

A black and white photograph of two mountain goats standing on a dark, layered rock face. The goat on the left is standing upright, facing slightly left, while the goat on the right is in a more crouched position, facing right. The background is a dark, textured rock wall.

CG Asset Management

Introduction to Index-Linked Bonds

October 2026

cgam

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Why CG Asset Management?

CG Asset Management is an experienced and well-established participant in index-linked bond markets globally



CGAM has been investing in index-linked bonds for over 30 years



CGAM currently manages £1.3bn in index-linked bond assets globally



CGAM's US and global index-linked bond funds have outperformed their benchmarks since inception



CGAM's UK index-linked holdings have outperformed the index in recent years

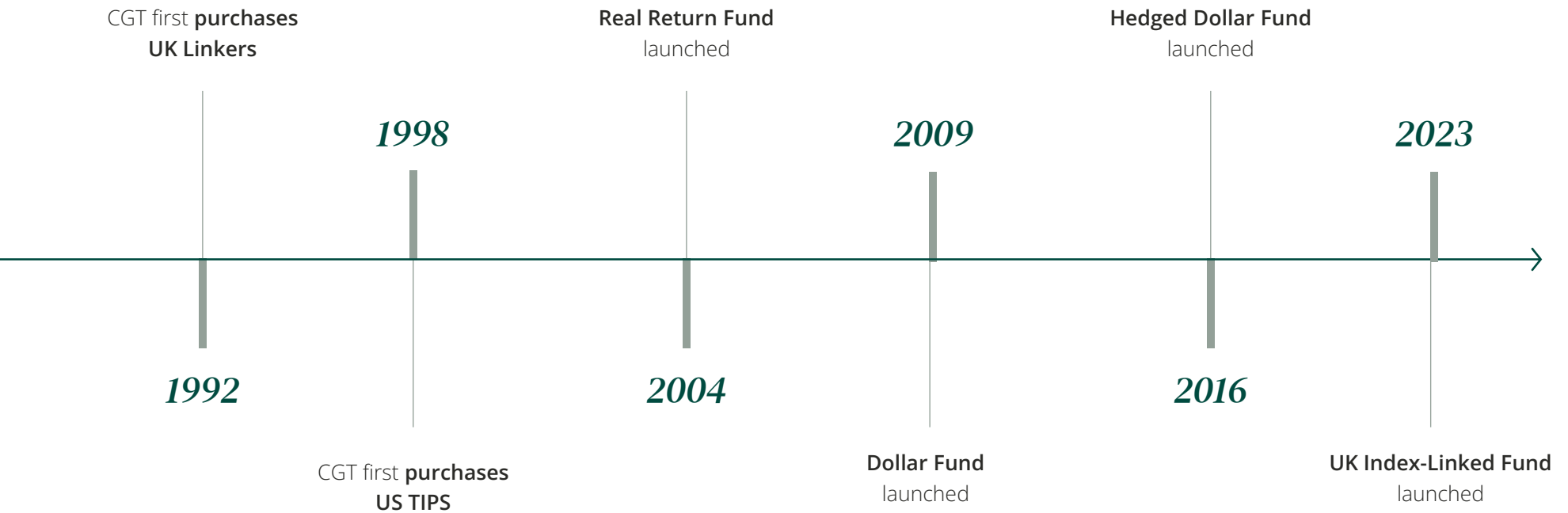


CGAM has established relationships with a wide network of trading counterparties in index-linked bonds, allowing us to access greater liquidity in less liquid government bond markets



Despite deep sector experience, CGAM is a low-cost provider of index-linked expertise

CGAM has a long pedigree of investing in index-linked bonds



Why CG Asset Management?

Our established index-linked funds have outperformed their benchmarks since their inception, and we manage approx. £1.3 bn in index-linked globally

Dollar Fund – Performance since inception



Real Return – Performance since inception

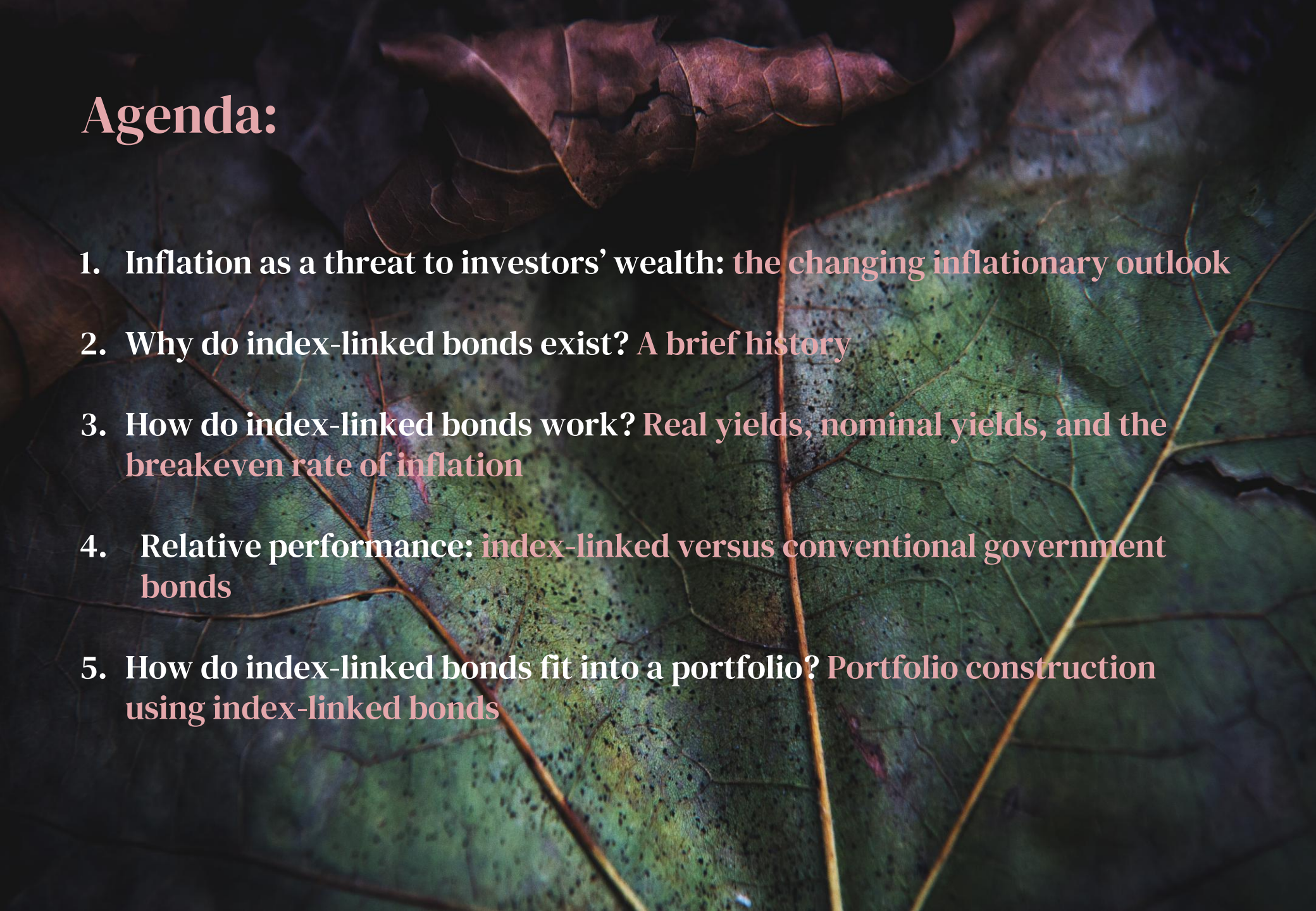


Source: Bloomberg Finance LP, Northern Trust

Funds Summary

Strategy	Fund	ISIN	Launched	AUM ⁶	Dealing Frequency ²	AMC Fee	TER
Absolute Return Long only investments in a portfolio of bonds, equities and commodities	Capital Gearing Trust	GB00BT66KP92	1982 ¹	£815m	Listed	0.41% ³	0.58%
	CG Absolute Return (EUR Hedged, USD Hedged available)	IE00BYQ69B30	2016	£577m	Daily	0.35%	0.50%
	Capital Gearing Portfolio (P,V shares)	IE00BG5Q6F12	2001	£204m	Daily	0.75%	0.90%
Real Return Long only investments in inflation-linked bonds	CG Real Return Fund (GBP Hedged available)	IE0034304117	2004	£163m	Daily	0.30% / 0.20% ⁴	0.45%
	CG Dollar Fund (GBP Hedged, EUR Hedged and USD Unhedged available)	IE00B41GP767	2009	£359m	Daily	0.25% / 0.15% ⁵	0.40%
	CG UK Index-Linked Bond Fund	IE000ZSVG218	2023	£26m	Daily	0.15%	0.27%

¹ Peter Spiller began managing Capital Gearing Trust in 1982; ² Capital Gearing Trust is an Investment Trust listed on the London Stock Exchange, all other funds are Open Ended UCITS domiciled in Dublin; ³ Tiered fee structure, marginal rate is 0.3% above £500m; ⁴ 0.3% below £500m, 0.2% above; ⁵ 0.25% below £1bn, 0.15% above; ⁶ As of 31st August 2026

The background of the slide is a close-up photograph of autumn leaves. A large, dark brown, curled leaf is at the top, while several green leaves with prominent veins and some brown spots are below it. The lighting is dramatic, with strong highlights and deep shadows.

Agenda:

1. Inflation as a threat to investors' wealth: the changing inflationary outlook
2. Why do index-linked bonds exist? A brief history
3. How do index-linked bonds work? Real yields, nominal yields, and the breakeven rate of inflation
4. Relative performance: index-linked versus conventional government bonds
5. How do index-linked bonds fit into a portfolio? Portfolio construction using index-linked bonds

