BROWN SHIPLEY
FUNDS

Wealth well managed

IFDS BROWN SHIPLEY STERLING BOND FUND

Institutional Investors Report

“A Risk Conscious Route to Income”

January 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.

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IFDS BROWN SHIPLEY STERLING BOND FUND

Market Review

"A Risk Conscious Route to Income"

January 2010

Gilt Curves

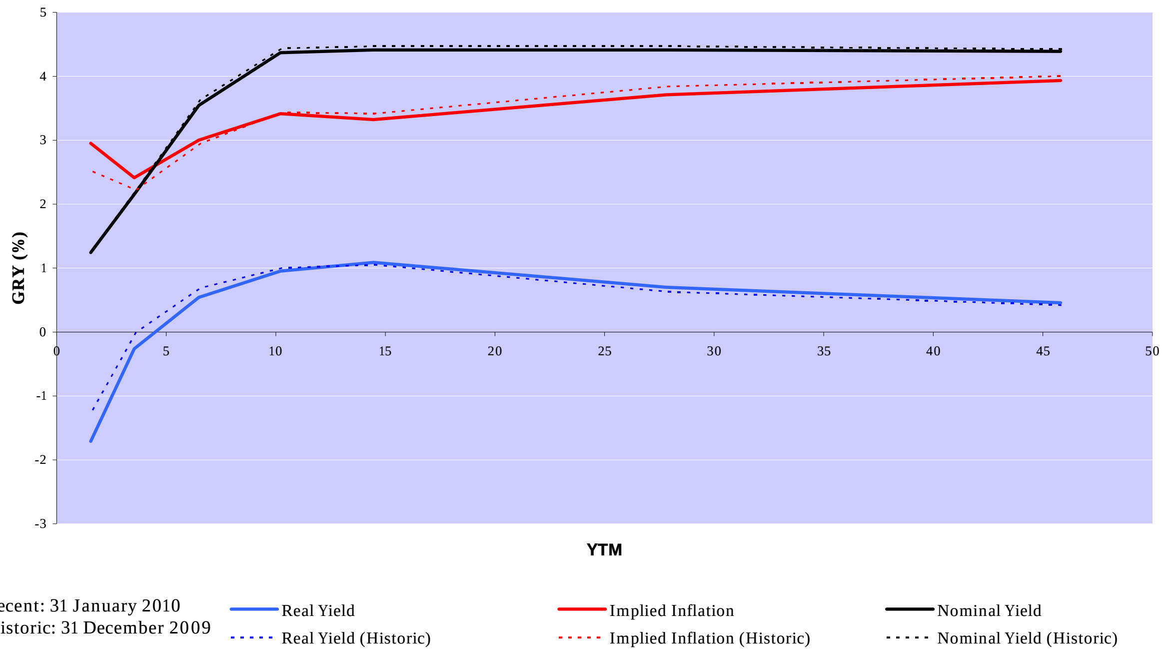
Within bond markets, the early action of 2010 was dominated by moves in credit. For gilt markets, moves were somewhat more pedestrian.

Surprisingly high inflation data released on the 19th January saw short term inflation expectations increase notably, though as is commonplace these days, investors sought to reflect these concerns via the purchase of index-linked issues rather than the sale of conventionals.

Whilst the strong inflation data originally pushed up gilt yields, weaker than anticipated GDP data for Q4 coupled with some increased risk aversion as a consequence of the Obama banking proposals ultimately led to the curve dropping c.6/7 bps during the month.

Real, Nominal and Implied Inflation Gilt Yield Curves

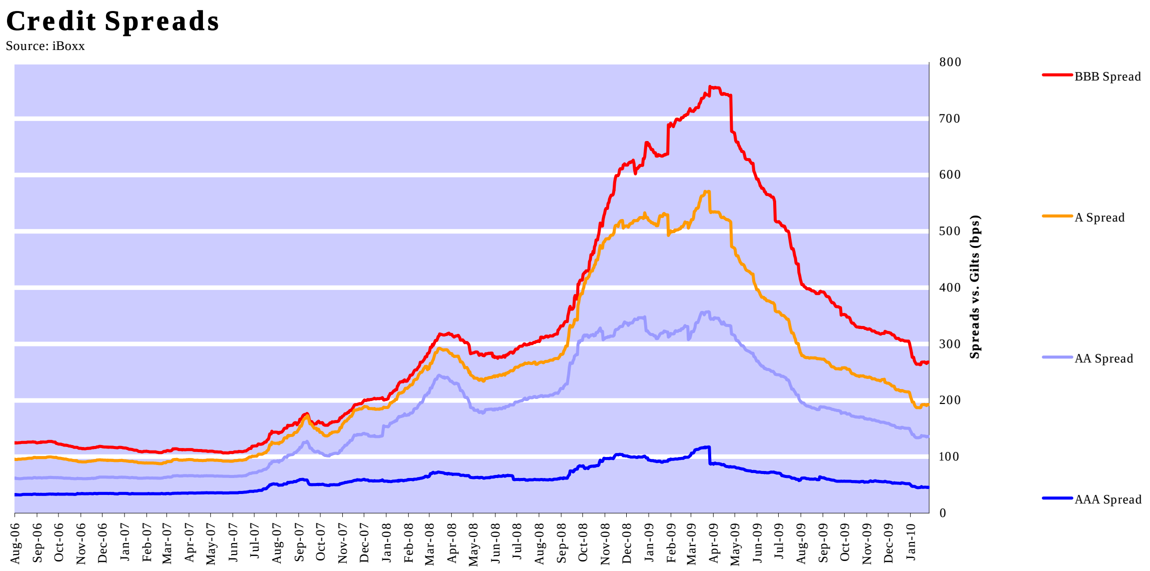
Source: Bloomberg



Credit Spreads

It seems that the process of setting fireworks off from Sydney Harbour Bridge created additional fireworks in the corporate bond sector as many investors adopted the New Years resolution to build up positions in credit.

