

Fund Facts

Symbol	HIPAX
Website	www.hartfordinvestor.com
Address	Hartford Mutual Funds, P.O. Box 64387, St. Paul, MN 55164-0387
Tel. No.	888-843-7824
Inception	10/31/02

Portfolio

Total Net Assets *	\$117.10
Avg Mkt Cap (\$ Weighted) *	---
Average Price/Earnings Ratio	---
Average Price/Book Ratio	---
Turnover Ratio	---

Investment Information

New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$50
Min Initial IRA Investment	\$1,000

Risk (Against Lehman Aggr Bd Tr - 3 Years)

Alpha	---
Beta	---
R-Squared	---

Returns vs. Lehman Govt Bond Int Tr

	HIPAX	Index
1 Mo. (Cum.)	-4.67%	-2.43
3 Mo. (Cum.)	-1.15%	1.10%
1 Year (Cum.)	---	4.03

Returns vs. Lehman Aggregate Bond Tr

	HIPAX	Index
1 Mo. (Cum.)	-4.67%	-3.36
3 Mo. (Cum.)	-1.15%	-1.76
1 Year (Cum.)	---	5.42

Fees and Expenses

Max Sales Charge - Front	4.50%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	0.00%

Portfolio Manager

J. Connolly / W. Davison	10/31/02
* millions	Data through: 07/31/03

Source: Company Documents; Lipper

Forewarned is Forearmed

With Treasury yields going north and inflation going south, buying into an inflation-protected bond fund may seem like putting a belt and suspenders on spandex shorts. Still, this was the time when the 193-year old insurer Hartford decided to launch its Inflation Plus mutual fund. William Davison told Ticker what these relatively new securities are meant to insure from and why one should pay more attention to them.

Q: Why do you think right now an investor should consider inflation at all?

A: When you look at Consumer Price Index (CPI) for example and you break it down into its two main components you get a very different picture of the two pieces. The first piece is the goods piece of CPI and that represents items as you might expect - hard goods, things like televisions, washers and dryers and things that you can touch and feel everyday, and that component of CPI has been going up very slowly. In fact there have been months that it's actually been down. The year-over-year change on that piece of CPI is about 0.3%. That's what has been keeping prices down and when you think about why that's the case, there has been a lot of foreign competition for those items, there is assembly that is done abroad and cheap labor from abroad tends to keep prices low. The other factor is demand. Frequently, goods are discretionary so consumers can delay purchases, decreasing demand.

The other piece of CPI, which represents the remaining 60%, is the services component. Those are the intangi-

bles in CPI, that you can't touch and feel everyday, for example items like tuition costs, cable bills, haircuts, things like that, and those prices have been rising at 3.6% on a year-over-year basis. And those are items that people need everyday or every month and you can't escape the price increases that people have been experiencing in that part of their lives. So, as a result of the rising costs of those items, people need to think about inflation.

Inflation on the whole will start to rise as the economy picks up because service inflation won't go away, we believe it is going to stay at about this level and perhaps go slightly higher. It's the goods component of CPI that we are convinced will start to rise as the economy starts to pick up and that will then flow through more directly in the CPI.

When you look at the impact of inflation, a lot of people have said why should I care about inflation being only 2% or maybe a little bit less. What they don't realize is that 2% inflation over a 20-year investment horizon can have a material impact on someone's portfolio. If you had a thousand dollars, that thousand dollars will only be able to buy \$673 worth of goods 20 years later.



If you are living on fixed income, that fact will have a material impact on your standard of living. So you need to look to this asset class of protection because it is the only asset class that is guaranteed to protect your investment from inflation.

Q: What are inflation-protected bonds and how does that protection work, exactly?

A: The inflation-protected securities market here in the United States started in 1997 and since then the government has issued over \$150 billion worth of treasuries with inflation protection. One of the reasons the government wanted to issue this type of security was because it gives the Treasury a direct read on what the market's expecting for future inflation, so it's a barometer for them for future inflation expectations.

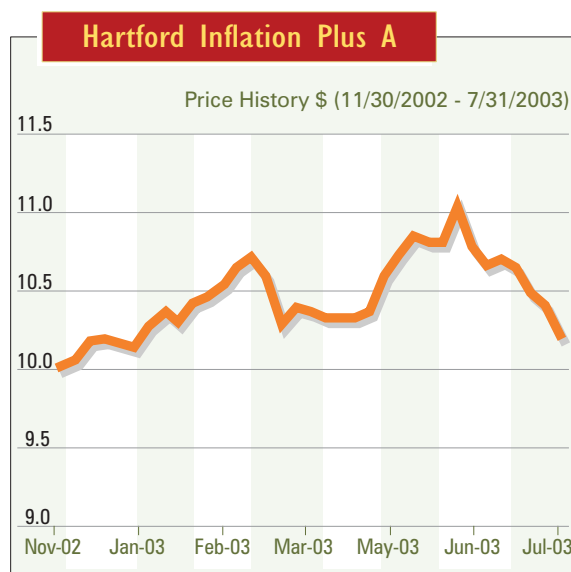
Over time the government has issued about 4% of their debt outstanding in treasuries with inflation protection. That number fluctuates year-to-year depending on how much treasury debt they are issuing. Right now they're moving from a three-times-a-year issuance cycle to a four-times-a-year issuance cycle. So there is definite support to continue this program. There are currently 11 issues outstanding. The shortest issue matures in 2007, and the longest issue matures in 2032 and they are now focusing on 10-year issuance. When you look at trading volume, it is somewhere between \$2 and \$5 billion everyday.