A threat to investors' real wealth

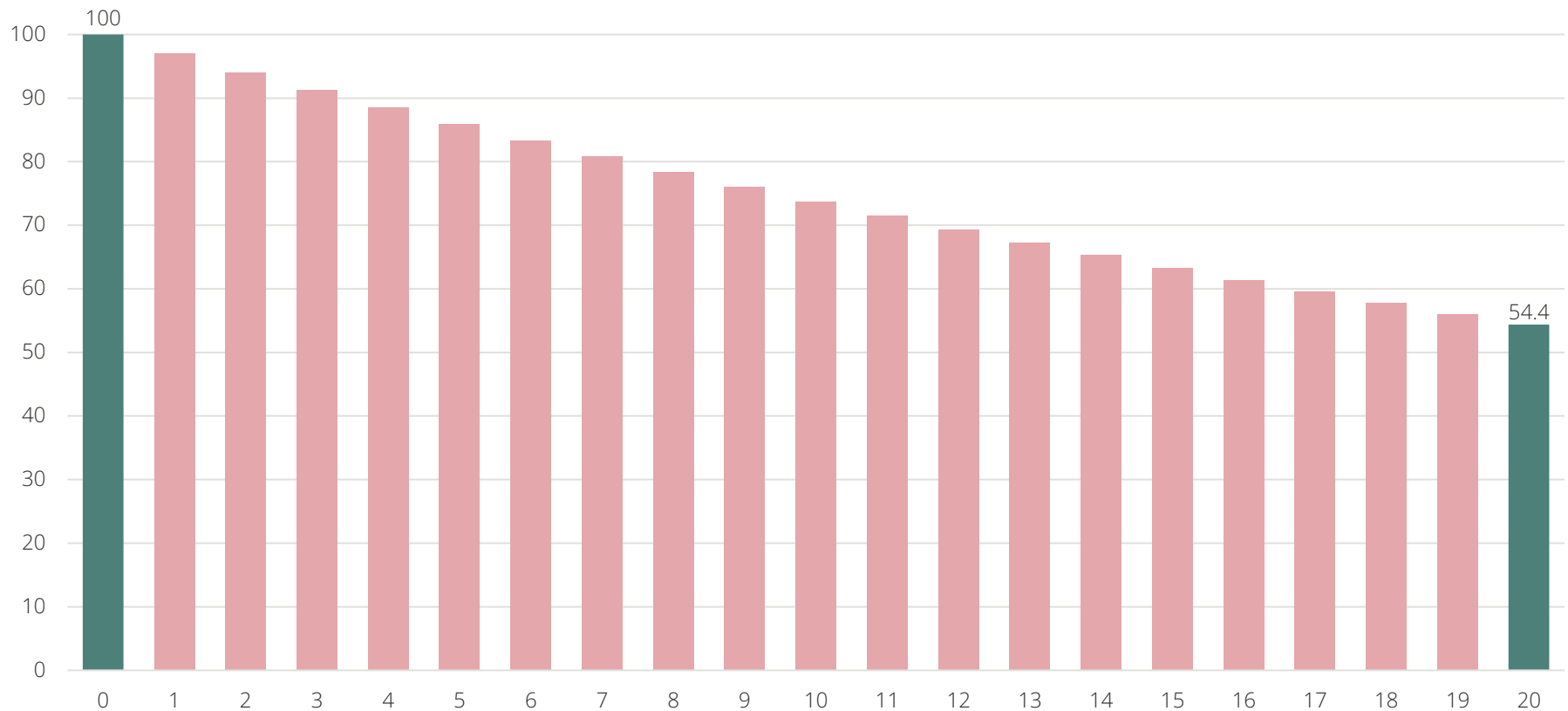
The changing inflationary outlook



Inflation Outlook

Inflation is a significant threat to purchasing power over time. All investors must be alert to the outlook for inflation to avoid gradual erosion of wealth

Real value of £100 after 3% inflation per annum



Source: CGAM calculations.

We believe that the disinflationary era that has characterised the last 25 years has come to an end



Globalisation Unwind

- Deflationary tailwind of globalisation diminishing as China wages approach those of developed economies
- Reshoring will increase costs
- Significant capex required to bring about reshoring will be inflationary



War / Defence

- Defence spending will rise globally in response to Russian war in Ukraine and outbreak of war in the Middle East
- Trade will continue to flow along political rather than economic lines



Capital vs. Labour

- Labour share of GDP has been falling
- Unionisation and union assertiveness is rising in response to recent inflation



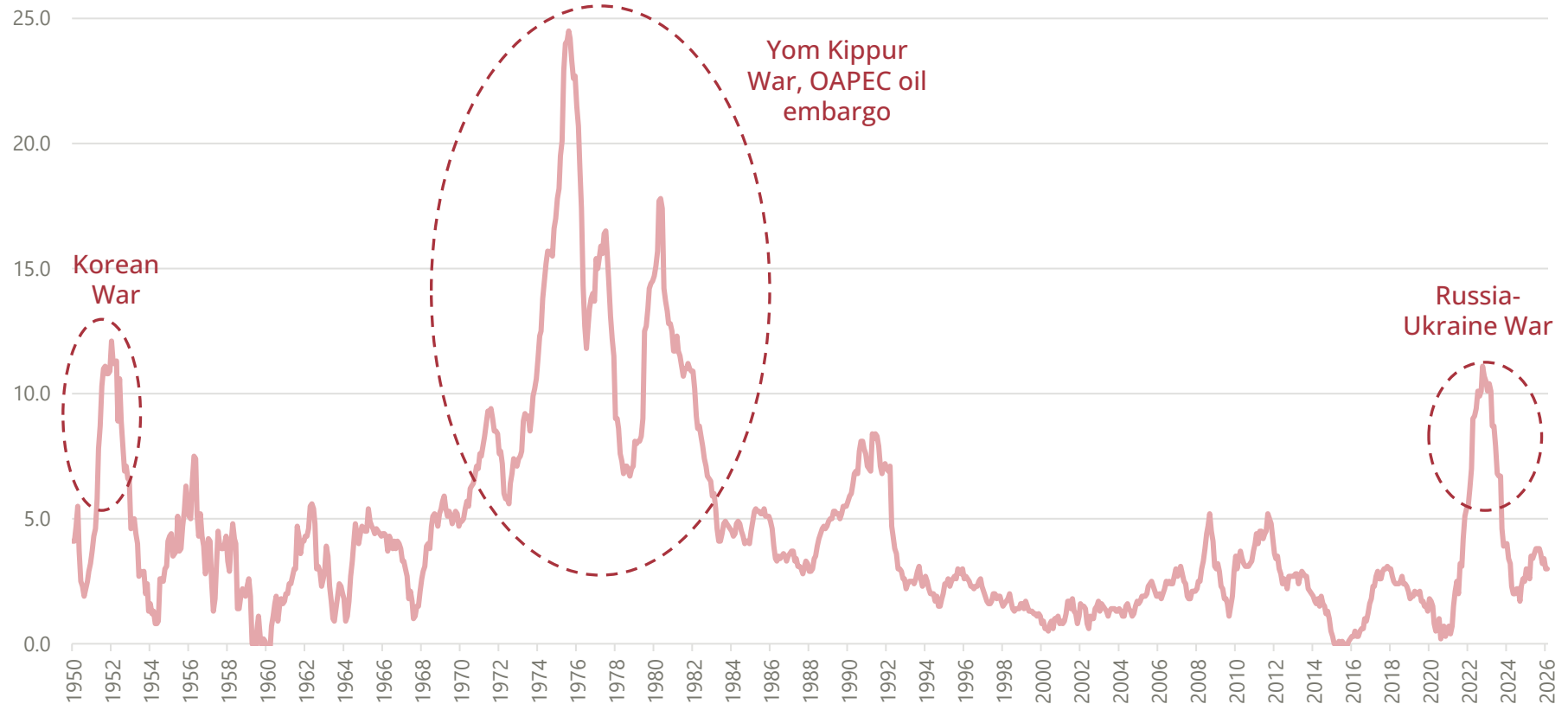
Energy Transition

- Energy transition will require massive capital investment
- Likely to generate a shortage of key materials notably copper and other metals
- Requires decommissioning of otherwise productive assets

Inflation Outlook

There is a wide range of possible outcomes to the Iran War, but recent history shows that war brings inflation

UK CPI, 1950 to present (YoY, %)



Source: UK Office for National Statistics, Bloomberg Finance LP.

Inflation Outlook

With no immediate resolution in sight, the war has turned into a shift in international energy dominance

Brent Crude Price (\$/bbl, first contract)



Netherlands TTF Gas Price (EUR/MwH, first contract)



Source: Bank for International Settlements,, Bloomberg Finance LP.

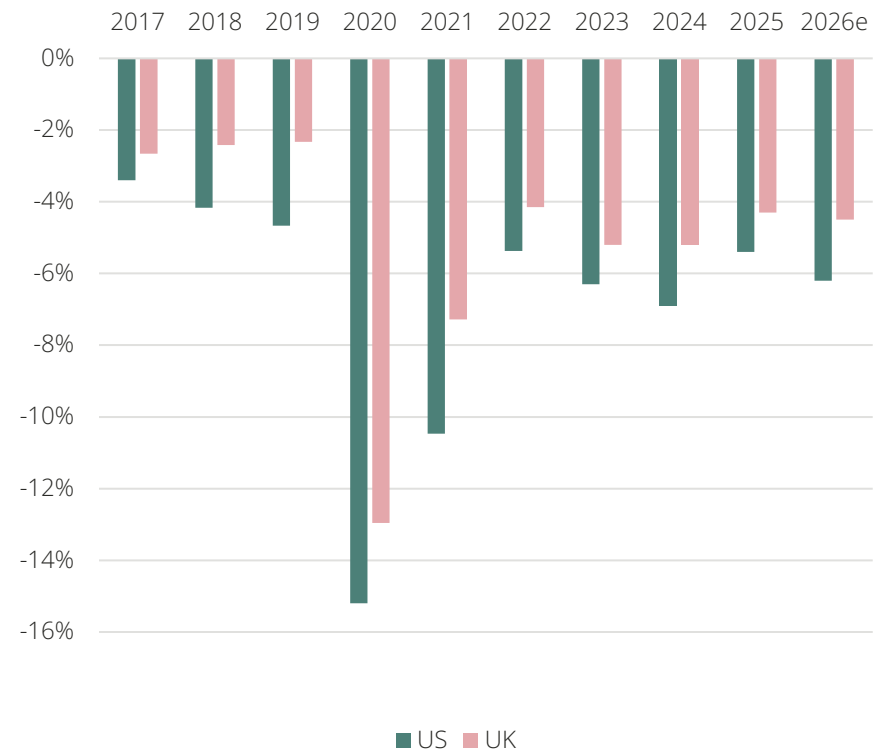
Inflation Outlook

Successive years of fiscal deficits have led to elevated government debt levels. This stimulus has generated a lasting inflationary impulse

UK & US Government Debt (% of GDP)



UK & US Fiscal Balance (% of GDP)



Source: Bank for International Settlements,, Bloomberg Finance LP.

Why do index-linked bonds exist?

