

# Sensible carry in a world of uncertainty

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# Agenda

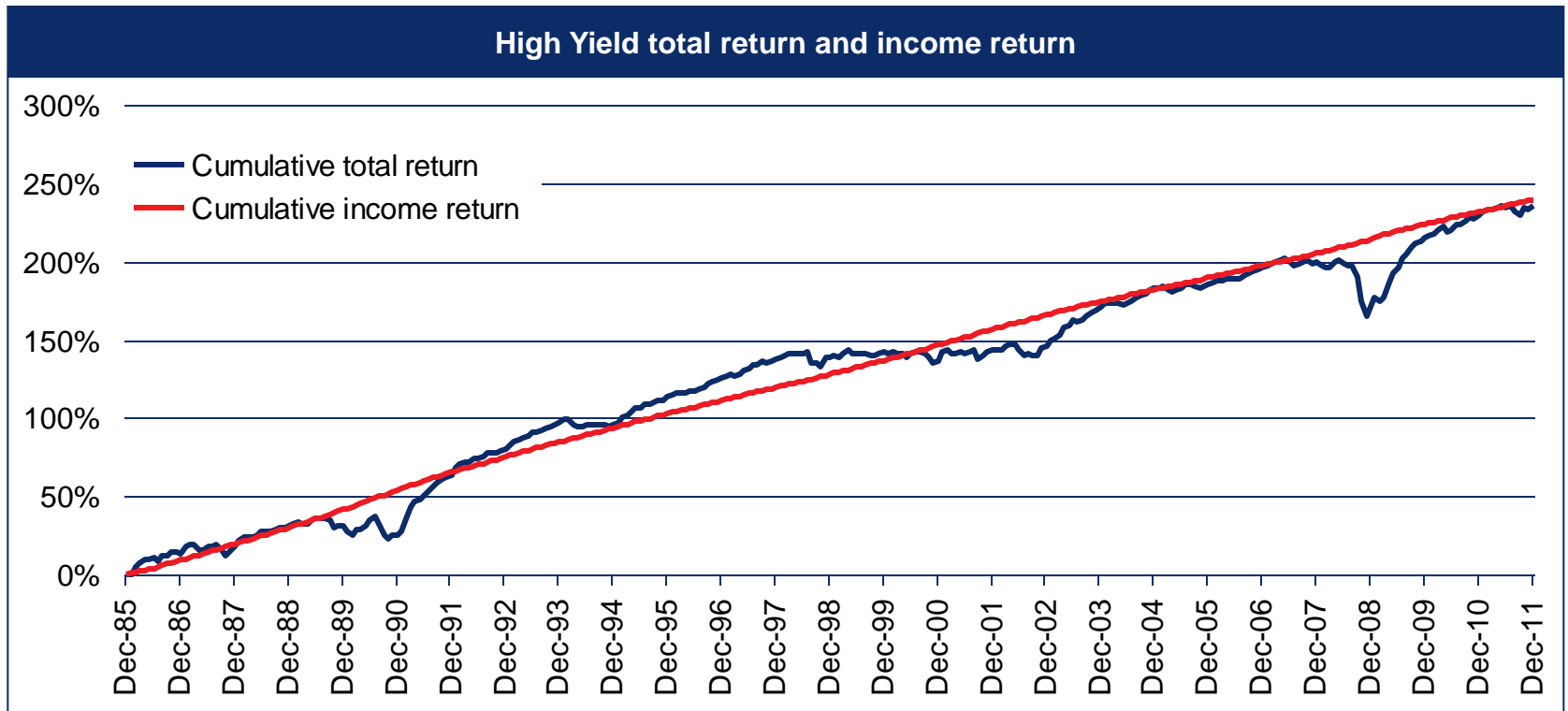
- Sticking to the middle ground
- Is the gilt market a sensible investment?
- What's sensible in credit markets?
- Performance
- Conclusion

# Credit valuations – sticking to the middle ground

Yield	Credit rating	Our view
2.0	Gilts	<b>Expensive:</b> Low or negative real return & bond yield often below the equity dividend yield
4.0	AA	
5.0	A	
6.9	BBB	<b>Play middle ground:</b> Sensible income
8.3	BB	
11.7	B	
23.6	CCC	<b>Catching falling knives</b>

