

WHY INVESTORS NEED ILBS IN A LONG-TERM PORTFOLIO

Inflation-linked bonds (ILBs) are often overlooked as a smaller, less-understood investment compared to the more popular option of ordinary government bonds.



ILBS VS ORDINARY BONDS

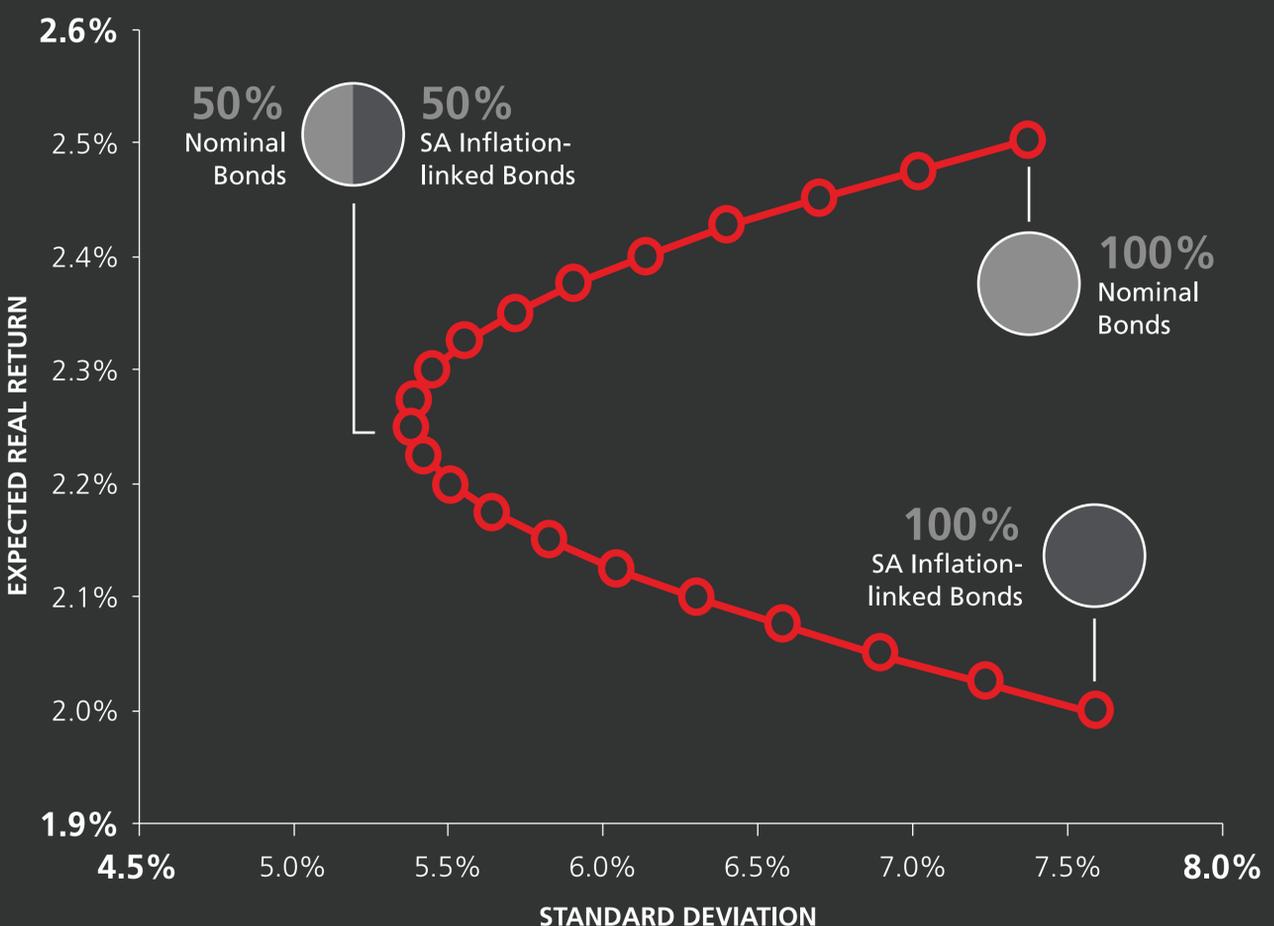
ILB interest rates change regularly in line with moves in inflation, guaranteeing investors a return that is above the inflation rate over the long term. Ordinary (or nominal) bonds pay out a fixed rate of interest that may or may not beat inflation over time.



WHAT ARE THE MAIN BENEFITS?

This makes ILBs less risky than nominal bonds. They have different risk and return characteristics to nominal bonds and all other assets, making them a great diversifier. In the past they have provided excellent protection and returns during times of high inflation, generally brought on by sharp depreciations in the rand.

INFLATION-LINKED BONDS: A STRONG DIVERSIFIER



SOURCE: PRUDENTIAL INVESTMENT MANAGERS; BLOOMBERG; I-NET; MARCH 2001 – MAY 2020

The **red dots** in the graph represent changes in the risk-return characteristics of a portfolio as it makes 5% shifts between being invested 100% in **SA nominal bonds** and 100% invested in **SA ILBs**.

By the shape of the curve we can see that each 5% increase in ILB holdings lowers portfolio risk (as measured by standard deviation on the horizontal axis) more than it lowers potential returns (as shown on the vertical axis). Longer-term investors need this strong diversification to help protect their portfolio value over time.

It would be a very brave investor who believed that inflation will never again make a sudden reappearance in South Africa. It is primarily for their diversification and inflation protection benefits that Prudential includes ILBs in some of our well-diversified multi-asset portfolios.

At Prudential, we have a range of funds with exposure to inflation-linked bonds, including our:

- Inflation Plus Fund
- Balanced Fund
- Enhanced Income Fund

INVEST NOW

For more information, or if you have any other investment-related questions, please feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.