A brief history

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A brief history

Revolutionary Americans first invented instruments to hedge against inflation, which had arisen from excessive money printing

18th Century Massachusetts Bank Bills

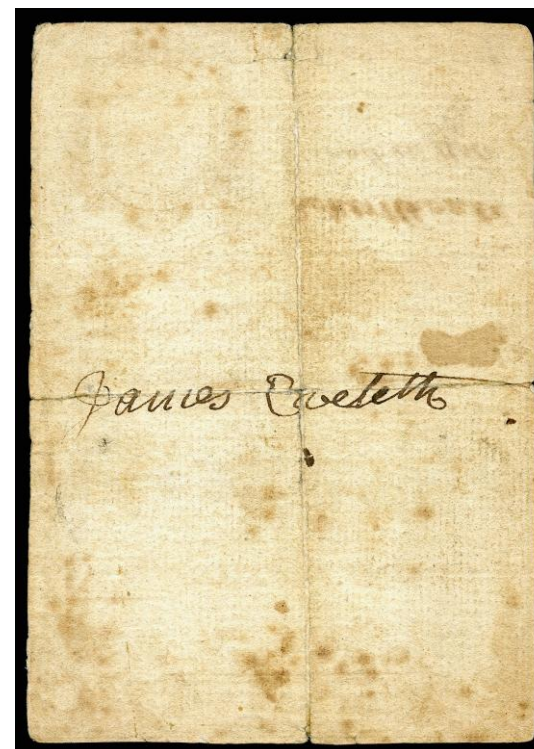
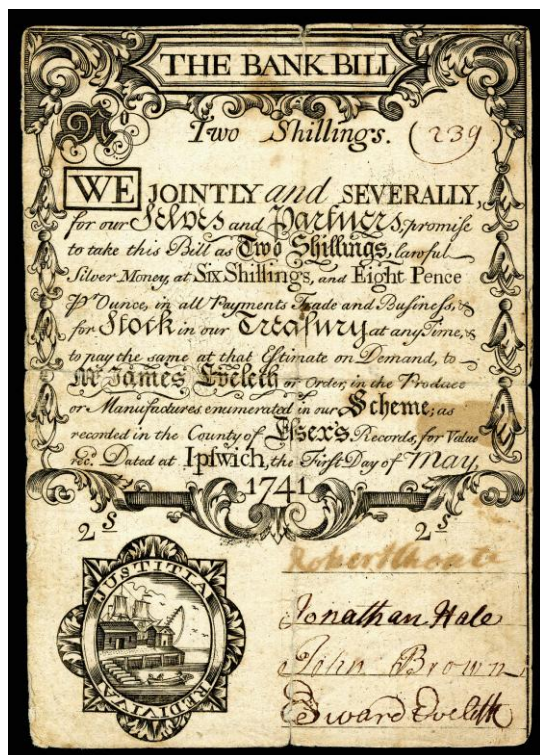
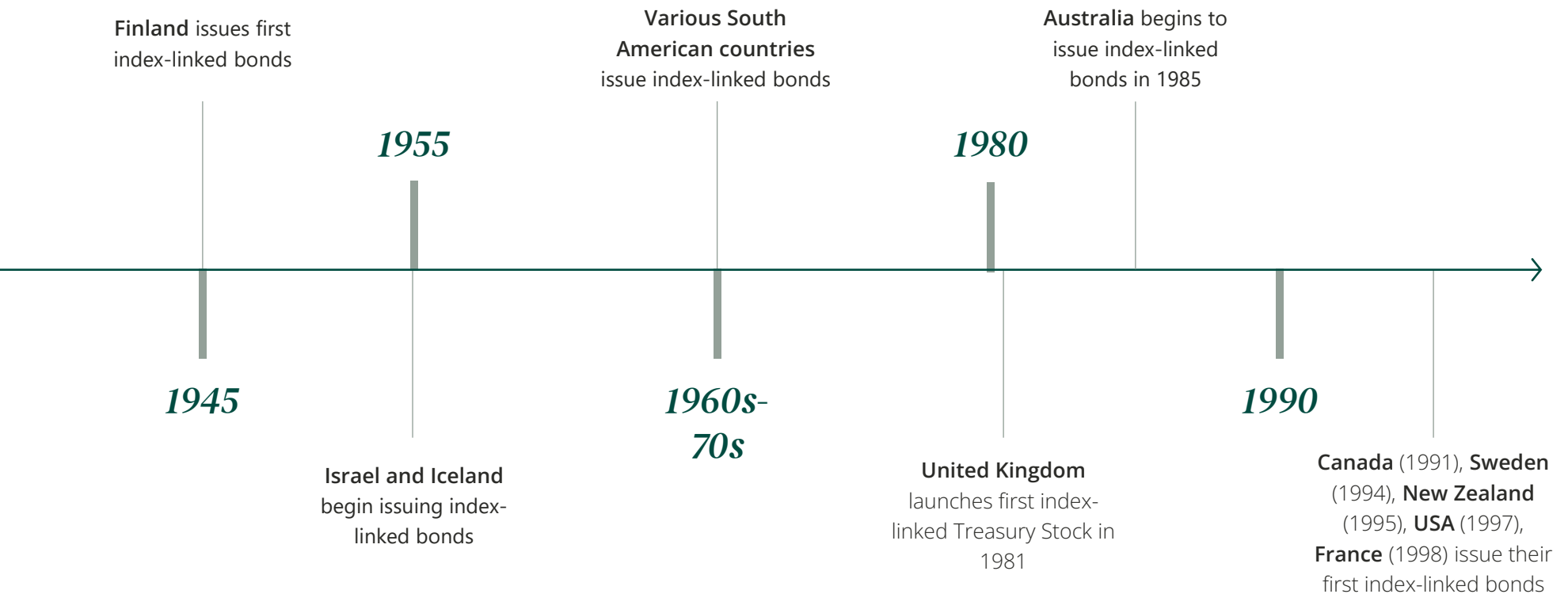


Photo credit: Wikipedia (Creative Commons)

A brief history

In the 20th century, governments began to issue index-linked bonds to signal a commitment to monetary stability and fiscal prudence



There is now a wide range of developed market issuers

	Issuer	Indexed nominal value (£bn)	Number of index-linked bonds	Percentage of total government debt
	United States	1,596	53	6%
	United Kingdom	708	34	23%
	France	273	18	9%
	Italy	247	21	17%
	Spain	87	8	7%
	Germany	53	3	2%
	Japan	49	10	0.8%
	Canada	40	8	2%
	Australia	30	6	4%
	Sweden	13	7	7%
	New Zealand	11	4	11%
	Denmark	6	2	6%

Source: Bloomberg Finance L.P., Bank for International Settlements, CGAM calculations. Note that nominal issuance amounts are rounded to nearest £5bn, and percentages of government debt are stated to the nearest percentage point.

How do index-linked bonds work?

Real yields, nominal yields, and breakeven rates of inflation



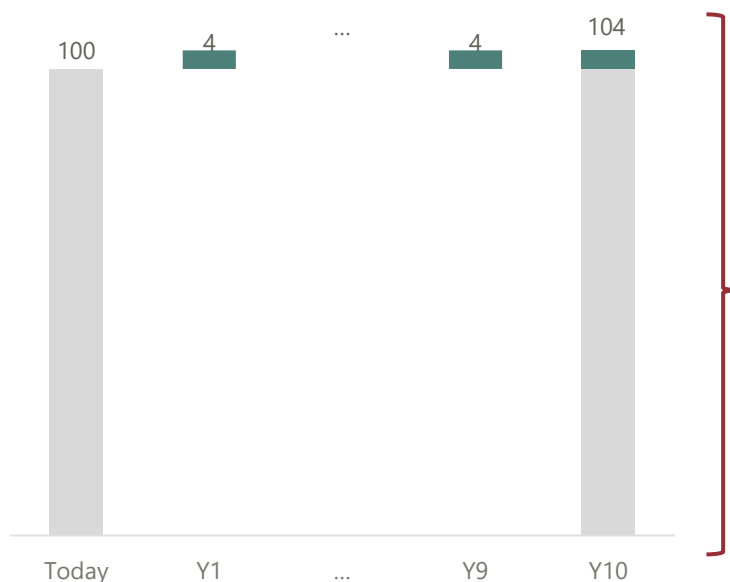
What is an index-linked government bond?

- A **conventional government bond** pays semi-annual coupons throughout its life and will pay the principal at maturity. The £ value of **the coupon payments and principal are known in advance**.
 - e.g. UKT 0.5% 01/31/2033 (conventional gilt) will pay a coupon of 0.25% ($=0.5/2$) semi-annually and a principal of £100 at maturity.
- An **index-linked government bond** also pays semi-annual coupons and a principal at maturity.
- The **coupon payments and principal are indexed to the level of inflation experienced** over the life of the bond. In the UK, they are indexed to the RPI.
- The purpose of this is to **maintain the purchasing power of the coupons and the principal** over the life of the bond.
 - e.g. UKTI 0.125% 03/22/2029 (index-linked gilt) will pay a 0.0625% semi-annually and a principal of £100 *in real terms*.
 - At the time of issue, they are designed to deliver the level of purchasing power equivalent to a 0.125% coupon and a principal of £100 in 2029.

How do index-linked bonds work?

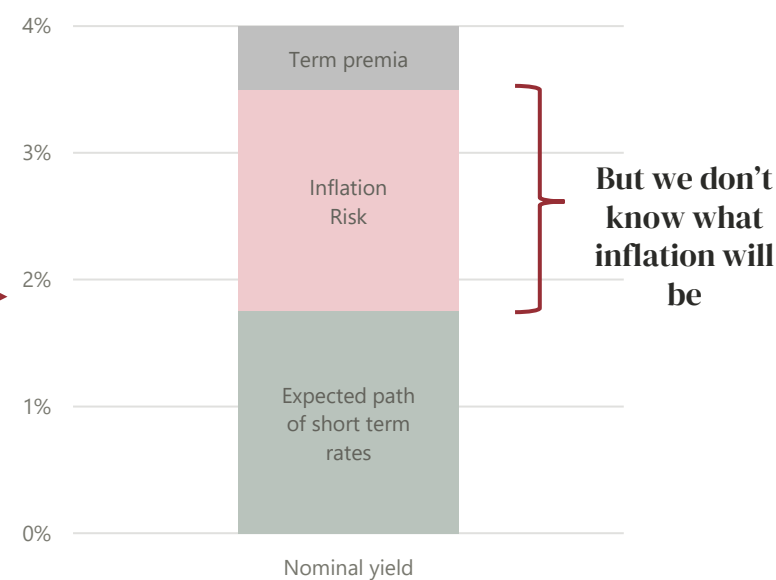
Nominal bond cashflows are known at the outset but carry inflation risk

£100 at par into a nominal bond with a 4% coupon



4% yield
compensates
for...

Key components of the nominal yield



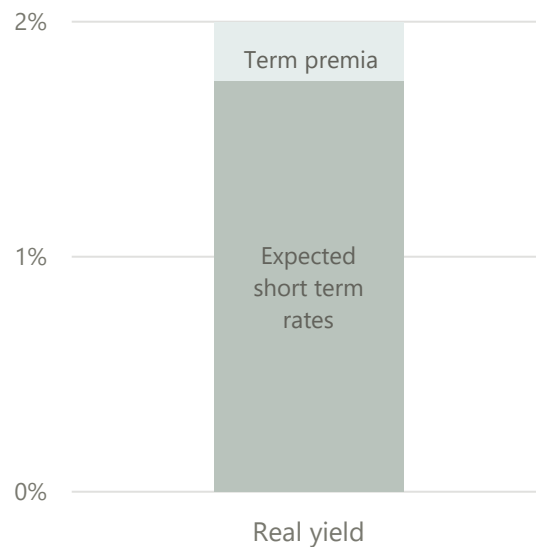
The value of a nominal bond changes with nominal interest rates

Source: CGAM

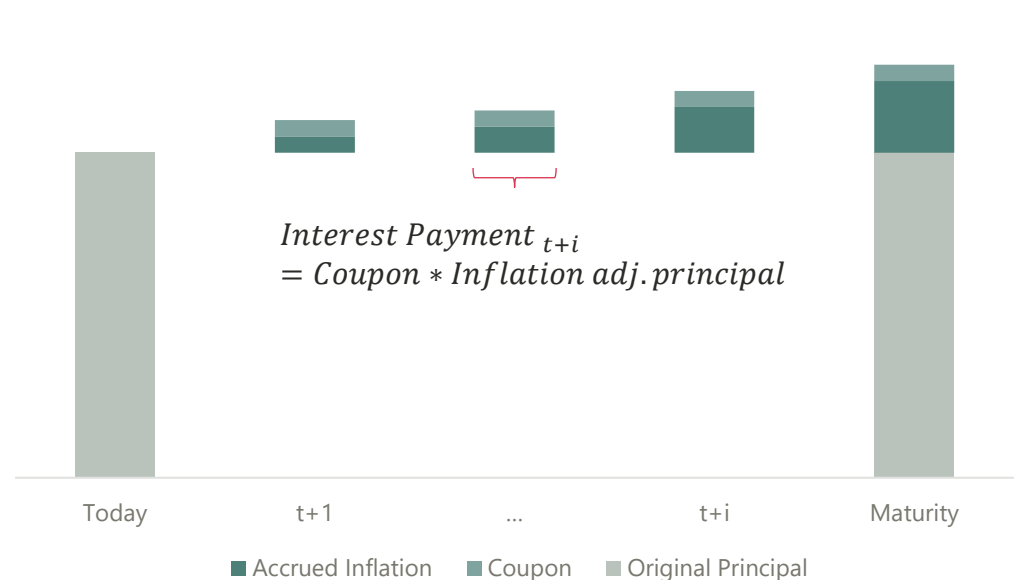
How do index-linked bonds work?