Source: BoA, at 25 January 2011

# Let the carry do the heavy lifting



Source: Credit Suisse, at 31 December 2011

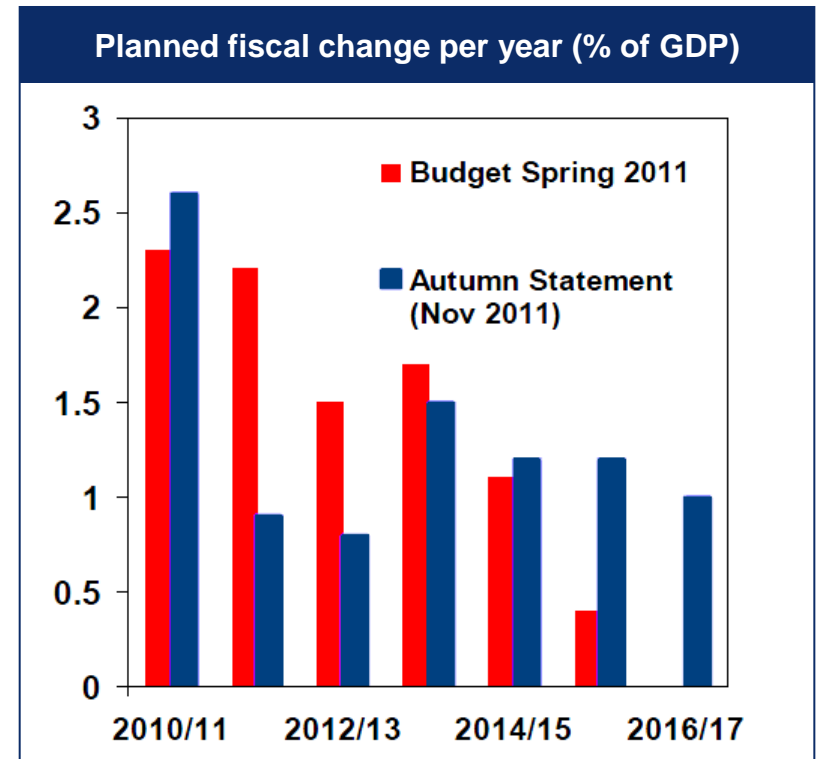
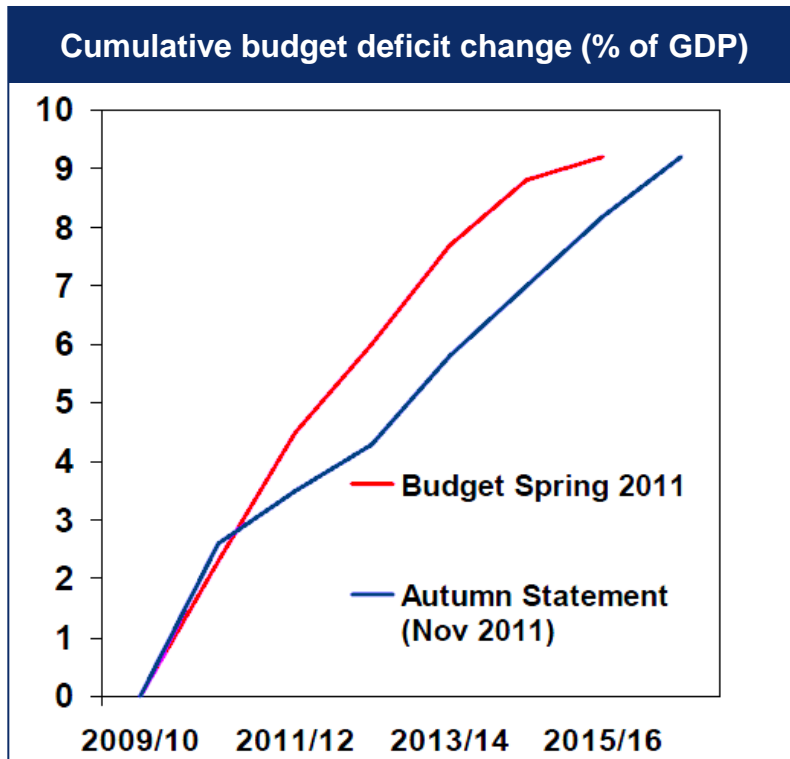
# Is the gilt market currently a sensible investment?

# Gilts as a safe haven

Country	Fiscal Deficit/GDP %	Debt/GDP %
UK	-10.4	82.2
US	-10.7	94.2
Euro Area (EA17)	-6.2	85.4
France	-7.1	95.2
Italy	-4.5	126.1
Spain	-9.3	67.1

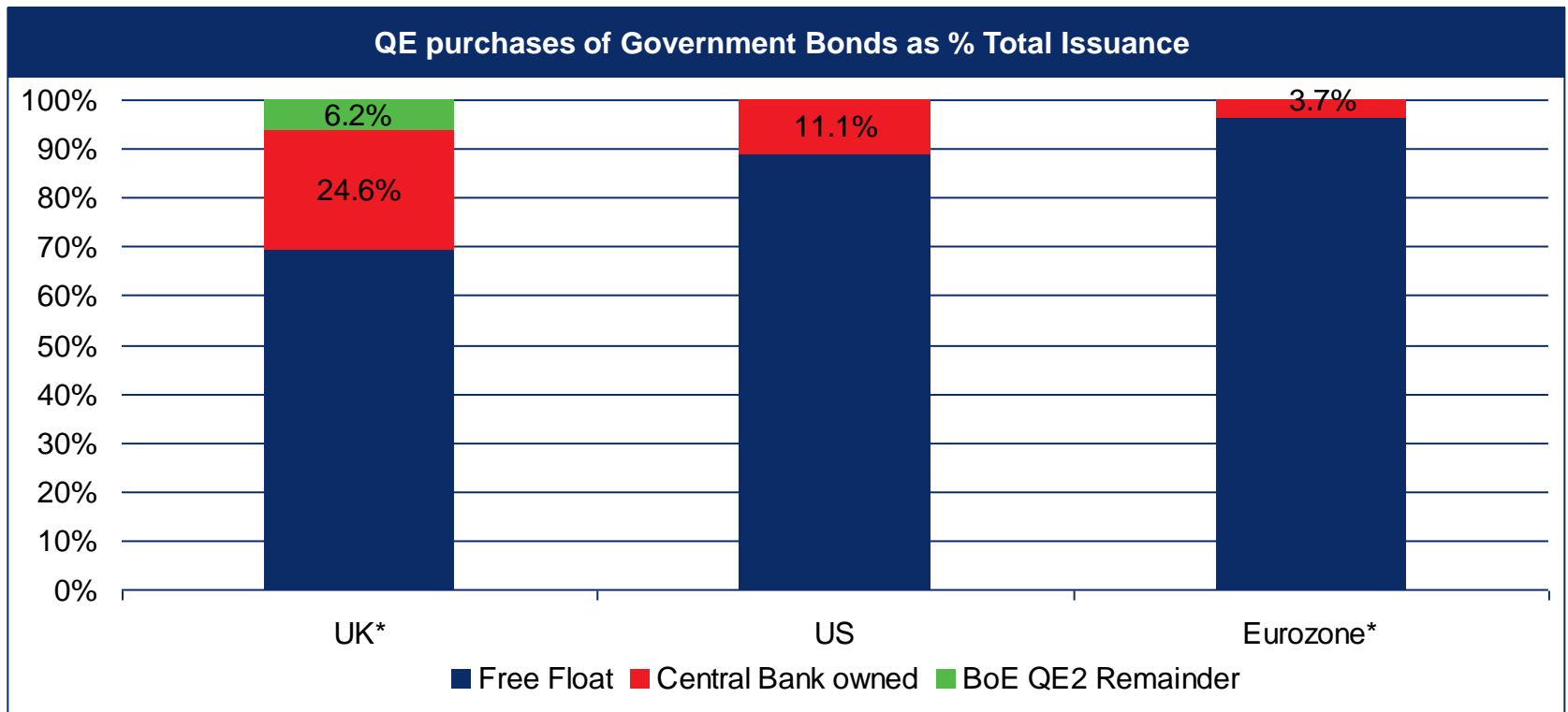
Source: OECD and Eurostat, 2010 Figures at December 2011

