



III portfolio
construction
CONFERENCE

PortfolioConstruction.com.au

5th Annual PortfolioConstruction Conference

23 – 24 August 2006 | AJC Convention Centre, Randwick, Sydney

Pillars for building better
quality investor portfolios...

International Bond Diversification

- still the right strategy?

(or why even JGB's Can look Attractive!)

Roger Bridges

PortfolioConstruction Conference 2006
Tyndall Investment Management Limited

AGENDA

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Overall, we are looking at the main drivers for investing in International Bonds

- 1. Why International Bonds?**
- 2. International Bonds versus Domestic Bonds**
- 3. What does the future hold?**
Will new products make this category more applicable for your clients?

Why International Bonds

Benefits from investing in Offshore Bonds

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- **Duration:** Longer Tenure
- **Diversification:** Risk/Return
- **Credit Diversification:** Lack of issuers
- **Supply:** Lack of bonds
- **Performance:** 7.14% 5yr return

Why International Bonds

Over past 5 yrs Offshore Bonds outperformed

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30 June 06	Aust. Bonds	Int'l Bonds	Aust. Shares	Currency
5 Year Volatility of returns (Annualised) %	3.31%	2.77%	10.47%	8.32%
5 Year Annualised Returns	5.87%	7.14%	12.67%	4.55%