Index-linked bond cash flows are known *in real terms* but the nominal amount is not known

£100 at par at issue with a 2% coupon



...but the coupon payments and principal go up with inflation



Just as the value of a nominal bond changes with *nominal interest rates*,
the value of an index-linked bond changes with *real interest rates*

Source: CGAM

How do index-linked bonds work?

In the case of index-linked bonds the *nominal cashflows* will depend on experienced inflation, but the *real return* is certain

Cashflows from investing £100 at par into an index-linked bond with a 2% coupon and average 2.5% inflation



Coupon	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	
Index ratio	103	105	108	110	113	116	119	122	125	128	
Interest paid	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.6	
Principal	-100										128

Source: CGAM

The breakeven rate of inflation

The Fisher Equation

Nominal interest rate $\approx$ real interest rate + inflation expectation

Rearranged:

Inflation expectation $\approx$ nominal interest rate – real interest rate

*The breakeven rate of
inflation*

*Nominal government
bond yield*

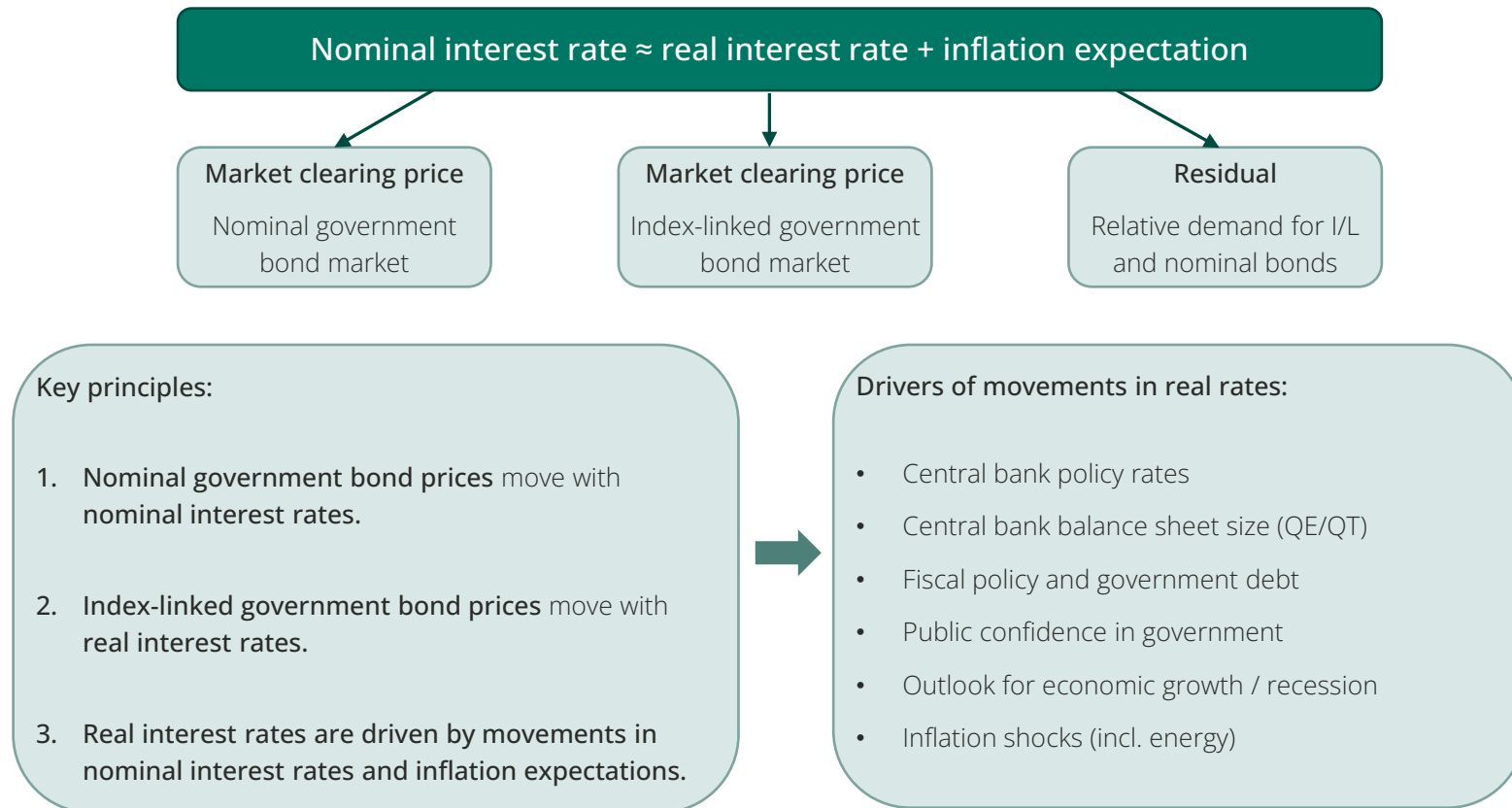
*Real government
bond yield*

Two interpretations of the *breakeven rate of inflation*:

1. The average level of inflation you would need over the life of the bond for the returns on a nominal and index-linked bond to be the same; or
2. The market's expectation of what inflation will be over the life of the bond.

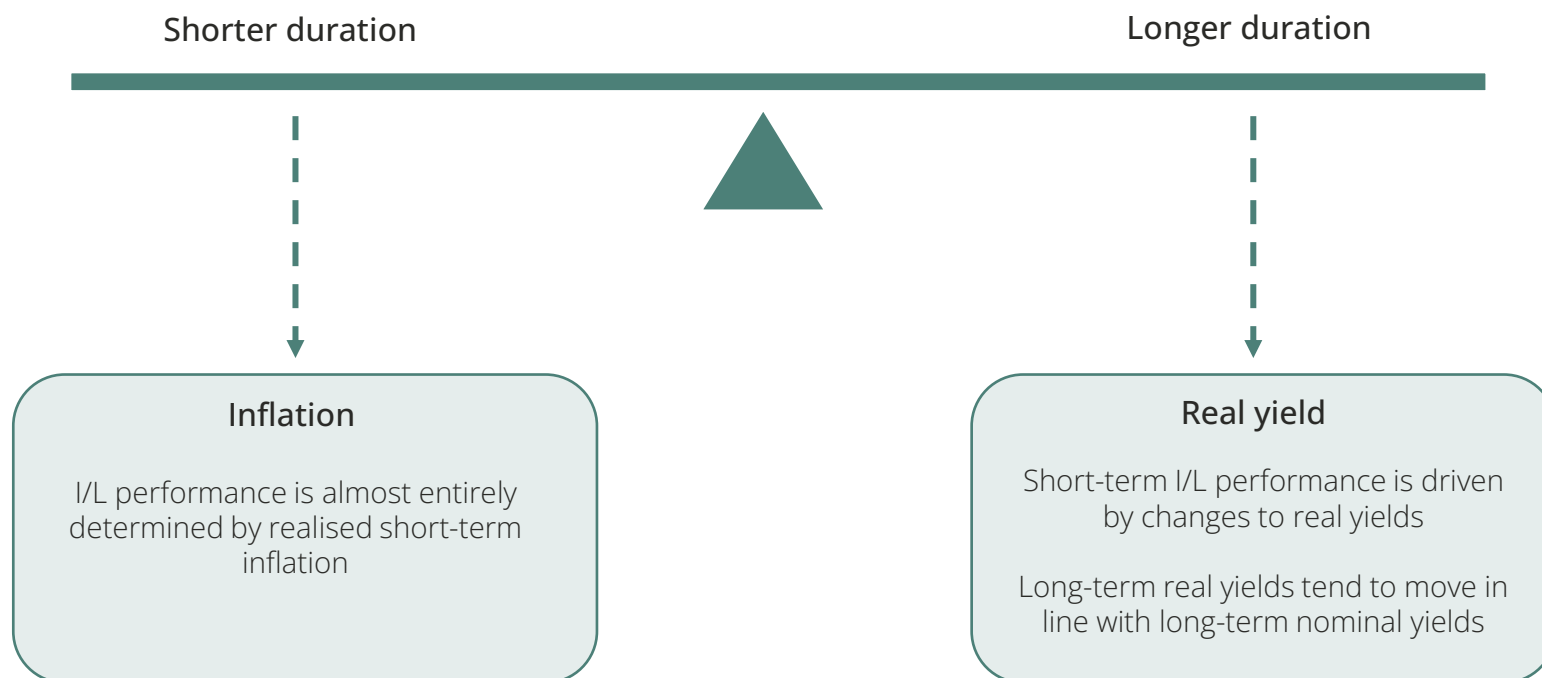
What moves index-linked bond prices?

Start with the Fisher Equation:



Why did bonds go down in 2022 when inflation was at a 40 year high?

