTE

18 February 2010

Funds Affected: Sterling Bond Fund

Security: STANLN FRN Perp

Action: Standard Chartered Top Up

This is a small top up to an existing position and one that is consistent with our continuing strategy of increasing the amount of floating rate note exposure within the fund.

BUY 200/- STANLN FRN Perp

Information Sources:

DEALING FILE NOTE

22 February 2010

Funds Affected: Sterling Bond Fund

Security: KGNLN 9% 2015

Action: Kensington Group Sale

Late last week we received a cold call from someone looking to acquire a stake in Kensington Group. Whilst it is not a position that we were actively looking to sell, everything has a price so we asked them to come back with an attractive bid. This morning they came back with a bid that was 10 points higher than where we have Kensington marked on our valuations.

Based on this bid our weighting in Kensington is higher than our target and hence we were comfortable with letting a few go.

SELL 1000/- KGNLN 9% 2015

Information Sources:

DEALING FILE NOTE

24 February 2010

Funds Affected: Sterling Bond Fund

Security: FHYDRO 9% 2021

Action: First Hydro Purchase

This morning we were made aware of a seller of this First Hydro issue. The bond is in the right maturity range for us and was offering an attractive yield compared to much of the rest of the market. As an unrated issue in a name that is not well known by the market we felt that it might offer an attractive opportunity for us, so we set about carrying out some due diligence.

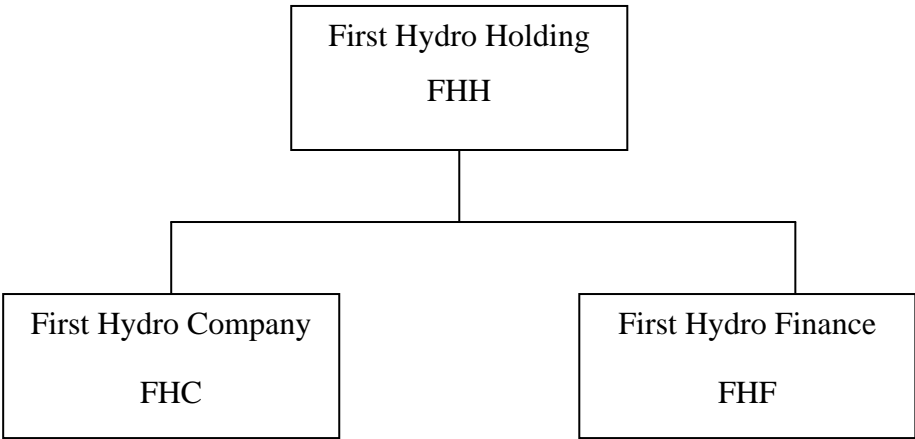
First Hydro, a subsidiary of International Power (75%) and Mitsui & Co (25%), is a UK electricity generator who manages and operates pumped storage plants in Dinorwig and Ffestiniog in North Wales. Dinorwig has 6 units that produce 1728MW in total while Ffestiniog has 4 units with a combined capacity of 360MW.

Pumped storage involves two water reservoirs at differing altitudes. Water is released from the higher reservoir through high pressure shafts, which are linked to turbines, to the lower reservoir. The turbines power the generators which create electricity. The water is then pumped back up from the lower to the upper reservoir. This last process is usually done overnight when electricity usage, and therefore cost, is at its lowest. Effectively gross profit is generated from the difference between base and peak electricity prices.

First Hydro's facilities are able to provide effective back up in the event of a shortage elsewhere in the grid. The group has a significant advantage over nuclear and coal fired power stations which are both time consuming and costly to start up. Dinorwig and Ffestiniog have start up times of 1.5 and 2.5 minutes respectively. This is a considerable advantage over gas and coal which take 60 and 90 minutes respectively. The group's

reliability is also likely to set it apart from the increasingly popular renewable sources of energy such as wind.

The bond is issued out of First Hydro Finance (FHF) and the group structure can be seen below. FHF has lent the proceeds of the bond issue onto First Hydro Holdings (FHH) which is its parent company. FHH has an investment in First Hydro Company (FHC) which owns the operating assets and pays its profits out to FHH as dividends. Under the terms of the debenture no dividend will be paid by FHH to International Power/Mitsui if the interest cover is <1.2 times.