Currency is represented by the Australian dollar trade weighted index

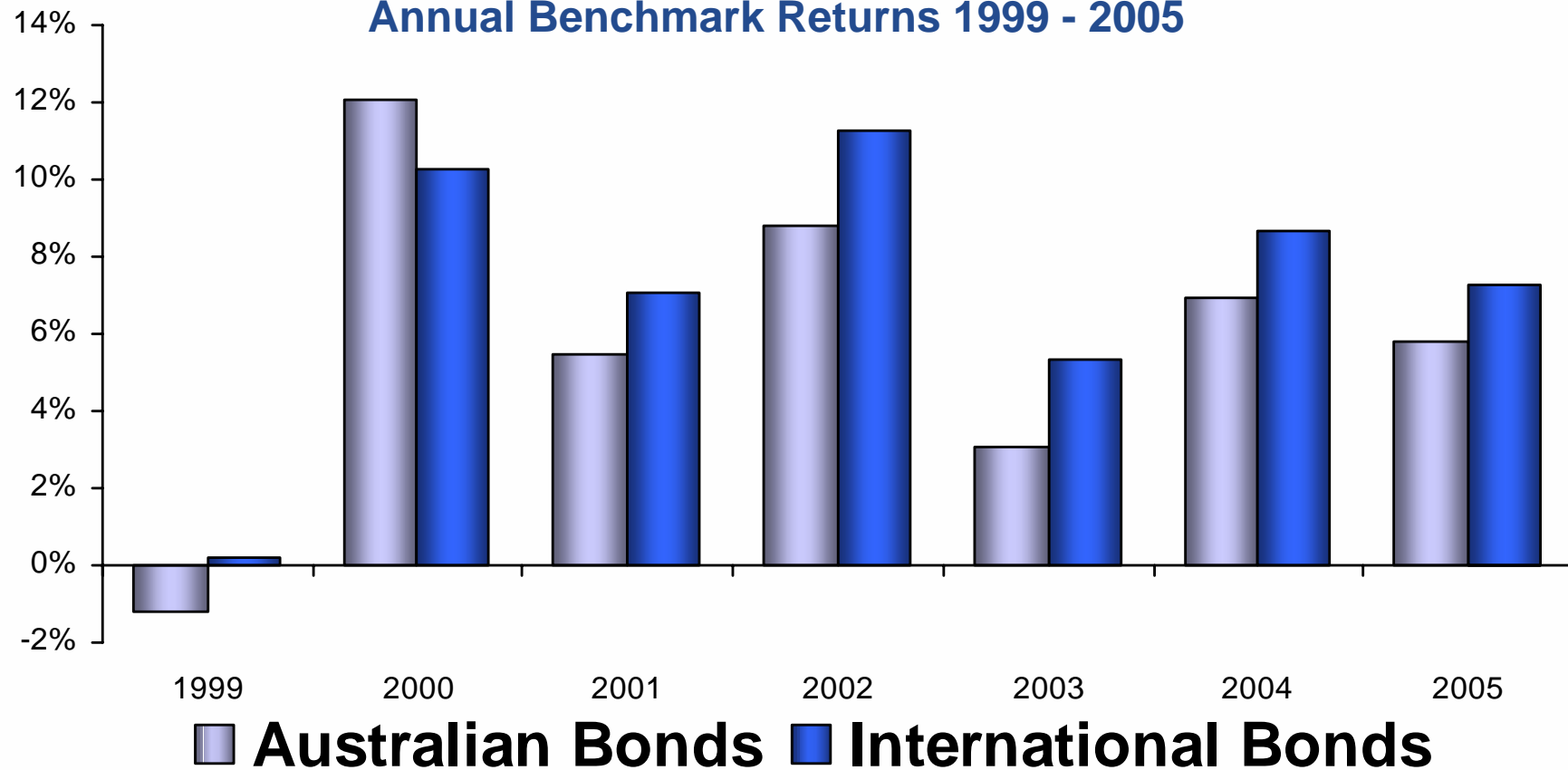
International versus Domestic Bonds

Relative bond performance

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Australian and International Bonds

Annual Benchmark Returns 1999 - 2005



Australian Bonds = UBS All-Maturities Composite Australian Bond Benchmark Index
International Bonds = JP Morgan Global Government Bond Index (ex Australia fully \$A hedged)

International versus Domestic Bonds

Why have International Bonds outperformed?

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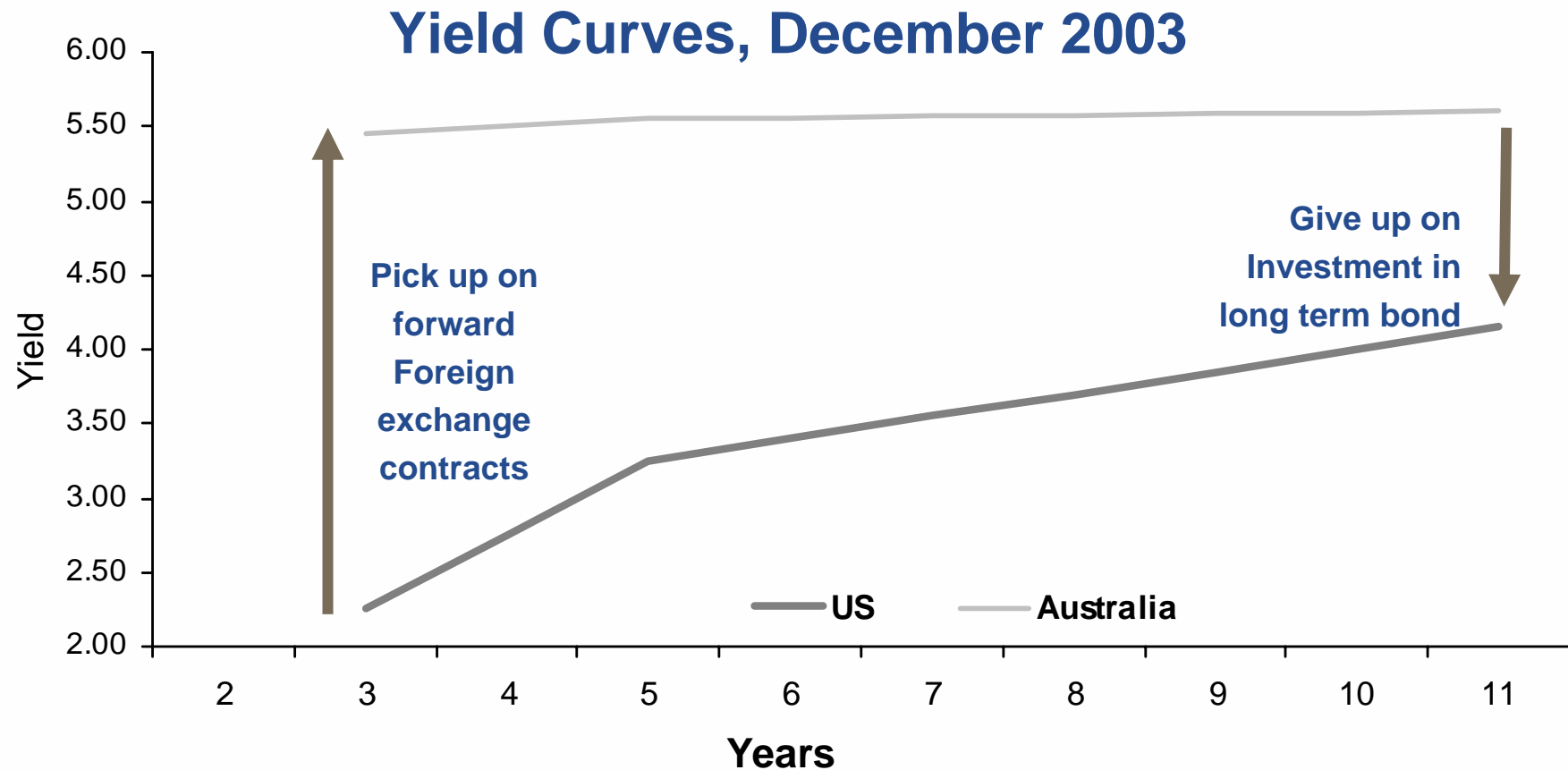
- **Duration difference in declining yield environment**
- **Yield Curve differences**