# UK's slipping fiscal dynamics



Source: OBR and CIRA

# Real reason gilt market perceived as a safe haven



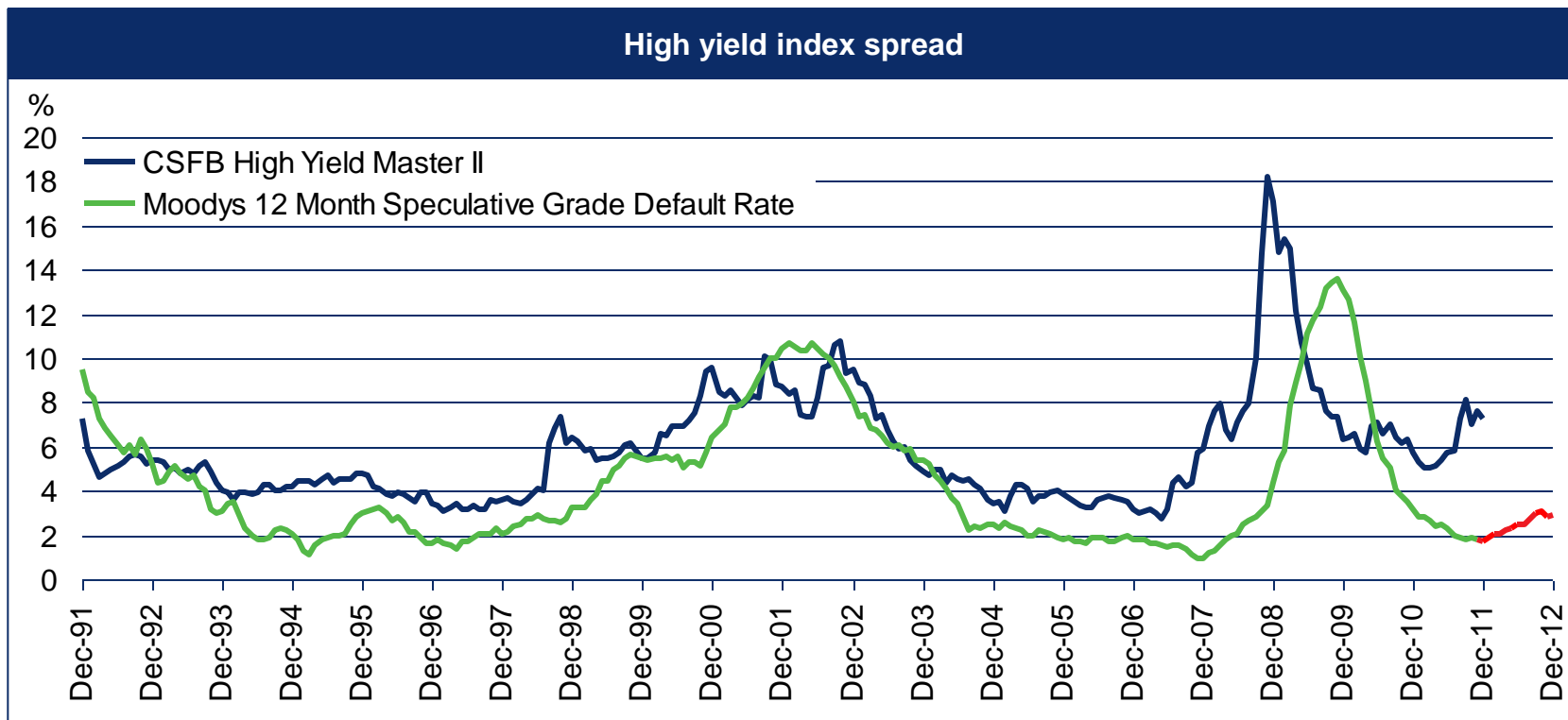
Source: Bloomberg, ECB, DMO, BoE and Federal Reserve at 4 January 2012  
\* Excludes index-linked

