



Rough Guide to Wells World

Index-Linked Government Stocks (ILGS)

1. ILGS are marketable sterling UK government bonds representing around 25% of all UK government bonds currently in issue
2. Terms vary and include ultra-long duration stocks – see table overleaf
3. The stocks can be held until maturity or sold in the market
4. Like all stocks, these are issued in denominations of £100, each representing the value on maturity, i.e. what the owner receives when the stock is repaid by the government at the end of the term
5. Each issue has a fixed 'coupon', which remains constant for the term. The most recent issues (2013, 2014 and 2016) all had a coupon of 0.125%. The first issues were at 2% and 2.5%. None have been more than 4.625%. The median coupon on all issues thus far (1981-2016) is 1.25%
6. The coupon reflects borrowing rates (for the government) at the date of issue, excluding inflation. Because inflation is excluded, there is a much narrower range of coupons on ILGS than on conventional government bonds
7. Interest is paid every 6 months. Each interest payment = 50% of the annual coupon + increase/decrease in the RPI since issue
8. Each £100 of capital is also linked to the RPI, so that the capital and the income from it are protected from inflation over time
9. The yield on ILGS is calculated by reference to the current market price
10. The yield for the first owner depends how much has to be bid per £100 of stock purchased, which is influenced by supply and demand (market factors) – each issue is auctioned to the highest bidders, which will all be financial institutions
11. The yield for subsequent owners depends how the market values each £100 of stock. Some owners will be prepared (or forced) to tolerate negative coupons, for example by regulations requiring pension funds to match RPI-linked obligations (pensions) with RPI-linked assets
12. Redemption yield = the coupon that the owner will receive if the stock is owned until maturity, based on its current market value. This is currently negative on every single current issue, as set out in the table overleaf
13. Therefore very unlikely that any owner (original or subsequent) will actually receive a return on the stock at the advertised coupon rate
14. For UK taxpayers, the full amount of interest received is taxable (coupon + inflation), but no other tax is payable on profits from owning ILGS
15. The Bank of England is not permitted to purchase ILGS as part of the QE asset purchase facility



ILGS in issue on 6th March 2017

Coupon %	Maturity	Redemption Yield	Total Amount Issued	£ million	
				Nominal Value incl inflation	Market Value
1.250	22 November 2017	-3.572	£11,846	£16,313	£16,943
0.125	22 November 2019	-3.063	£8,183	£8,739	£9,536
2.500	16 April 2020	-3.062	£6,579	£20,887	£24,725
1.875	22 November 2022	-2.431	£15,743	£20,423	£25,956
0.125	22 March 2024	-2.123	£15,244	£16,776	£19,666
2.500	17 July 2024	-2.170	£6,821	£18,396	£25,165
0.125	22 March 2026	-1.855	£9,455	£9,768	£11,687
1.250	22 November 2027	-1.802	£14,170	£19,480	£26,609
0.125	22 March 2029	-1.724	£14,229	£15,990	£19,974
4.125	22 July 2030	-1.833	£4,841	£9,439	£17,910
1.250	22 November 2032	-1.686	£13,460	£16,538	£25,374
0.750	22 March 2034	-1.633	£14,570	£16,739	£24,672
2.000	26 January 2035	-1.657	£9,084	£13,783	£24,155
0.125	22 November 2036	-1.602	£4,560	£4,679	£6,563
1.125	22 November 2037	-1.616	£13,066	£17,236	£28,967
0.625	22 March 2040	-1.595	£14,090	£17,361	£28,194
0.625	22 November 2042	-1.577	£11,909	£14,954	£25,472
0.125	22 March 2044	-1.530	£15,726	£17,306	£26,952
0.125	22 March 2046	-1.516	£12,628	£13,069	£20,936
0.750	22 November 2047	-1.528	£11,687	£15,007	£28,502
0.500	22 March 2050	-1.523	£12,221	£15,279	£28,651
0.250	22 March 2052	-1.525	£12,366	£13,630	£24,907
1.250	22 November 2055	-1.518	£10,169	£14,116	£34,852
0.125	22 November 2056	-1.510	£2,250	£2,266	£4,292
0.125	22 March 2058	-1.538	£10,953	£11,420	£22,352
0.375	22 March 2062	-1.552	£12,480	£14,118	£31,979
0.125	22 July 2065	-1.560	£7,250	£7,427	£16,613
0.125	22 March 2068	-1.589	£12,600	£13,462	£31,729

Source: Debt Management Office

