

# Bonds, shares and efficient investing

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## INTRODUCTION

# About FIIG

Making wholesale bonds available  
to all investors

### Fixed income experts

- Established in 1998 and with over 90 employees
- Australia's largest fixed income specialist
- Over 7,000 clients with billions under management
- FIIG is privately owned and not owned by any financial institution
- **Corporate bond issuer**
- Pioneer of opening the direct bond market up to private investors
- Australia's number one issuer of high yield bonds with > \$2.5bn raised from over 60 issuers since 2012



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# What are bonds?

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No, it's not four weeks rent in advance...

# How do bonds differ from shares?

## Bonds

Loan to a company

Banker

Interest repayments on principal at maturity

Guaranteed by company unless they go into wind up

## Shares

Shares bought in a company

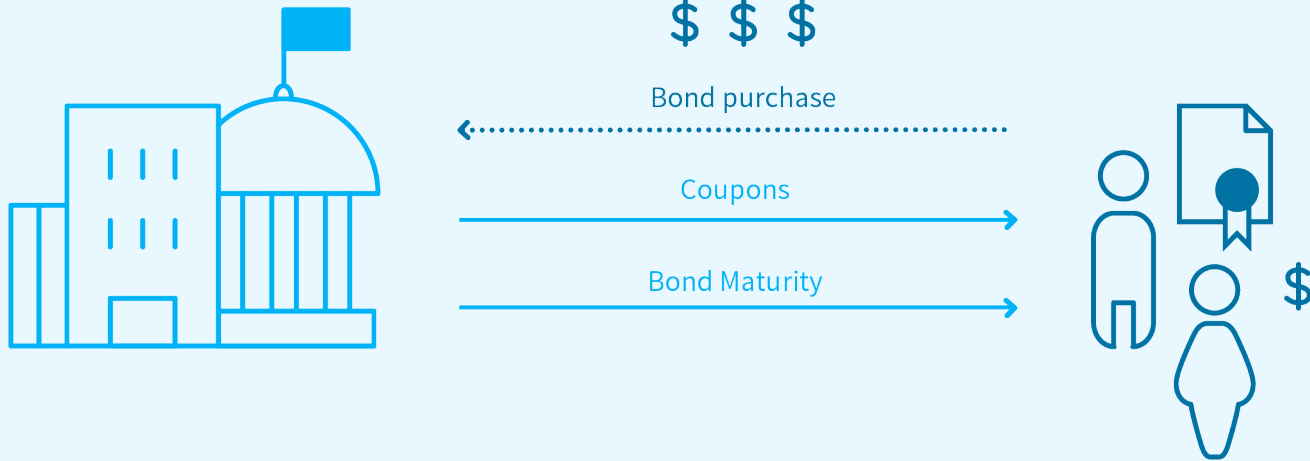
Owner

Expectation of growth in share price and dividends

No guarantee of dividend payment or return of capital

## BONDS IN DETAIL

# What is a bond?



# Three types of bonds



## Fixed Rate

A fixed rate bond pays a fixed return for the life of the bond and is set at the time of issue.

- Deposits pay interest
- Bonds pay coupons



## Floating Rate (FRN)

A floating rate bond pays income linked to a variable benchmark.

- The margin over the benchmark is fixed and set at first issue
- Income will rise and fall over time as the benchmark changes



## Indexed Linked

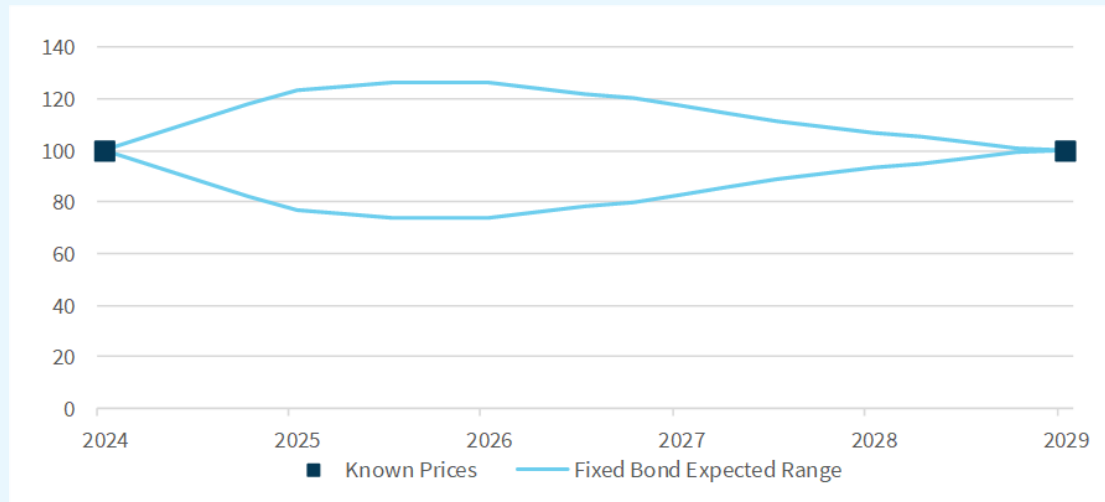
An inflation linked bond is a security linked to the Consumer Price Index (CPI) or inflation.