A strong appetite for credit saw spreads contract significantly during January, with BBB rated issues performing the strongest on the back of a 37bps contraction, having been over 40bps tighter earlier in the month. A-rated bonds followed a similar profile and with new issuance remaining strong, the momentum for credit remains strong.



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IFDS BROWN SHIPLEY STERLING BOND FUND

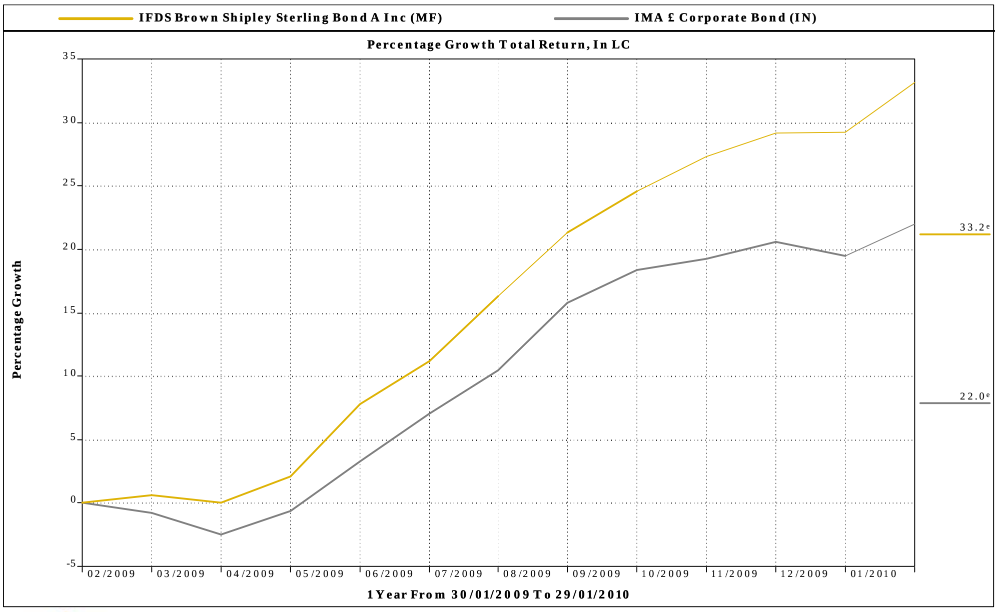
Performance Review

“A Risk Conscious Route to Income”

January 2010

Performance Charts

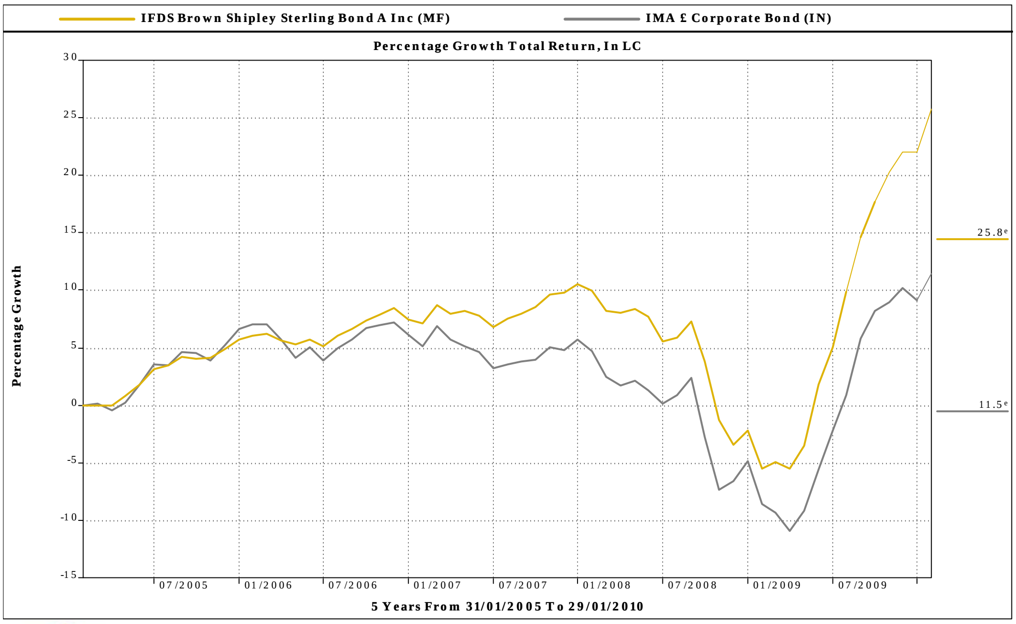
1 Year



User may have modified the original chart and axis titles provided by Lipper.

Mid to mid, gross income reinvested in UK Sterling.

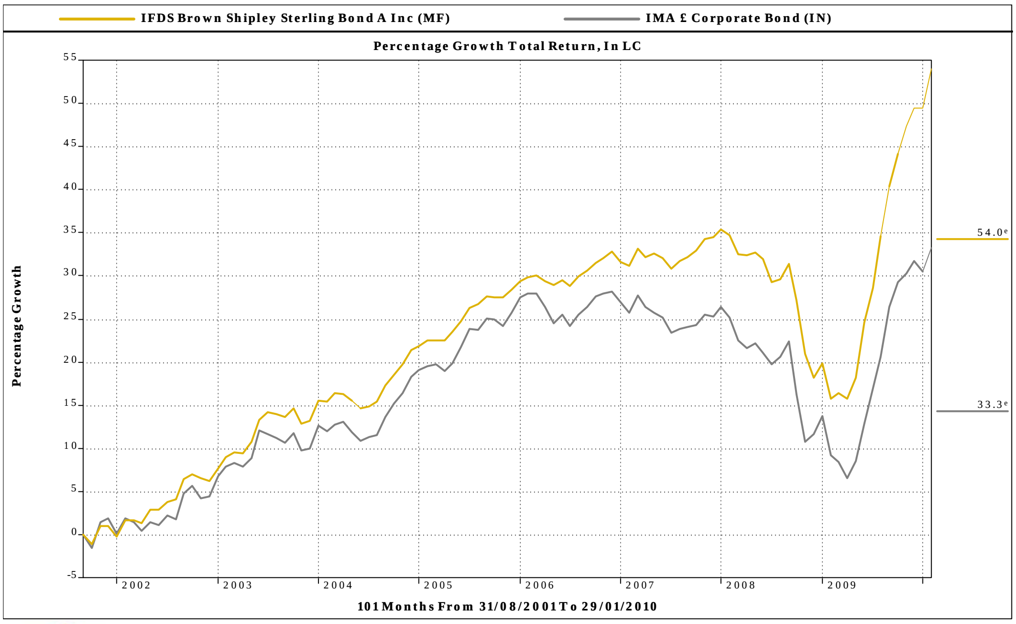
5 Year



User may have modified the original chart and axis titles provided by Lipper.

