



Wealth Management & Services - Asset Management

IMA 5th Anniversary

Building Benchmark Indexes for
Brazilian Bond Market

May, 26th 2010

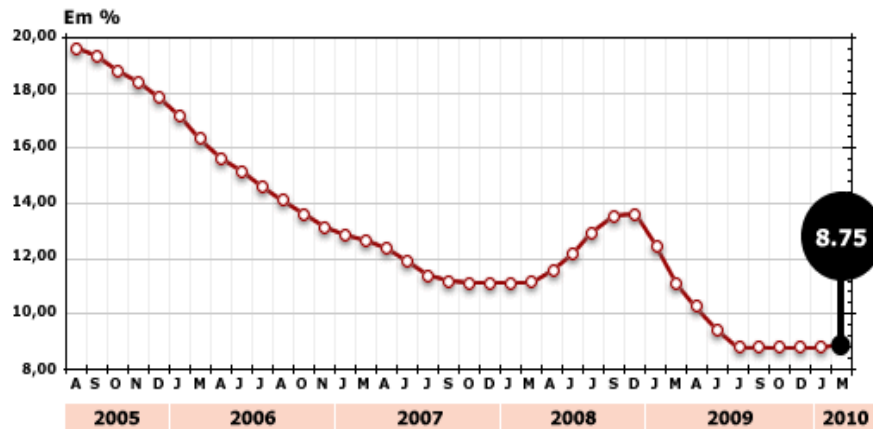
Silvio Luís Samuel





Brazilian economy has been changing

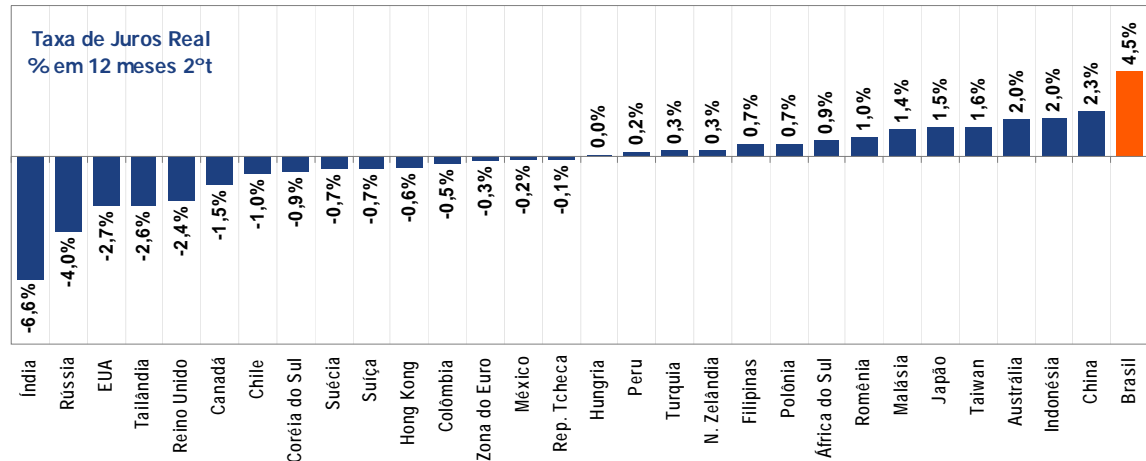
Basic Interest rates (Selic)



Source: Central Bank

Basic interest rate (SELIC) is at its lowest level in years.

Real interest rates – Selected peers
(Basic interest rate over inflation in 12 months)