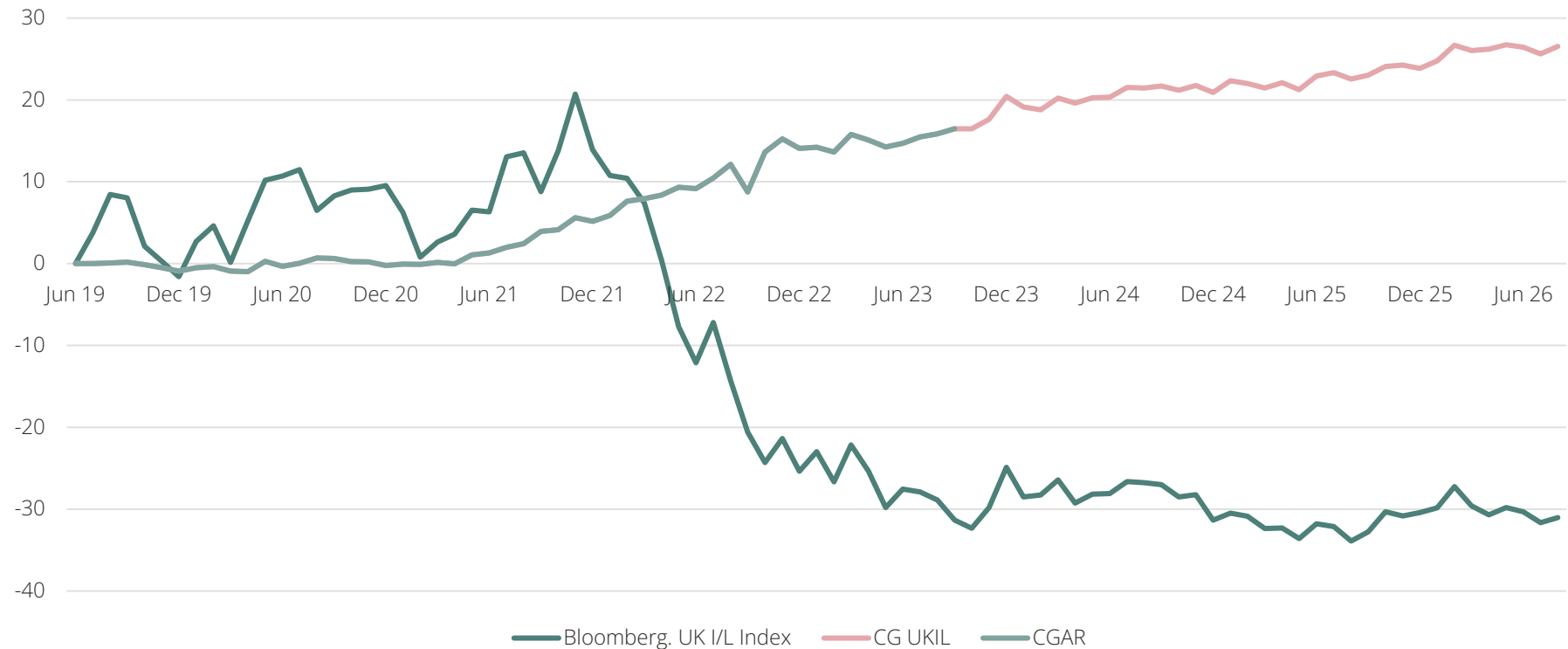
Drivers of short-term performance:



Source: CGAM

Losing money in UK index-linked in 2022 was NOT inevitable

UK Index Linked Index – total returns



Source: Bloomberg LP, Northern Trust.

Note: From June 2019-September 2023, UK Linker performance is shown for the portfolio of UK index-linked bonds held in CGAR. From October 2023, when the CG UK Index-Linked Bond Fund was launched, the CG UK Index-Linked Bond Fund's performance is shown.

How do index-linked bonds work?

Real yields have repriced and now look attractive both relative to history and the trend growth rate of the UK economy

UK 10Y Real Yield (%)



Source: CGAM, Bloomberg Finance L.P.

Relative performance: UK & US experience

Index-linked bonds versus conventional government bonds



Relative performance

Inflation-linked bonds have outperformed nominal bonds since the turn of the century

Index-Linked Bond – Total Returns (US)



Index-Linked Bond – Total Returns (UK)



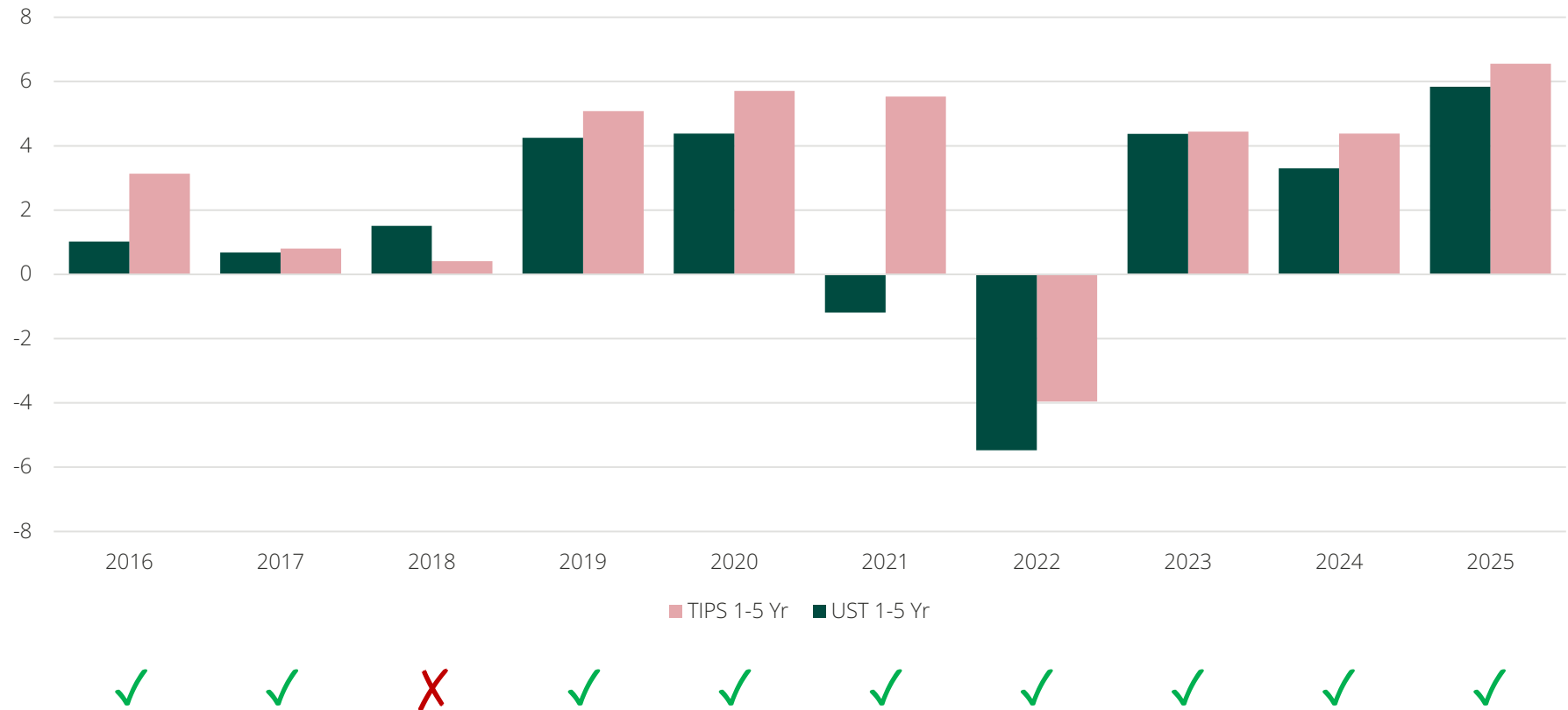
Source: Bloomberg Finance L.P.

US Nominals refers to the Bloomberg US Treasury Index, TIPS refers to the Bloomberg US Treasury Inflation-Linked Bond Index, UK Gilts refers to the Bloomberg Sterling Gilt Index and UK Linkers refers to the Bloomberg UK Govt Inflation-Linked Index

Relative performance

Short duration TIPS have outperformed nominals in 9 of the past 10 years, we expect this outperformance to continue

TIPS vs Nominal Performance 1-5 Yr (%)

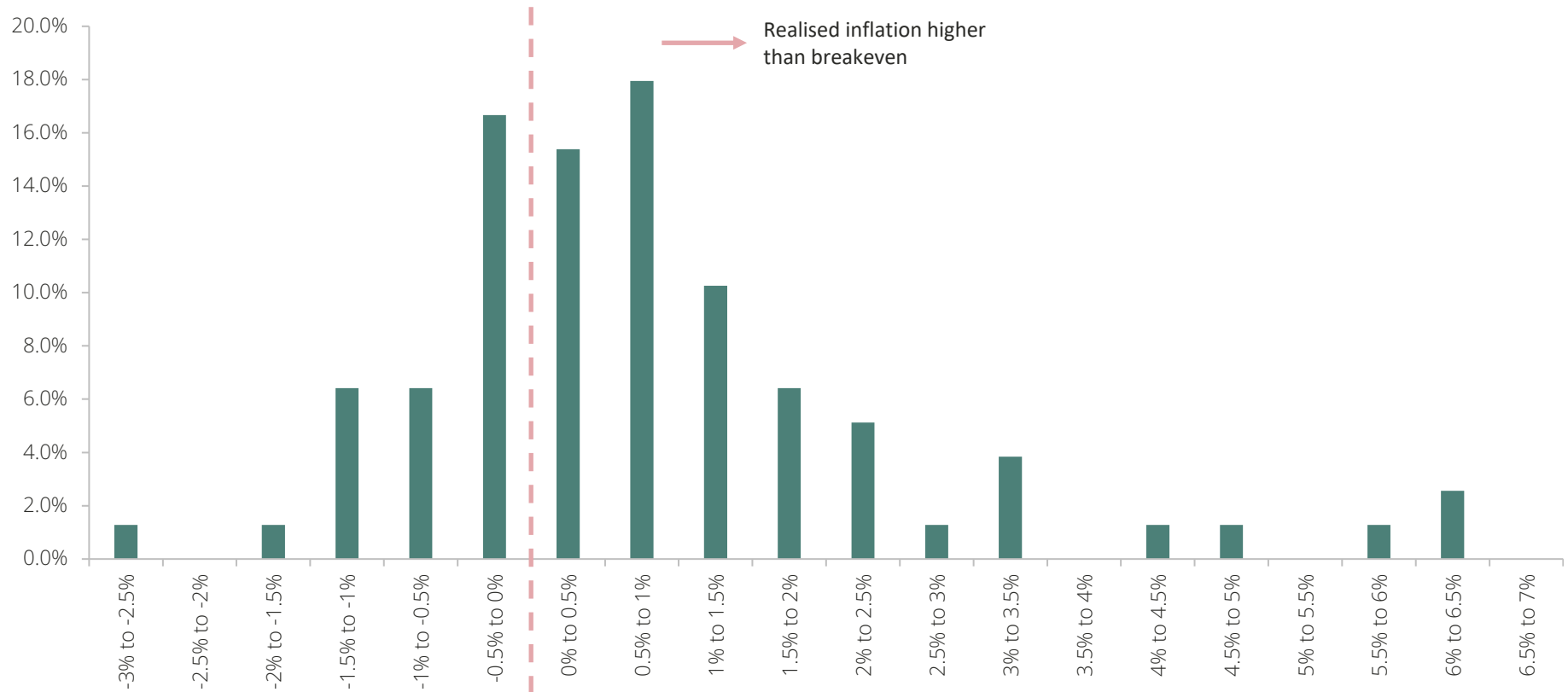


Source: Bloomberg Finance L.P.

