

For professional investors only

Allianz Index-Linked Gilt Fund



Introducing the Allianz Index-Linked Gilt Fund

Mike Riddell and the team at Allianz Global Investors are proud to announce the launch of their new fund in February 2018.

Mike Riddell and the team at Allianz Global Investors are proud to announce the launch of their new Index-Linked Gilt Fund, set for early February. The actively managed index-linked gilt fund will be available to early-bird investors for a price competitive with some of the passive funds in the sector. Mike is supported by Kacper Brzezniak, and the team are currently the number 1 performing UK government bond team since Mike took over management of the fund in November 2015¹.

The fund will sit in the Investment Association (IA) Index-Linked Gilt sector, therefore abiding by sector rules it will have at least 80% of the Fund invested in Index-Linked gilts, but retains the flexibility to go off benchmark when the team sees better cross-market or breakeven opportunities. This could include buying US Treasury Inflation Protected Securities (TIPS) when these look more attractive than their index-linked gilt counterparts, or even buying conventional gilts when they look attractive relative to index-linked gilts. Any non-sterling investments will be 100% hedged back to sterling, so that there will be no FX risk.

In line with Allianz Global Investors' active investing philosophy, the team believe that there are several persistent anomalies which can be exploited by an active fund in the index-linked gilt market. The team have compelling evidence that index-linked gilt markets are even more inefficient than conventional gilts, and this opens up opportunities for active investors proposed a compelling argument in an academic paper². Many of the largest index-linked gilt funds are currently passive funds, which don't have the capability of harvesting these inefficiencies to generate outperformance that active funds do.

Given the success of the Allianz Gilt Yield strategy within the gilt space, the team have decided to follow a sister strategy for the Allianz Index-Linked Gilt Fund, utilising the same strategies which the Allianz Gilt Yield has used to generate returns. The Fund will utilise 5 core strategies for generating alpha in the index-linked gilt market: Duration, Curve, Relative Value, Conventionals, and Cross-Market. The Fund will aim to outperform the benchmark of, the FTSE UK Government Index-Linked All Stocks, providing net of fees returns above that of the benchmark and also passive competitors.

Regarding Mike's experience running gilt funds, we believe that the proof is in the pudding. While Mike Riddell managed the Funds, both the M&G Index-Linked Bond Fund and the Allianz Gilt Yield fund were the top performing all stocks funds in their sector³.

In line with the existing gilt strategy, we are introducing the new fund with very attractive fees. The 'early-bird' share class will have an Ongoing Charges Figure (OCF) of 0.20%, competitive with passive funds in the sector, available for the first £105m of investment, and then the I share class will then have an OCF of 0.30%. The Allianz Gilt Yield Fund I Inc share class currently has an OCF of 0.32%.

¹The fund is the top performing conventional all stocks gilt fund in the IA Gilt Sector from 30/11/2015-29/12/2017, excluding all the funds in the IA Gilt sector benchmarked off long-dated gilt benchmarks. Source Data: Morningstar.

²Grossman & Stiglitz, On the Impossibility of Informationally Efficient Markets, 1980, The American Economic Review.

³Compared to all funds benchmarked off the FTSE Index-Linked Gilt All stocks, so excludes long-dated benchmarks (01/03/2010-31/05/2015). Source Data: Morningstar.

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