

Bips Exchange Traded Funds

Bips Inflation-X



1 OCTOBER 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: 142.692
Total Expense Ratio	TBA
Upfront Fee	0%
Distribution Dates	March, June, September and December
Risk Profile	Conservative
Yield	Inflation + 2.50% (Real yield of fund, variable)
NAV	14.44 (cum dividend)
NEXT DISTRIBUTION	16.5c on 5 October 2009
CPI (YTD)	6.4% (August 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.

Inflation-linked bonds are an attractive asset class offering investors an effective method of hedging out inflation risk thus preserving their wealth in real terms. As the bonds in the Inflation-X portfolio are issued by the South African Government, the product is essentially credit risk free.

Inflation-X was successfully launched in May 2009 raising in excess of R100m during the IPO. Investor interest remains strong and the fund has continued to attract new inflows with funds under management currently sitting at R142m.

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.

Figure 1: CONSTITUENT BONDS AND RESPECTIVE WEIGHTS

Underlying Bonds	Coupon	Maturity	Portfolio Weight
R189	6.25	2013	45.3%
R197	5.50	2023	37.9%
R202	3.45	2033	13.2%
R210	2.60	2028	3.6%

REAL YIELDS

The real yield on the Inflation-X basket remains around 2.5% but is expected to increase over the coming months for 2 reasons: continued supply pressure from issuance by National Treasury to fund the fiscal deficit as well as a preference of National Treasury to issue the longer dated inflation linked bonds especially the R197 which has a current real yield of 2.98%. Further issuance of R197 will increase its weight in the basket and increase the weighted average yield of the Inflation-X basket. Figure 2 illustrates the real yields on the Inflation-X portfolio (back-tested) since 2004.

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 in double digits.

Figure 2: REAL YIELDS FOR THE BASKET vs GILBx

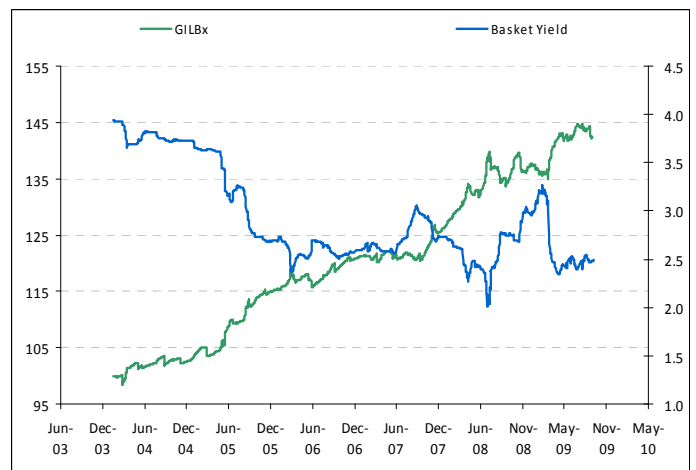


Figure 3: MANAGEMENT FEES

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

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