

IFDS BROWN SHIPLEY STERLING BOND FUND
Institutional Investors Report

“A Risk Conscious Route to Income”

June 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 share 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”

June 2010

Gilt Curves

Gilt markets spent much of the month unchanged, with 10-year yields hovering around the 3.5% level. That was until the new coalition government unveiled its maiden budget statement which heralded an acceleration in the pace of the deficit reduction.

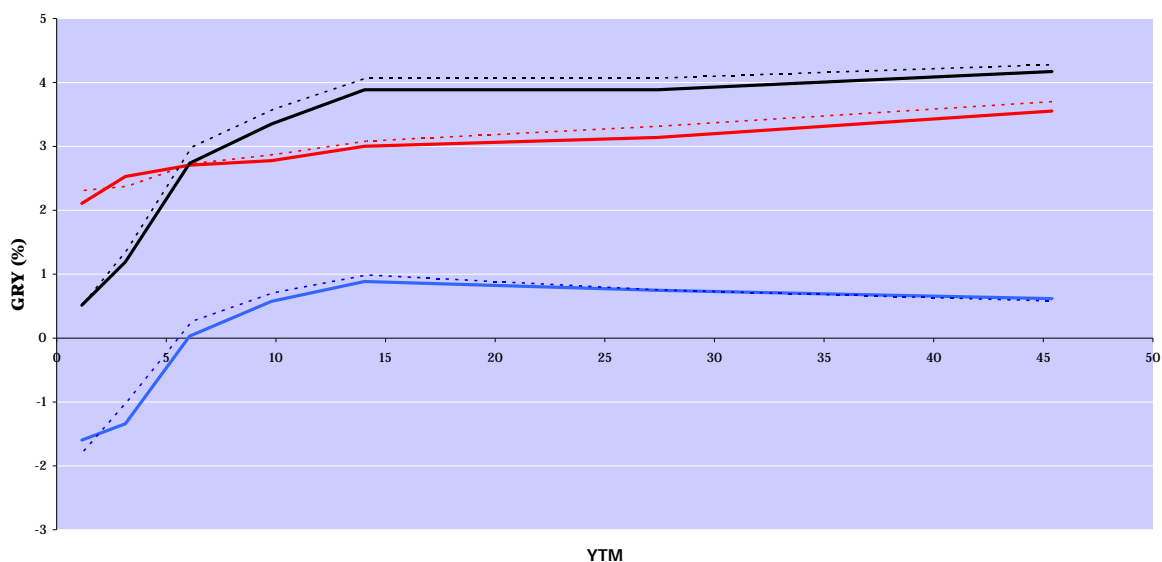
With European bond markets remaining fragile, the credibility leap attributed to the new government was sufficient to drive already nervous investors into the “safe haven” of UK Gilt investments. Come the end of the month, 10-year yields were some 15bps lower at 3.35%.

The yield decline itself manifested itself in the form of both lower real yields and lower inflation expectations. With negative real yields now in evidence on all index linked issues out to 5 years and inflation expectations now sub 3% out to 10-years, markets appear to be increasingly discounting the possibility of an immediate return to recessionary conditions via the much vaunted “double dip”. We discuss the potential for such an outcome in our Outlook section.

Information Sources: Bloomberg

Real, Nominal and Implied Inflation Gilt Yield Curves

Source: Bloomberg



Recent: 30 June 2010
Historic: 31 May 2010

— Real Yield
- - - Real Yield (Historic)

— Implied Inflation
- - - Implied Inflation (Historic)

— Nominal Yield
- - - Nominal Yield (Historic)

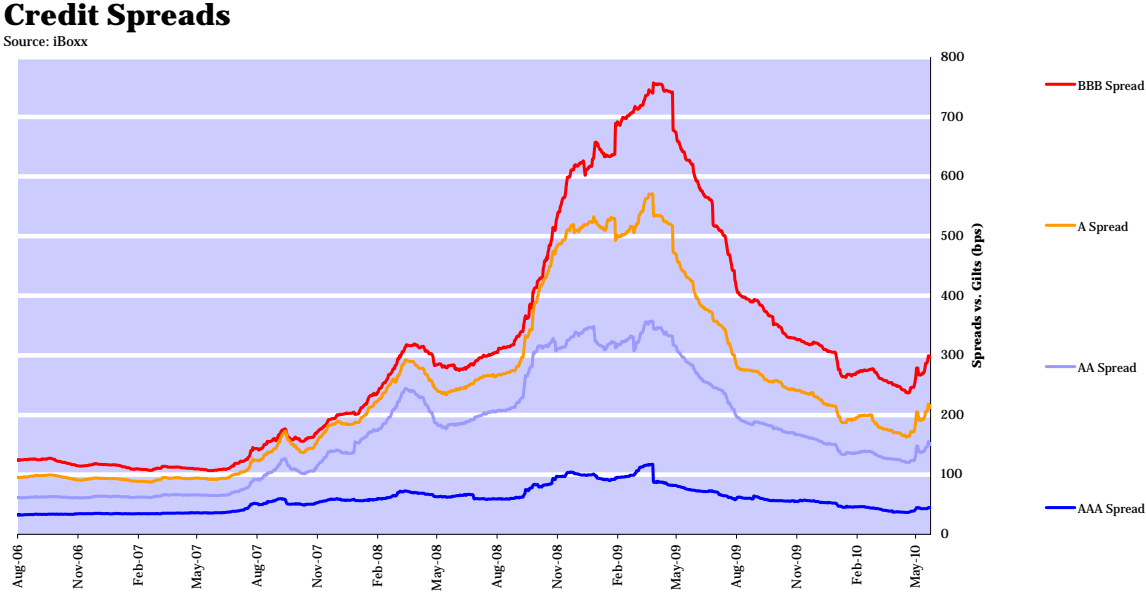
Credit Spreads

With investors increasingly subscribing to the “double-dip” outlook scenario, credit spreads widened further during June.