Two Main Types:

- The capital indexed bond
- The index annuity bond

## HOW BOND PRICES MOVE

# A bond gives periodic coupons, but prices can move



### - Fixed Rate Bonds

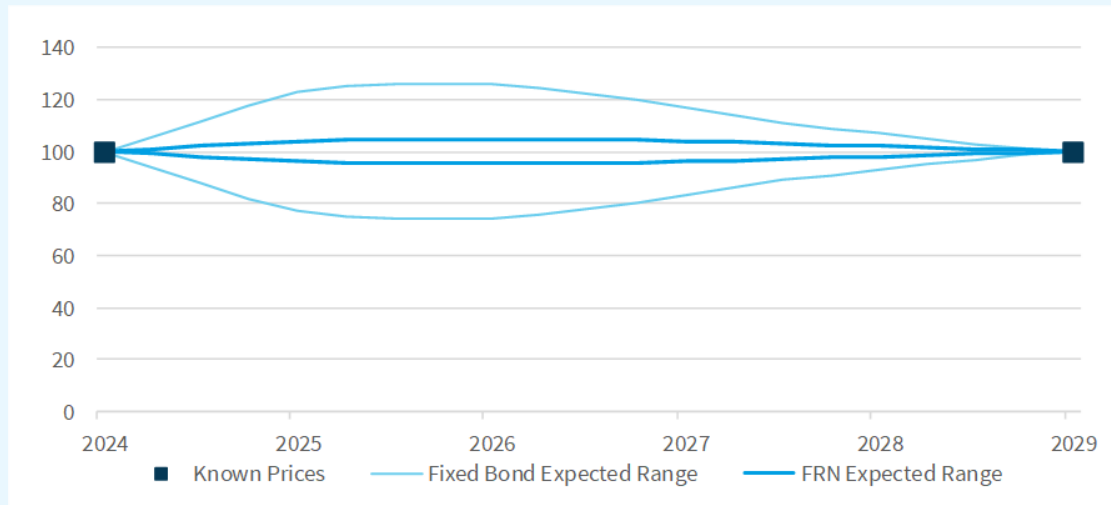
A fixed rate bond pays a fixed coupon for the life of the bond and is set at the time of issue.

The price can fluctuate over time.



## HOW BOND PRICES MOVE

# A bond gives periodic coupons, but prices can move

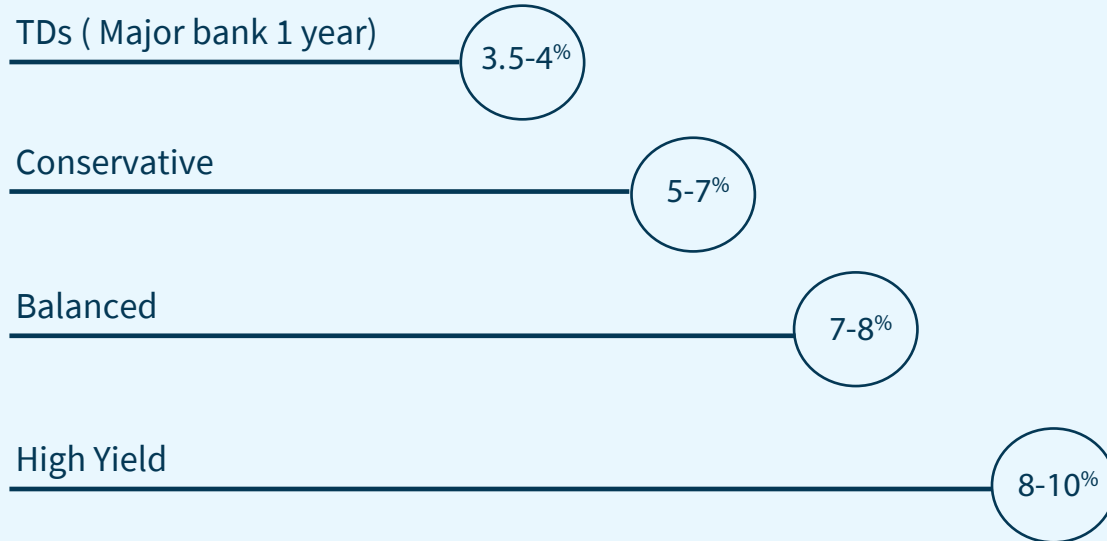


### - Floating Rate Bonds

A floating rate note pays a changing coupon for the life of the bond. It moves up and down with the short-term interest rate – which is mostly set by the cash rate.