Relative performance

As measured by realised inflation vs. breakevens, markets routinely underestimate inflation – by an average of 1% since 2004

Difference between 2Y Breakeven and subsequent realised inflation (% annualised)

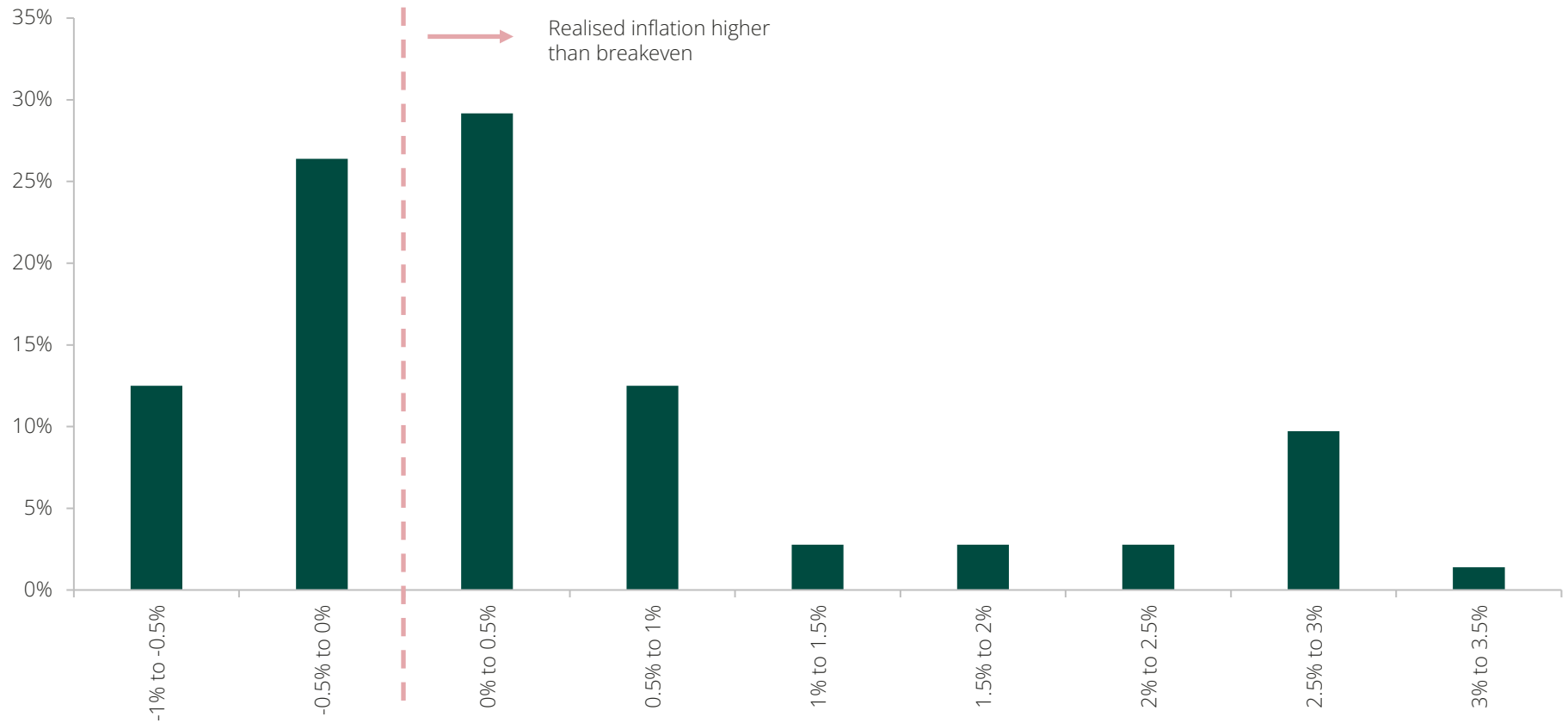


Source: Bloomberg Finance LP, CGAM calculations.

Relative performance

The same has also been true in the UK: realised inflation has been higher than market expectations

Difference between UK 5Y Breakeven and subsequent realised inflation (% annualised)



Source: Bloomberg Finance LP.

How do index-linked bonds fit in a portfolio?

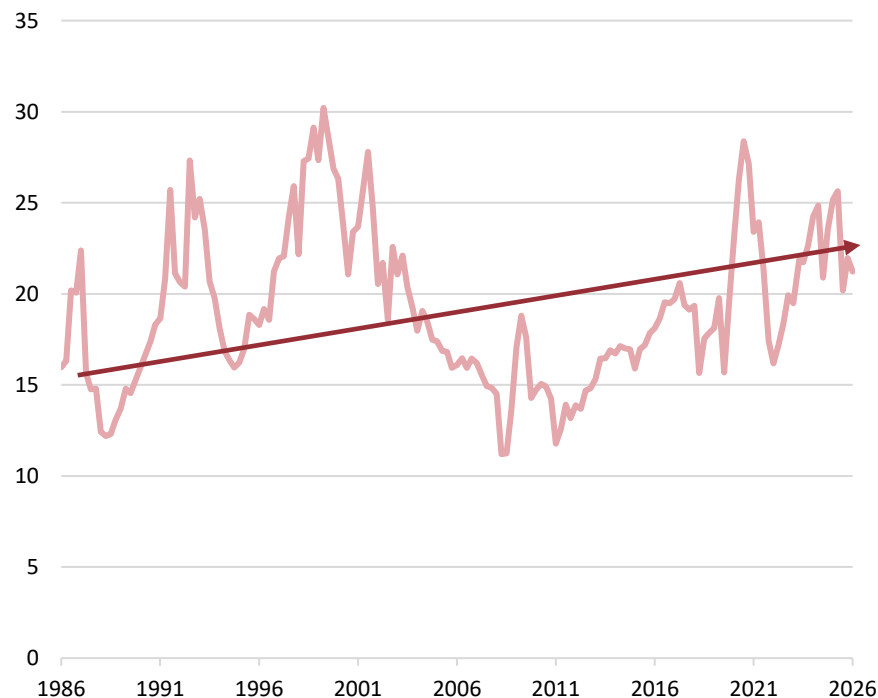
Real yields, nominal yields, and breakeven rates of inflation



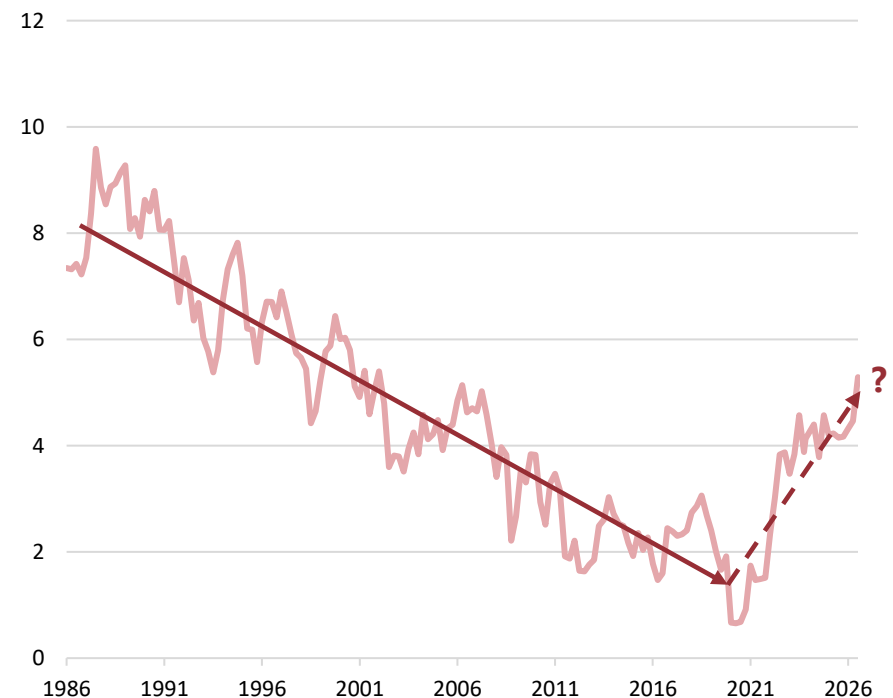
Portfolio construction

Asset allocation was easy for much of the last 40 years, an era characterized by low inflation... but have we entered a new paradigm?

S&P500 P/E Ratio



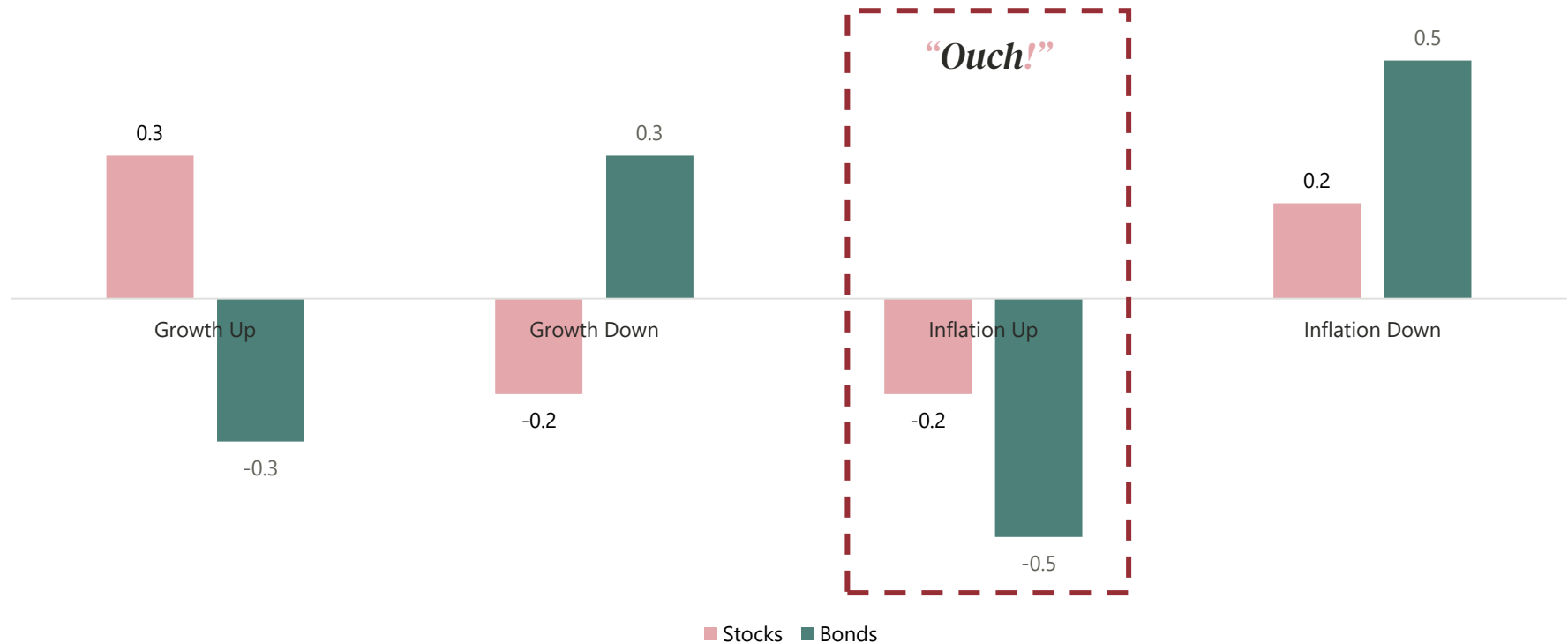
US 10Y Yield (%)