Though liquidity seemed to improve during June, spreads continued to seep progressively lower as the month transpired. Given the motive force for such widening was driven by economic concerns, unsurprisingly it was lower rated bonds in the A- and BBB-rated categories which widened more aggressively than their AA- and AAA-rated brethren.

Finishing the month at c.300bps over Gilts, BBB-rated issues have now reverted back to the spread levels last witnessed in December 2009.

Information Sources: iBoxx





IFDS BROWN SHIPLEY STERLING BOND FUND

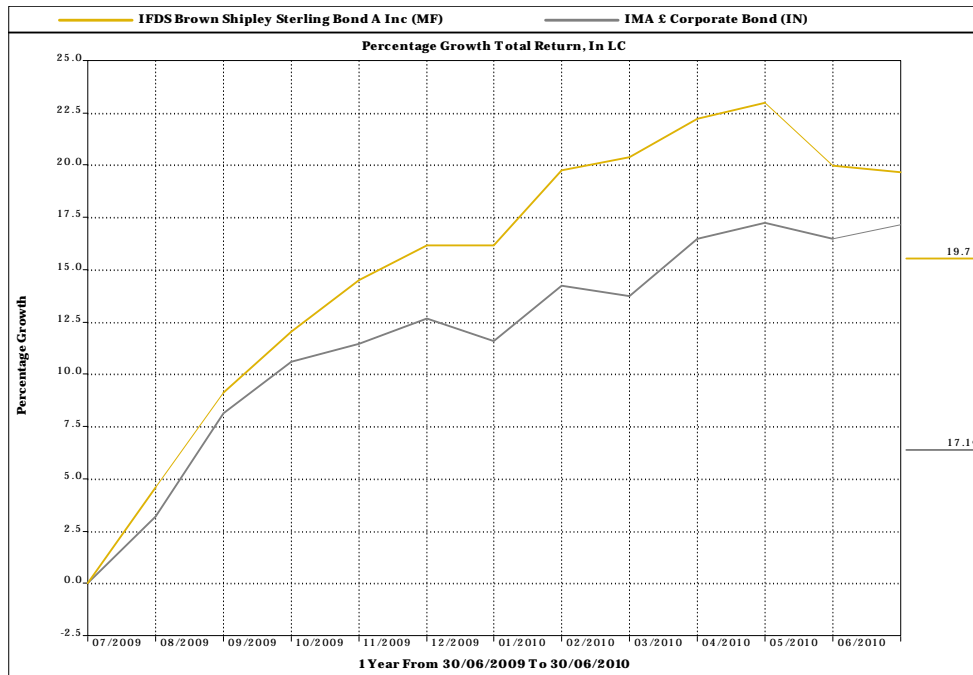
Performance Review

“A Risk Conscious Route to Income”

June 2010

Performance Charts

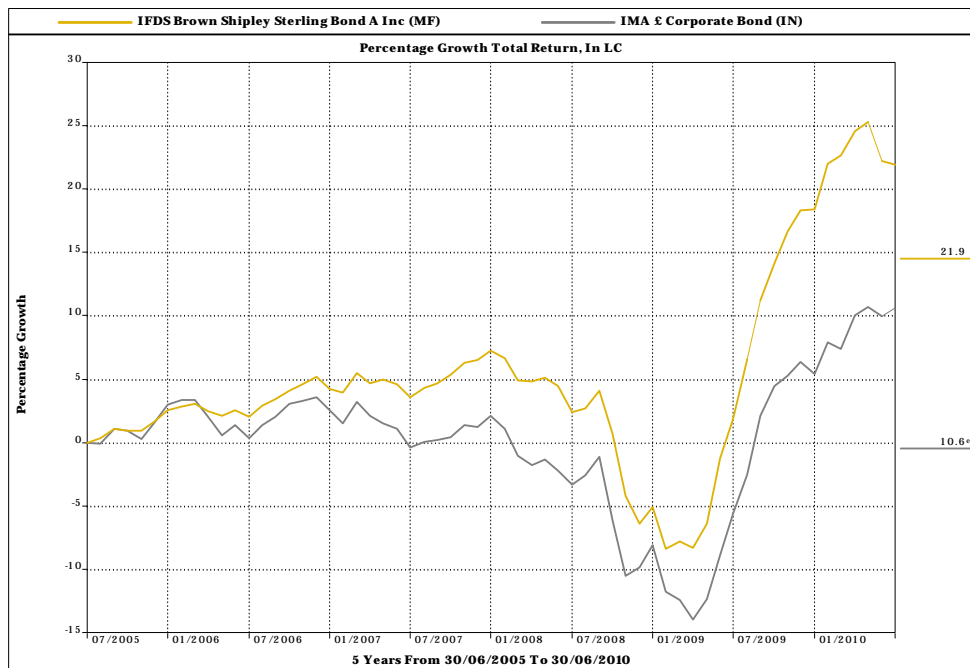
1 Year



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Mid to mid, gross income reinvested in UK Sterling.