The price can fluctuate over time, but only within a very tight range.

# What returns do bondholders achieve?



# Benefits of direct bonds ownership



## Cash flow

Secure income stream through coupons



## Liquidity

Deep and active secondary trading market for most securities. Defensive and tradeable



## Diversification

Diversification away from the two most highly cyclical asset classes – negative correlation.



## Capital Stability

Capital preservation - bonds are a legal obligation



## Low risk

Lower risk than shares in the same company

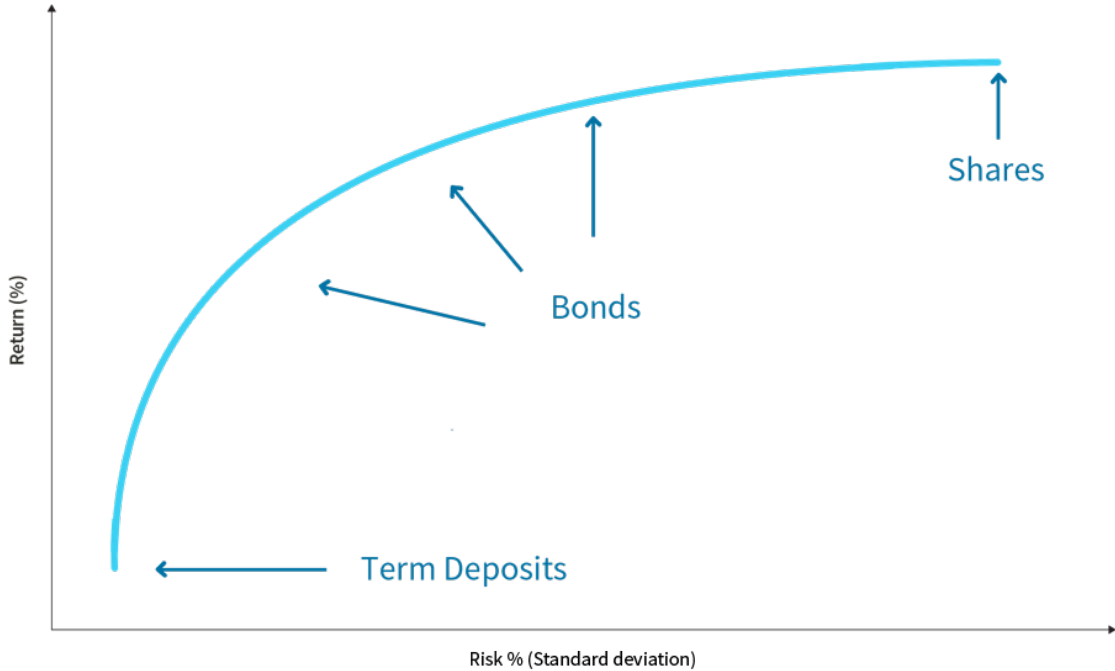
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# An efficient portfolio