The issue is secured by a fixed charge over FHH’s shares in FHC and a first floating charge over the undertakings, property and assets of FHC. Further comfort is provided by the fact that the group must at all times hold £18m in restricted cash to cover the next coupon payment (the bond pays semi-annually). The issue also starts amortising at 20% per annum from 2017. All in all this is a bond that has been structured with investors in mind unlike some of the infamous “cove-lite” deals that were issued immediately prior to the credit crunch.

Looking at the historical financial statements for FHH the Balance Sheet is not as strong as we would typically like however with a senior ranking charge over valuable assets and other covenants securing the issue we remain comfortable. More comfort is provided by the group’s ability to meet its debt commitments. Over the past 5 years interest payments have been covered, on average, 3.3 times by EBITDA. To reiterate no dividend can be paid out to parent company by FHH if the interest cover figure slips below 1.2 times.

Effectively this operation benefits from electricity outages elsewhere in the system due to its rapid ability to step into the breach. With an ever increasing push to move into renewable energy, which can at times be unreliable, such a facility is likely to increase in importance over time.

The secure nature of the covenants on the bond along with the group's proven track record of having ample headroom when it comes to servicing the debt leaves us comfortable bringing First Hydro into the Diverse Core of the fund.

BUY 1000/- FHYDRO 9% 2021

Information Sources:
Bloomberg



IFDS BROWN SHIPLEY STERLING BOND FUND
Outlook

“A Risk Conscious Route to Income”

February 2010

Economic Outlook

As we discussed in our last edition, the initial estimates for economic growth in Q4 of just 0.1% seemed inconsistent with other data points we were seeing. It was of little surprise to us, therefore, to see the growth estimates revised upwards to 0.3% when the Office of National Statistics published its second estimate of GDP during February.

Come the final estimate (published on 30th March), again we would not be surprised to see further upwards revisions with 0.4-0.5% growth being a rate far more consistent with the PMI data.

It is the second estimate of output, which for our purposes provides the greatest level of insight. Based upon expenditure data, the figures describe an economy which saw a return to expansion within the household sector, strong (pre-electioneering?) spending from the Government and a reasonable pick-up in both import and export levels, though in fact imports grew faster than exports such that the net data created a drag on overall GDP levels.

The biggest disappointment (for us) came in the form of yet further declines in capital expenditure, which dropped by a further £1.5bn in real terms on Q3 levels. Such has been the pace of decline in capex that having reached a peak of £61.5bn (in real terms) during Q4 2007, the equivalent figure for Q4 2009 was a paltry £48bn, representing a fall of 22%.

Declines in capex on this scale are neither desirable nor sustainable and though disappointing, provide a great source of hope for future data releases, especially given the fact that many businesses are reporting an expected increase in capital expenditure during the coming year.

Regular readers of this report will be acquainted with our forecasts for GDP growth during 2010. We continue to see market-beating GDP growth, close to 4% for the full year – a figure which we anticipate will be driven by a re-building of inventories and a return of capital spending. We await Q1 data with bated breath.

When discussing our estimates with economists and investors, once the laughter subsides we are regularly confronted with the subject of Government spending cuts and their impact on GDP data. Though a valid consideration, we believe that such comments are driven predominantly by a regurgitation of media comments rather than rational analysis of the situation.

During the past year, Government spending amounted to c.£288bn in real terms. Though this will most likely decline during 2010 (our estimate for 2010 contribution is £269bn), the commentators who subscribe to a more drastic reduction over the year appear to be ignorant of the political calendar.

At present, we are anticipating an early May election and the delivery of an overall majority for the Conservative party. A 50-day emergency budget programme would see the new Government deliver its spending plans by end June, following which Royal Assent would be achieved during July.

July unfortunately also happens to mark the start of the Summer recess, from which the House commonly returns back to business during October. It would be our conjecture that regardless of how swingeing the cuts to expenditure actually are, they will not impact GDP data materially until 2011.

Market Outlook

Of late, a market debate has broken out about the potential of the banking sector to pick up the baton from the Bank of England as the major buyer of Government bonds. With the QE programme remaining on pause and (in our opinion) likely to more formally close in May, such considerations are of paramount importance.