Mid to mid, gross income reinvested in UK Sterling.

Since Manager



User may have modified the original chart and axis titles provided by Lipper.

LIPPER

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.

Mid to mid, gross income reinvested in UK Sterling.

IFDS Brown Shipley Sterling Bond Fund

				31/12/2009	SS VAL			29/01/2010	SS VAL				
ID ISIN	Issuer	Cpn	Maturity	Holding	Price	Value	%	Holding	Price	Value	%	Performance	Performance Contribution
Government Securities													
Supranationals													
Monoline Wraps													
Mining													
XS0288783979	Glencore	6.5	27/02/2019	1,500,000	97.70	1,465,449.45	1.41%	0	102.43	0.00	0.00%	5.37%	0.08%
XS0366204393	Xstrata	7.375	27/05/2020	1,450,000	107.28	1,555,498.59	1.50%	1,450,000	111.40	1,615,287.10	1.52%	4.39%	0.07%
XS0361024895	Anglo American	6.875	01/05/2018	1,300,000	108.17	1,406,159.95	1.36%	1,300,000	110.08	1,430,989.82	1.35%	2.27%	0.03%
Oil & Gas Producers													
XS0145515655	Talisman Energy	6.625	05/12/2017	1,200,000	105.17	1,262,052.00	1.22%	1,200,000	109.25	1,311,000.00	1.24%	4.38%	0.05%
Chemicals													
XS0123544529	Linde	6.5	29/01/2016	1,050,000	108.55	1,139,798.26	1.10%	1,050,000	109.37	1,148,342.53	1.08%	1.23%	0.01%
Construction & Materials													
XS0360236789	CRH	8.25	24/04/2015	1,000,000	111.47	1,114,698.15	1.07%	1,000,000	114.46	1,144,550.00	1.08%	3.27%	0.04%
XS0169259420	Finning International	5.625	30/05/2013	0	101.69	0.00	0.00%	998,000	103.79	1,035,774.30	0.98%	0.00%	0.00%
Aerospace & Defence													
Industrial Engineering													
XS0176337599	Tomkins	6.125	16/09/2015	1,200,000	100.27	1,203,206.70	1.16%	1,200,000	103.39	1,240,620.66	1.17%	3.59%	0.04%
XS0297507773	General Electric	5.625	25/04/2019	3,300,000	98.14	3,238,504.50	3.12%	3,300,000	101.89	3,362,403.00	3.17%	4.28%	0.13%
XS0276102265	Hutchinson Whampoa Finance	5.625	24/11/2017	1,300,000	103.30	1,342,946.15	1.29%	1,300,000	104.11	1,353,367.47	1.28%	1.21%	0.02%
Automobiles & Parts													
Beverages													
BE6000183549	Anheuser Busch	6.5	23/06/2017	1,400,000	108.09	1,513,202.88	1.46%	1,400,000	110.70	1,549,770.46	1.46%	2.89%	0.04%
Food Producers													
XS0377058614	Cadbury Schweppes	7.25	18/07/2018	1,100,000	110.95	1,220,495.76	1.18%	1,100,000	111.93	1,231,188.53	1.16%	1.40%	0.02%
XS0430699008	Carlsberg	7.25	28/11/2016	1,500,000	109.88	1,648,209.53	1.59%	1,500,000	112.60	1,689,032.93	1.59%	3.00%	0.05%
Health Care Equipment & Services													
Personal Goods													
Pharmaceuticals & Biotechnology													
Tobacco													
XS0182188366	British American Tobacco	6.375	12/12/2019	1,400,000	105.83	1,481,642.19	1.43%	1,400,000	108.11	1,513,609.65	1.43%	2.64%	0.04%
XS0435179618	Imperial Tobacco	7.75	24/06/2019	1,500,000	112.66	1,689,962.03	1.63%	1,500,000	116.00	1,740,032.33	1.64%	3.51%	0.06%
General Retailers													
XS0471074582	Marks & Spencer	6.125	02/12/2019	1,000,000	100.80	1,007,975.00	0.97%	0	102.89	0.00	0.00%	2.56%	0.02%
XS0421003665	John Lewis	8.375	08/04/2019	1,300,000	116.87	1,519,310.00	1.46%	1,300,000	120.39	1,565,070.00	1.47%	3.58%	0.05%
XS0269903869	Next	5.875	12/10/2016	1,500,000	103.52	1,552,732.13	1.50%	1,500,000	104.99	1,574,894.70	1.48%	1.88%	0.03%
Travel & Leisure													
XS0181013607	FirstGroup	6.125	18/01/2019	3,000,000	99.42	2,982,573.75	2.88%	1,600,000	102.77	1,644,320.32	1.55%	3.86%	0.11%
XS0145190921	Hilton Group	7.125	11/07/2012	965,000	104.52	1,008,569.75	0.97%	965,000	104.63	1,009,631.25	0.95%	0.65%	0.01%
XS0163019143	Enterprise Inns	6.5	06/12/2018	2,000,000	81.59	1,631,741.00	1.57%	3,750,000	87.59	3,284,687.06	3.09%	7.99%	0.13%
XS0206404724	Spirit Issuer	1.685	28/12/2011	1,200,000	69.00	828,000.00	0.80%	1,200,000	72.50	870,000.00	0.82%	5.27%	0.04%
Media													
XS0233131118	BSkyB	5.75	20/10/2017	1,500,000	103.96	1,559,347.65	1.50%	1,500,000	105.68	1,585,149.83	1.49%	2.09%	0.03%
XS0109428705	DMGT	7.5	29/03/2013	1,300,000	101.78	1,323,140.00	1.28%	1,300,000	103.08	1,340,040.00	1.26%	1.86%	0.02%
XS0294391684	WPP	6	04/04/2017	1,550,000	101.68	1,576,050.31	1.52%	1,550,000	103.64	1,606,461.62	1.51%	2.40%	0.04%
XS0232037233	ITV	5.375	19/10/2015	1,500,000	88.56	1,328,400.00	1.28%	1,500,000	93.63	1,404,382.50	1.32%	6.20%	0.08%
Support Services													
Industrial Transport													
XS0383000329	BAA	12.45	31/03/2018	1,640,000	132.72	2,176,599.39	2.10%	1,640,000	135.91	2,228,870.04	2.10%	3.15%	0.07%
Food & Drug Retailers													
XS0093004736	WM Morrison	6.125	17/12/2018	1,500,000	106.39	1,595,908.13	1.54%	1,500,000	108.39	1,625,821.73	1.53%	2.33%	0.04%