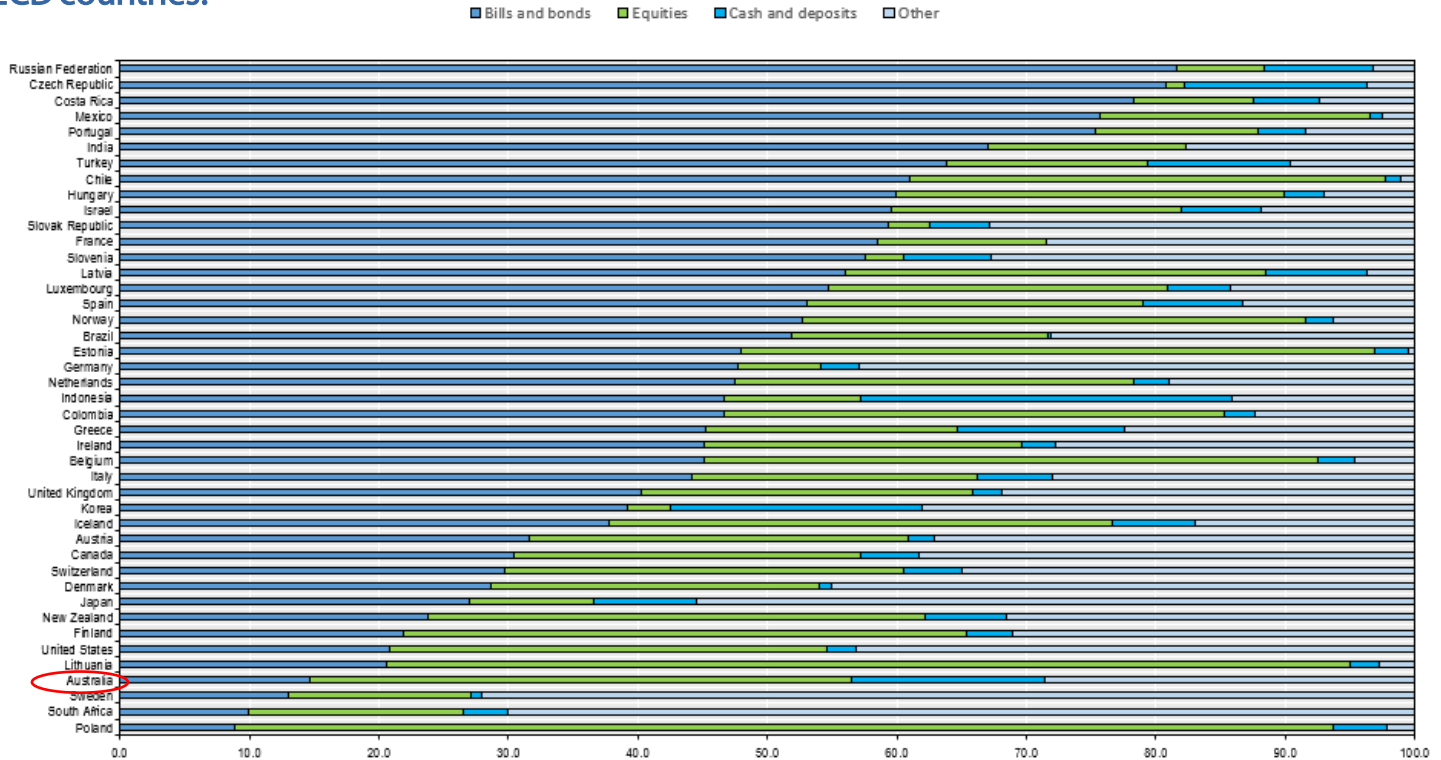
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## Risk vs Return

# The efficient frontier



## Pension fund asset allocation for selected OECD countries:

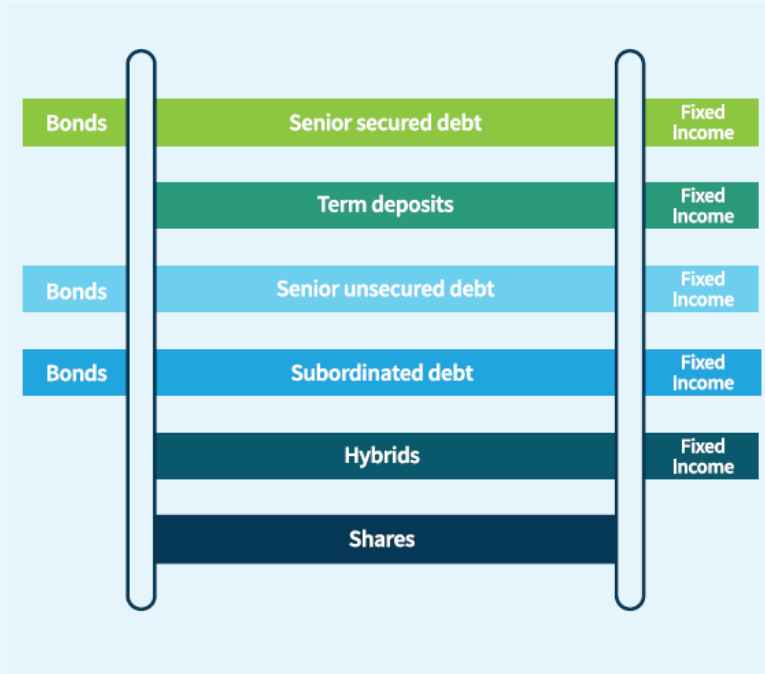


Source: OECD 2021

## BONDS IN DETAIL

# Capital structure explained

First  
↓  
**LIQUIDATION**  
(What gets paid first?)  
↓  
Last



Last  
↑  
**APPLICATION OF LOSSES**  
(What loses value first?)  
↓  
First

## How the capital structure translates in the market: CBA value of \$100 invested on 29 December 2007 (includes dividends and franking on shares and interest payments on bonds).