They adjust the principal value as a result of CPI and then the coupon that you receive on the securities gets paid on this higher principal value. For example, I am going to give you an annual period to make it easy, if you had 4% inflation over a year the government would add to your principal 4%. So, if you invested \$1000, the government would add \$40 to your principal value and you would receive that at maturity. And if you had a 3.5%

coupon that was paid on these securities instead of getting \$35 each year, you would get \$36.40. Each coupon period you would get more coupon income. The coupon is adjusted not in its rate but in the fact that it is paying on a higher principal.

Q: So the coupon would be adjusted after the inflation has been announced for the subsequent period? There is no pre-adjustment?

A: No, the way it actually works is, for example, the CPI that was released on June 17, 2003 starts being added to these securities everyday on



July 1, and that CPI number gets added on a daily basis over the course of the month.

Q: So there is a schedule?

A: Yes, you can go to a Treasury website and you can see the principal going up as CPI goes up.

Q: What are the ways you build a portfolio?

A: The investment process that we have here is based upon three components. One is fundamental analysis, the second is market pricing and the third is a bit of technical analysis. From a fundamental analysis perspective, what we do is bottom-up research. We start,

however, with a broad view on the economy and market and we do that through an investment strategy process that we have here which incorporates all of the senior investment professionals. We meet once a month to come up with our outlook on where we think the economy is going and where we think different sectors of the economy are going. And from that we then talk about the various components of the fixed income market. We take that information and we then look at each of the individual sectors.

Let me give you an example. We develop an inflation outlook as a result of our strategy meetings and in today's world our view is somewhere between 2% and 2.5% inflation over the next year.

So, today the inflation protected treasury market is pricing in about 1.7% inflation on average over the next 10 years. We believe that is too low because our view is higher than that. And in fact when you go back to put it into context when you look back over time, inflation hasn't averaged 1.7% or lower since the early 1960s. So, we believe that the market is undervaluing future inflation, therefore we should own a lot of inflation protected securities in a portfolio because the inflation is cheap right now compared to what the market is pricing in the traditional treasury market.

Q: And the fund has been recently launched?

A: November 1, 2002.

Q: What percentage of total return is through active management?

A: I would say most of the return to date has come from the inflation benefit and a lesser amount has come from the total return benefit.

Q: Do you think that kind of breakdown will remain at least in the foreseeable future?

A: I would say that over time we would see more benefit coming from the total return component. We are 100% invested. One other value-added strategy that we have for the fund is that we don't have to be 100% invested in inflation protected securities all of the time. There are two asset classes that we look at to accomplish that. The first is floating rate securities, which many times are issued by corporate credit or other types of issuers and we have a small weighting for those today. We have about 5% of the fund invested in the floating rate securities. The thought process behind that is that they will add additional income to the port-

Q: And what is the breakdown in terms of the securities involved?

A: The breakdown of the portfolio is currently 95% domestic treasury inflation protected securities and 5% floating rate securities - mostly corporate and we do have some others which are commercial mortgage floating rate securities, which are structured securities based on commercial real estate.

Q: Do you maintain a short-term outlook on inflation?

A: We try and look at inflation over a three- to six-month period but

example you might get 4% inflation, but that can come in pretty big chunks.

You might get some of it early in the year because of the way CPI is adjusted and then you might get much of it in the summer and then you might get more of it in the fall. So people who are dependent upon a particular income stream might have a little bit of trouble with this fund because it is not as predictable. The NAV may also fluctuate due to general rises and declines in the level of real rates (interest rates minus inflation).

Q: What type of tax consequences do you have when investing into this kind of fund?

“What we advocate to people is that some percentage of their fixed income portfolio should be allocated to this asset class, because inflation is coming back, it diversifies your risk, and it doesn't put all your eggs in one basket.”



About William Davison:

William Davison, Director of The Hartford's Funds Management Group has over 21 years of investment experience. He is a co-manager of The Hartford Inflation Plus Fund and The Hartford Income Fund. Prior to joining The Hartford, Davison served as a vice president of corporate finance with Shawmut National Corporation, and also as a loan officer with Manufacturing Hanover Trust Company.

folio and as a result of that, since CPI can be volatile on a month-to-month basis it's a way for us to help smooth out some of that volatility.

When we add those positions to the fund, we are adding them in very small weights, significantly under 1% per name. Generally we try and target something closer to half a percent per name, so we are well diversified in that portion of the portfolio, so we don't see a lot of volatility in that. Now floating rate securities in our mind have similar characteristics to what you would find in inflation protected securities so that as rates rise the floating rate securities have coupons that reset. They also don't have a lot of price volatility as a result, so as rates rise their price doesn't change a lot because their coupon is resetting.

with an eye on a little bit longer to have a sense as to where we think it is going over time.

Q: Who are investors that should not be exposed to these kinds of funds?

A: People who are very concerned about volatility might be a little concerned about this fund because just from a CPI standpoint, one month could be fairly high and then the next month could be fairly low, so some of that volatility comes through. And that would particularly relate to people who are looking forward to a monthly fixed income or predictable income because the income on this fund, even though over the course of a year in our prior

A: Since they are treasury securities, they are treated just like traditional treasuries from a tax perspective but there is one important difference, and again going back to our 4% example, the \$40 that get added to your principal value is taxed to you in that year, however, you won't receive it until the maturity of the security, so it becomes "phantom income". When you buy through a fund, the fund distributes that inflation accrual every month so that "phantom-income" issue effectively goes away. At the end of the year, you are going to be taxed on your inflation accrual but you would have received that as a distribution by the fund. ■

Ticker Staff