***Bank of England has rigged the beauty contest***



# Credit markets: Seeing opportunity again

# High yield spreads versus default rates

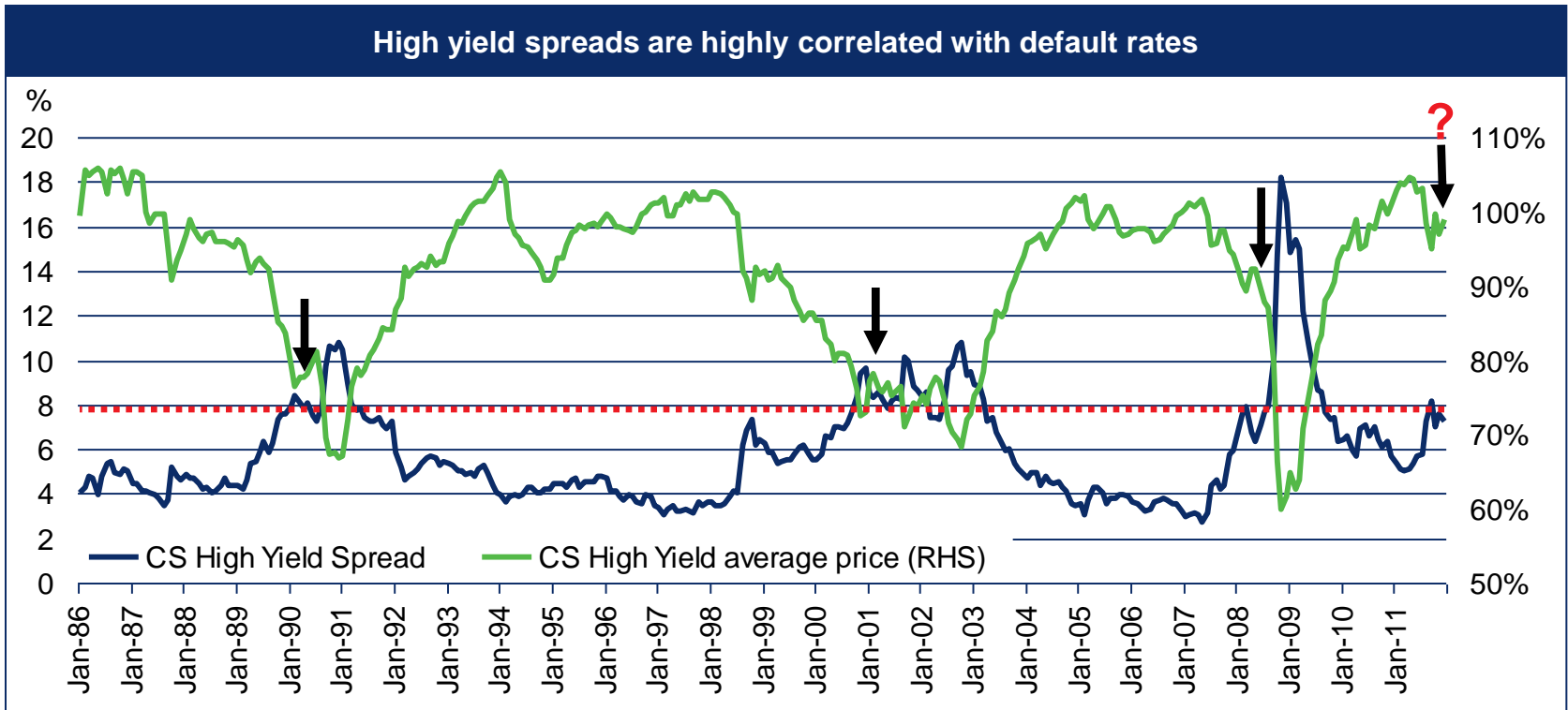


Source: Moody's, as at 31 December 2011  
Red line is Moody's default rate forecast