Source: Bloomberg LP

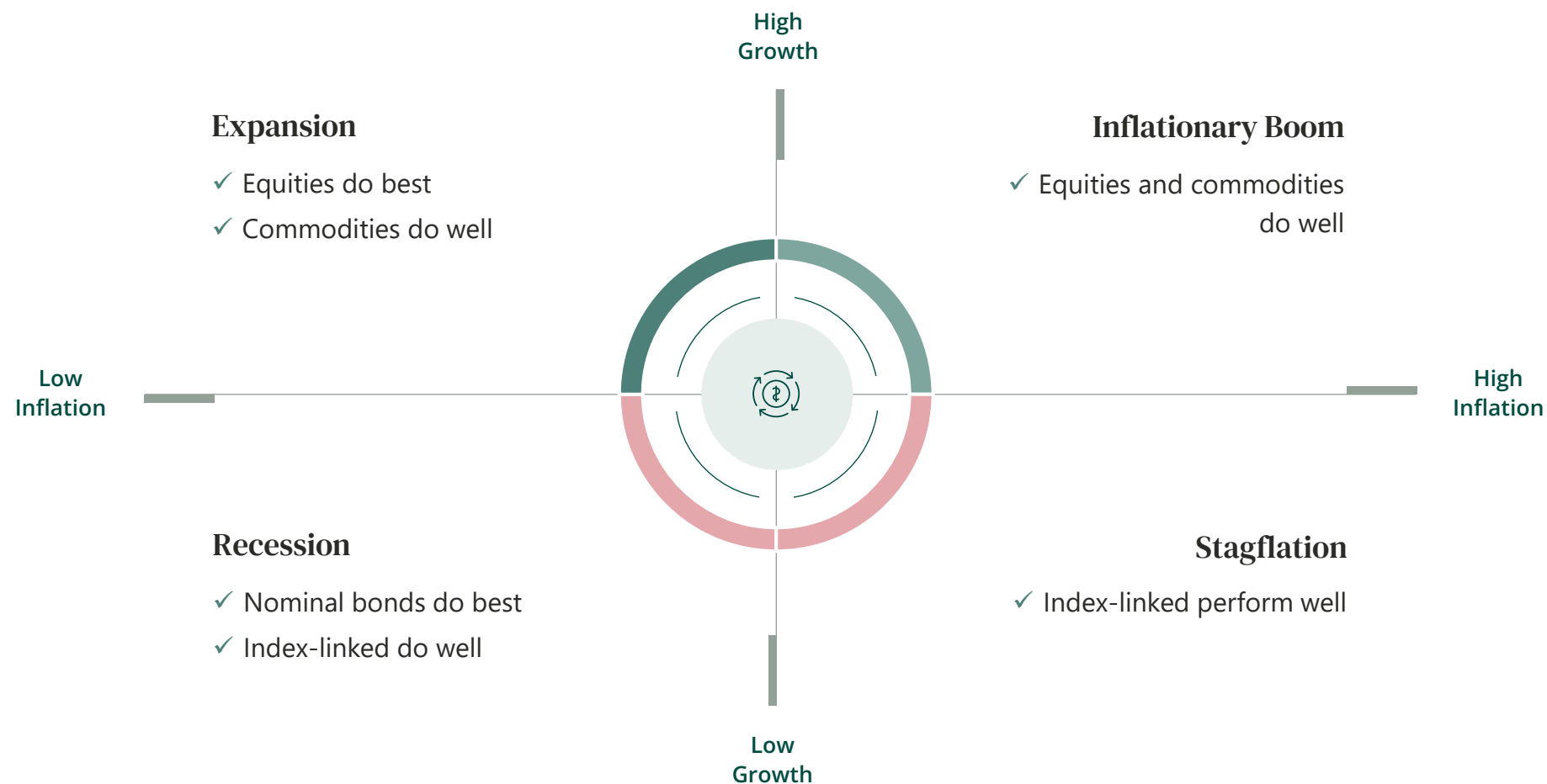
Nominal bonds and equities are not negatively correlated during periods of elevated inflation

Sharpe Ratio Differentials by Macro-economic Environment 1972-2022



Source: Journal of Portfolio Management 49:4 March 2023

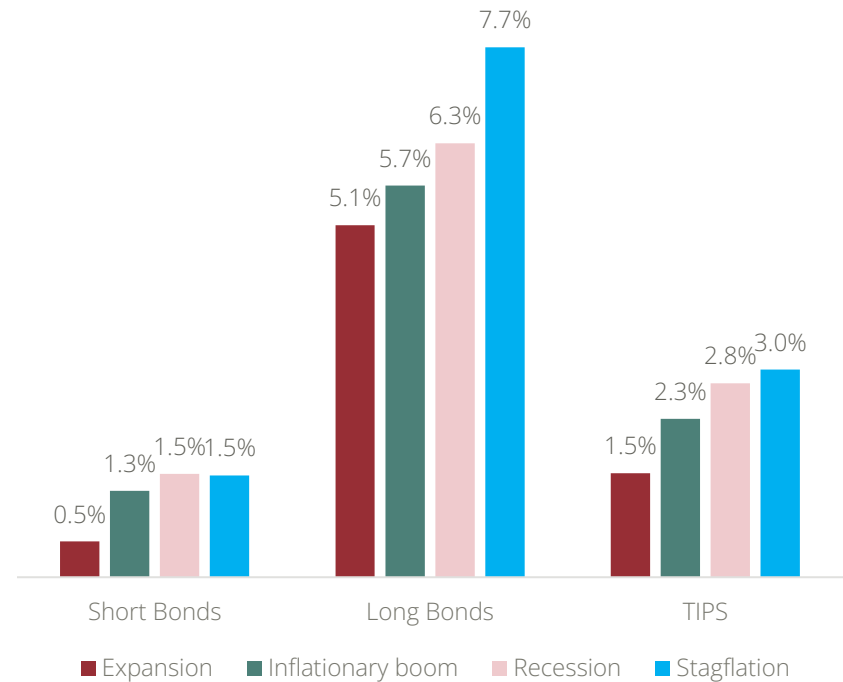
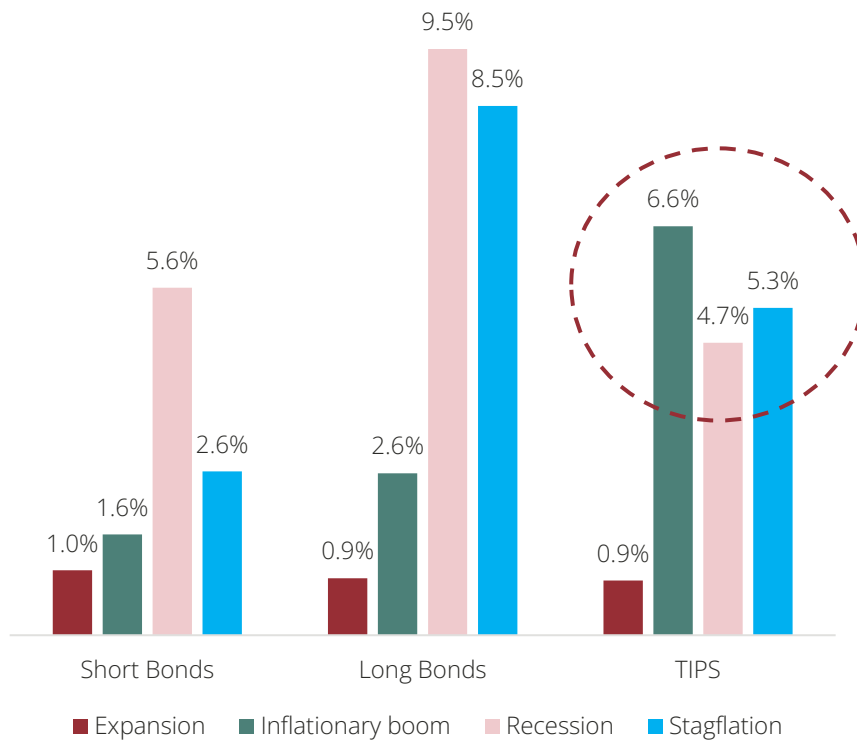
Index-linked bonds are the most reliable protector against stagflation



Index-linked bonds perform well across most macro-environments with lower volatility than nominal bonds

Total Return by Macro-Environment – 1998-2022

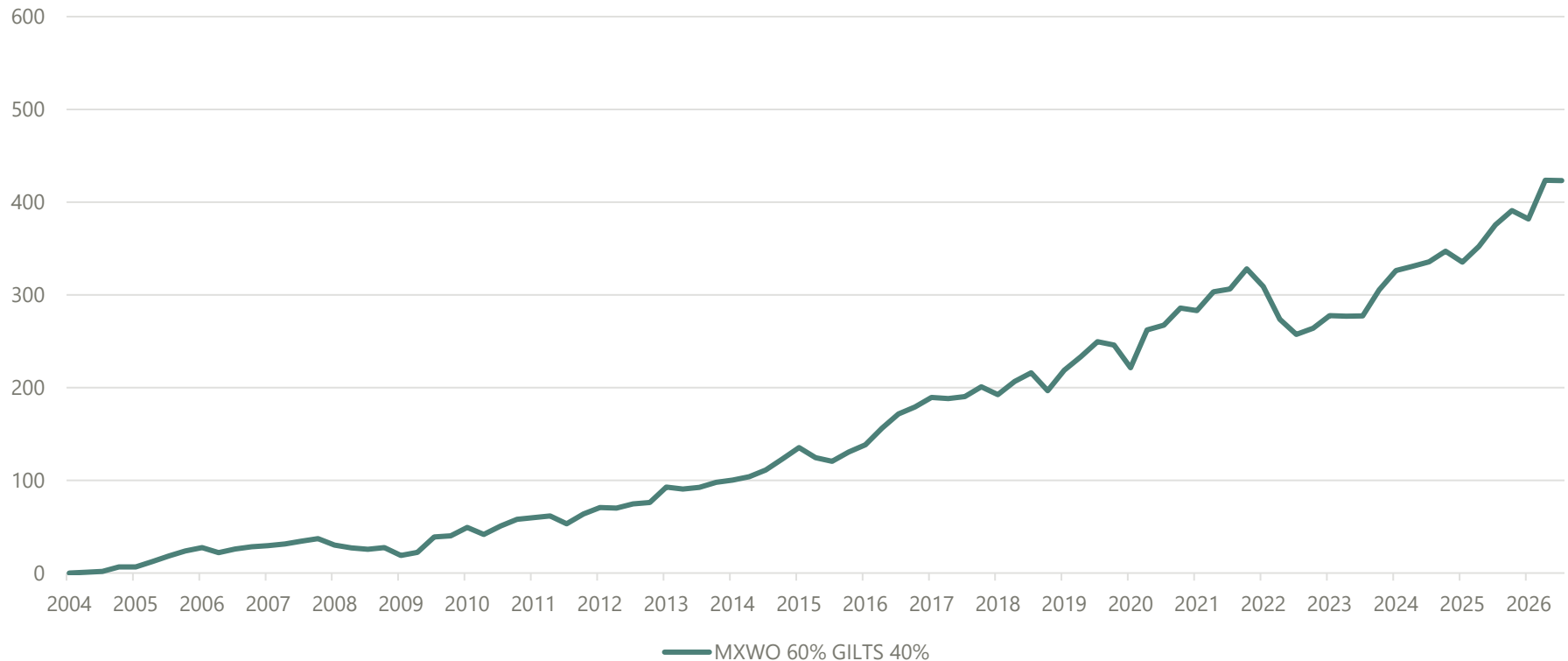
Volatility by Macro-environment – 1998-2022