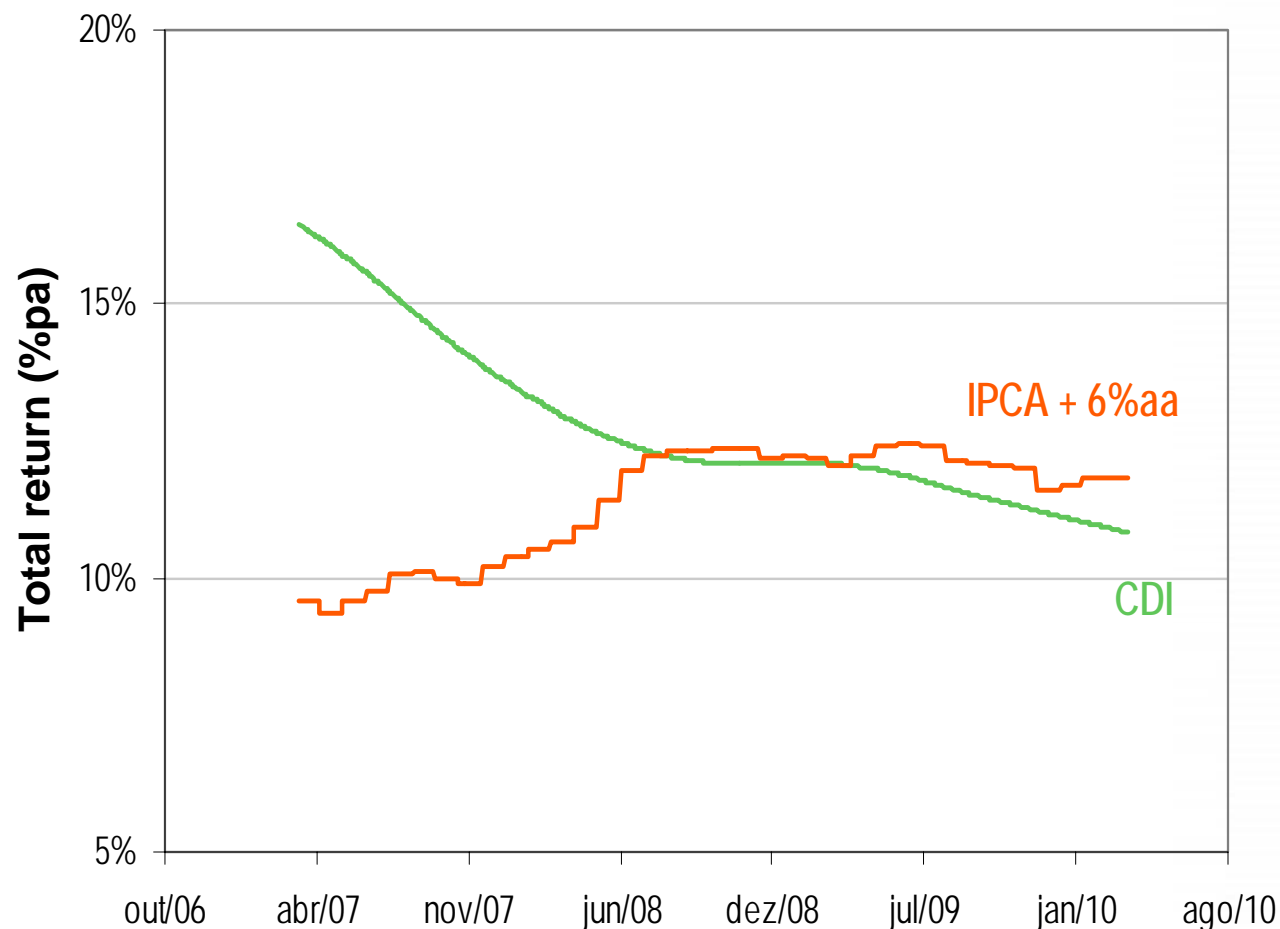
But it is still extremely high in comparison with peers.

Source: Itaú Asset – Econ. Dept



CDI is still high, but already insufficient

Total Return – 2 years moving average



The declining trend of CDI is structural, given the economy cannot grow in the long run with such high interest rates.

However, lower levels of return are insufficient to increase wealth.

Investors are already searching for higher returns mostly via Hedge Funds, High Yield Funds and Equity Funds.



Investors started to seek new “risk factors”



Total Return – 2 years moving average



IMA benchmark indexes reflect niches of government bonds portfolios with different compositions of risk and return.

IMA also helps to educate investors to accept higher volatility among “fixed income” investments.