International versus Domestic Bonds

Benefit from yield curve differences

(Steep Offshore Yield Curves Benefit International Bonds)

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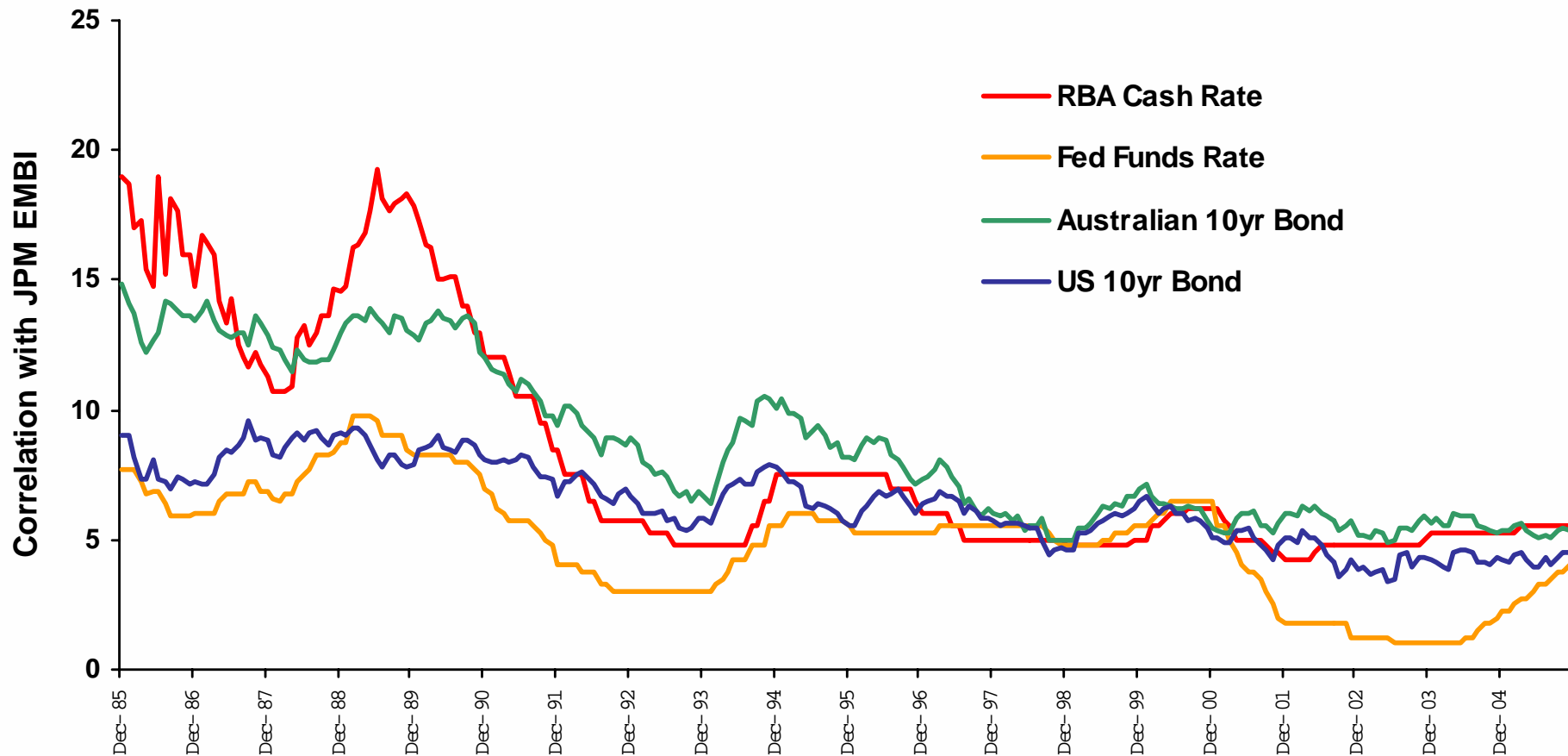
(Why Japanese bonds can prove to be an attractive investment)