***Spreads lead default rates, buying in high default environments has been profitable historically***



# Spreads lead default rates

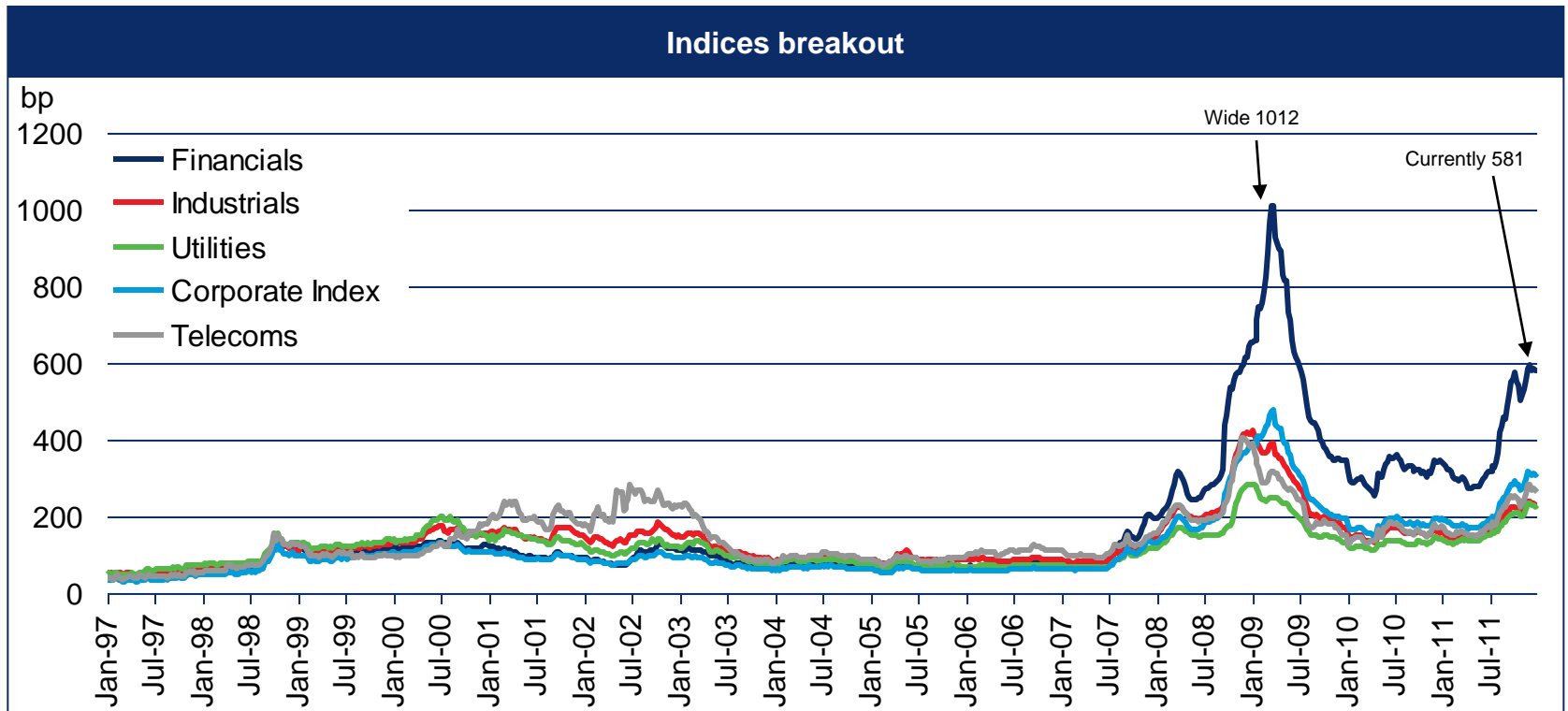


Source: Credit Suisse & Moody's monthly data, at 31 December 2011

**Although spreads are recessionary, global high yield prices aren't**



# Investment grade spreads by sector



Source: Merrill Lynch, at 31 December 2011

# Financial bonds in 2012

- Select opportunities:
  - Vast majority of fund exposure is in UK names
- Avoid European banks:
  - They remain on liquidity life support and have significant downgrade and nationalisation risk
- At current prices tenders and exchanges have re-emerged as a theme. However, the terms have varied from penal (Santander) to generous (Barclays).

***Issuer, bond and country selection remains key***



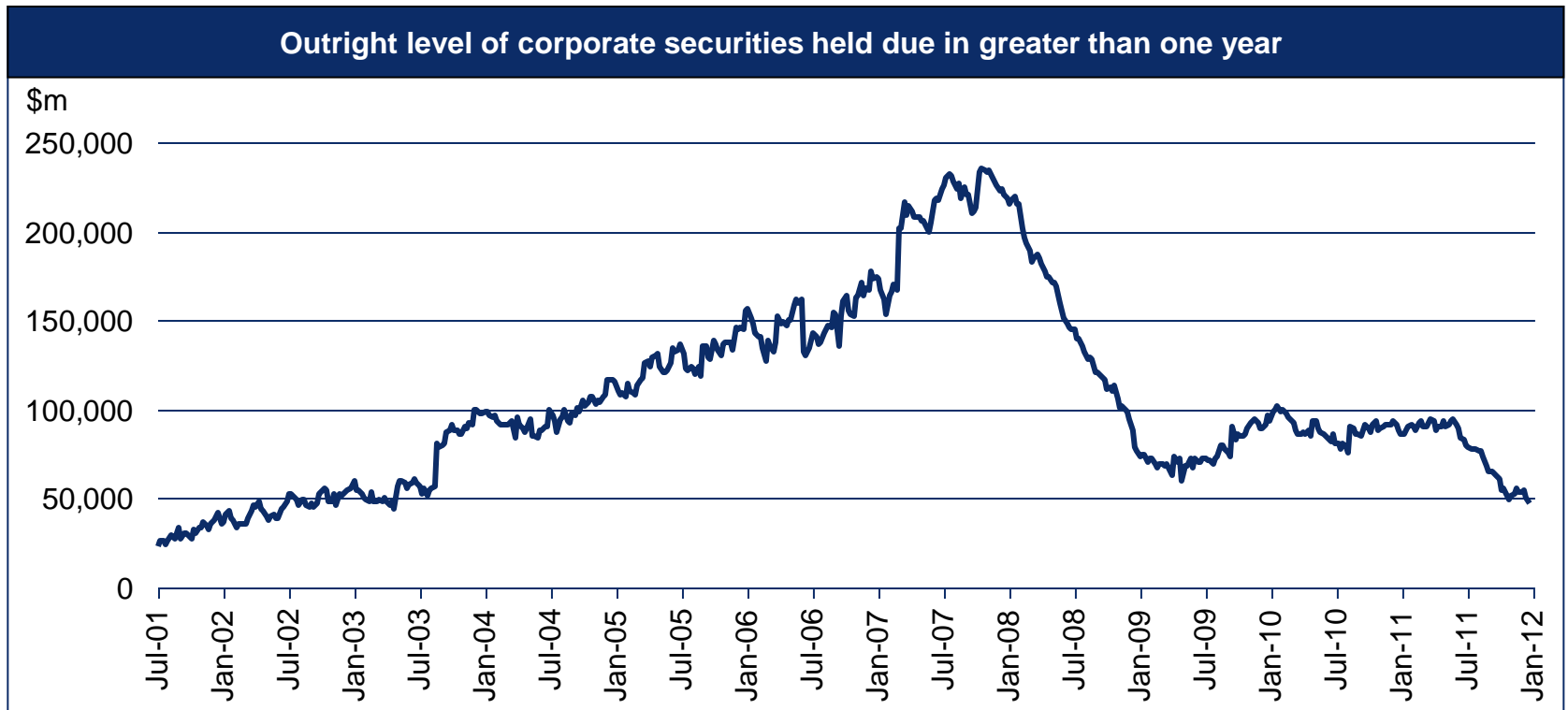
# Spread implied default rates

## Cumulative 5 year default rates since 1970

	Sector	Implied 0% recovery	Worst	Average
European Investment Grade*	Non-financial	10.4%	2.4%	1.0%
	A	9.3%	2.5%	0.8%
	BBB	14.1%	5.8%	2.0%
	T1	46.1%		
European High Yield	High yield	42.1%	31.5%	21.8%

Source: Deutsche Bank, at 11 January 2012, numbers in brackets are from 17 March 2009  
\*iBoxx Euro

# Illiquidity of US corporate bond markets



Source: Bloomberg, at 4 January 2012

**Funds continue to run high cash & cash proxy positions**



# Potential investments

Credit	Maturity	Yield
Virgin Media	2019	6.8%
Standard Life	Perp (2015)	12.9*/6.2%
Legal & General	Perp (2017)	11.4*/7.0%
Iron Mountain	2018	7.8%
Kabel Deutschland	2018	5.5%
Levis	2018	8.6%
Rexam	2067 (2017)	8.3*/6.3%
Ziggo	2018	7.4%

Source: Bloomberg, at 4 January 2012.