Mobile Telecommunications													
XS0400780960	Vodafone	8.125	26/11/2018	1,300,000	119.42	1,552,522.79	1.50%	1,300,000	121.66	1,581,550.43	1.49%	2.41%	0.04%
Fixed LineTelecommunications													
XS0110081782	BT	3.5	25/04/2025	1,716,000	123.62	2,121,336.36	2.05%	1,716,000	125.36	2,151,143.28	2.03%	1.63%	0.03%
XS0063233679	Cable & Wireless	8.75	06/08/2012	1,150,000	107.77	1,239,297.50	1.19%	1,150,000	107.51	1,236,307.50	1.16%	0.40%	0.00%
XS0195160329	Telecom Italia	6.375	24/06/2019	1,500,000	102.12	1,531,796.70	1.48%	1,500,000	105.05	1,575,738.53	1.48%	3.36%	0.05%
XS0241946044	Telefonica	5.375	02/02/2018	1,300,000	102.10	1,327,237.08	1.28%	1,300,000	102.34	1,330,442.69	1.25%	0.66%	0.01%
Electricity													
XS0306647016	Enel SPA	6.25	20/06/2019	1,300,000	106.79	1,388,298.34	1.34%	1,300,000	107.92	1,403,005.05	1.32%	1.52%	0.02%
Gas, Water, & Multiutilities													
Banks													
XS0235423406	Nationwide	5.25	31/12/2049	1,619,000	89.88	1,455,076.25	1.40%	1,619,000	94.85	1,535,546.14	1.45%	5.99%	0.08%
XS0220428154	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%
XS0041971275	Bank of Scotland	10.5	29/10/2049	1,500,000	112.08	1,681,237.80	1.62%	1,500,000	119.36	1,790,349.60	1.69%	0.00%	0.00%
XS0388021270	Royal Bank of Scotland	6.625	17/09/2018	1,250,000	104.79	1,309,854.50	1.26%	1,250,000	106.88	1,336,043.44	1.26%	2.50%	0.03%
XS0355789271	Standard Chartered	7.75	03/04/2018	1,000,000	111.09	1,110,874.70	1.07%	1,000,000	115.07	1,150,680.70	1.08%	4.14%	0.04%
GB0008389008	Standard Chartered	0.8125	31/12/2049	3,300,000	57.50	1,897,500.00	1.83%	3,300,000	60.00	1,980,000.00	1.87%	4.46%	0.08%
FR0010306787	BNP Paribas	5.945	19/04/2016	6,250,000	83.08	5,192,703.44	5.01%	6,250,000	86.63	5,414,250.00	5.10%	4.84%	0.24%
XS0300096491	Goldman Sachs	6.125	14/05/2017	1,500,000	100.96	1,514,401.88	1.46%	1,500,000	103.10	1,546,461.00	1.46%	2.60%	0.04%
Nonlife Insurance													
XS0251382361	Amlin	6.5	19/12/2016	6,016,000	85.41	5,138,085.12	4.95%	6,016,000	90.83	5,464,122.24	5.15%	6.95%	0.34%
XS0270707283	Beazley	7.25	19/12/2016	1,930,000	79.33	1,531,133.37	1.48%	1,930,000	82.75	1,597,075.00	1.50%	5.03%	0.07%
XS0405451666	QBE	10	14/03/2014	1,500,000	117.02	1,755,271.43	1.69%	1,500,000	120.03	1,800,476.85	1.70%	3.25%	0.06%
Life Assurance													
XS0092202836	AMP Financial	6.375	17/11/2010	750,000	101.84	763,830.00	0.74%	750,000	101.61	762,071.25	0.72%	0.27%	0.00%
Equity Investment Trusts													
GB0008961913	City Of London	8.5	31/01/2021	75,000	119.08	89,310.00	0.09%	75,000	119.76	89,816.25	0.08%	1.13%	0.00%
Real Estate													
XS0373803930	Goodman Australian	9.75	16/07/2018	1,750,000	98.56	1,724,786.70	1.66%	1,750,000	108.94	1,906,476.69	1.80%	11.32%	0.19%
XS0222107186	Westfield Finance	5.5	27/06/2017	3,300,000	95.86	3,163,454.25	3.05%	3,300,000	101.02	3,333,820.22	3.14%	5.84%	0.18%
XS0231216549	Brixton Estates	5.25	21/10/2015	1,500,000	97.70	1,465,500.00	1.41%	1,500,000	101.39	1,520,850.00	1.43%	4.20%	0.06%
XS0469028319	Segro	6.75	23/11/2021	1,500,000	101.41	1,521,150.00	1.47%	0	107.55	0.00	0.00%	6.59%	0.10%
XS0084734127	Liberty International	6.875	05/03/2013	1,537,000	104.57	1,607,194.79	1.55%	1,837,000	99.95	1,836,081.50	1.73%	-3.89%	-0.06%
XS0272192682	Stockland	5.625	25/10/2013	2,145,000	97.52	2,091,857.63	2.02%	2,145,000	100.20	2,149,185.65	2.02%	3.20%	0.06%
GB0006441967	Home Group	0	11/05/2019	2,250,000	57.28	1,288,687.50	1.24%	2,250,000	58.23	1,310,220.00	1.23%	1.67%	0.02%
General Financial													
XS0233803153	Kensington Group	9	21/12/2015	3,248,000	62.50	2,030,000.00	1.96%	3,248,000	62.50	2,030,000.00	1.91%	1.14%	0.02%
XS0220965759	Provident Financial	7.125	15/06/2015	2,086,000	98.75	2,059,925.00	1.99%	2,086,000	98.75	2,059,925.00	1.94%	0.57%	0.01%
XS0459028626	Provident Financial	8	23/10/2019	3,000,000	100.01	3,000,256.35	2.89%	3,000,000	104.64	3,139,050.00	2.96%	5.26%	0.15%
XS0434590237	LSE	9.125	18/10/2019	1,300,000	116.95	1,520,325.50	1.47%	1,300,000	119.84	1,557,898.55	1.47%	3.09%	0.05%
XS0437404824	Tullett Prebon	7.04	06/07/2016	1,700,000	92.50	1,572,500.00	1.52%	1,700,000	94.03	1,598,510.00	1.51%	2.26%	0.03%
CASH	56	0		5,939,632.12	100.00	5,939,632.12	5.73%	8,577,289.58	100.00	8,577,289.58	8.08%	0.00%	0.00%
FUTURES	Long Gilt Futures Contract (Dec 09)			0.00	115.40	0.00	0.00%	0.00	115.40	0.00	0.00%		
	Long Gilt Futures Contract (Mar 10)			-400.00	114.45	750,550.00	0.72%	-400.00	115.66	266,550.00	0.25%		
				-400.00		750,550.00	0.72%	-400.00		266,550.00	0.25%	35.51%	-0.47%
TOTAL						**103,707,760.30**	**100.00%**			**106,136,234.91**	**100.00%**		**2.83%**

