

Investing in fixed income

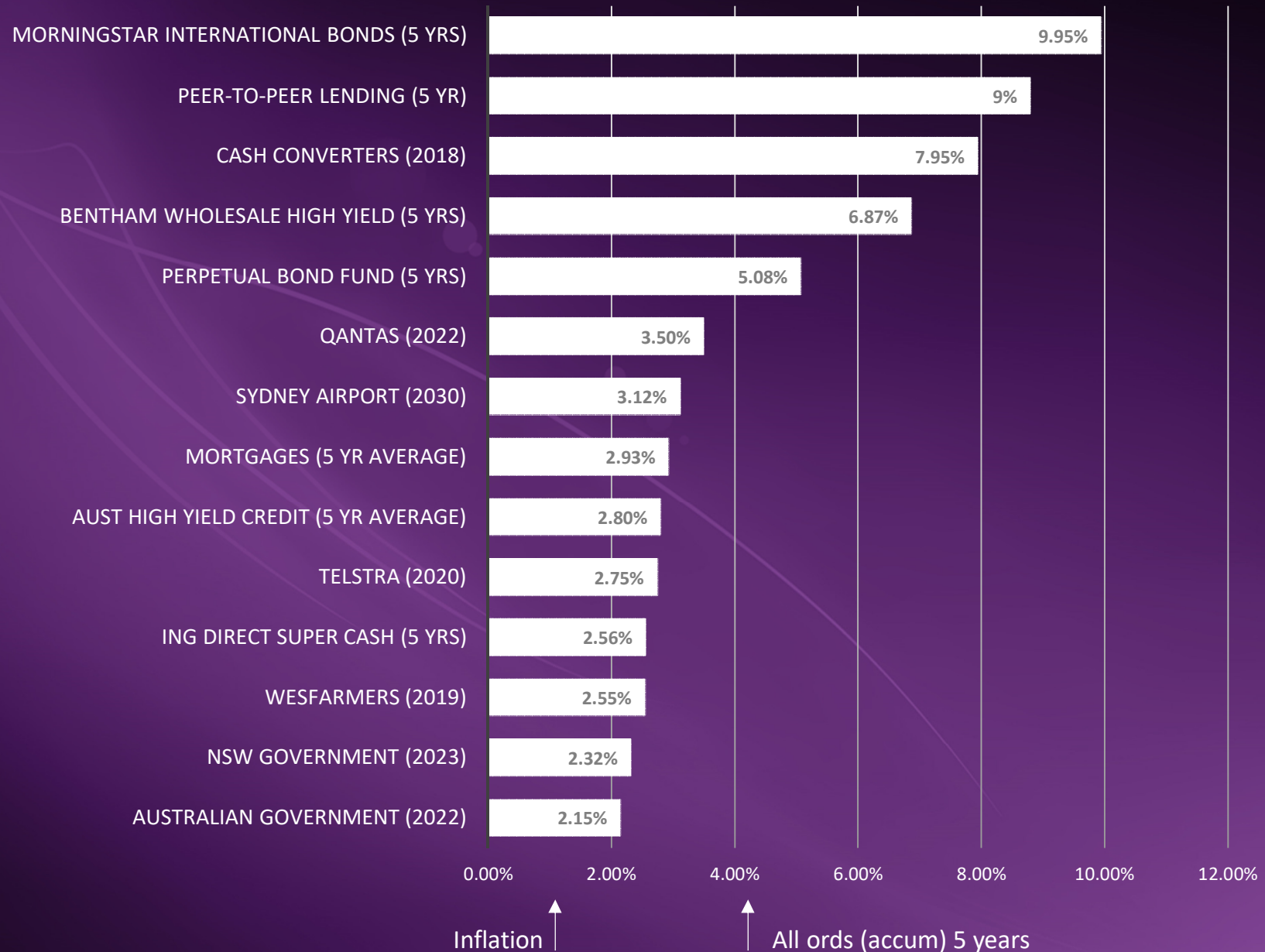
Andrew Jones – Head of Commercial

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Rate⁰%Setter™

There are numerous alternatives to equities



So why fixed income?

- 1 Risk
- 2 Cashflow or yield

So why fixed income?

