

Bips Exchange Traded Funds

Bips Inflation-X



5 JANUARY 2010

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: 141.403
Total Expense Ratio	TBA
Upfront Fee	0%
Distribution Dates	Beginning January, April, July, October
Risk Profile	Conservative
Yield	Inflation + 2.73% (Real yield of fund, variable)
NAV	14.1296
Latest Distribution	5 January 2010 11.62c per unit
CPI (y/y)	5.8% (November 2009)
Bloomberg	BIPINF SJ EQUITY
Reuters	BIPINFJ

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 R498 million. The constituents of the GILBx are shown in Figure 1 (as at 7 Jan 2010 reweighting).

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 performed as follows:

DATE	NAV	Monthly Return
31-May-09	14.23	
30-Jun-09	14.37	0.10%
31-Jul-09	14.40	0.23%
31-Aug-09	14.33	-0.45%
30-Sep-09	14.44	0.72%
31-Oct-09	14.43	-0.02%
30-Nov-09	14.19	-1.67%
31-Dec-09	14.13	0.37%

Figure 1: CONSTITUENT BONDS AND RESPECTIVE WEIGHTS

Underlying Bonds	Coupon	Maturity	Portfolio Weight
R189	6.25	2013	41.4%
R197	5.50	2023	43.1%
R202	3.45	2033	12.3%
R210	2.60	2028	3.2%

REAL YIELDS

Inflation-X gave a return of -1,3% in Q4 2009 as a result of rising real bond yields. This was due to fiscal funding pressures as well as falling inflation expectations. The current real yield on the Inflation-X basket is 2.73% compared to an average of 2.62% over the period since December 2006. During Q2 and Q3 of 2009, real yields were at all time lows which has corrected in Q4.

In H2 2009 National Treasury was auctioning R600 million of inflation linked bonds per week—compared to the bi-weekly auctions previously. In Q4 it ceased to auction the R189 2013 maturity bond as there is currently R27 billion in issue (first issued in 2000) and the CPI has increased by 182% over the period. R189 is the lowest yielding bond so increased issuance of the R197 in particular has pulled up the weighted average yield on the Inflation-X basket. It is anticipated that a new government inflation linked bond will be announced at the time of the budget in February 2010—with an expected maturity of 2018.

Figure 2: REAL YIELDS FOR THE BASKET vs GILBx



Figure 3: MANAGEMENT FEES (incremental sliding scale)

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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