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Media Release

New Ardea ILB fund launched to deliver defensive inflation-plus returns

Specialist inflation linked bond (ILB) investment manager Ardea Investment Management Pty Limited is the investment manager of a new fund, the Ardea Wholesale Inflation Plus Fund, for investors seeking a stable, defensive return over and above inflation.

The new fund launch comes at a time when professional investors are speculating inflation is likely to rise in both global and local economies over the next few years, and potentially remain high even over longer investment horizons.

According to Ardea, the main causes for persistently higher inflation in Australia are our close integration with rapidly industrialising Asia, high global commodity prices – not just for mining, but for food and farming land as well – and the lasting inflationary legacy of policy decisions currently being made in the US and Europe.

Ardea Principal Tamar Hamlyn says Australia is unlikely to escape unscathed from the ripples caused by foreign leaders' efforts to generate growth at any cost – including by inflationary means.

'Australia is not immune to the impact of foreign monetary decisions. As we've had a prolonged period of historically low inflation, investors tend to forget it's much more likely for inflation to rise than it is to fall, and global inflation is much more difficult to rein in than purely domestic inflation,' he said.

The new fund is operated by Fidante Partners Limited, as responsible entity, and has been designed to provide protection against inflation through investing in Commonwealth and State Government ILBs. The bonds provide a coupon and principal which is directly indexed to the Consumer Price Index as published by the Australian Bureau of Statistics, ensuring investments of the fund are not eroded by a rise in inflation.

The Ardea Wholesale Inflation Plus Fund aims to provide investors with protection against inflation in a way that protects against future increases in yields.

'In our view, inflation protection is available relatively cheaply at present and will become increasingly important for buffering portfolios from ongoing market volatility,' Mr Hamlyn said.

The minimum initial investment in the Ardea Wholesale Inflation Plus Fund is \$10,000, or \$1,000 when a regular savings plan is established.

Ardea manages over \$2.5 billion in fixed income assets. The launch of the new Ardea Wholesale Inflation Plus Fund complements the existing Ardea Wholesale Australian Inflation Linked Bond Fund.

More education needed on inflation risks for SMSFs with high cash holdings

SMSF portfolios are particularly vulnerable to the effects of rising inflation due to their higher allocations to cash. The purchasing power of cash investments is eroded during an inflationary period and Ardea suggests this may present problems in terms of funding shortfalls for SMSFs in, or approaching, retirement.

'There's been a concerning lack of awareness around the risks inflation poses to SMSF portfolios which hold a significant and growing portion of Australia's retirement savings.

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'Advisers and the investment community have a role to play in informing SMSFs of the risks to portfolios from not including inflation protection, and educating them on the characteristics of appropriate assets which can provide this protection, such as ILBs,' Mr Hamlyn said.

A recent paper by Ardea looked at the impact on a SMSF portfolio with 70/30 cash/equities allocations, of including a modest allocation to ILBs between 10-20%. The results showed portfolios which included an allocation to ILBs had lower risk profiles and higher risk adjusted returns while being much more resilient to the impact of inflation than those without ILB allocations.

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About Ardea Investment Management:

Ardea are experienced fixed income investment managers, with knowledge across local and global fixed income markets and a specialisation in inflation linked bonds (ILBs). The well-credentialed and stable team previously worked together at Credit Suisse Asset Management, each with an average of 15 years industry experience. The Ardea Wholesale Inflation Plus Fund and the Ardea Wholesale Australian Inflation Linked Bond Fund are both operated by Fidante Partners Limited and managed by Ardea. For more information, please visit www.ardea.com.au.

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