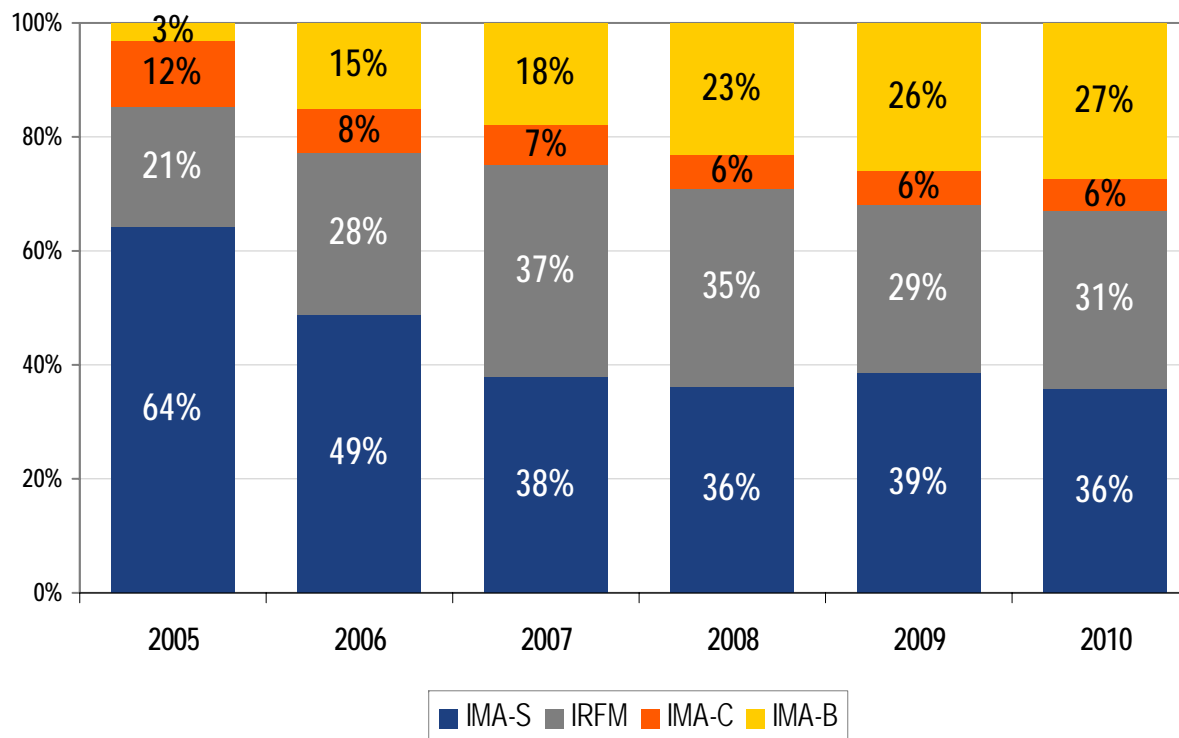


IMA reflects changes in Brazilian debt profile



IMA is a market cap-weighted composite of its sub-indexes

Increasing share of Gov.Bonds (IRFM) and TIPS-IPCA (IMA-B) and reduction on Selic indexed bonds (IMA-S)