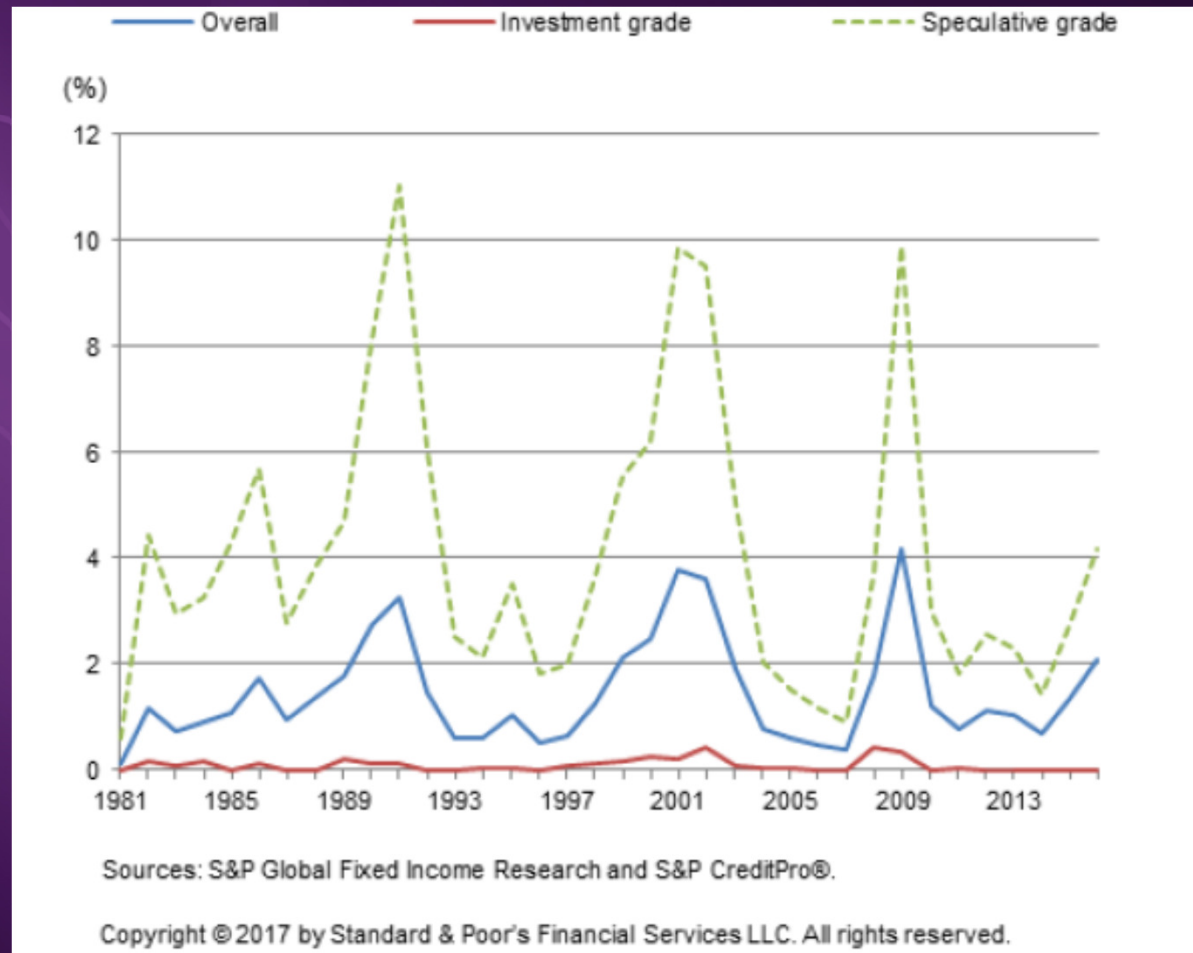
1 Risk



So why fixed income?

1 Risk

Bond defaults



So why fixed income?

1 Risk



BBB+



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LEHMAN BROTHERS

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So why fixed income?