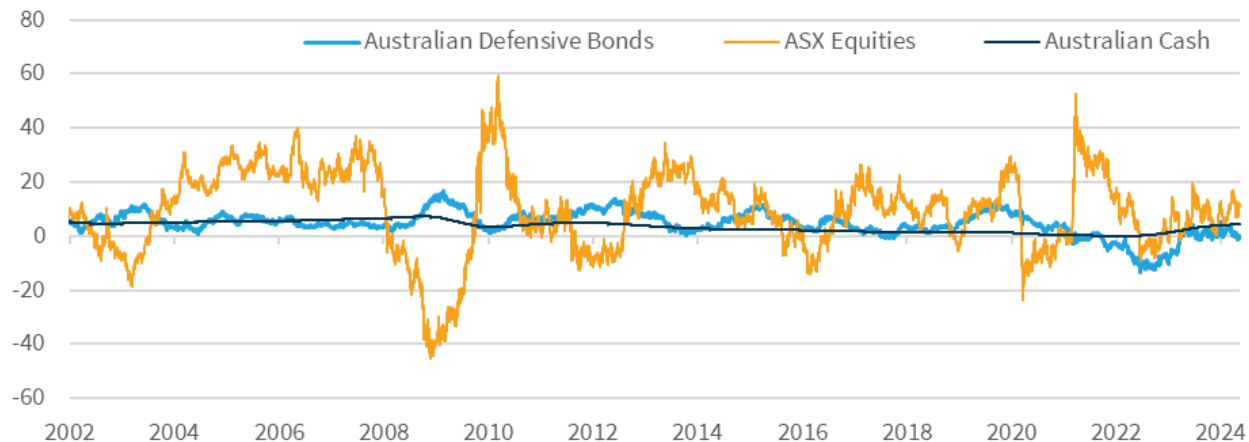
Source: FIG Securities, Bloomberg



BONDS GIVE PROTECTION AGAINST EQUITY RISK

# Growth doesn't always outperform

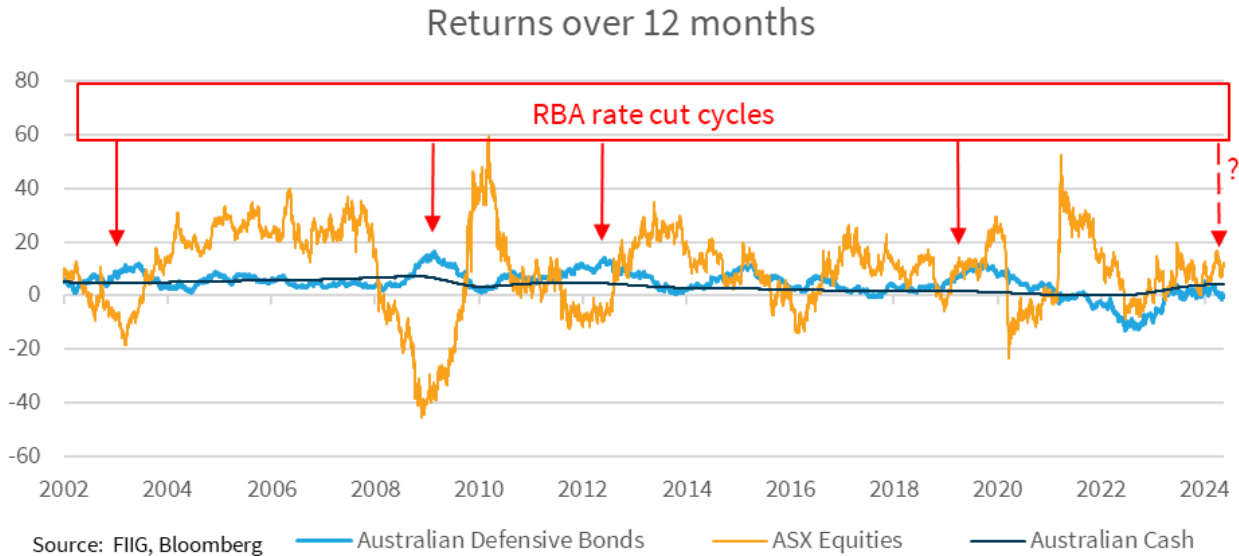
Returns over 12 months



Source: FIIG, Bloomberg

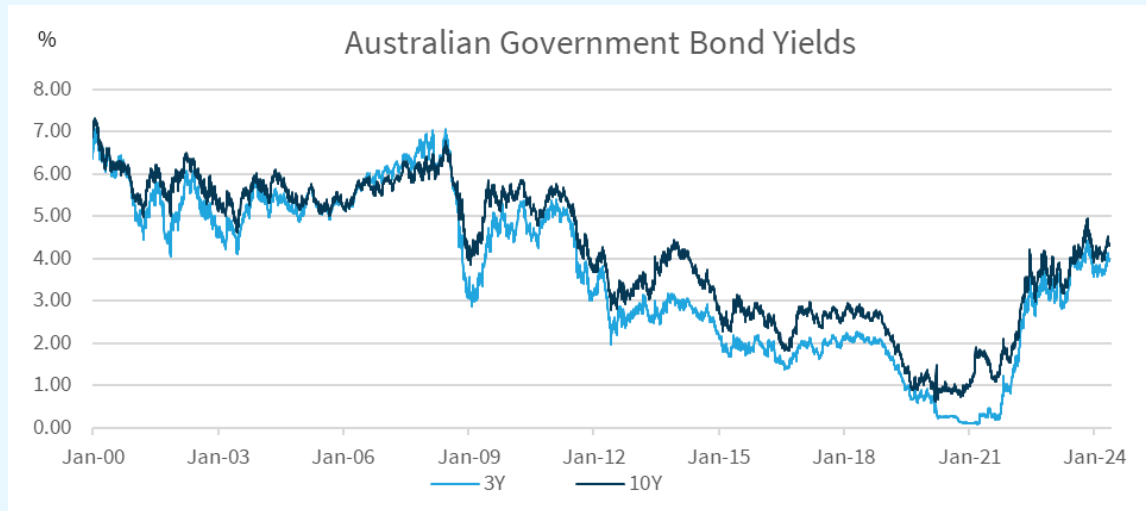
BONDS GIVE PROTECTION AGAINST EQUITY RISK

# Not just diversification – negative correlation



BONDS GIVING PROTECTION AGAINST EQUITY RISK

## Why was 2020 different?



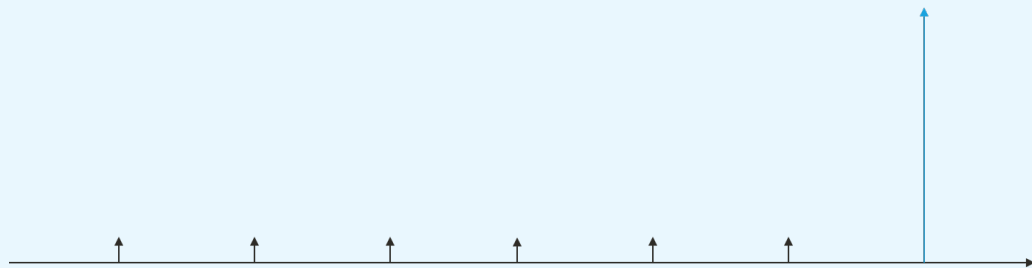
- Bond prices move inversely to yields

Bond prices rise when the yield on a bond falls.

The yield in 2019 was already so low there was not space for bonds to rally.

Yields have risen substantially since then.

## Why was 2020 different?



A bond price is the present value of all the future cash flows.

The present value is the future value divided by the interest rate over the applicable period.

As such, because yields have a floor at 0%, bonds have a theoretical maximum price.

Low coupon and low yield bonds don't have capacity to move higher in prices – thankfully yields are higher now.

Bond prices move inversely to yields

If there was a calamity now, bond prices would rise substantially.

A 10Y bond in 2020 could only rise about 15%. Today, that bond could rise 45%.