Note: Yields to worst

\* Yields to next call

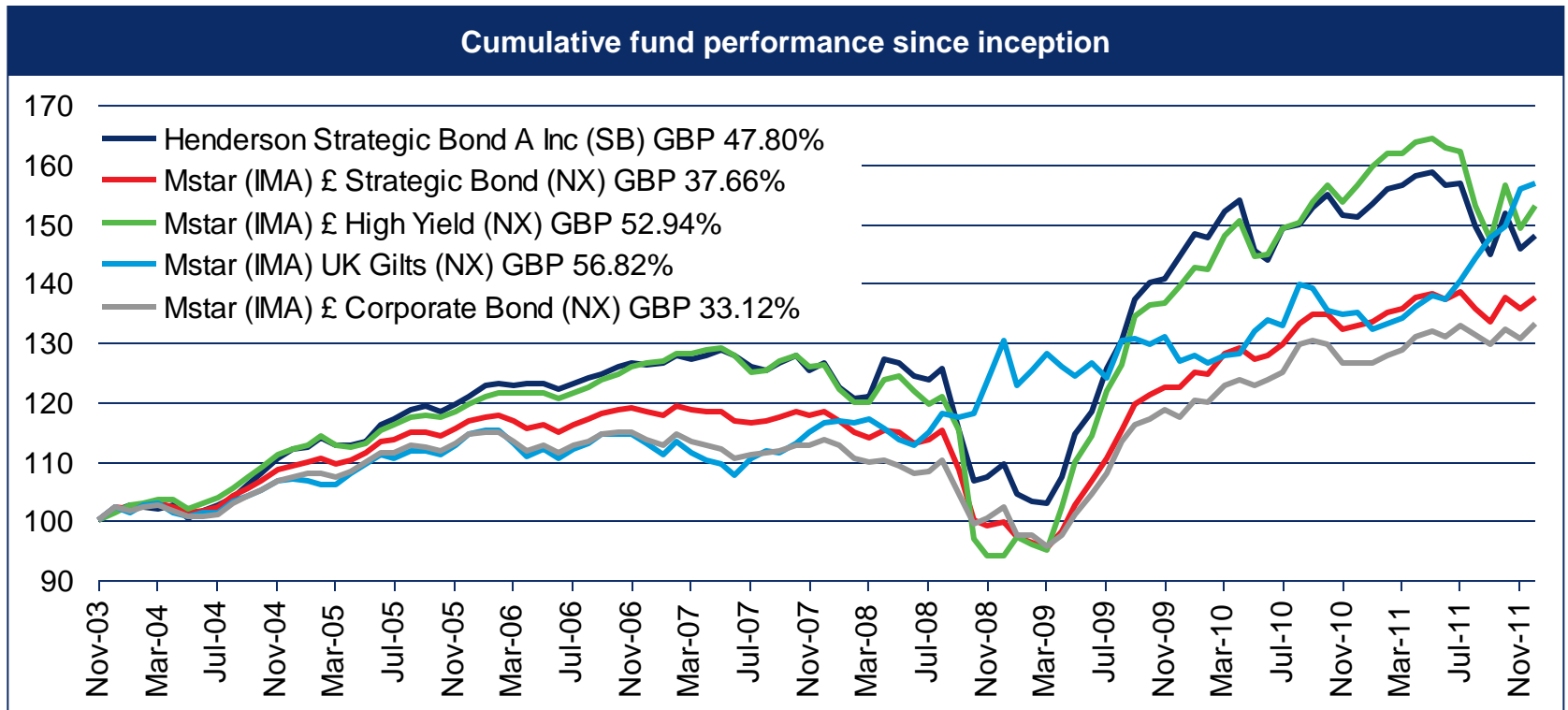
***Sensible carry in a binary world***



# Performance and conclusion

# Performance against other bond sectors

## Performance



Source: Micropal, at 4 January 2012

Note: Performance is cumulative, based on midday prices, net income reinvested, after the deduction of Annual Management Charges (AMC).

# Henderson fixed income fund offering

		Monthly Share Class		Quarterly Share Class	
		Distribution Yield (%)	Underlying Yield (%)	Distribution Yield (%)	Underlying Yield (%)
<b>Total Return</b>	Strategic Bond*			6.2	4.9
	Preference and Bond*			6.3	5.0
<b>Income</b>	Extra Monthly Income	7.4	6.1		
	High Yield Monthly Income	5.6	5.6		
	Fixed Interest Monthly Income	6.3	5.1		
	Managed Distribution*	5.6	4.3		

Source: Henderson Global Investors, at 30 December 2011  
 \* Class A Yields shown