Source: Bloomberg LP, CGAM Analysis

Adding index linked to a balanced portfolios improves returns

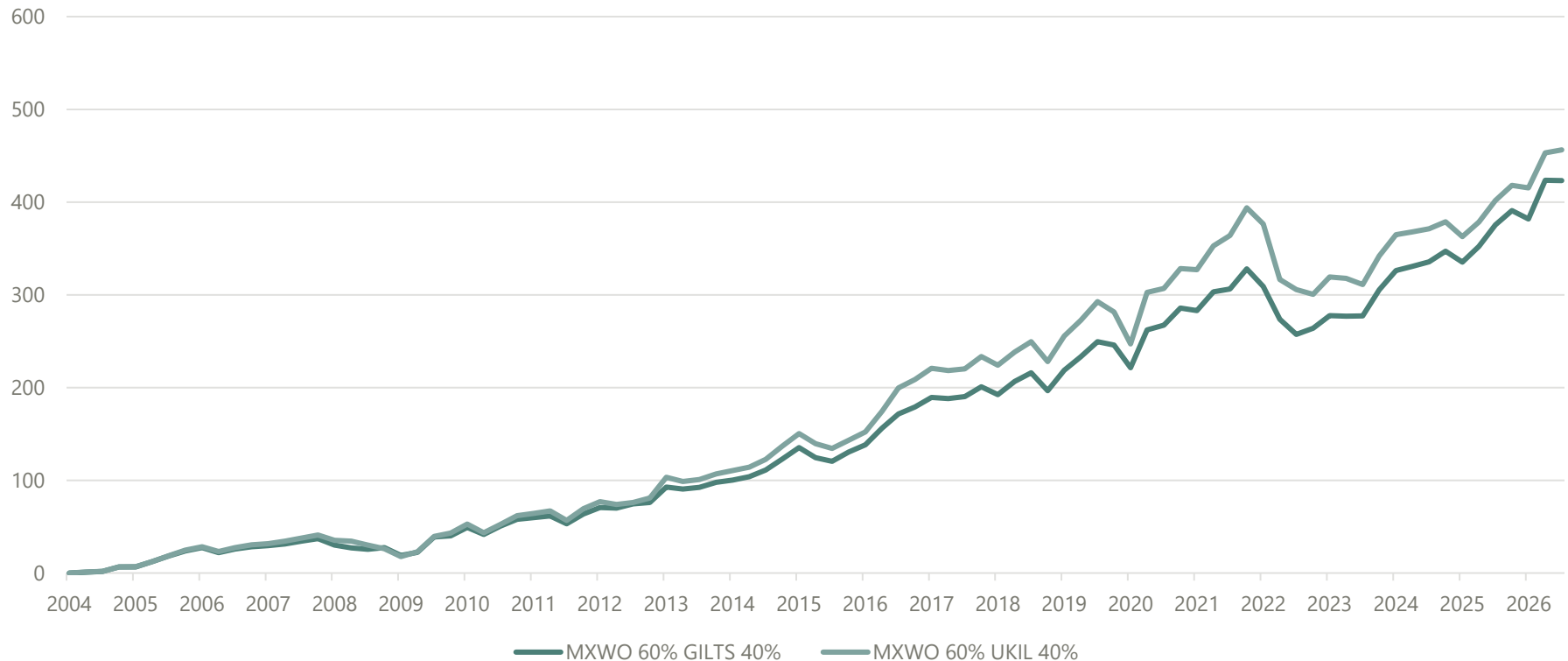
Balanced Portfolio Total Returns (GBP, % Mar 04 - today)



Source: Bloomberg LP, CGAM calculations

Adding index linked to a balanced portfolios improves returns

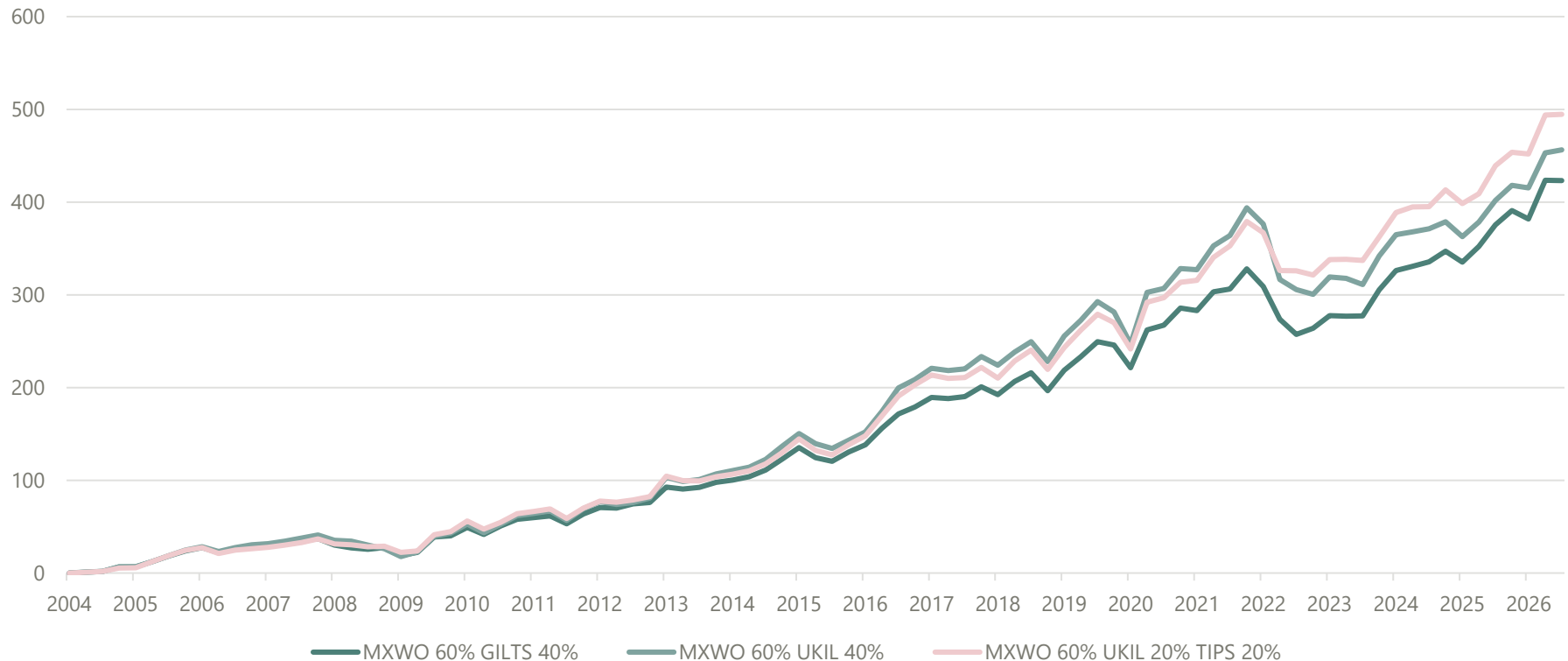
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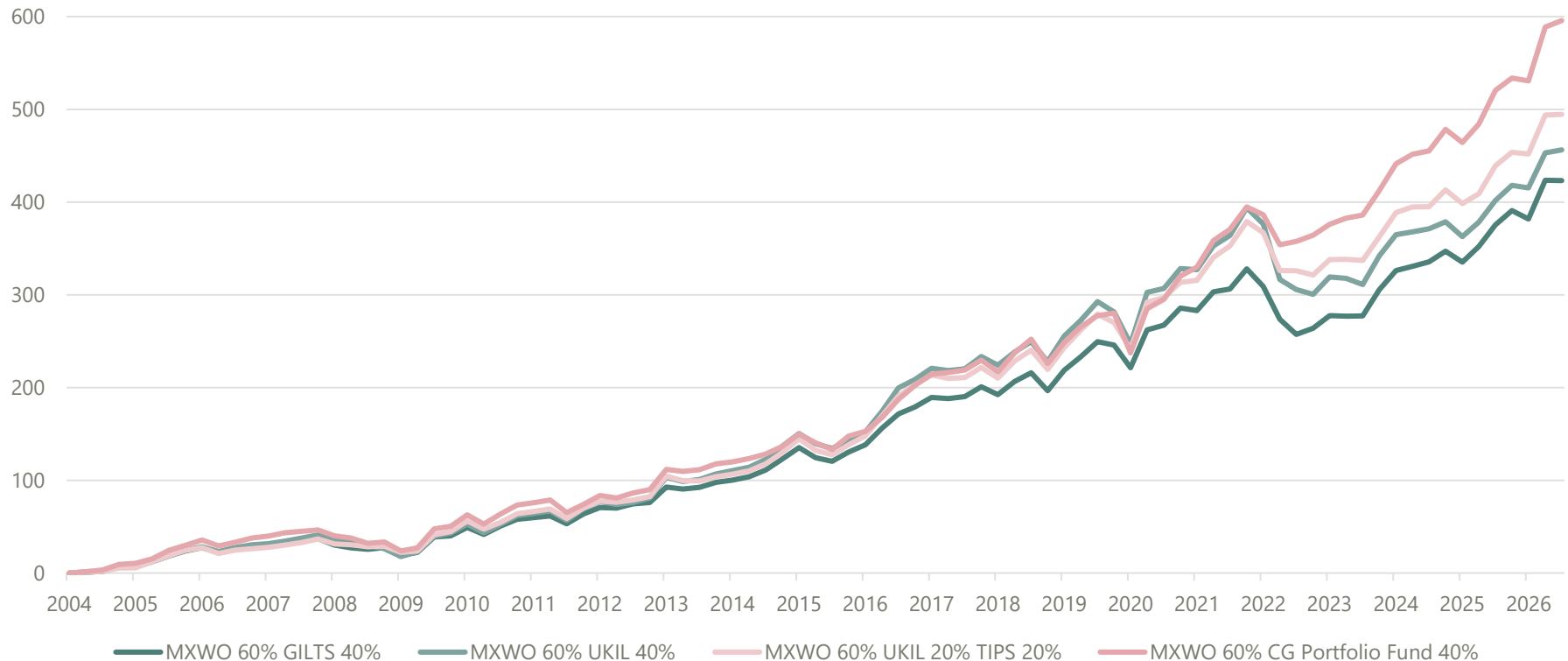
Balanced Portfolio Total Returns (GBP, % Mar 04 - today)



Source: Bloomberg LP, CGAM calculations

Adding index linked to a balanced portfolios improves returns

Balanced Portfolio Total Returns (GBP, % Mar 04 - today)



Source: Bloomberg LP, CGAM calculations

Key points:

- Governments began issuing index-linked bonds to demonstrate a **credible commitment to low and stable inflation**.
- Inflation is the **single biggest threat** to investors' wealth. The good news is that **you can reliably protect yourself from inflation** with index-linked bonds.
- In the US and UK, index-linked government bonds have outperformed conventional government bonds since the turn of the century. This is because **markets systematically underestimate realised inflation**.
- Index-linked bonds have been a **better performing hedge for a portfolio of equities** than conventionals.
- Yields available on index-linked bonds look **attractive relative to history** and estimates of trend growth rates.

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