

# Fixed Interest List

## March 2012

Pilling & Co  
Henry Pilling House  
Booth Street  
Manchester  
M2 4AF

Tel 0161 832 6581 Fax 0161 832 0815  
Web [www.pilling.co.uk](http://www.pilling.co.uk)

### About Fixed Interest

Last week figures for UK unemployment during the three months to January were announced, and unemployment rose by 28,000 to 2.67 million giving an unemployment rate of 8.4%. Although the figures have risen, the rise is the lowest we have seen in almost a year. During this same week the credit ratings agency Fitch has joined Moody's and put the UK's top AAA rating on "negative outlook". This warning comes before the Budget which is due this week, and George Osborne is apparently considering announcing a new 100 year Gilt. In theory this could mean the government could lock in current record low interest rates for a long time, however there may not be sufficient demand for such a Gilt. Inflation figures just announced confirmed that both the Consumer Price Index and the Retail Price Index fell during February, to 3.4% and 3.7% respectively. This puts CPI at its lowest rate since November 2010, the fall has been driven by lower gas and electricity bills as well as discounting by retailers.

Against this economic backdrop, we have seen a fall in gilt prices for the second month running, with the 10-15 year gilt index now at 194.76 from 202.71 last month. Gilt yields are still near historic lows, with the first conventional gilt offering a gross redemption yield over 2.5% being the 5% Treasury Stock 2025. During the period, corporate bonds have also fallen and investors can find better income returns here. Preference shares have had mixed performance, but we would expect to see some improvement if investor sentiment returns to equities. The funds have performed better, with all three showing a gain. PIBs are a little firmer this month, but we remain wary of the sector. Provident Financial are issuing a new 5.5 year bond this month, with a coupon of 7% paid semi-annually and a rating of BBB. We have further details available, please contact us as soon as possible if interested in participating, as books will close no later than 30<sup>th</sup> March.

The Fixed Interest list is produced regularly as a guide to prices. Fixed interest stocks present a risk to investors, albeit selected gilts may be regarded as low risk. Fixed interest stocks are currently regarded as medium risk. Remember accrued interest is added to the purchase price of stocks such as Gilts, PIBs and Corporate Bonds. Discount is obtained where possible for unit trusts/OEIC selection and it must always be borne in mind high exposure to gilts and other fixed interest securities might constitute a high risk policy since their capital values and the real value of the income that they produce are affected by interest rate fluctuations and inflation.

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## Gilts

## Low/Medium Risk

GRY = Gross Redemption Yield, your total return if you hold the gilt or redemption

| <i>Stock</i>                   | <i>Interest</i> | <i>Description</i>   | <i>Coupon (%)</i> | <i>Flat Yield (%)</i> | <i>GRY (%)</i> | <i>Offer Price (p)</i> |
|--------------------------------|-----------------|--|-------------------|-----------------------|----------------|------------------------|
| <b>Treasury Stock 2018</b>     | Mar/Sept        | Issue of British Government Securities. Gilts are the most secure form of marketable investment, as the Government will never default on the interest or capital repayments. | 5                 | 4.16                  | 1.46           | 120.43                 |
| <b>Treasury Stock 2020</b>     | Mar/Sept        |  | 4.75              | 3.95                  | 1.99           | 120.30                 |
| <b>Treasury Stock 2021</b>     | Jun/Dec         |  | 8                 | 5.40                  | 2.20           | 148.20                 |
| <b>Index Linked Stock 2020</b> | Apr/Oct         | Index Linked   | 2.5               | 1.98                  | -0.77*         | 360.23                 |
| <b>Index Linked Stock 2024</b> | Jan/July        | Index Linked   | 2.5               | 1.90                  | -0.19*         | 321.21                 |

\* Real Return at 3% inflation

## Preference Shares

## Medium Risk

Company Issued Shares with high rates of return. The smaller the company the greater the risk element

| <i>Stock</i>               | <i>Description</i>                        | <i>Flat Yield (%)</i> | <i>Offer Price (p)</i> |
|----------------------------|---|-----------------------|------------------------|
| <b>Aviva</b>               | 8.75% Cumulative Irrd. Preference Shares  | 7.58                  | 115.5                  |
| <b>RSA Insurance Group</b> | 7.375% Cumulative Irrd. Preference Shares | 6.92                  | 106.5 xd               |
| <b>Standard Chartered</b>  | 7.375% Non-Cumulative Preference Shares   | 6.80                  | 108.5 xd               |
| <b>General Accident</b>    | 7.875% Cumulative Irrd. Preference Shares | 7.61                  | 103.5 xd               |

## Permanent Bearing Interest Shares

## Medium Risk

| <i>Stock</i>                       | <i>Description</i>   | <i>Coupon (%)</i> | <i>Offer Price (p)</i> | <i>Flat Yield (%)</i> | <i>Call Date</i> |
|------------------------------------|--|-------------------|------------------------|-----------------------|------------------|
| <b>Nationwide Building Society</b> | Permanent Interest Bearing Shares / Perpetual Bonds issued by building society with higher rates of return. These carry a greater risk element than Gilts. | 7.25              | 100                    | 7.25                  | 05/12/21         |
| <b>Manchester Building Society</b> |  | 6.75              | 89                     | 7.58                  | 13/04/30         |