End

Source - Brown Shipley & Company Limited

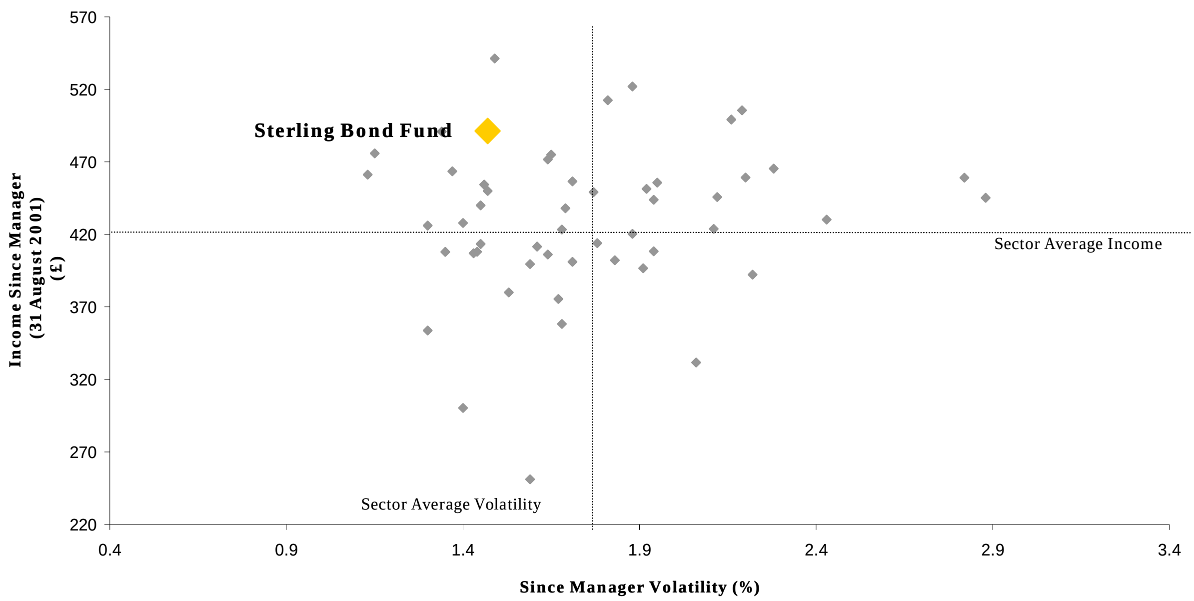
Risk Conscious Route to Income

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 31 January 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.

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Activity Review

"A Risk Conscious Route to Income"

January 2010

Transactions for January 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

08 January 2010

Funds Affected:	Sterling Bond Fund
Security:	SGROLN 6.75% 2021
Action:	Segro Sale

This morning we were made aware of a motivated buyer of this SEGRO issue. Whilst this was not an issue that we were actively trying to sell, we are slightly overweight in the group following the acquisition of Brixton in which we also have a holding.

The price we were bid was more than 2% higher than we have the position marked on our valuations and it represents a level at which is hard to justify continuing to hold the bonds. As such we have taken this very attractive opportunity to exit this position.

SELL 1,500/- SGROLN 6.75% 2021

Information Sources:

Bloomberg

DEALING FILE NOTE

11 January 2010

Funds Affected: Sterling Bond Fund

Security:	GLEINT	6.5% 2019
	FTT	5.625% 2013

Action: Switch Glencore into Finning

So far in the New Year we have seen a continuation of the strong demand for corporate credits. A typical holding period for a position within the fund is measured in years however the market dislocation over the past 12 – 18 months has allowed us to realise some significant gains over shorter periods, as is the case here.