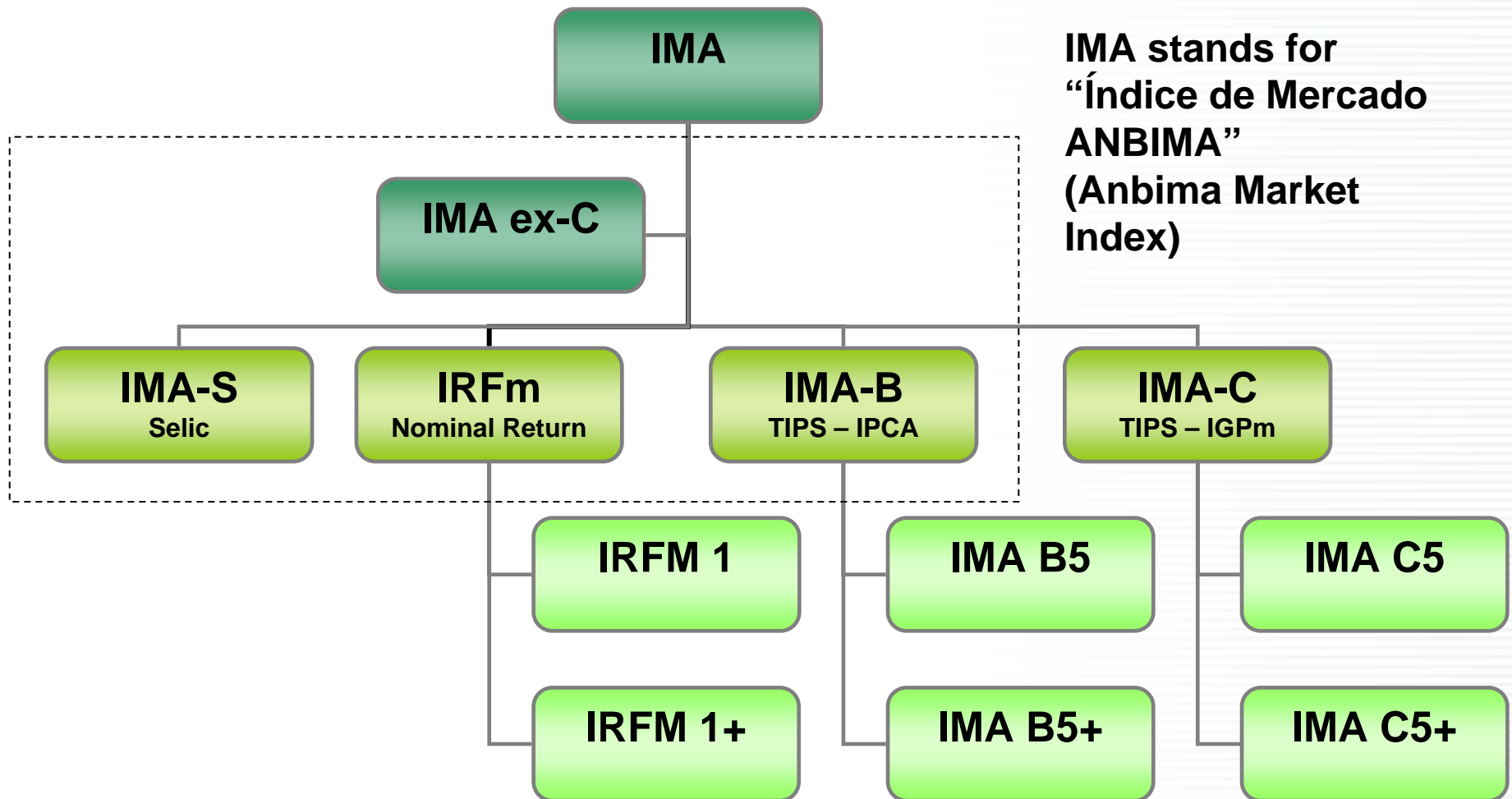


Increasing share
of longer term
bonds

Decreasing share
of 1 day bonds
(SELIC-indexed).