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# An efficient portfolio

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## Gains vs Payments

# How do bond coupons differ from share dividends?

## Bonds Coupons

Known dates

Fixed payments available

Portfolios can be structured to pay dividends when needed

Guaranteed by company unless they go into wind up

## Share Dividends

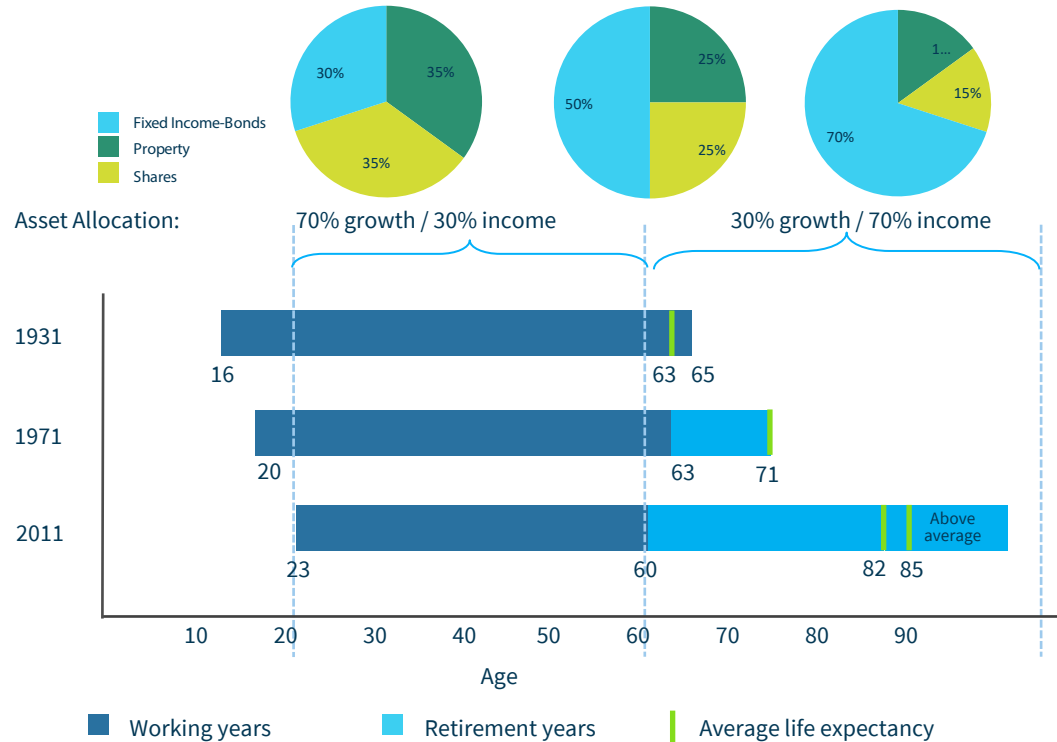
At discretion of board

At discretion of board

Cluster around the same time for different companies

No guarantee of dividend payment or return of capital

# What should your asset allocation be as you age?



Figures are for illustrative purposes only

Source: Based on United Nations stat div data

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# Aggressive bonds?

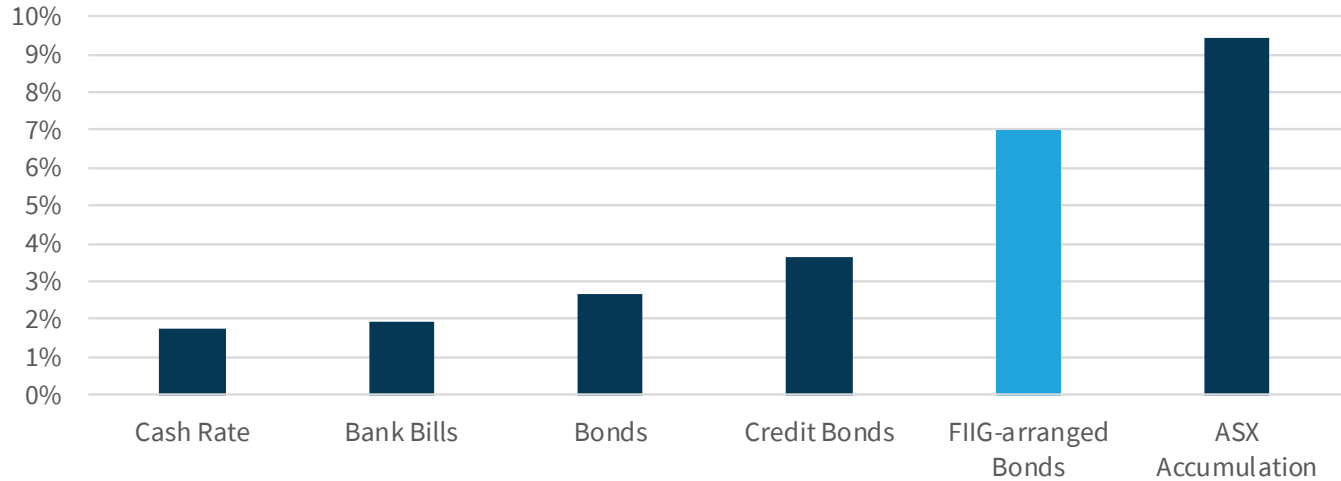
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If you take some risk, bonds can provide significant running yield