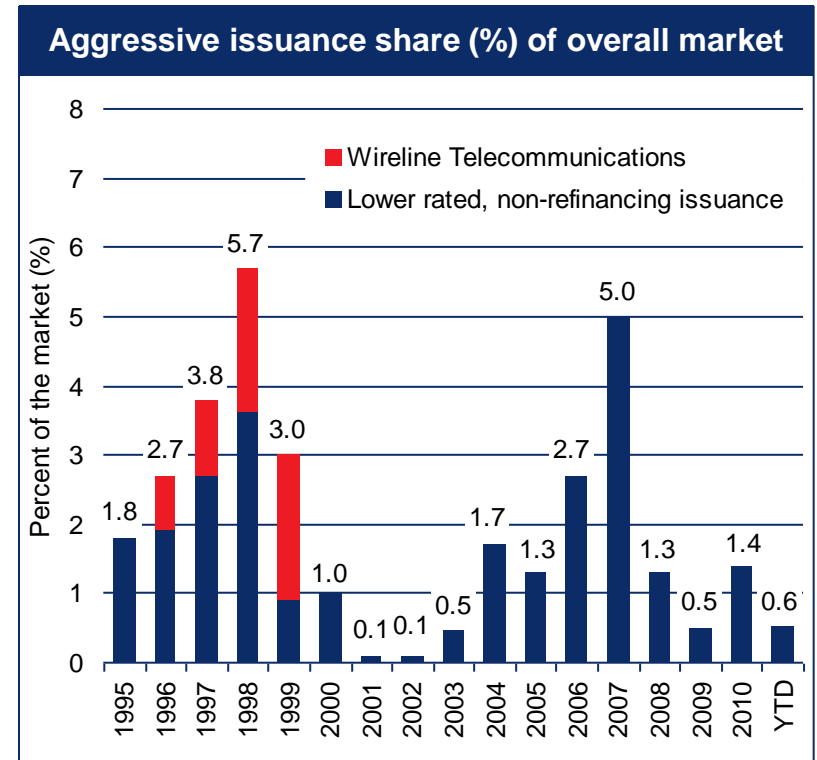
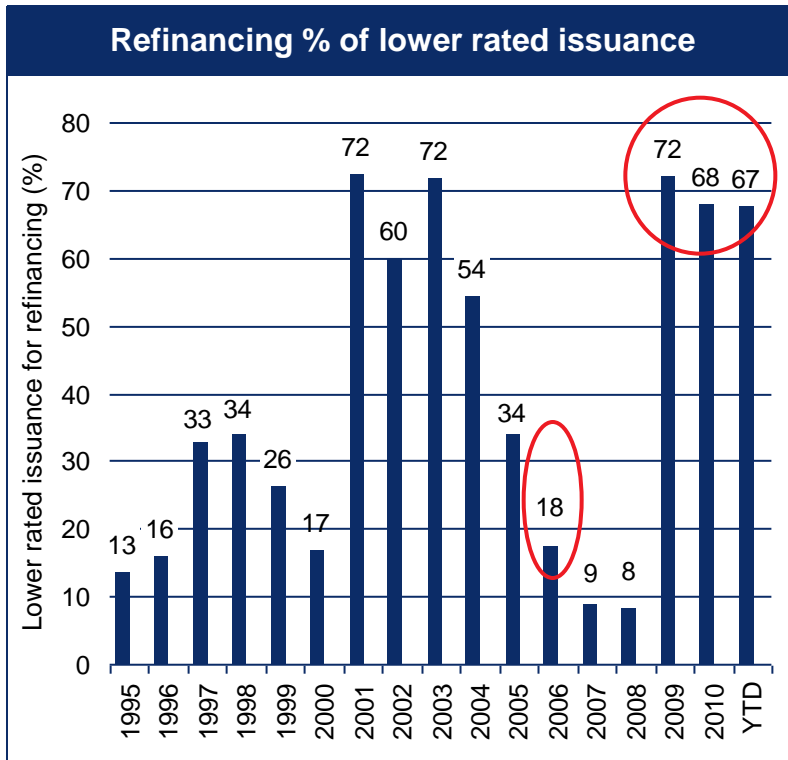


# Summary

- Recession risks have risen rapidly
- Rates are likely to be on hold into 2014+
- Once volatility subsides there will be a grab for fixed rate reliable yield
- Fixed rate BB/BBB appears best reward

# Appendix

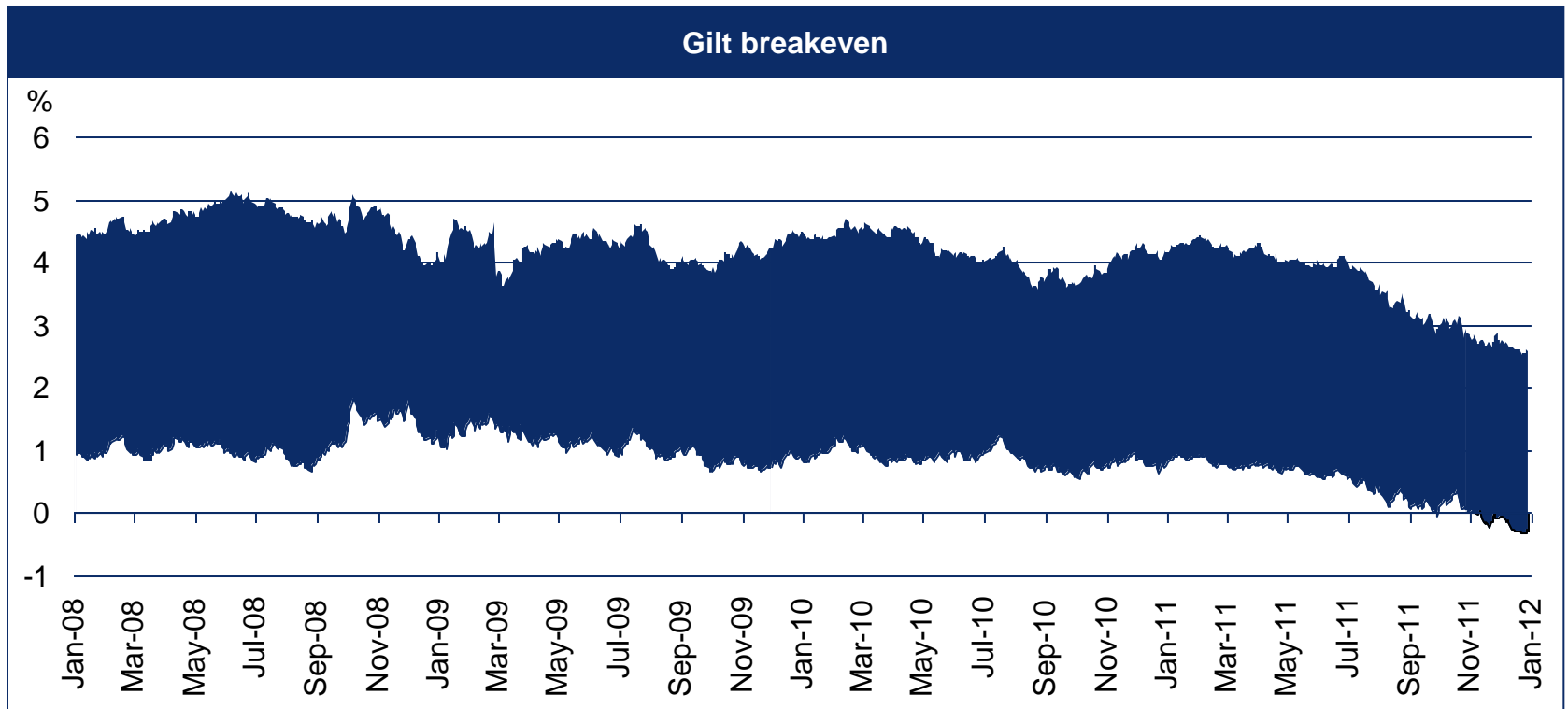
# HY new-issue trends: are we back to pre-crisis patterns?