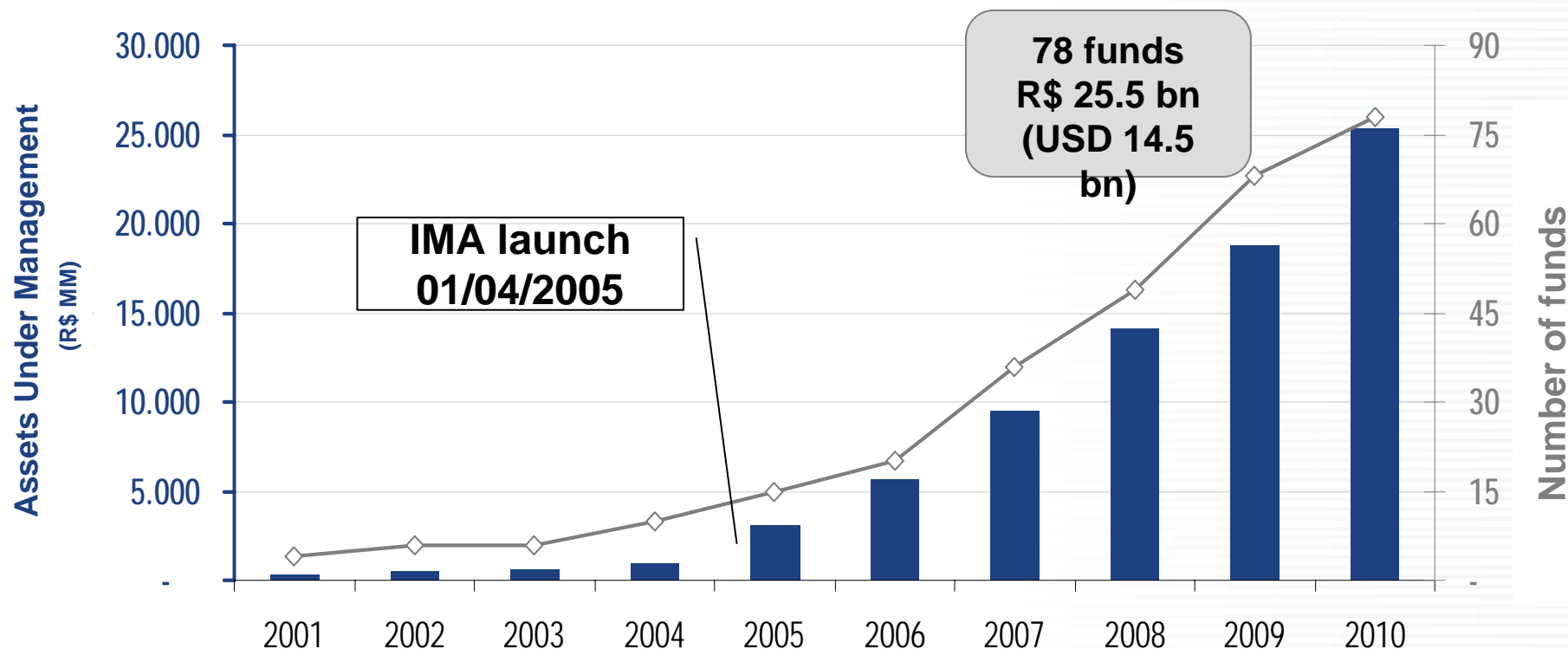


IMA family of indexes





Growth of IMA related mutual funds



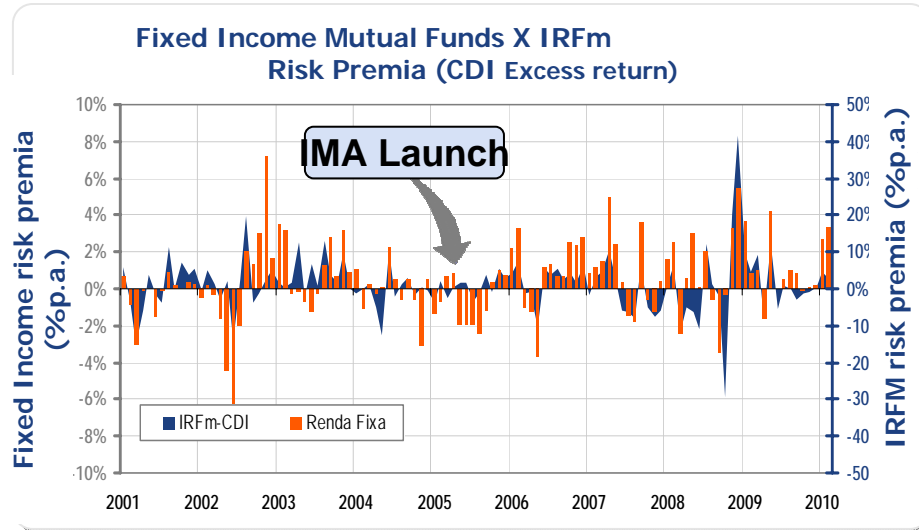
Include funds that changed investment policy

