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Charteris Buys Index-Linked Gilts on Inflation Bet (Update1)

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By Anchalee Worrachate and Gavin Finch

Jan. 30 (Bloomberg) -- Charteris Portfolio Managers bought inflation-protected bonds for the first time for its top-performing U.K. gilt fund, betting the government's economic stimulus plan will fuel growth and consumer-price increases.

The City Financial Strategic Gilt Fund started investing in index-linked bonds in November and now holds 65 percent of its assets in the securities, [Ian Williams](#), chief executive officer of Charteris and manager of fund, said yesterday in an interview in London. The portfolio beat all its competitors this year and since its December 2006 inception, according to data from Lipper and given to Bloomberg by Charteris.

"Government attempts to reflate the economy, especially in the U.S., will ultimately work," said Williams. "It's too pessimistic a view to see all this money being pumped into the system and still assume it's all going to fail."

The financial crisis, which began amid the collapse of the U.S. mortgage market, pushed the U.K. economy into a [recession](#) last year. The Bank of England reduced its key [interest rate](#) to the lowest level since 1694. The Treasury cut taxes, provided 37 billion pounds (\$53 billion) to rebuild banks and earmarked more than 500 billion pounds in spending to revive growth.

The U.S. House passed President Barack Obama's \$819 billion stimulus package two days ago, and sent it to the Senate. The package is aimed at resuscitating an economy that lost 2.6 million jobs last year.

'Incredible Value'

U.S. index-linked bonds offer "incredible value" and he would buy them if he could, Williams said. The fund, which can only invest in sterling assets, has 25 percent of its portfolio in cash and 10 percent in regular gilts that come due in less than seven years.

The U.K.'s inflation rate fell the most since at least 1997 in December. Consumer prices rose 3.1 percent from a year earlier, compared with 4.1 percent the previous month, the Office for National Statistics said Jan. 20.

The U.K. one-year breakeven rate, a gauge of near-term inflation expectations derived from the yield spread between index-linked and regular bonds, was at 2.70 percentage points today, from 1.83 percentage points at the end of last year.

The data from Lipper, a unit of Thomson Reuters Corp., listed 66 gilt funds. The City Financial fund returned 17.4 percent since it was started more than two years ago, according to Lipper.

The U.K.'s [FTSE 100 Index](#) and the [Standard & Poor's 500 Index](#) in the U.S. are headed for their first weekly gains in four. Companies in the U.S. sold \$119.7 billion of bonds so far in 2009, the busiest start to the year since Bloomberg began compiling the data in 1999.

The market "is now starting to discount an economic recovery," Williams said. "Financial markets are good nine to 12 months ahead of the economy. People who are waiting around for the economic numbers are going to miss the boat."

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