2 Cashflow or yield



Rate change = price change

10% return



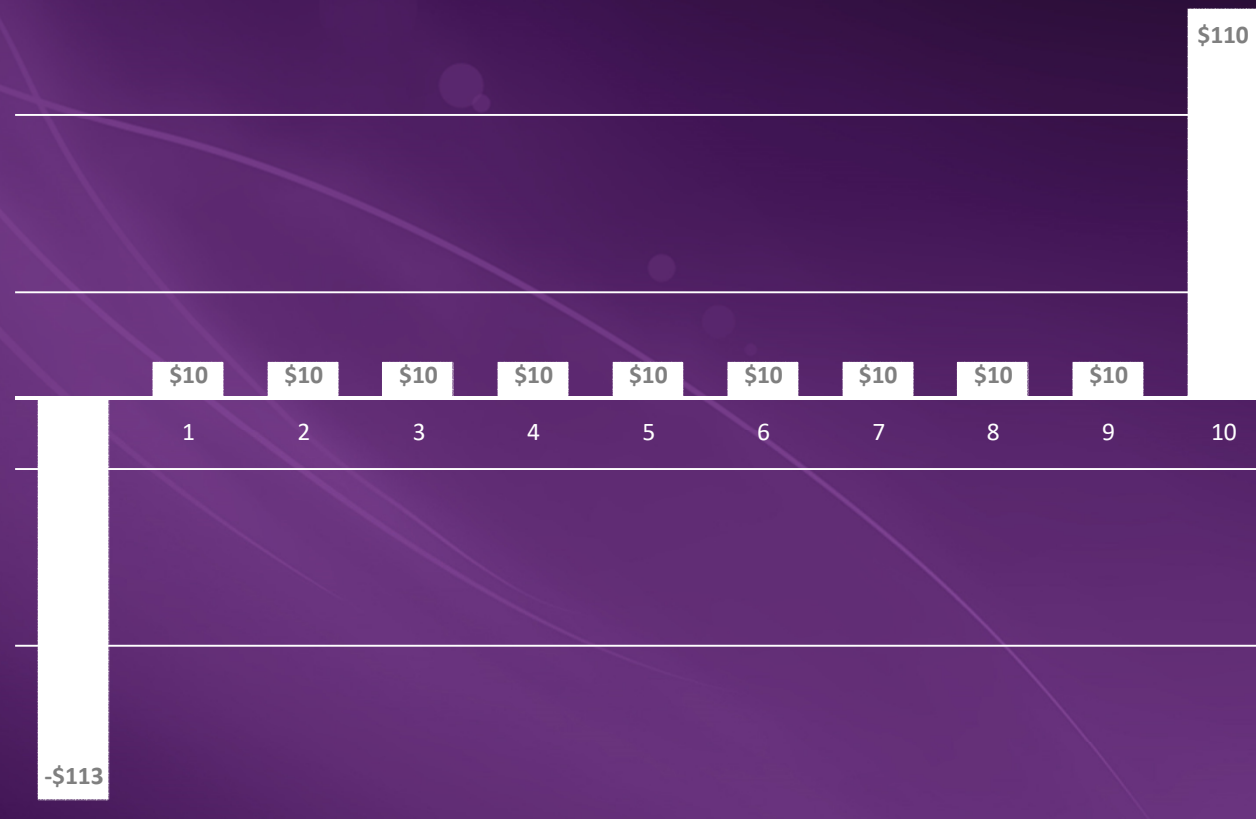
Rate change = price change

15% return



Rate change = price change

8% return



Rate change = price change

As rates rise the value of your fixed income investment declines



But only if you want to sell it

What are rates doing over the next:

1 year



3 years

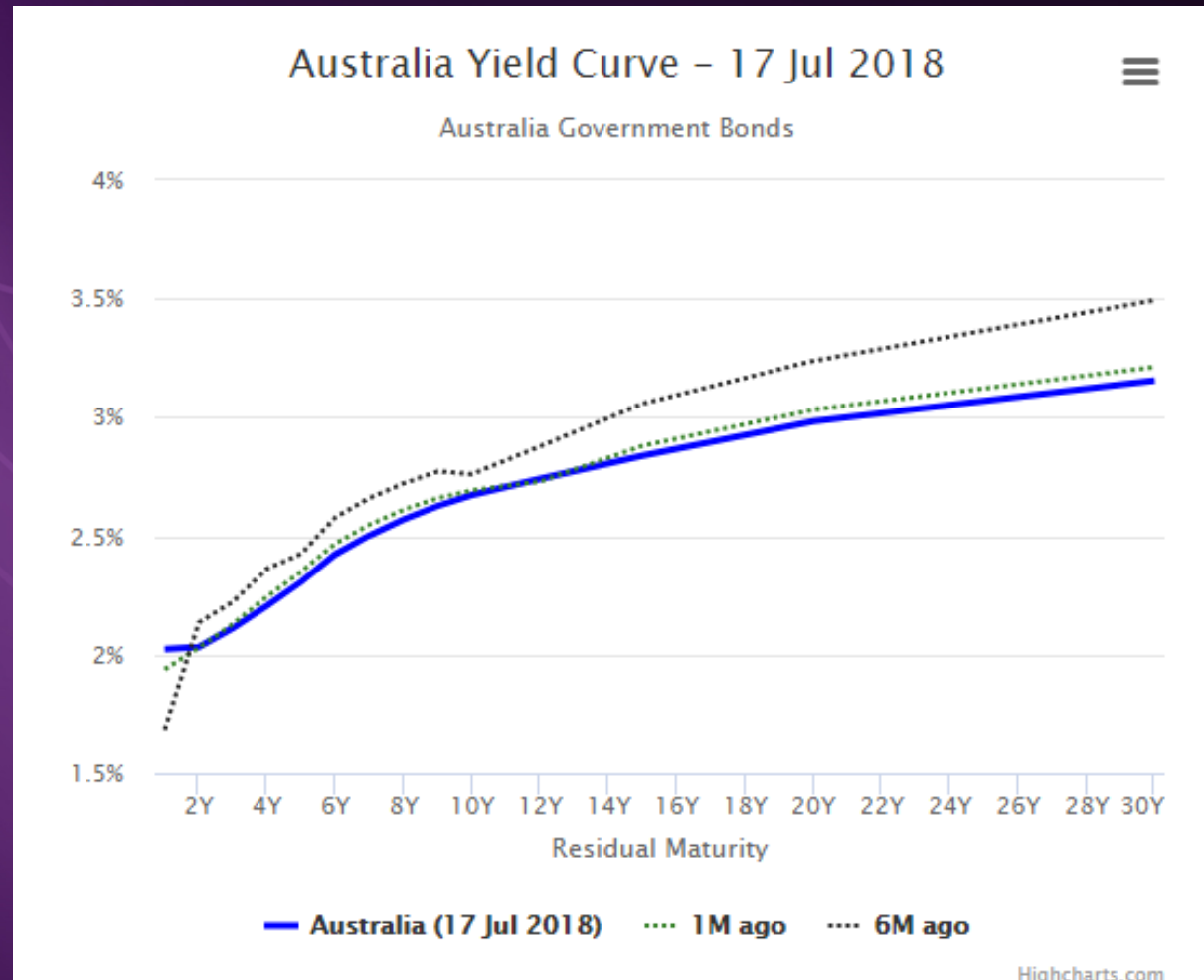


10 years



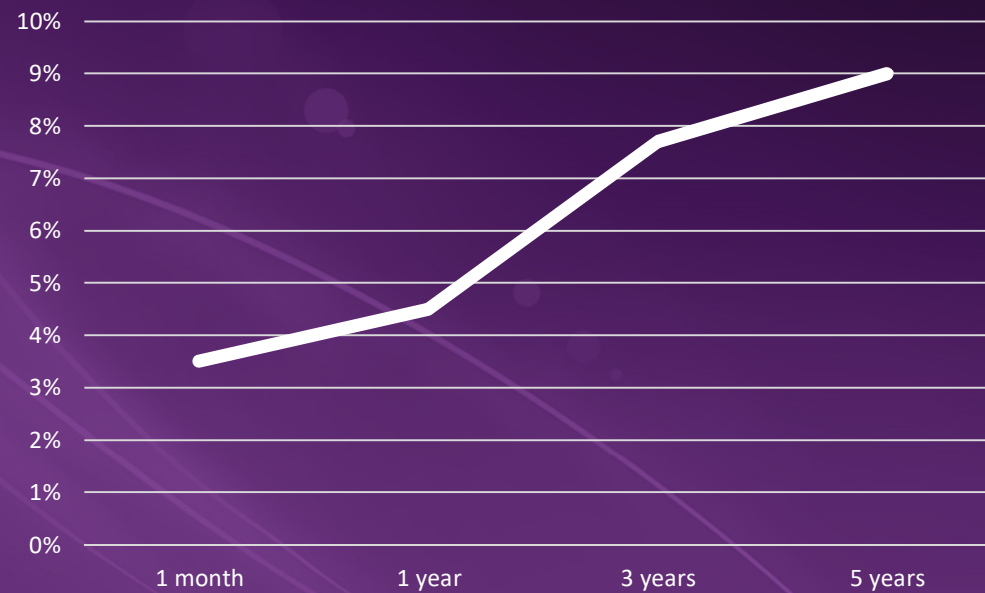
Why?

Are rising rates a reason not to invest?



Are rising rates a reason not to invest?

RateSetter's yield curve



Some investment concepts

If you are a hold to maturity investor then changes in rates won't affect your cashflows

Some investment concepts

If you buy very long duration investments
then changes in rates will have a more
pronounced impact on value

So, if you believe rates are rising invest short duration (ie 5
years or less)

Some investment concepts

Duration \neq Term

A 5 year annuity has a duration of circa 3 years because you are getting principal and interest back

Some investment concepts

Buying managed funds gives you good diversification but exposes you to price volatility caused by rate changes

How to buy fixed income

- 1 Managed bond funds – there are literally hundreds of them
- 2 Listed corporate bonds – ASX traded - eg AMP, AGL, Bendigo, Crown etc
- 3 Unlisted corporate bonds – hard to access unless sophisticated investor (then use FIIG)
- 4 Consumer credit – RateSetter – hold to maturity investment – 1 month to 5 years