Until 1stQ/2010

Source: ANBIMA, CVM

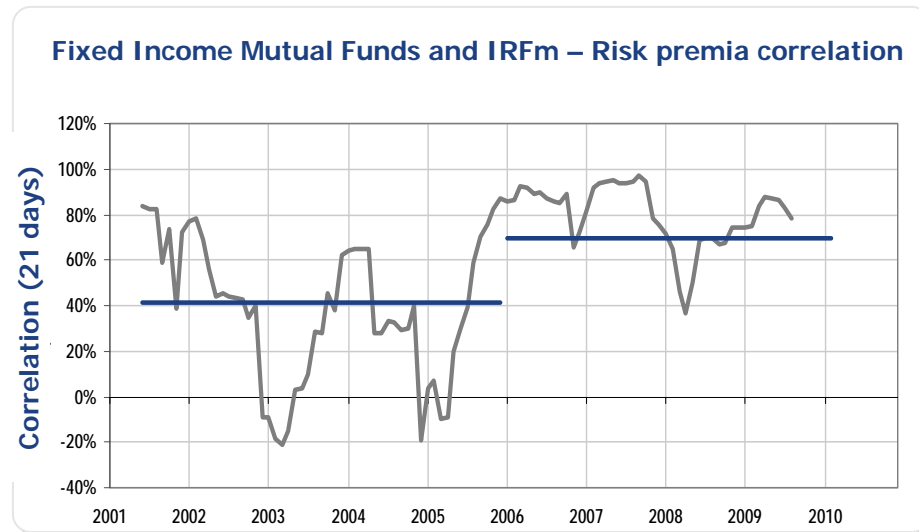


Increasing correlation



Since 2005 IRFm duration is increasing and so does the correlation of IRFm return and the average return of “Fixed Income” mutual funds.

Correlation changed from an average of 0.41 to something around 0.70.



One may conclude traditional fixed income funds are also changing their risk profile in search for higher returns.

Source: Itaú Asset



Recent changes in IMA methodology



Target: Improve "Investability" with low "tracking error" when compared to traditional IMA

- Index portfolios exclude bonds with limited public offering
 - NTN-B 2013/2023/2033;
 - some LFTs issued in 2002.
- Monthly rebalanced.
 - Portfolio steady during one month allows pricing of derivatives.
 - BM&F is inclined to offer such contracts (futures, options, etc).

Annualized tracking error (%p.a.) - 2009	
IRF-M	0,04%
IMA-B	0,18%
IMA-B 5	0,03%
IMA-B 5+	0,16%
IMA-C	0,00%
IMA-C 5	0,00%
IMA-C 5+	0,00%
IMA-S	0,00%
IMA-Geral	0,04%

Source: ANBIMA

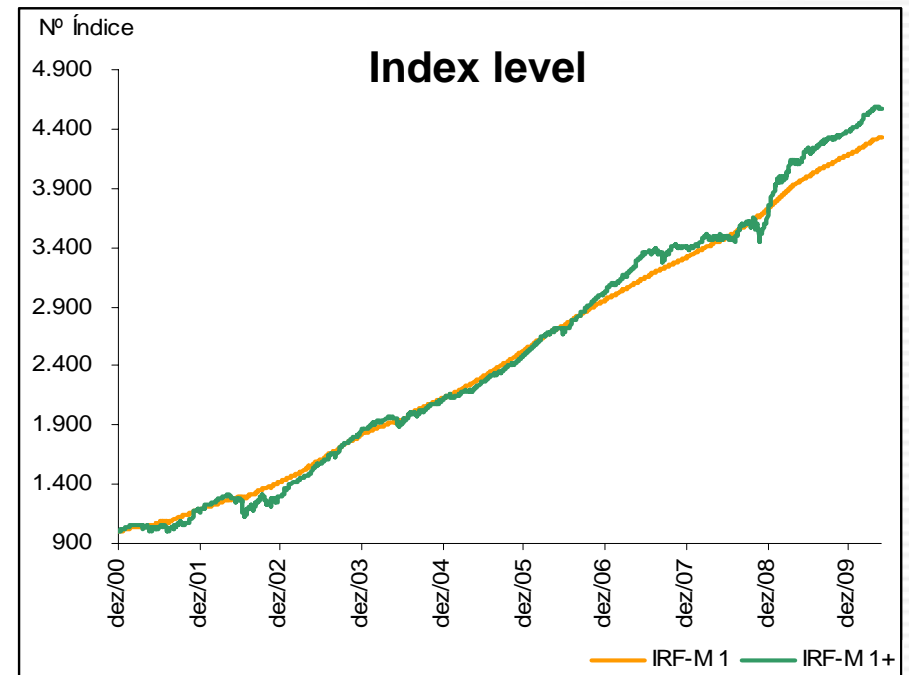
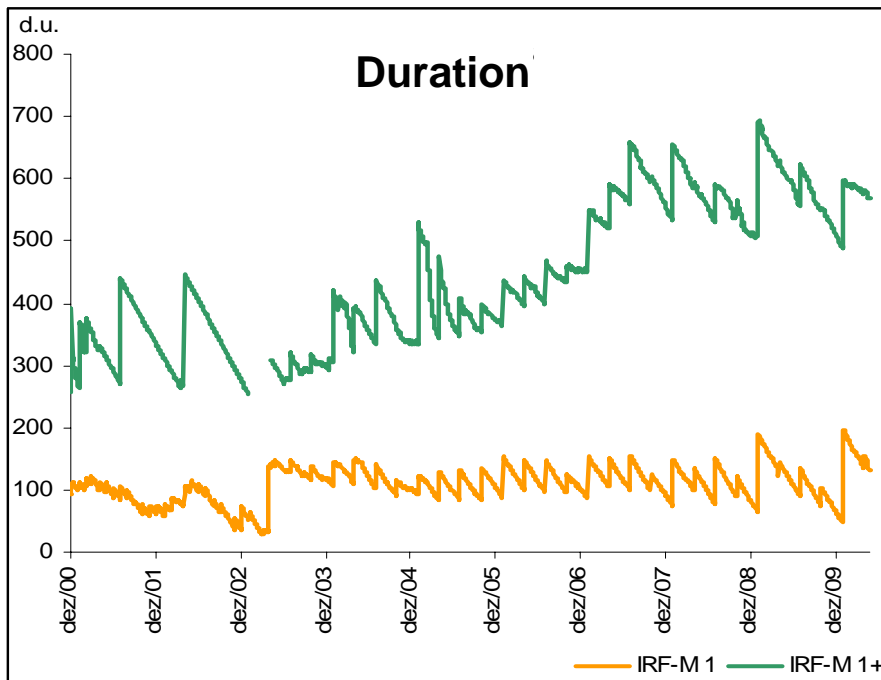
Strong decision process: changes were discussed at Benchmark committee, revalidated at Pricing committee and approved by ANBIMA after public hearing.