International versus Domestic Bonds

Main driver of yield curve difference

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Changes in Cash Rates and 10yr bond yields

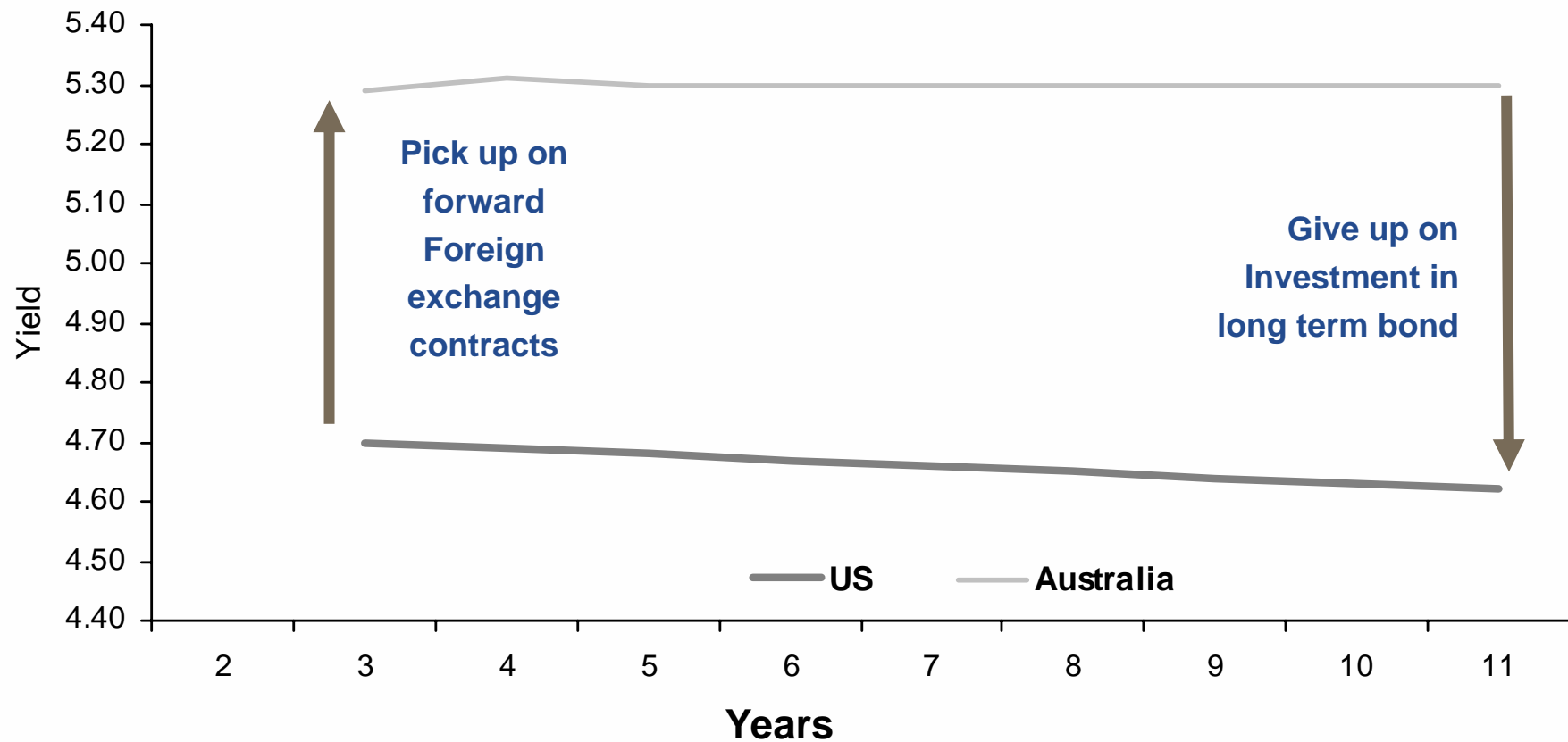


International versus Domestic Bonds

Curves increasing mirroring each other

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Yield Curves, February 2006

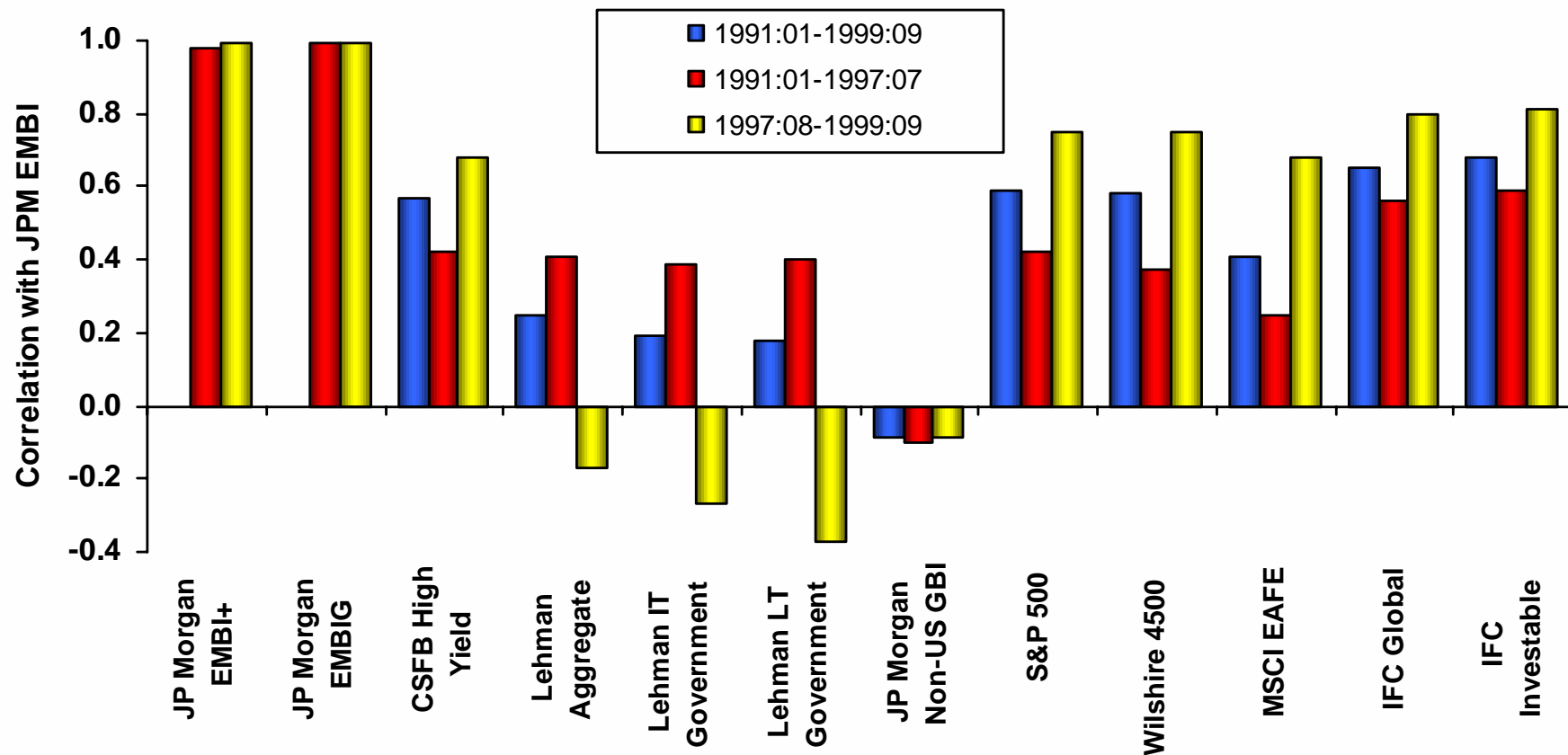


Future Products

Asset correlations to Emerging Market Bonds

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Emerging Market Bonds Asset Class Correlations



Future Products

Will Offshore Bonds remain so attractive?

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Performance

- Increased risk from higher rates

Diversification

- Synchronisation of Monetary Policy has increased correlation across bond markets

Credit

- Domestic bond portfolio's can invest in offshore credits

** Greater tenure still a draw card **

Future Products

Need for greater diversification in portfolios

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- 1. Continue to pick between Individual Domestic and International products, eg Tyndall Australian and International Bond Funds**
- 2. Or invest in a Diversified Bond Product which can invest in both Domestic and International Sectors, eg Tyndall Diversified Bond Fund.**

Gizmo time

Which session are you in?

6. Tyndall

7. AMP Capital Investors

8. Schroders

9. Nicholas Applegate/Allianz
Global Investors

10. Challenger Financial Services

Gizmo time

Please rate the overall quality of this session...

1. awful
2. Poor
3. Mediocre
4. Good
5. Very good
6. Great!



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