We acquired Glencore in July last year on a spread of >600bps however less than 6 months later we have been bid a spread of <200bps for the same position. At current levels we find it hard to justify holding the position and hence we would prefer to redeploy the capital more productively elsewhere.

We have previously held Finning within the fund however we sold out at the onset of the credit crunch. The inevitable slashing of capex budgets was always likely to weigh heavily on Finning and this together with the fact that the issue was trading at a very tight spread encouraged us to exit our position.

Since that time we feel that the capex cycle has bottomed out and recovery is evident with a number of miners in particular pointing to rapidly expanding capex budgets as commodity prices move higher once again. Whilst spreads have come in considerably from their widest points we have picked up a small amount in spread by doing this trade, albeit we lose some yield on the curve due to the shorter maturity of Finning. Given our short Gilt position it is the spread that is of primary importance to us.

Although Glencore has opened up somewhat over the past year, and many believe that a public listing is imminent, it remains a private company and as such disclosure is considerably less than we would like. Arguably the spreads have already priced in the group going public and so it is hard to see further significant gains being achieved on this position. By moving into Finning we will immediately benefit from higher levels of disclosure and we expect the company to benefit from the upturn in the capex cycle.

SELL	1,500/-	GLEINT	6.5% 2019
BUY	998/-	FTT	5.625% 2013

Information Sources:

Bloomberg

DEALING FILE NOTE

12 January 2010

Funds Affected: Sterling Bond Fund

Security: MKS 6.125% 2019

Action: Marks & Spencer Sale

Consistent with our note yesterday (Glencore switch into Finning) the current market conditions have allowed us to take profits on positions over a considerably shorter time frame than would normally be the case.

We took a position in this Marks & Spencer new issue in November last year. At the time of purchase we stated that we expected the issue to perform well and that we anticipated that the “new issue premium” would disappear over time. Arguably this has taken considerably less time than we imagined. After being issued at a spread of 260bps over Gilts, this morning we were bid a spread of G+<150bps. At this level we find it hard to justify maintaining the position and we will look to get the capital working harder for us elsewhere in the market.

SELL	1,000/-	MKS 6.125% 2019

Information Sources:

Bloomberg

DEALING FILE NOTE

13 January 2010

Funds Affected:	Sterling Bond Fund	
Security:	CPCO	6.875% 2013
Action:	Capital Shopping Centre Top Up	

This morning we were offered this small holding in the Capital Shopping issue that we already hold. The company has been buying this bond back and as a result it has reduced in size from £200m to £27m, as such, liquidity in the issue is difficult at best.

Given this situation we were only willing to do the deal if we could achieve a very sharp price. Following a bit of negotiation we managed to achieve a price that is almost 3% below where we have our existing position marked on our valuations. This level represents a yield of >6% which is very attractive for a 4 year bond in the current market and the trade allows us to put some of our cash to work more productively.

BUY	300/-	CPCO	6.875% 2013

Information Sources:

Bloomberg

DEALING FILE NOTE

25 January 2010

Funds Affected:	Sterling Bond Fund	
Security:	FGPLN	6.125% 2019
	ENTINN	6.5% 2018
Action:	Enterprise Inns into Super Seven and FirstGroup into Diverse Core	

Following an incredibly strong run for corporate bonds we have decided to make some adjustments to the funds Super Seven portfolio. This morning we have promoted Enterprise Inns into the Super Seven whilst moving FirstGroup back into the Diverse Core.

We put FirstGroup into the Super Seven in January 2009. This was during some of the darkest days for the Corporate bond market as investors fled the market on the basis of an apparently apocalyptic outlook. As we now know we managed to avoid the end of the world and corporate bonds went on to have a stellar year.

At the time of promotion in to the Super Seven FirstGroup was on a spread of c.450bps over Gilts and in our Dealing File Note we stated: *"at a current spread of c.450bps over gilts we feel that they offer a genuine opportunity for spread contraction as confidence/liquidity returns to the market"*. This made the issue ideal for the Super Seven and we are very pleased with how it has performed over the ensuing year. Currently the issue is on a spread of c.165bps over Gilts and at this level we believe that it no longer offers potential for meaningful spread contraction and hence is no longer a suitable candidate for the Super Seven. Having done its job we have now moved it back in to the Diverse Core of the portfolio.

Taking FirstGroup's place within the Super Seven is Enterprise Inns. On the whole the pub companies have not covered themselves in glory throughout the recent crisis. However the seeds of the problem were sown in the years leading up to the crisis as they leveraged up their asset bases and aggressively bought back shares.

Enterprise (the 6% 2014 issue) was previously in the Super Seven however we reduced it into the Diverse Core in May 2007 as we felt that the company's actions were not reflected in its eye watering spread of only 74bps over Gilts. This proved to be a prescient move as going into this crisis with a heavy debt burden, especially one that was secured over property which itself was under considerable pressure, was a troubling position for the pub companies to be in.

Most of the pub companies have scrambled to sell off their weaker performing pubs and have been forced to dole out high levels of monthly support to licensees who are under considerable strain. All in all it has been a pretty harrowing time for the sector that was already dealing with a headwind in the form of the smoking ban. With these factors in the forefront of investor's minds spreads on bonds issued by these companies have not come in as quickly as they have for many others.

In response Enterprise has taken a raft of actions to reduce operating costs and its debt burden together with the release of a relatively positive Interim Management Statement last week. As such, we believe that the time is right to bring Enterprise back into the Super Seven. At a spread more than c.470bps over Gilts we are achieving a yield comfortably in excess of 8%. In the current market such yields on investment grade credit are rare and hence we feel that we are being reasonably compensated for the risk being taken.

The group's debt burden has, without question, been an issue however just as important is the value of the group's pub estate. Last year as property prices across the board fell there were fears about the accuracy of the value ascribed to the group's pubs. However over recent months pub sales have been consistently at, or above, book value. In the most recent update the group advised that it has sold >200 pubs at "a reasonable profit above book value" while 20 premium pubs were subject to a sale and lease back transaction at "a significant premium to book value". The group went on to say that it believes that the pub estate is conservatively valued.

