

Colonial First State Wholesale Government Inflation-Linked Bond Fund

Fund profile

March 2010

Recent announcements by the Australian Office of Financial Management (AOFM) that the Australian Government would resume issuing inflation-linked bonds, together with new issues by some of the State Governments, have seen a resurgence in interest in the Australian inflation linked bond market.

Inflation-linked bonds (ILBs) have cash flows that are linked to movements in the Consumer Price Index. Thus they provide a means of protecting the real value of savings against unexpected inflation when compared to nominal bonds.

Investment objective

To provide an income-based return that is protected against the effects of inflation over the medium term by investing in a portfolio of Australian Commonwealth and Semi government inflation-linked securities. The fund's target is to outperform the UBSA Government Inflation Index by 100 bps p.a. over rolling 3 year periods.

Strategy

The fund is an actively managed investment in inflation-linked securities issued by government or government institutions. The fund aims to add value through security selection and by managing interest rate risk. The fund may use derivatives and may invest in nominal bonds.

Investment process

Our investment process uses the relationship between the nominal and inflation-linked bonds (ILB). When deciding investment strategy within our ILB portfolios we compare real yields trading in the market with our determination of what the fair value real yield should be. Importantly, this determination includes our view on long-term inflation.

The ability of this fund to invest in nominal bonds means we can express our views on the market in a number of ways – duration, curve and break-even. Our ability to use derivatives means we are not restricted to implementing decisions through physical bonds.

Key features (as at 31 December 2009)

Colonial First State Wholesale Government Inflation-Linked Bond Fund	
Fund size (A\$)	\$20m
Inception	March 2010
Benchmark	UBS Government Inflation Index
Duration range	Bmk +/- 3 years
Target alpha	100bps over rolling 3years
Number of issues	10-30
Nominal exposure	Max 30%
Credit exposure	Nil
Currency exposure	100% AUD
Buy/sell spread	0.15% / 0.15%

Our competitive advantage

Large:	team of 30 people
Experienced:	average 14 years industry experience
Disciplined:	rigorous, team based, process
Client-focussed:	dedicated specialists to meet client needs
Responsive:	to clients and to changing market dynamics

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