## Exchange Traded Funds

## Medium Risk

| <i>Stock</i>                                  | <i>Income</i> | <i>Flat Yield (%)</i> | <i>Mid Price</i> |
|---|---------------|-----------------------|------------------|
| <b>iShares Sterling Corporate Bond Shares</b> | Quarterly     | 5.48                  | £119.81          |

## Eurosterling Bonds

## Medium Risk

Company Issued Bonds with higher rates of return. The higher the return the greater the risk element. Dealing in Bonds is subject to liquidity and a proportion of capital may be lost if the bond is sold before the redemption date. Bonds usually pay interest once a year.

| <i>Stock</i>                               | <i>Description</i> | <i>Credit Rating</i> | <i>Coupon (%)</i> | <i>Yearly Int.</i> | <i>Flat Yield (%)</i> | <i>GRY (%)</i> | <i>Offer Price (p)</i> |
|--|--------------------|----------------------|-------------------|--------------------|-----------------------|----------------|------------------------|
| <b>Tesco Personal Finance 2018</b>         | Retail             | N/A                  | 5.2               | 24 Feb<br>24 Aug   | 4.85                  | 3.91           | 107.75                 |
| <b>Intermediate Capital 2018</b>           | Financial          | -                    | 7%                | 21 June<br>21 Dec  | 6.85                  | 6.69           | 102.15                 |
| <b>Legal &amp; General (call 01/04/19)</b> | Insurance          | BBB+                 | 5.875             | 1 Apr<br>1 Oct     | 6.60                  | 8.34           | 89                     |
| <b>BAT International Finance 2019</b>      | Tobacco            | BBB+                 | 6.375             | 12 Dec             | 5.31                  | 3.34           | 121.65                 |
| <b>Tesco 2019</b>                          | Retail             | A-                   | 5.5               | 13 Dec             | 4.87                  | 3.53           | 114.10                 |
| <b>National Grid Transco 2024</b>          | Utilities          | A-                   | 5.875             | 2 Feb              | 5.11                  | 4.19           | 116.50                 |
| <b>Procter &amp; Gamble 2030</b>           | Personal Care      | AA-                  | 6.25              | 31 Jan             | 4.91                  | 4.02           | 129.90                 |
| <b>Vodafone 2032</b>                       | Telecoms           | A-                   | 5.9               | 26 Nov             | 5.06                  | 4.58           | 117.90                 |

## Unit Trusts / OEICs

## Medium Risk

| <i>Stock</i>  | <i>Income</i> | <i>Flat Yield (%)</i> | <i>Mid Price (p)</i> |
|---|---------------|-----------------------|----------------------|
| <b>M &amp; G High Yield Corporate Bond Fund Class A Inc</b> | Monthly       | 6.39                  | 48.12                |
| <b>Invesco Perpetual Corporate Bond Fund Inc</b>            | Half Yearly   | 5.33                  | 81.48                |
| <b>Legal &amp; General Dynamic Bond Fund Retail Inc</b>     | Quarterly     | 5.30                  | 63.01                |

## Pilling Ideal Portfolio Higher Income

| <i>Investment Aim</i>  |
|--|
| To provide a higher level of income than ten year gilt yields and a capital performance consistent with the FT Fixed Interest Index from a portfolio of Unit Trusts, OEICs, Funds and Investment Trusts investing in UK and overseas fixed interest and property investments. For further information please telephone the Investment Managers on 0161 832 6581. |

## **Eurosterling Bonds & PIBS**

### **Points to Bear in Mind**

#### **Risk**

Even though we may specify the Risk Rating as low to medium or medium a portfolio consisting of investments in one fixed interest sector could cause extra risk to the overall portfolio.

#### **Denominations**

Eurosterling Bonds and PIBS can only be purchased in round amounts of £1000 and upwards.

#### **Credit Rating**

Top is the ultra-safe AAA followed by AA+, AA, AA-, A+ A, A- then it moves to BBB+. We would suggest anything less than BB be treated very carefully.

#### **Coupon / Income Payment Date**

Eurobonds normally pay interest once each year. You should note that the further the purchase date is away from the interest payment date the more interest you will have to add to the purchase price. Gilts and PIBS pay interest twice a year and interest is paid gross without deduction of tax. However some Eurosterling Bonds in the USA will suffer withholding tax.

#### **Income Yield**

This is income expressed as a percentage of your investment that you would receive at the guide price. Please bear in mind a good rule of thumb is that the higher the yield, the higher the level of risk you are undertaking.

#### **Redemption Yield**

This is your annual return, should you hold the bond to redemption, being income combined with any capital gain / loss.

#### **Redemption Date**

This is the date the bond is repaid at par (100p). Please note that for ISAs a bond must have at least five years left to run.

**Please note that prices and therefore yields  
do change as the market fluctuates.  
Prices are from 19th March 2012  
Please confirm the price before dealing.**