After selling off a large swathe of weak and underperforming pubs, along with tentative signs of stabilisation and/or recovery across other parts of the estate Enterprise now reports that licensee assistance levels are now starting to fall. These factors point to the fact that the worst might be behind Enterprise.

Looking ahead the group expects conditions to remain challenging given the state of the economy however the upcoming Football World Cup should result in a significant boost to performance. This affect could well be exacerbated should England remain in the tournament until the latter states and if the weather is somewhat more benevolent than we experienced last year.

The group's bonds are subject to valuation and income cover tests. In the case of the 6.5% 2018 bond the value of the pubs must be at least 1.67x the debt outstanding whilst interest cover must be at least 2x. These tests are carried out annually in September with any movements in the security to be carried out by December. In September 2009 the group achieved these targets, on the 2018 bond, by adding an additional £11m worth of security to the pool. We are confident that the group will continue to make such transfers, should they be required, in order to meet the relevant tests.

Clearly the group's outlook is not without challenges however with an increasing high quality estate, improving market conditions and stabilising asset values, we believe the yield available on this bond makes it an attractive option for the fund's Super Seven.

SELL	1,400/-	FGPLN	6.125% 2019
BUY	1,750/-	ENTINN	6.5% 2018

Information Sources:

Bloomberg

BROWN SHIPLEY
FUNDS

IFDS BROWN SHIPLEY STERLING BOND FUND

Outlook

“A Risk Conscious Route to Income”

January 2010

Economic Outlook

So its official – the recession is over, but only just. With data for Q4 UK GDP showing the economy growing by 0.1% during the final three months of 2009, as we suggested (and were derided for) in our December 2008 report, the economy has indeed returned to growth by early 2010, though admittedly, the pace of the expansion was disappointing.

As disappointing as the amplitude of the upswing, is the failure to reconcile the numbers with other sources of information – most notably, the PMI surveys.

The PMI data is formulated via an extensive survey of companies operating in differing sectors of the economy. Split out into manufacturing, construction and the more dominant, service sectors, the PMIs provide an overview of operating conditions in the form of a "diffusion index".

Economist jargon aside, the PMIs essentially tell us whether conditions are improving or deteriorating within a given sector. A figure of 50 represents "no change", whilst data returns above 50 indicate expansion, with a number below 50 consistent with contraction. Average PMI data for services, manufacturing and construction during the final three months of the year posted at 56.8, 53.3 and 46.8 respectively. Whilst this continues to indicate a decline in construction activity, it points to reasonably robust levels of output in manufacturing and service based industries at a level more consistent with growth of c.0.4-0.5%.

Whether the official data is subsequently revised remains to be seen, with more meaningful analysis available to us towards the end of February. For now, we remain committed to our "punchy" 4% GDP growth estimates for 2010.

Our faith in such growth estimates is derived from a number of sources. Regular readers will be aware of our argument for strong growth, driven initially by a rebuilding of inventories followed by a return of capital expenditure and supported by robust household spending. Recent economic and company updates support our hypothesis and we provide a sample of such below.

On inventory restocking, we are able to point to a number of data points to support our case. BAA, operator of a number of major airports in the UK provided traffic update numbers for December 2009 during January. On the topic of cargo tonnage, the group saw cargo levels increasing by 20% on the previous year, consistent with higher trade levels and a rebuild of inventory channels.

From the capital expenditure angle, mining group Xstrata recently updated the market on their capex projections for 2010. Having cut capital expenditure to $3.6bn in 2009 (from $5bn in 2008), the recovery of commodity prices is such that the group now intends to raise investment to $6.8bn for 2010 – an 89% increase. With IT groups such as Intel, Microsoft and Apple all reporting strong, investment-led demand for their products, we see capex contributing strongly to growth during the year.

And so onto household spending. It seems, almost all UK retailers reported a strong Christmas trading period. Whilst stronger names such as John Lewis, Morrisons and Next continued to perform well, those at the weaker end of recent trading updates such as M&S, DSGI and Blacks Leisure also traded strongly. We continue to see GDP exceeding analyst expectations as the year progresses.

Source: ONS, Markit, Company Announcements

Market Outlook

The market witnessed two distinct, yet key, data points during January which, together, seemed to leave investors somewhat confused.

Coming in the form of higher than expected inflation data, yet swiftly followed by weaker than anticipated GDP numbers, bond investors seem to be torn between the concerns about inflation-driven interest rate hikes and the prospect of additional monetary stimulus to combat weak economic activity. That such uncertainty should be prevailing should not be unduly concerning, particularly during periods within which the direction of travel seems likely to be changing.

Our views on the marketplace are hopefully well documented and clearly communicated. Our thumbnail sketch of 2010 calls for higher government bond yields, coupled with tighter credit spreads as funding conditions continue to improve. Negative total returns on gilts seem set to create sufficient headwinds for corporate bonds such that single-digits should be anticipated from the average corporate bond fund during the year.

For now, the tighter credit spreads seems assured. Having started the year with BBB-rated bonds yielding 3% higher than government bonds, already, spreads have dropped by almost 40bps as the ongoing quest for yield continues.

Without doubt, the biggest event of the year will be shortly upon us. Almost one year on from its initiation, the Bank of England have now completed their planned purchases of almost £200bn of government-issued debt. The February meeting of the Monetary Policy Committee (MPC) provides the chance to update the market on the future of this programme and though we see no immediate prospect of the Banks seeking to dispose of its positions, the prospect of removing such a large marginal buyer of bonds has the ability to push up yields itself.

It is on this basis, that we envisage the committee announcing only a pause in QE at the forthcoming meeting. Preferring instead to leave the mere prospect of further intervention as a means of holding yields down, we see no formal withdrawal of quantitative measures until the May meeting, after which we would expect to see stronger economic growth and the installation of a new government.