Source: JP Morgan, at 30 April 2011

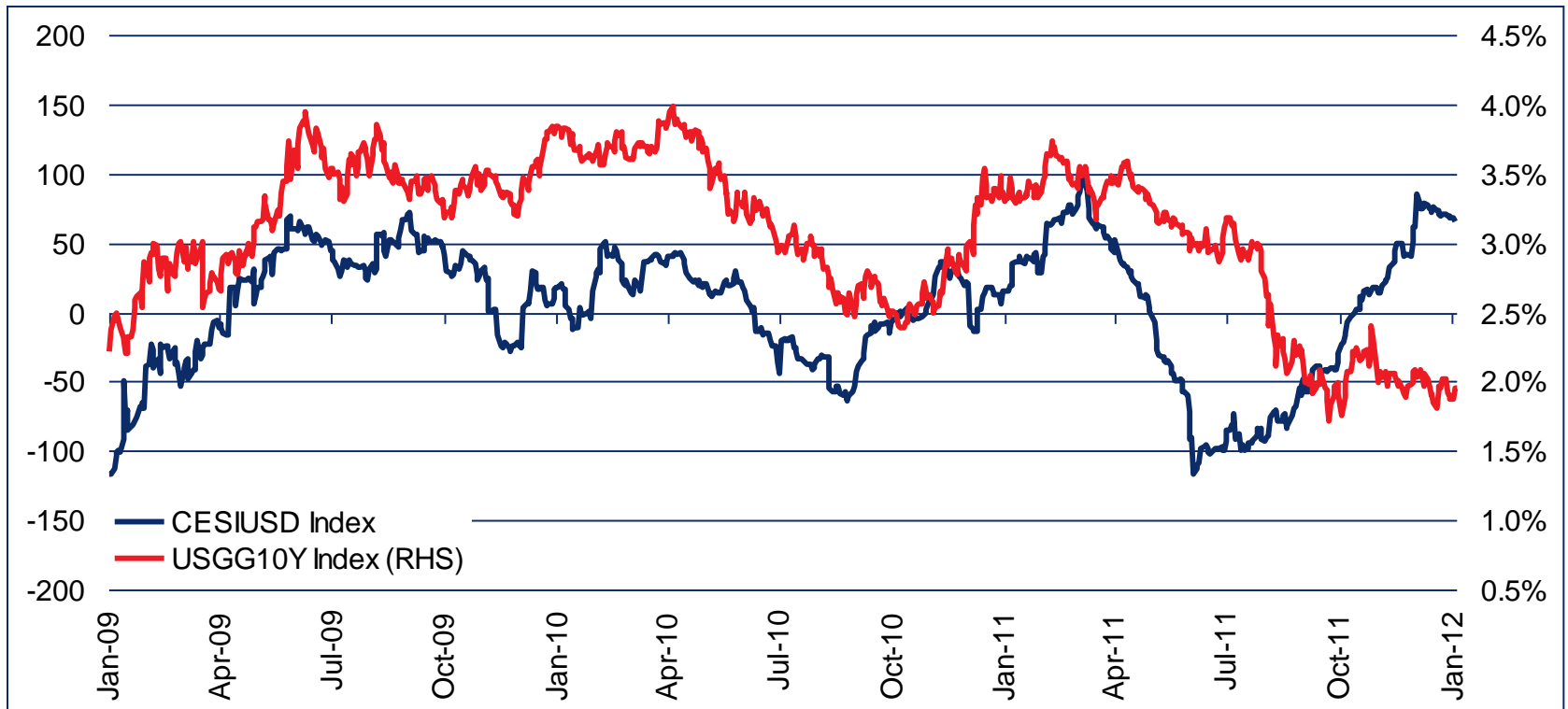
Note: Aggressive issuance includes lower rated securities, excluding refinancings, plus Wireline Telecommunications issuance. JP Morgan Global High Yield Index.

# UK inflation expectations



Source: Bloomberg, at 4 January 2012

# Recent US macro data is bearish for USTs



Source: Bloomberg, at 4 January 2012

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