New indexes give visibility to niches

IRFm1 e 1+

- IRFm 1 – pre-fixed bonds up to 1 year term.
- IRFm 1+ – pre-fixed bonds with more than 1 year term.



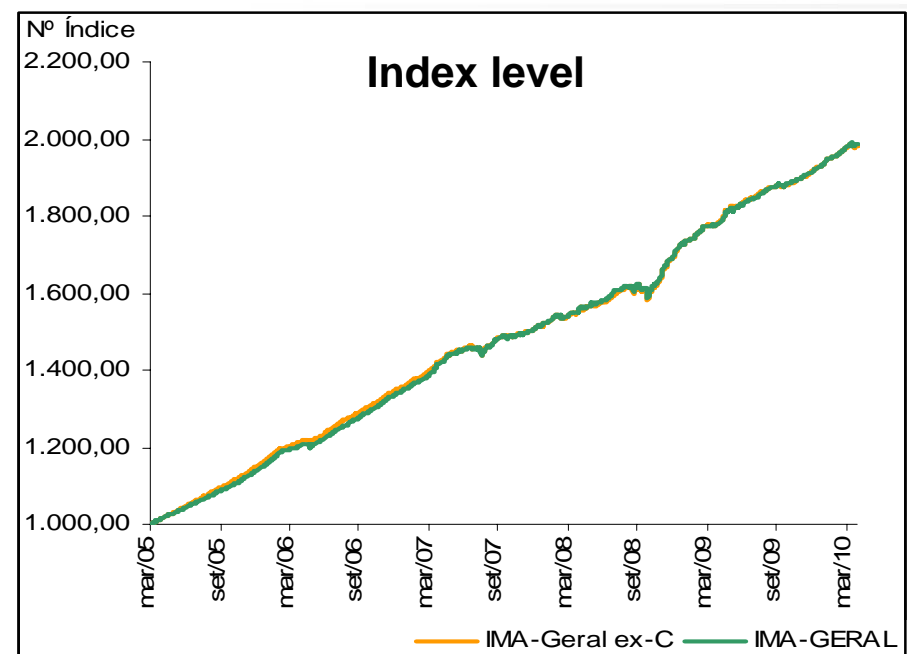
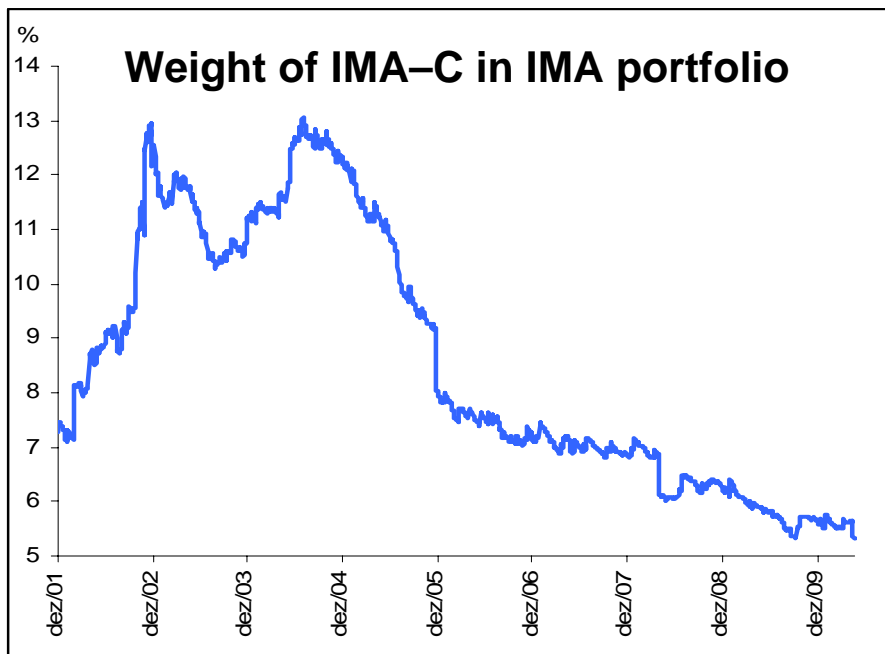