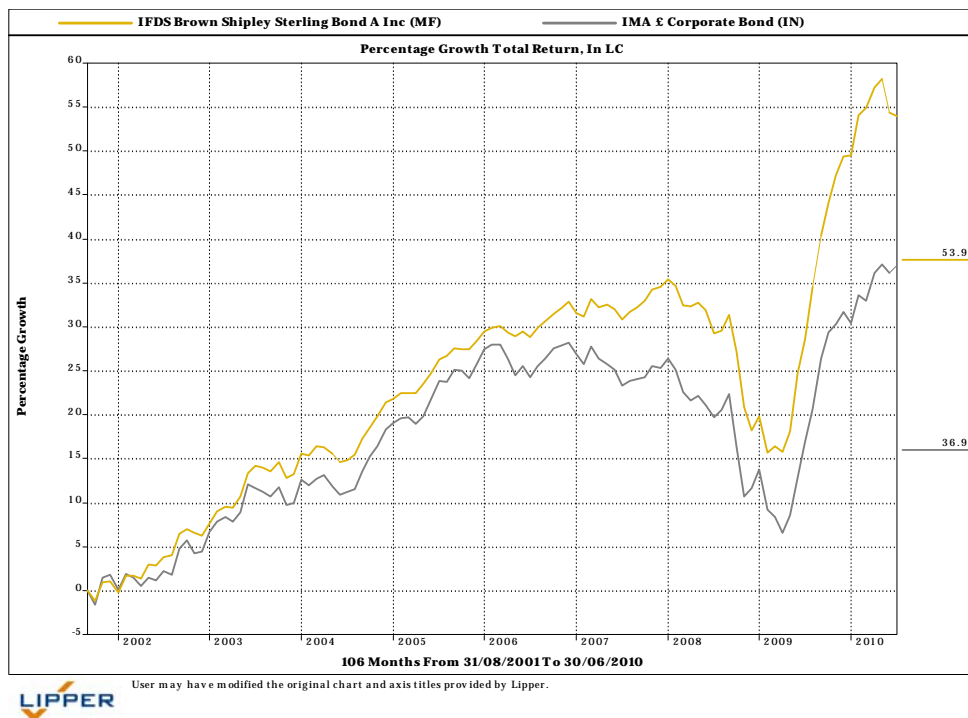
5 Year



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

Mid to mid, gross income reinvested in UK Sterling.

Since Manager



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 £506.00 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

