

## **Bonds 101 – a “Quantum of Solace” for your portfolio...**

With investment markets around the world continuing to be “shaken and stirred” daily, it may be prudent to consider an asset class that is both income producing and considered capital stable.

Enter Bond...James Bond or in this case Fixed Interest investment.

The Fixed Interest Market (aka the Bond Market) is a relatively new investment space in an Australian context, particularly direct investment or purchase of individual bonds.

The Bond Markets in the United States and Europe are older and larger than their own equity markets. The Australian Bond Market is relatively new in comparison but it is evolving and now investors can access Bonds directly with as little as A\$10,000 per Bond.

Professional Investors are well versed in the benefits of Bonds in a diversified portfolio. For example if we look at a breakdown of QBE’s 2015 US\$26Bn Investment Portfolio, it reveals 88% or almost US\$23Bn is in Fixed Interest investments.

This includes; US\$5.9Bn (22.8%) Short Term Money Markets ie Term Deposits, US\$4.2Bn (16%) Government Bonds and US\$12.4Bn (47.6%) Corporate Bonds.

### **So what is a bond?**

A bond is simply a loan or an IOU from an investor to an issuer (such as the government, a bank or corporation).

Think of the loan you take out from the bank to buy a house. The bank expects to be repaid interest and principal. If you fail to make the payments you break the contract and the bank has rights to recover its funds.

Bonds work in much the same way. The investor agrees to lend the money to the issuer who must then honour that legal obligation by paying back interest and principal.

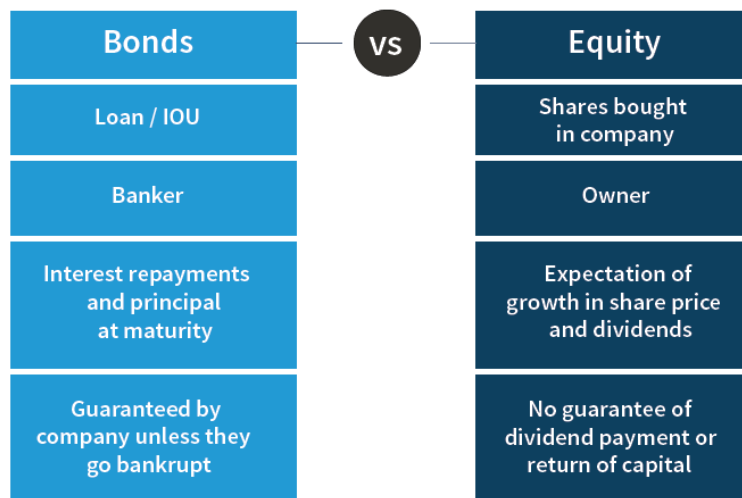
They are issued in a format that allows this debt to be traded easily by investors, after the money has been lent (issued) and before it has to be paid back (maturity).

### **Different Types of Bonds**

- Fixed rate bonds – A fixed rate bond pays a fixed return for the life of the bond, known as the coupon rate.
- Floating rate bonds – A floating rate bond pays income linked to a variable benchmark. The margin over the benchmark is fixed and set at first issue, and income will rise and fall over time as the benchmark changes.
- Inflation linked bonds (ILBs) – An ILB is a security linked to the Consumer Price Index (CPI) or inflation. Therefore the capital value of the bond grows with inflation. There are two main types: capital indexed bonds and index annuity bonds.

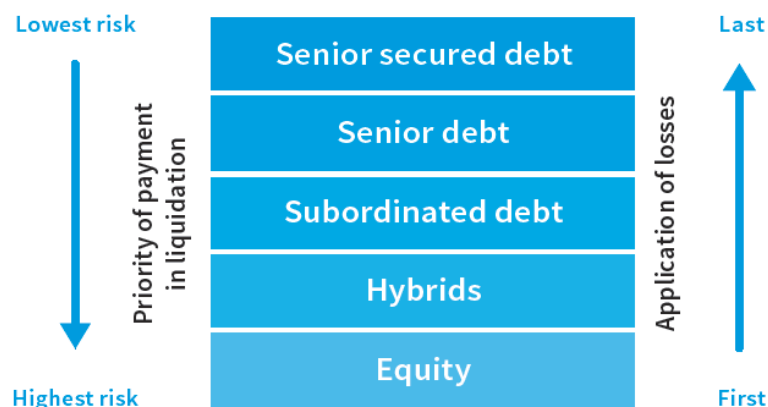
## Bonds vs Equities

There are some major differences between bonds and equities, as illustrated below:



## Capital stability

Importantly, bond holders have priority over equity holders in the event of liquidation. Assuming the issuer of a bond remains solvent, they are contractually obliged to pay back the principal value to the bond holder.



## Why Bonds?

In addition to capital stability (see above), some key benefits of bonds include:

- **Regular income** - The bond interest earned is determined by a formula and must be paid.
- **Diversification** - Bonds provide a different type of return to shares and property.
- **Liquidity** - Bonds can be bought and sold prior to maturity.

## How can I find more information on Bonds and how can I access the market?

Please visit [www.fiig.com.au](http://www.fiig.com.au) and [thewire.fiig.com.au](http://thewire.fiig.com.au) or contact David Hann - Director Fixed Income Sales, FIIG Securities Limited on (08) 9421 8503.

FIIG Securities Limited ('FIIG') provides general financial product advice only. As a result, this document, and any information or advice, has been provided by FIIG without taking account of your objectives, financial situation and needs. FIIG's AFS Licence does not authorise it to give personal advice. Because of this, you should, before acting on any advice from FIIG, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If this document, or any advice, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product. Neither FIIG, nor any of its directors, authorised representatives, employees, or agents, makes any representation or warranty as to the reliability, accuracy, or completeness, of this document or any advice. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or advice. FIIG, its staff and related parties earn fees and revenue from dealing in the securities as principal or otherwise and may have an interest in any securities mentioned in this document. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a 'wholesale client' as that term is defined in section 761G of the Corporations Act 2001 (Cth). FIIG strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. FIIG does not provide tax advice and is not a registered tax agent or tax (financial) advisor, nor are any of FIIG's staff or authorised representatives. FIIG does not make a market in the securities or products that may be referred to in this document. A copy of FIIG's current Financial Services Guide is available at [www.fiig.com.au/fsg](http://www.fiig.com.au/fsg).

An investment in notes or corporate bonds should not be compared to a bank deposit. Notes and corporate bonds have a greater risk of loss of some or all of an investor's capital when compared to bank deposits. Past performance of any product described on any communication from FIIG is not a reliable indication of future performance. Forecasts contained in this document are predictive in character and based on assumptions such as a 2.5% p.a. assumed rate of inflation, foreign exchange rates or forward interest rate curves generally available at the time and no reliance should be placed on the accuracy of any forecast information. The actual results may differ substantially from the forecasts and are subject to change without further notice. FIIG is not licensed to provide foreign exchange hedging or deal in foreign exchange contracts services. The information in this document is strictly confidential. If you are not the intended recipient of the information contained in this document, you may not disclose or use the information in any way. No liability is accepted for any unauthorised use of the information contained in this document. FIIG is the owner of the copyright material in this document unless otherwise specified.