New aggregate index improves investability



IMA ex-C

- Portfolio does not include illiquid NTN-C (inflation-linked bonds referenced to IGPm).
- Have similar performance of original IMA, but is more investable.



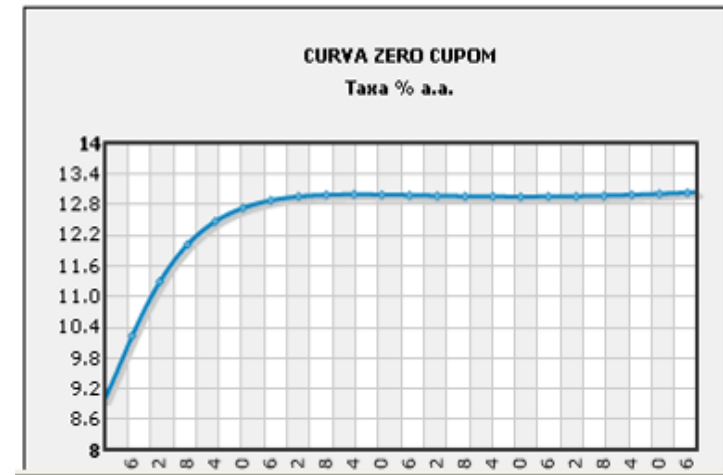


Recent indexes launch and beyond.



Fixed duration (IDKA)

- Theoretical indexes build over the yield curve (“zero coupon”)
 - Nominal (“*pré*”) – 3 months, 1, 2, 3, 5 years
 - IPCA TIPS – 2, 3, 5, 10, 20, 30 years



Corporate Bonds (under construction)

- Build upon a portfolio of “investment grade” corporate bonds priced daily by ANBIMA
- 3 indexes (CDI-SELIC / IGPM / IPCA)



Disclaimer



INVESTMENT FUNDS ARE NOT GUARANTEED BY THE FUND MANAGER OR THE PORTFOLIO MANAGER AND DOES NOT HAVE ANY KIND OF INSURANCE OR REIMBURSEMENT FROM THE “FUNDO GARANTIDOR DE CRÉDITOS – FGC” (CREDIT INSURANCE FUND)

PAST RETURNS DOES NOT REFLECT EXPECTATIONS OF FUTURE RETURNS

IT IS RECOMMENDED TO READ THE FUND PROSPECTUS AND BY-LAWS BEFORE INVESTING IN ANY MUTUAL FUND