28/05/2010

SS
VAL

30/06/2010

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	1,750,000	93.98	1,644,644.75	1.44%	1,750,000	94.42	1,652,308.00	1.45%	1.09%	0.02%
XS0586204393	Xstrata	7.375	27/05/2020	1,450,000	107.23	1,554,868.35	1.36%	1,450,000	109.03	1,580,866.85	1.39%	2.29%	0.03%
XS0301024895	Anglo American	6.875	01/05/2018	1,600,000	110.13	1,762,080.00	1.54%	1,600,000	111.49	1,783,787.20	1.56%	1.80%	0.03%
Oil & Gas Producers													
XS0145515655	Talisman Energy	6.625	05/12/2017	1,550,000	112.44	1,742,742.50	1.53%	1,550,000	113.88	1,765,062.50	1.55%	1.81%	0.03%
Chemicals													
Construction & Materials													
XS0430665108	Lafarge	8.75	30/05/2017	1,000,000	113.52	1,135,238.00	0.99%	1,000,000	114.52	1,145,206.00	1.00%	1.57%	0.02%
XS0169259420	Flinzing International	5.625	30/05/2013	998,000	105.67	1,054,626.52	0.92%	0	106.02	0.00	0.00%	0.81%	0.01%
Aerospace & Defence													
Industrial Engineering													
XS0176337599	Tomkins	6.125	16/09/2015	1,587,000	105.98	1,681,864.51	1.47%	1,587,000	106.80	1,694,963.61	1.49%	1.30%	0.02%
XS0297507773	General Electric	5.625	25/04/2019	1,600,000	103.11	1,649,824.00	1.45%	1,600,000	104.45	1,671,200.00	1.47%	1.79%	0.03%
XS0276102285	Hutchinson Whampoa Finance	5.625	24/11/2017	1,300,000	108.24	1,407,174.60	1.23%	1,300,000	109.39	1,422,028.40	1.25%	1.53%	0.02%
Automobiles & Parts													
Beverages													
BEG000183549	Anheuser Busch	6.5	23/06/2017	1,400,000	112.82	1,579,470.20	1.38%	1,400,000	113.66	1,591,181.20	1.40%	1.26%	0.02%
Food Producers													
XS037058614	Calbary Schweppe	7.25	18/07/2018	1,450,000	117.59	1,705,121.70	1.49%	1,450,000	117.68	1,706,374.50	1.50%	0.63%	0.01%
XS0430699008	Carlsberg	7.25	28/11/2016	1,500,000	115.61	1,734,205.50	1.52%	1,500,000	116.29	1,744,321.50	1.53%	1.15%	0.02%
Health Care Equipment & Services													
Personal Goods													
Pharmaceuticals & Biotechnology													
Tobacco													
XS0182188366	British American Tobacco	6.375	12/12/2019	1,400,000	110.68	1,549,576.00	1.36%	1,400,000	111.44	1,560,111.00	1.37%	1.20%	0.02%
XS0435179618	Imperial Tobacco	7.75	24/06/2019	1,500,000	118.75	1,781,184.00	1.56%	1,500,000	118.40	1,775,964.00	1.56%	0.30%	0.00%
General Retailers													
XS0471074582	Marks & Spencer	6.125	02/12/2019	1,000,000	102.09	1,020,946.00	0.89%	1,000,000	102.22	1,032,179.00	0.90%	1.64%	0.01%
XS0421003665	John Lewis	8.375	08/04/2019	1,300,000	121.79	1,583,270.00	1.39%	1,300,000	122.50	1,592,500.00	1.40%	1.20%	0.02%
XS0289903869	Next	5.875	12/10/2016	1,500,000	106.60	1,599,042.00	1.40%	1,500,000	107.01	1,605,115.50	1.41%	0.88%	0.01%
Travel & Leisure													
XS018013607	FirstGroup	6.125	18/11/2019	1,600,000	103.91	1,662,612.80	1.46%	1,600,000	103.85	1,661,601.60	1.46%	0.47%	0.01%
XS0163019143	Enterprise Inns	6.5	06/12/2018	3,750,000	85.05	3,189,300.00	2.80%	3,750,000	83.08	3,115,387.50	2.73%	-1.63%	-0.05%
XS0206404724	Spirit Issuer	1.8031	28/12/2011	1,200,000	76.50	918,000.00	0.80%	1,200,000	76.50	918,000.00	0.80%	0.21%	0.00%
Media													
XS023313118	BSkyB	5.75	20/10/2017	1,500,000	108.74	1,631,079.00	1.43%	1,500,000	109.28	1,639,203.00	1.44%	0.98%	0.01%
XS0294391684	WPP	6	04/04/2017	1,800,000	105.54	1,899,673.20	1.66%	1,800,000	106.69	1,920,508.20	1.68%	1.61%	0.03%
XS0232037233	ITV	5.375	19/10/2015	1,500,000	93.58	1,403,640.00	1.23%	1,500,000	94.56	1,418,347.50	1.24%	1.57%	0.02%
Support Services													
Industrial Transport													
XS0383000329	BAA	12.45	31/03/2018	1,640,000	135.25	2,218,031.12	1.94%	1,640,000	135.31	2,219,051.20	1.95%	0.88%	0.02%
XS0124609370	Birmingham Airport	6.25	22/02/2021	1,782,000	99.39	1,771,129.80	1.55%	1,782,000	103.42	1,842,944.40	1.62%	4.62%	0.07%
Food & Drug Retailers													
XS0093004736	WM Morrison	6.125	17/12/2018	1,500,000	112.04	1,680,547.50	1.47%	0	114.22	0.00	0.00%	2.44%	0.04%
Mobile Telecommunications													
XS0400780960	Vodafone	8.125	26/11/2018	1,300,000	122.63	1,594,206.90	1.40%	1,300,000	123.04	1,599,575.90	1.40%	0.94%	0.01%
Fixed Line Telecommunications													
XS0100081782	BT	3.5	25/04/2025	1,316,000	130.18	1,713,221.44	1.50%	1,316,000	131.67	1,732,750.88	1.52%	1.38%	0.02%