The bullish argument suggests that due to forthcoming changes in banking regulations, most notably the revisions to Basle rules which are currently under consultation, banks will be required to hold increasing amounts of low-risk, liquid assets within their investment portfolios. The reason for such actions ought to be clear post events such as the demise of Northern Rock where the lack of liquidity resulted in the collapse of the bank in a short space of time.

In the UK, the lowest-risk, most liquid asset of them all is the humble gilt. It follows therefore that in order to meet these new, more stringent, liquidity requirements, banks will be “forced” to increase their exposure to the asset class and so provide a ready market for the DMO, whose job it is to sell gilts on behalf of the Government.

All fine and well, but what this hypothesis fails to acknowledge is that the banking sector is already well down the road of “liquid”-ising their balance sheets.

At the time of compiling this diatribe (2nd March) a number of major banking organisations had recently released preliminary results for the year ended December 2009. Contained within these earnings releases are also detailed pictures of each respective bank’s balance sheet, with further disclosure on their investment portfolios.

Studying these results has been enlightening and has also confirmed our original suspicions – banks have already increased the liquidity on their balance sheets significantly without the introduction of regulation. In short, the banks will not be “forced” to hold more liquidity; it just makes good business sense in the current environment. The table below provides some details:

Government Bond Holdings as Disclosed at Various UK Banks - £bn (% Total Assets)		
Bank	Dec 2008	Dec 2009
Barclays	73.8 (3.5%)	72.2 (5.2%)
RBS	105.8 (4.4%)	146.8 (8.7%)
Lloyds	46.2 (4.1%)	88.4 (8.6%)
HSBC	113.9 (4.5%)	170.7 (7.2%)

Whilst the data is limited in the sense that it shows exposure to the generic class of “Government Bonds”, which will include non-UK backed securities, what is without doubt is that banks have made a concerted effort to address liquidity of their own volition.

Of course, it remains to be seen whether ultimate regulations call for even higher levels of balance sheet liquidity, but, as ever, a more thorough analysis of a situation always leads to a greater understanding. We look forward to watching this situation develop.

Fund Outlook

As we have discussed on numerous occasions, our estimated return for corporate bonds during the year is driven in large part by our views on the government bond marketplace, where a combination of low yields and poor supply/demand characteristics seem set to pull yields higher.

To counter this dynamic, we have sought to remove this risk from the portfolio. This is effected via a short position in gilt futures, which removes much of the fluctuation in fund values which result from movements in government bond prices, whilst also significantly reducing the fund's exposure to higher interest rates – a feature we see as increasingly likely later in the year.

Whilst this feature alone, we believe will result in outperformance of the typical UK corporate bond fund, we also wish to continue to add value via credit selection.

Last month we discussed the ability to add value via the identification of specific “callable” bonds. The bonds, which are of particular interest us, are those with the potential to perform strongly as investors reassess the likelihood of the call being upheld.

Already during February, this strategy has borne fruit in the form of our position in Kensington bonds, which itself is a subsidiary of Investec. It provides a perfect illustration of how we feel this type of trade ought to work during the year.

The Kensington bonds carry a 9% coupon and have an initial call date in December 2010. Should they not be called, then as Tier 2 securities, they carry a final maturity five years later in 2015.

From the issuers' perspective, there is an incentive to call the bonds early provided that the finance can be replaced at an equal or cheaper rate. The incentive comes in the form of diminishing regulatory credit for the issue such that as each year progresses, the bank loses the ability to recognise one-fifth of the issue size for capital adequacy purposes. In time, therefore the incentive to call the bonds becomes increasingly great and should only be ignored as an option for the issuer in the event that issuing new bonds would be so prohibitively expensive that not-calling is the cheaper option.

Tier 2 type bonds are not the only such callable issues. Many financial institutions also issue callable bonds which qualify as Tier 1 type instruments. Here the incentive to call the bond is less than that described above. Instead for Tier 1 bonds, there is no loss of capital credit for regulatory purposes but there could be a loss of face should the group not honour the call.

