

Bips Exchange Traded Funds

Bips Inflation-X



9 NOVEMBER 2009

FUND DETAILS

Fund Name	Bips Government Inflation-Linked Bond Fund (Inflation-X)
Nature	Inflation-X provides investors with exposure to Government Inflation-Linked Bonds [Figure 1]
Asset Manager	Rand Merchant Bank
Underlying Index	GILBx: 142.557
Total Expense Ratio	TBA
Upfront Fee	0%
Distribution Dates	March, June, September and December
Risk Profile	Conservative
Yield	Inflation + 2.67% (Real yield of fund, variable)
NAV	14.245
NEXT DISTRIBUTION	January 2010 TBA
CPI (y/y)	6.1% (September 2009)
Bloomberg	BIPINF SJ EQUITY
Reuters	BIPINFJJ

INFLATION-X

Inflation-X tracks the performance of the Government Inflation Linked Bond Index (“GILBx”) and is listed on the JSE, providing investors with a seamless and cost effective way to invest in Government inflation linked bonds. Currently the market capitalisation of Government inflation linked bonds is R132.8 billion. The constituents of the GILBx are shown in Figure 1.

Inflation-X trades in price and is an open ended fund allowing investors to invest either through the secondary market (JSE), where Rand Merchant Bank actively makes a market in the product or through contacting the manager to create additional ETF units. Asset management fees are attractive and based on a sliding fee structure as indicated in Figure 3.

Since its launch in May 2009, Inflation-X has shown the following performance:

DATE	NAV	Monthly Return
31-May-09	14.3514	
30-Jun-09	14.3653	0.10%
31-Jul-09	14.398	0.23%
31-Aug-09	14.334	-0.45%
30-Sep-09	14.437	0.72%
31-Oct-09	14.4337	-0.02%

Figure 1: CONSTITUENT BONDS AND RESPECTIVE WEIGHTS

Underlying Bonds	Coupon	Maturity	Portfolio Weight
R189	6.25	2013	43.9%
R197	5.50	2023	39.9%
R202	3.45	2033	12.8%
R210	2.60	2028	3.4%

REAL YIELDS

The real yield on the Inflation-X basket has increased over the past month to 2.67% from 2.48% at the end of September. This has been due to increased supply of Government inflation linked bonds—National Treasury is currently auctioning R600 million of “linkers” per week across the 3 longer dated bonds—as well as a lower than expected inflation number for September. Further increases in real yields are anticipated over the coming months due to the fiscal deficit and financing requirements.

Figure 2 illustrates the real yields on the Inflation-X portfolio (back-tested) since December 2006.

The inflation rate is forecast to enter into the 3-6% target range in 1Q10. The current downward pressure on inflation is being driven by goods inflation—services which constitute approximately 46% of the CPI basket—continue to show a rising inflation rate. 70% of services have an inflation rate in excess of the 6% upper target—and more than half of these are showing an inflation rate

Figure 2: REAL YIELDS FOR THE BASKET vs GILBx

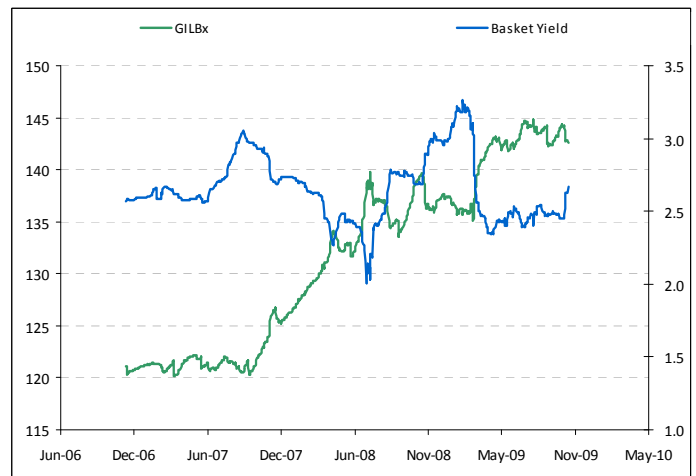


Figure 3: MANAGEMENT FEES

Investment	Incremental Fee (%)
< R1 000 000	0.39
R1 000 000 - R10 000 000	0.35
R10 000 000 - R50 000 000	0.29
R50 000 000 - R100 000 000	0.19
> R100 000 000	0.10



Contact

For further information on Inflation-X please contact Gill Raine (+27 11 282 8124) or Chris Dowley (+27 11 282 4879). Or email inflationx@rmb.co.za

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