XS0063233679	Cable & Wireless	8.75	06/08/2012	1,150,000	104.71	1,204,119.00	1.06%	1,150,000	105.26	1,210,541.75	1.06%	1.29%	0.01%
XS0195160329	Telecom Italia	6.375	24/06/2019	1,500,000	102.94	1,544,169.00	1.35%	1,500,000	102.84	1,542,547.50	1.35%	0.45%	0.01%
XS0241946044	Telefonica	5.375	02/02/2018	1,600,000	102.00	1,631,928.00	1.43%	1,600,000	102.50	1,640,073.60	1.44%	0.98%	0.01%
Electricity													
XS0306847016	Enel SPA	6.25	20/06/2019	1,300,000	107.91	1,402,840.40	1.23%	1,300,000	108.47	1,410,169.80	1.24%	1.05%	0.01%
XS0062992028	First Hydro Finance	9	31/07/2021	1,500,000	112.50	1,687,500.00	1.48%	1,500,000	113.33	1,699,950.00	1.49%	1.46%	0.02%
Gas, Water, & Utilities													
XS0492262844	ESB	6.5	05/03/2020	1,950,000	105.45	2,056,275.00	1.80%	1,950,000	106.86	2,083,672.50	1.83%	1.89%	0.03%
Banks													
XS0381705549	Bank of Ireland	9.25	07/09/2020	1,800,000	95.95	1,727,100.00	1.51%	1,800,000	97.24	1,750,230.00	1.53%	2.21%	0.03%
GB0081771757	Coventry Building Society	6.092	29/06/2049	4,243,000	79.50	3,373,185.00	2.96%	4,243,000	81.20	3,445,316.00	3.02%	2.83%	0.08%
XS023423406	Nationwide	5.25	23/11/2020	2,169,000	97.74	2,120,028.32	1.86%	2,169,000	96.80	2,099,585.49	1.84%	-0.48%	-0.01%
XS020428154	Anglo Irish Bank	0	29/06/2049	0	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	120.06	1,800,832.50	1.58%	1,500,000	119.38	1,790,703.00	1.57%	0.00%	0.00%
XS0388021270	Royal Bank of Scotland	6.625	17/09/2018	1,500,000	103.47	1,552,093.50	1.36%	1,500,000	103.83	1,557,519.00	1.37%	0.93%	0.01%
GB0008389008	Standard Chartered	0.9375	31/12/2049	6,200,000	60.00	3,720,000.00	3.26%	6,200,000	59.00	3,658,000.00	3.21%	-1.53%	-0.05%
FR0010306787	BNP Paribas	5.945	19/04/2018	6,950,000	82.57	5,738,830.45	5.03%	6,950,000	81.39	5,656,834.35	4.96%	-0.78%	-0.04%
XS0300096491	Goldman Sachs	6.125	14/05/2017	1,800,000	98.21	1,767,697.20	1.55%	1,800,000	99.45	1,790,112.60	1.57%	1.83%	0.03%
Nonlife Insurance													
XS0251382361	Amilin	6.5	19/12/2016	6,816,000	91.84	6,260,052.96	5.49%	6,816,000	90.50	6,168,173.28	5.41%	-0.83%	-0.05%
XS0270707283	Beazley	7.25	19/12/2016	2,280,000	80.50	1,835,400.00	1.61%	2,280,000	79.50	1,812,600.00	1.59%	-0.43%	-0.01%
XS0405451666	QBE	10	14/03/2014	1,500,000	121.56	1,823,341.50	1.60%	1,500,000	119.74	1,796,073.00	1.57%	-0.75%	-0.01%
Life Assurance													
XS0092202836	AMP Financial	6.375	17/11/2010	750,000	100.64	754,773.75	0.66%	750,000	100.52	753,915.00	0.66%	0.46%	0.00%
Equity Investment Trusts													
GB0008961913	City Of London	8.5	31/01/2021	75,000	122.65	91,983.75	0.08%	75,000	122.86	92,141.25	0.08%	0.80%	0.00%
Real Estate													
XS037803930	Goodman Australian	9.75	16/07/2018	3,250,000	114.02	3,705,604.50	3.25%	3,250,000	114.81	3,731,263.25	3.27%	1.47%	0.05%
XS022107186	Westfield Finance	5.5	27/06/2017	1,600,000	103.31	1,652,976.00	1.45%	1,600,000	104.55	1,672,835.20	1.47%	1.68%	0.02%
XS0236149877	Sago	5.625	07/12/2020	1,500,000	99.62	1,494,327.00	1.31%	1,500,000	99.59	1,493,887.50	1.31%	0.48%	0.01%
XS0084734127	Liberty International	6.875	05/03/2013	1,837,000	103.64	1,867,194.77	1.64%	1,837,000	102.09	1,875,321.66	1.64%	1.05%	0.02%
XS027192682	Stockland	5.625	25/10/2013	2,145,000	103.31	2,215,999.50	1.94%	2,145,000	103.25	2,214,712.50	1.94%	0.43%	0.01%
GB0006411967	Home Group	0	11/05/2019	2,900,000	62.85	1,822,621.00	1.60%	2,900,000	64.54	1,871,544.00	1.64%	2.68%	0.04%
General Financial													
XS0233803153	Kensington Group	9	21/12/2015	2,248,000	72.50	1,629,800.00	1.43%	2,248,000	72.50	1,629,800.00	1.43%	1.12%	0.02%
XS020965759	Provident Financial	7.125	15/06/2015	2,086,000	94.50	1,971,270.00	1.73%	2,086,000	100.00	2,086,000.00	1.83%	6.50%	0.11%
XS0459028626	Provident Financial	8	23/10/2019	1,600,000	107.13	1,714,080.00	1.50%	1,600,000	106.79	1,708,560.00	1.50%	0.35%	0.01%
XS0434590237	LSE	9.125	18/10/2019	1,550,000	125.10	1,938,998.85	1.70%	1,550,000	125.30	1,942,199.60	1.70%	0.82%	0.01%
XS0437404824	Tullett Prebon	7.04	06/07/2016	3,802,000	95.07	3,614,561.40	3.17%	3,802,000	96.71	3,676,971.23	3.22%	2.40%	0.08%
CASH													
		57	0	2,093,853.12	100.00	2,093,853.12	1.84%	5,307,416.25	100.00	5,307,416.25	4.83%	0.00%	0.00%
FUTURES													