Our tactics for Tier 1 bonds therefore is to identify those banks where the performance is such that they are able to make the call and whose reputation is of sufficient standing that we would expect them to call at the first available opportunity. Based upon our analysis, such institutions are few and far between, but are worth backing with conviction once the opportunity arises.

Within the fund we hold Tier 1 positions in BNP Paribas and Standard Chartered. Tier 2 positions are held in Nationwide, Lloyds, Amlin, Beazley, Kensington (Investec) and Provident Financial. Collectively they account for 20.7% of the entire portfolio and so represent a meaningful source of potential value.



IFDS BROWN SHIPLEY STERLING BOND FUND

Portfolio Summary

“A Risk Conscious Route to Income”

February 2010

IFDS Brown Shipley Sterling Bond Fund

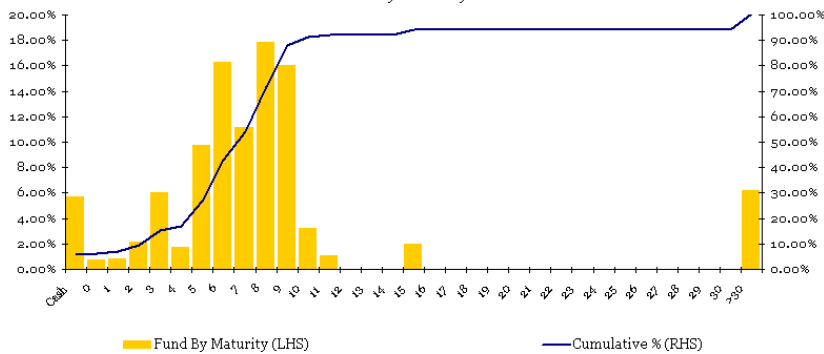
	S	M	L	Totals	
AAA	0.00%	0.00%	0.00%	0.00%	Run Yield (%)
AA	0.00%	3.14%	0.00%	3.14%	6.15
A	1.70%	11.79%	0.00%	13.49%	GRY (%)
BBB	0.98%	34.48%	5.96%	41.41%	5.84
<BBB	4.19%	2.81%	0.00%	7.00%	Ave. Maturity
N	4.48%	23.10%	2.25%	29.84%	9.01
Totals	11.35%	75.32%	8.21%	94.88%	Duration
			Futures Margin	-0.56%	4.95
			Cash	5.69%	Mod Duration
					4.68
			Total	100.00%	Adj Duration
					1.68

Asset Allocation		Credit Quality	
Fixed Interest	92.86%	AAA	0.00%
Convertible Securities	0.00%	AA	3.14%
PIBS	0.00%	A	13.49%
Government Securities	0.00%	BBB	41.41%
Preferred Equity	0.00%	<BBB	7.00%
Structured Note	2.01%	Unrated	29.84%
Futures Margin	-0.56%	Futures Margin	-0.56%
Cash	5.69%	Cash	5.69%
	100.00%		100.00%
Of which index linked	2.01%		
Estimated addition to GRY	0.05%		

Top 10 Sectors		Top 10 Issuers	
1 Banks	13.90%	1 Amlyn	5.16%
2 Real Estate	11.07%	2 BNP Paribas	5.04%
3 General Financial	9.53%	3 Provident Financial	4.84%
4 Nonlife Insurance	8.34%	4 General Electric	3.14%
5 Travel & Leisure	6.34%	5 Goodman Australian	3.11%
6 Fixed Line Telecommunications	5.85%	6 Standard Chartered	3.06%
7 Industrial Engineering	5.58%	7 Enterprise Inns	3.02%
8 Media	5.56%	8 BAA	2.09%
9 Mining	4.22%	9 Stockland	2.04%
10 Industrial Transportation	3.74%	10 BT	2.01%
Top 10 Sectors	74.13%	Top 10 Issuers	33.51%
12 Other Sectors	20.74%	46 Other Issuers	61.36%
Futures Margin	-0.56%	Futures Margin	-0.56%
Cash	5.69%	Cash	5.69%
Total	100.00%	56 Total	100.00%

FUND DISTRIBUTION

By Maturity



Data as at 26/02/2010

Source: Brown Shipley

call: 0870 043 4830

visit: www.brownshipleyfunds.co.uk

email: fund.enquiries@brownshipley.co.uk

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