



## **BOND INVESTORS SHOULD IGNORE HEADLINE INFLATION, SAYS FIDELITY INTERNATIONAL**

- **Inflation linked bonds not the panacea in current environment**
  - **Returns can be generated from global diversification**

**London, 7 February 2007:** As inflation sits at a 10-year high of 3%, bond investors could be forgiven for wondering where their returns will come from. However, **Alex Veys, Fixed Income Portfolio Manager at Fidelity International**, says UK investors should ignore the headline rate of inflation, which has had little impact on bond yields over the last 10 years\*, and focus instead on the opportunities presented by a diversified portfolio of global bonds.

“Inflation is sitting at its highest level since the Bank of England took control of interest rates in August 1997 yet bond investors should not be alarmed by this red herring. Bond yields are driven less by the current rate of inflation and more with where nominal growth is going over the next few years. Nevertheless, the Bank of England’s Monetary Policy Committee (MPC) expects its measure of inflation to fall in 2007\*\* and that gives us cause for optimism.

“Above all, investors should not be lulled by the allure of 30 year inflation linked bonds – government issued securities designed to mitigate erosive effects of inflation. High demand from pension funds and insurance companies, keen to match their liabilities, has made 30 year inflation linked bonds one of the most expensive fixed income asset classes in the world\*\*\*. Moreover, they are currently priced so that RPI inflation, the measure previously used by the MPC, has to remain at 3.1% for the next 30 years to make them a worthwhile holding rather than gilts. Needless to say, this does not make them a particularly attractive proposition.”

Mr Veys advises that a challenge bigger than inflation is low volatility. He continues, “Low levels of volatility traditionally make it hard to generate returns from bond investing. We are countering this by targeting high conviction ideas in our portfolios and scouring global bond markets for investment opportunities.

“Some of the most interesting ideas are in the energy sector. We have been taking selected and diversified positions in debt issued by companies involved in oil rigs, drilling platforms and recovery platforms – and whilst the risks are relatively high the industry has good fundamentals and yields are attractive.

“Last year we also identified that insurance company debt was particularly undervalued, on fears of another devastating hurricane season, but Katrina wasn’t repeated in 2006 and so our selections performed well for us.”

Mr Veys concludes, “We undertake extensive quantitative and credit analysis and that enables our portfolio managers to take positions like these with a high degree of confidence. We not only look hard at what we think will do well but also what we definitely don’t want in our portfolios.”

Fidelity International Limited (“FIL”) and its subsidiary companies serve the major markets of the world by providing investment products and services to individuals and institutional investors outside the US. The FIL Organisation manages a total of £140.9 billion of assets\*\*\*\*.

**- ENDS -**

**Notes to editors:**

\* Source: Fidelity 06.02.07.

\*\* Source: Minutes of the Bank of England Monetary Policy Committee 10 & 11 January 2007

\*\*\* Source: Fidelity 06.02.07.

\*\*\*\* Source: Fidelity as at 31.12.06.

Any opinions expressed are made at the time of writing and can be subject to change without notification. The value of investments can go down as well as up and an investor may not get back the original amount invested. For funds that invest in overseas markets, changes in currency exchange rates may mean that the value of your investment goes up or down. Investments in small and emerging markets can be more volatile than other more developed markets. Past performance is not a guide to future returns. Fidelity means Fidelity International Limited (FIL), established in Bermuda, and its subsidiary companies. Assets and resources as at 31.12.06 are those of FIL.

**For further information, please contact:**

<b>Anne Read</b>	<b>David Butcher</b>
Fidelity International	Fidelity International
020 7961 4409	020 7074 5262
Anne.read@uk.fid-intl.com	David.butcher@uk.fid-intl.com

This material is issued by Financial Pensions Management (FSA registered number 144345) a firm authorised and regulated by the Financial Services Authority. Fidelity Pensions Management is a member of the FIL group of companies and is registered in England and Wales under the company number 02015142. The registered address of the aforementioned companies is Oakhill House, 130 Tonbridge Road, Hildenborough, Tonbridge, Kent TN11 9DZ, United Kingdom. Fidelity's VAT identification number is 395 3090 35.

ICC200705