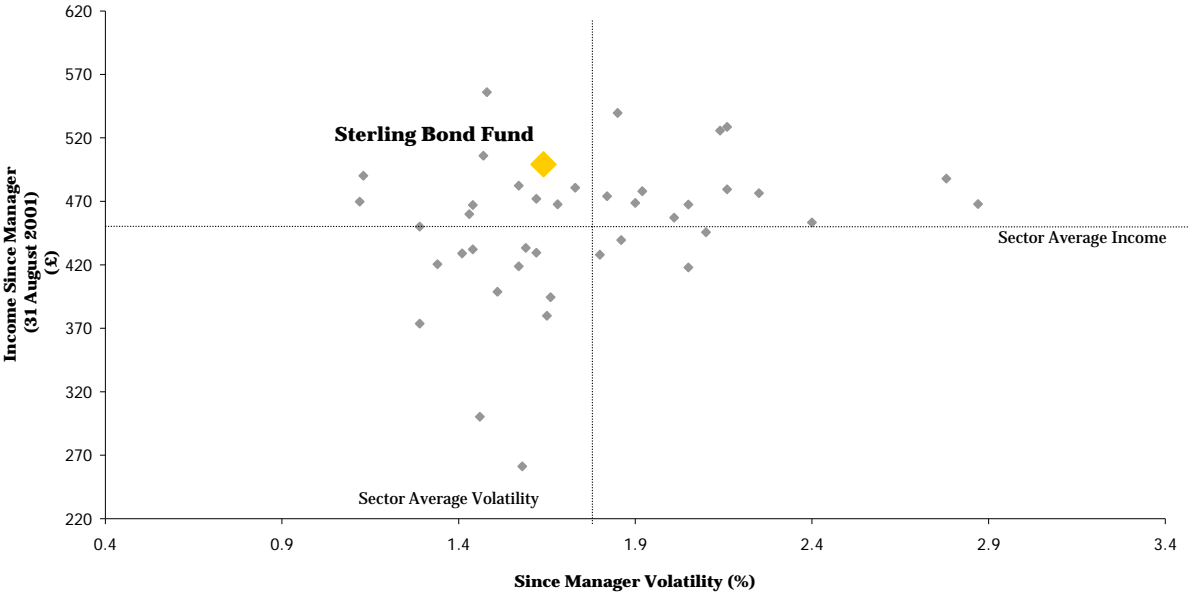
Risk Conscious Route to Income

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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 30 June 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”

June 2010

Transactions for June 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

9 June 2010

Funds Affected: Sterling Bond Fund

Security: MRWLN 6.125% 2018

Action: WM Morrison Disposal

Consistent with our disposal of Linde towards the end of May this sale is due to the extremely low yield available on WM Morrison bonds (4.25%) rather than any underlying concerns with the issuer itself. We have been long time supporters of WM Morrison and it remains an issuer that we are very comfortable with from a credit perspective. However following the recent notable widening in spreads across numerous issuers we believe that a spread of c.120bps over Gilts no longer represents an attractive return.

This sale enables us to raise cash which is useful given the weakening liquidity within the market together with the fact that our short Gilt position has moved against us over recent weeks. However should Gilt yields start to move higher once again then we will look to redeploy the capital back into the market.

SELL 1,500/- MRWLN 6.125% 2018

Information Sources:

Bloomberg

DEALING FILE NOTE

29 June 2010

Funds Affected: Sterling Bond Fund

Security: BKIR 9.25% 2020

Action: Bank of Ireland Top Up

The continued uncertainty hanging over the markets has resulted in weakness in a number of issues. This has especially been the case for bonds issued by financial institutions.

One of our regular contacts was looking to sell this small holding in the Bank of Ireland issue that we already hold. It was available at a level comfortably below our valuation and on a yield of almost 10%. At this level we were more than comfortable topping up our existing holding.

BUY 200/- BKIR 9.25% 2020

Information Sources:

Bloomberg



IFDS BROWN SHIPLEY STERLING BOND FUND

Outlook

“A Risk Conscious Route to Income”

June 2010

Economic Outlook

Without doubt, the biggest single event affecting the UK economy during June came in the form of the inaugural budget from the new coalition government.

Delivered to the House on 22nd June, the Chancellor detailed a change of tack in the nature and structure of the nation's "safety net" via a refreshing approach to the welfare system.

For long, we have argued that the social safety net had morphed into something more akin to a "hammock" under the previous Labour Government, such that welfare and social security payments represented an increasingly unsustainable burden upon the population.

For us, the budget statement sent out the right messages to all constituencies within the economy. Spending cuts, as opposed to tax rises suggest a desire to reward labour, planned reductions in corporation tax will encourage enterprise, whilst a more rapid reduction in the annual budget deficit provides reassurance to investors both home and abroad about the prospect of a negative debt spiral.

For some, the "cuts" in expenditure raise the spectre of a double-dip recession. Not so for us.

For starters, the "cuts" are not actual declines in spending. In the world of politics, unlike the fields of maths or economics, a cut can be represented by a lower level of expenditure than that previously planned. Based upon the newly installed OBR (Office for Budget Responsibility) data, Total Government expenditure is planned to rise from £669bn in the most recent fiscal year to £758bn by 2015-16 - increasing in each and every year. For sure, the Government will not be as large a contributor to economic activity as had been previously envisaged, but the idea that the so called "age of austerity" will tip the UK economy back into recession seems somewhat misplaced.