On the subject of the election, recent commentary has focussed on the prospect of a hung parliament and the potential for the UK to lose its AAA credit rating. From our perspective, the scare stories surrounding an undecided electorate seem to be overblown, especially when the prospect of a Conservative/Lib Dem coalition could open the way for the more credible (in City circles), Vince Cable to take the post of Chancellor. Speculation aside, our working assumption is for the Conservative party to secure a working majority.

Of greater concern is that of a credit downgrade. This will be a political consideration, since the rating agencies will be more than willing to work with the ruling party of the day in order to illustrate the actions deemed necessary to retain AAA-status. Whether the party then chooses to serve up such medicine remains to be seen, but be under no illusion this is a political choice.

Source: iBoxx

Fund Outlook

Our Market Outlook asks investors to ready themselves for low single-digit returns from the "average" corporate bond fund during 2010. Coming hot on the heels of a stellar 2009, we would hope that such a return would be considered reasonable in a low interest rate environment. That said, we would not consider the Sterling Bond Fund as representing just the "average".

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 affected 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.

The forthcoming reporting season will be important in assisting our efforts in this area, but with spread levels becoming much more homogeneous, the scope for material outperformance will require the identification of key trends and themes at an early stage.

One such theme which we intend to take advantage of is our view on "callable" debt. Typically issued by financial institutions, as a consequence of the credit crisis, market perceptions have changed to such an extent that most participants now operate on the assumption that such bonds will not be called in at the earliest possible opportunity.

Such a broad brush assumption provides an opportunity in our view. It is our belief that, instead, the stronger financial institutions will consider the merits of calling these bonds from a capital efficiency and reputational perspective.

Currently, the Basle Committee on Banking Supervision are busy formulating an upgrade to the now, discredited, Basle II regulations. Addressing the thorny issues of loss absorption and adequate liquidity, it would appear that over coming years, most banks will see a replacement of Tier 2/Tier 1 debt issues with more "hybrid" forms of debt such as the recently issued "Contingent Capital" bonds from Lloyds Banking Group, or "CoCo Pops" as one of our investors has amusingly labelled them.

This capital migration exercise, we believe, will be executed first by the banks in sufficiently strong a position to undertake this move without significant upheaval. Our analysis has already identified banks such as BNP Paribas, Standard Chartered, Investec and Nationwide as institutions robust enough to enact this transition and it is our holding in positions such as these where we see the greatest scope for credit based outperformance during the year.

IFDS BROWN SHIPLEY STERLING BOND FUND

Portfolio Summary

"A Risk Conscious Route to Income"

January 2010

IFDS Brown Shipley Sterling Bond Fund

	S	M	L	Totals
AAA	0.00%	0.00%	0.00%	0.00%
AA	0.00%	3.17%	0.00%	3.17%
A	1.70%	14.64%	0.00%	16.34%
BBB	0.98%	31.92%	5.16%	38.06%
<BBB	4.20%	2.83%	0.00%	7.03%
N	4.47%	20.74%	1.87%	27.08%
Totals	11.34%	73.30%	7.03%	91.67%
			Futures Margin	0.25%
			Cash	8.08%
			Total	100.00%

Run Yield (%)	5.97
GRY (%)	5.86
Ave. Maturity	8.21
Duration	4.85
Mod Duration	4.58
Adj Duration	1.50

Asset Allocation	
Fixed Interest	89.64%
Convertible Securities	0.00%
PIBS	0.00%
Government Securities	0.00%
Preferred Equity	0.00%
Structured Note	2.03%
Futures Margin	0.25%
Cash	8.08%
	100.00%
Of which index linked	2.03%
Estimated addition to GRY	0.05%

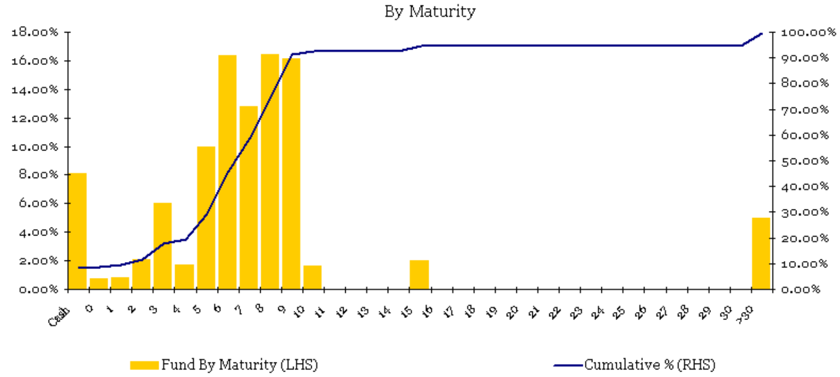
Credit Quality	
AAA	0.00%
AA	3.17%
A	16.34%
BBB	38.06%
<BBB	7.03%
Unrated	27.08%
Futures Margin	0.25%
Cash	8.08%
	100.00%

	Top 10 Sectors	
1	Banks	13.90%
2	Real Estate	11.36%
3	General Financial	9.78%
4	Nonlife Insurance	8.35%
5	Travel & Leisure	6.41%
6	Fixed Line Telecommunications	5.93%
7	Industrial Engineering	5.61%
8	Media	5.59%
9	Tobacco	3.07%
10	General Retailers	2.96%
	Top 10 Sectors	**72.97%**
12	Other Sectors	18.70%
	Futures Margin	0.25%
	Cash	8.08%
	Total	**100.00%**

	Top 10 Issuers	
1	Amlin	5.15%
2	BNP Paribas	5.10%
3	Provident Financial	4.90%
4	General Electric	3.17%
5	Westfield Finance	3.14%
6	Enterprise Inns	3.09%
7	Standard Chartered	2.95%
8	BAA	2.10%
9	BT	2.03%
10	Stockland	2.02%
	Top 10 Issuers	**33.65%**
43	Other Issuers	58.01%
	Futures Margin	0.25%
	Cash	8.08%
53	**Total**	**100.00%**

FUND DISTRIBUTION

By Maturity



Data as at 29/01/2010

Source: Brown Shipley

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