First round effects aside, the main reason why we don't subscribe to the Government induced double-dip is simply because we have never subscribed to the Keynesian economic model. Instead, what we would expect to see is that, for goods and services previously provided by the State for which there is (ever was?) demand, then provided the demand holds, private sector enterprises will step into the breach.

Our model of the economy is built around monetary policies. In an open economy with a functioning banking system, the speed of nominal economic expansion will be determined by the pace of monetary growth, whilst the pace of real economic growth will be determined by the rate at which the population grows and productivity gains are generated.

By providing economic agents with the incentive to become more productive via lower taxation, less government interference and reduced crowding out effects, the economy has the capacity to realise its productive potential which we forecast to be c.2.25% p.a. over the course of the next decade. In the short run, we expect actual economic growth to exceed this rate via the incurrence of inventory rebuilding and an improvement in corporate capital expenditure. A "double-dip", if we are to witness one, is not imminent in our opinion.

Market Outlook

At Brown Shipley, we pride ourselves upon taking a rational, “over the cycle” approach to our investment analysis. For Government bond markets this manifests itself in establishing a fair value yield based upon real yield requirements and inflation expectations. For credit investments, we seek to determine the appropriate level of additional yield (or spread) required to compensate us for both the risk of default and the level of funds recovered in the event of default.

In our Fund Outlook section of this report we identify some positions within the portfolio for which we believe we are being more than adequately compensated for the assumption of such risks. In this section, we shall talk, instead, in more general terms.

Our initial assertion for analysing Government bond markets is that, over the cycle, real yields on Sovereign debt will gravitate towards the rate of real growth within that territory or currency bloc.

In the UK (and so the level at which we apply our analysis to the Gilt market), we believe that the economy is capable of growing at a rate of c.2-2.5%p.a over the course of a cycle. Such a rate is determined by our expectations for population and productivity growth – the only two long term sources of economic progression. To this rate of expected real growth, we then apply our (over the cycle) inflation projections. For now, we remain convinced of the desire of the Bank of England to deliver its inflation objective of 2%p.a using the CPI measure.

For the purposes of the Gilt market however, other than for the determination of short term interest rates, the CPI rate of inflation is of little importance. It is RPI inflation which is of far more significance. For reasons we'll not go into here, a CPI target rate of 2% equates to an RPI target of c.2.75%p.a. Combining this with the mid-point of our 2-2.5% real growth estimate, we derive a mid-cycle level of c.5% on 5 year Gilt yields. Add in some term premium for 10 year issues and a figure of 5.25% seems to us, to represent “fair value” for UK Government backed debt.

For spreads, the two features of importance are those of default and recovery in the event of default. In general terms, whilst we do not advocate the use of rating agencies for the analysis of individual credit investments, the wealth of data collected by the major rating agencies do lend themselves to analysis on an aggregate basis.

Studying data over the past 30 years from which we can determine the historical likelihood of default and recovery rates, our analysis suggests to us that for the bonds in our preferred habitat of A- and BBB-rated categories, investors should receive a yield premium of between 100-200 basis points.

Currently, UK Government debt offers investors a yield of 3.4% for a 10 year risk. Credit investments offer spreads in excess of that required to compensate for historical levels of default and recovery. In both cases, this “mis-pricing” of yields may well perpetuate or even accentuate in the near term for reasons as yet unknown.

Whilst such mis-pricing of risk may well continue, our experience tells us that, in time, more rational pricing will return to markets. As such we expect to see higher Government bond yields and lower credit spreads. The fund is positioned accordingly.

Fund Outlook

As we discussed in our Market Outlook, in general terms we see Gilt yields as too low, whilst credit spreads provide more than adequate compensation for the risks associated with default.

As strongly as we believe these statements to be true, the net outcome for corporate bonds is such, that in absolute terms, many bonds do not offer the 6-7% yields that ought to be required to tempt investors to take corporate debt risks. This explains the need to maintain a short duration stance via Gilt futures. We want the fund to be exposed only to the risks for which we expect to be rewarded.

Rather than reiterate the rationale for the futures position here, instead we wish to highlight just a few of the positions within the portfolio for which, not only are spreads at attractive levels, but also absolute yields represent excellent value. As one might expect, such positions heavily populate the “Super 7” element of the portfolio. Below, we discuss three of them.

BNP Paribas

BNP Paribas is one of the rare banking institutions to emerge from the crisis arguably in a stronger position. Whilst only modestly impacted by the scale of asset write-downs witnessed across the industry, BNP Paribas were able to take advantage of the sector malaise via the acquisition of certain assets of the Fortis Group. The deal propelled BNP into the position of number 1 deposit taker in Europe, from which they derived pre-tax profits of €9bn on revenues of €40.1bn. With a robust capital position, significant equity generation capacity and excellent liquidity profile, we view the 10% yield (to call) as representing significant value for investors.

Coventry Building Society

Coventry Building Society appears to suffer only due to its association with the building society sector itself. Coventry is no ordinary building society though. Having never outsourced loan origination to third parties, the group has kept a tight rein on its loan book resulting in an average loan-to-value ratio of 51%. Operating with industry leading statistics for loan arrears and an exceptionally strong capital position (Core Tier 1 ratio = 27.9%!), yields (to call) in excess of 10%, once again highlight some of the exceptional value which exists for investors willing to undertake thorough due diligence.

Enterprise Inns

An investment in Enterprise Inns bonds is not without its risks and we would be the first to acknowledge the headwinds which have, and continue, to face the pubs industry. We hold up Enterprise Inns however as an example of how common sense may be applied with good effect.

A spread on any corporate issuer should be determined with reference to both the risk of default and also the recovery in the event of default. The current downturn within the sector and the need for Enterprise Inns to trim its pub estate to meet its borrowing commitments, without doubt, heightens the risk of default for investors in Enterprise Inns bonds. That said on 673 separate occasions during the past 18 months, Enterprise Inns has tested the value of its estate via a succession of disposals. Taken together, the group has realised a profit on these disposals via their sale above net book value.

As at 31 March 2010, the net value of Enterprise Inns' pub estate amounted to £5.3bn, against which the group had outstanding debts (including our position) of £3.5bn. Realistically, we do not envisage a default by Enterprise Inns, but even in the event it was to occur we would anticipate a 100% recovery of our position. The bonds currently trade at a 15% discount to face value. This represents good value.

These investment opportunities epitomise our investment philosophy. Ideas based upon thorough, independent, due diligence designed to pay off over the medium term investment horizon. These are values we have applied consistently throughout the management of the portfolio and ones that we fall back upon whenever market gyrations seem to have little rhyme or reason. We remain dedicated to offering investors a "Risk Conscious Route to Income".

Source: Bloomberg, Company Reports & Accounts



IFDS BROWN SHIPLEY STERLING BOND FUND
Portfolio Summary

“A Risk Conscious Route to Income”

June 2010

IFDS Brown Shipley Sterling Bond Fund

	S	M	L	Totals	
AAA	0.00%	0.00%	0.00%	0.00%	Run Yield (%) 6.23
AA	0.00%	1.47%	0.00%	1.47%	GRY (%) 5.97
A	1.57%	13.38%	0.00%	14.95%	Ave. Maturity 9.72
BBB	0.00%	38.90%	1.57%	40.47%	Duration 4.96
<BBB	1.87%	4.47%	3.02%	9.35%	Mod Duration 4.68
N	6.08%	20.26%	3.21%	29.54%	Adj Duration 1.26
Totals	9.52%	78.47%	7.80%	95.78%	
			Futures P&L	-0.61%	
			Cash	4.83%	
			Total	100.00%	

Asset Allocation

Fixed Interest	91.24%
Convertible Securities	0.00%
PIBS	3.02%
Government Securities	0.00%
Preferred Equity	0.00%
Structured Note	1.52%
Futures P&L	-0.61%
Cash	4.83%
Total	100.00%
Of which index linked	1.52%
Estimated addition to GRY	0.04%

Credit Quality

AAA	0.00%
AA	1.47%
A	14.95%
BBB	40.47%
<BBB	9.35%
Unrated	29.54%
Futures P&L	-0.61%
Cash	4.83%
Total	100.00%

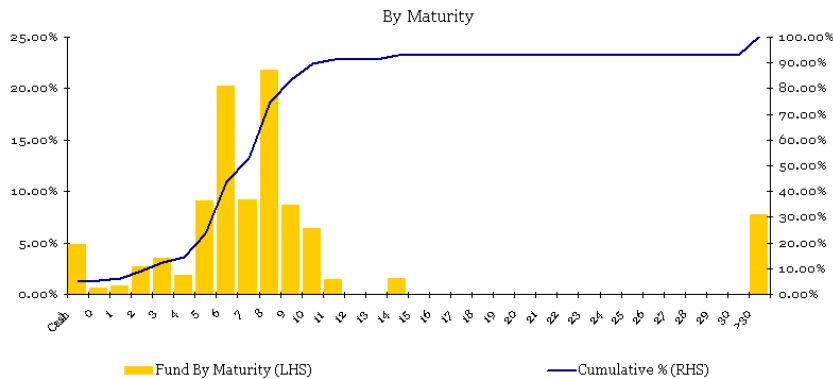
Top 10 Sectors

1 Banks	19.07%
2 Real Estate	11.27%
3 General Financial	9.68%
4 Nonlife Insurance	8.57%
5 Fixed Line Telecommunications	5.37%
6 Travel & Leisure	4.99%
7 Mining	4.40%
8 Media	4.36%
9 Industrial Engineering	4.20%
10 General Retailers	3.71%
Top 10 Sectors	75.63%
11 Other Sectors	20.16%
Futures P&L	-0.61%
Cash	4.83%
Total	100.00%

Top 10 Issuers

1 Amlyn	5.41%
2 BNP Paribas	4.96%
3 Provident Financial	3.33%
4 Goodman Australian	3.27%
5 Tullett Prebon	3.22%
6 Standard Chartered	3.21%
7 Coventry Building Society	3.02%
8 Enterprise Inns	2.73%
9 BAA	1.95%
10 Stockland	1.94%
futures P&L	33.03%
45 Other Issuers	62.75%
Futures P&L	-0.61%
Cash	4.83%
55 Total	100.00%

FUND DISTRIBUTION



Data as at 30/06/2010

Source: Brown Shipley

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