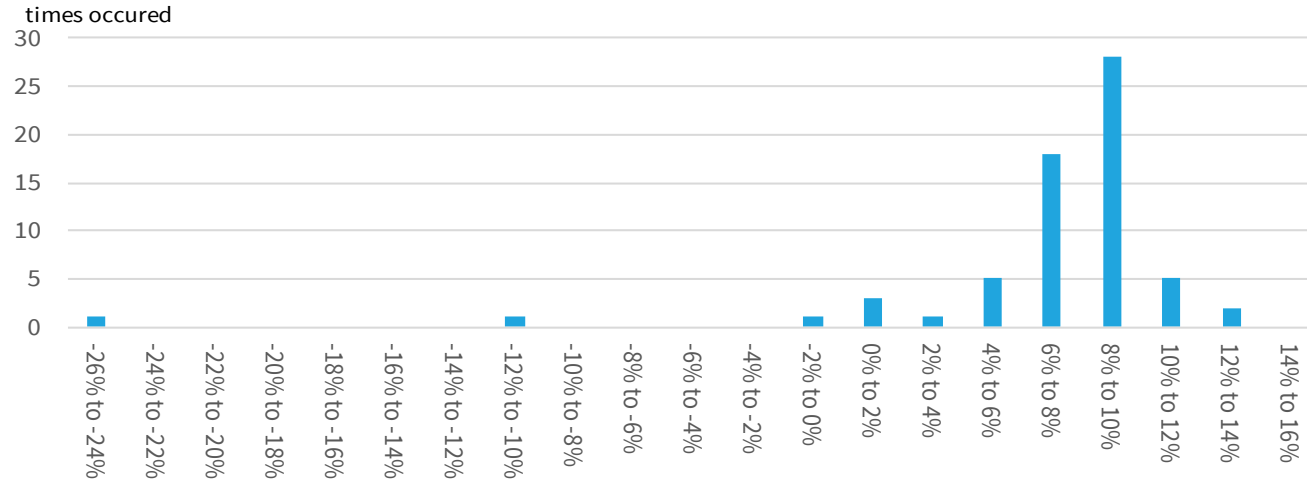
## BONDS FOR YIELD

# Different types of bonds (since 2012)



## BONDS FOR YIELD

# Does have some risk – but not like equities



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# The FIIG portfolios

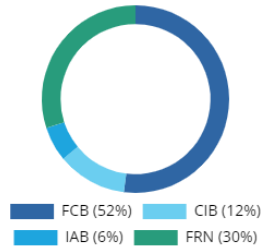
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How FIIG is suggesting to positioning  
bond holdings

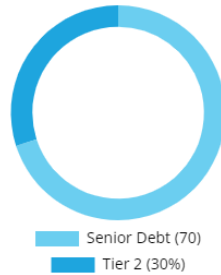
## SAMPLE PORTFOLIO

# Conservative Direct Bonds

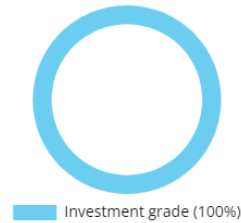
BOND TYPES



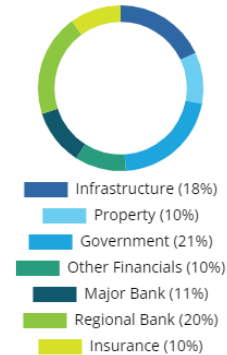
SECURITY TYPES



RATINGS



SECTORS



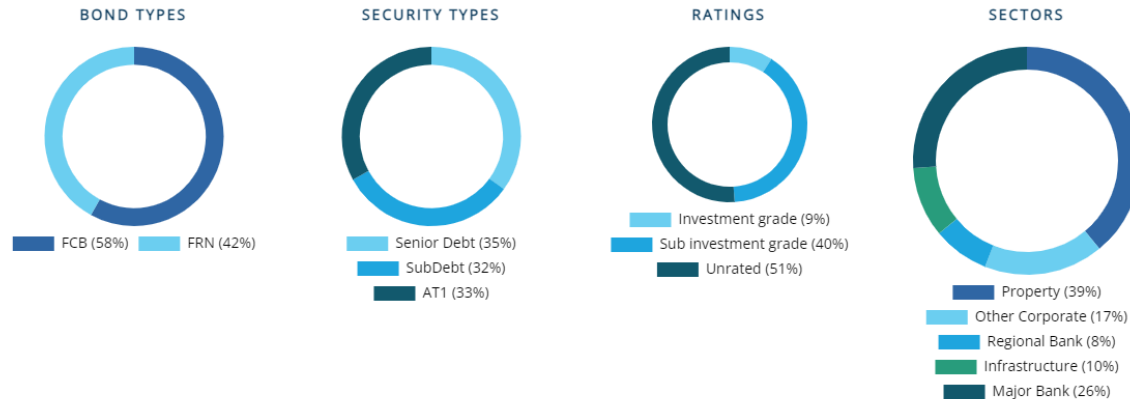
## 5.90% p.a. Return\*

- This portfolio has 10 securities with weightings between 6.2% and 12.2%, yielding 5.90% pa\*.
- It is designed for investors wanting a 100% allocation of investment grade bonds.
- The returns shown are based on ~\$480,000 investment. \$50,000 is the minimum amount that can be invested with FIIG..

\* Pricing as at May 2024. Return is yield to maturity. Subject to change and before fees. Please see our FSG for any applicable fees.

# SAMPLE PORTFOLIO

## High Yield Direct Bonds



### 9.90% p.a. Return\*

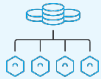
- This portfolio has 14 securities with weightings between 4.6% and 9.5%, yielding 9.90% pa\*.
- It is designed for investors wanting a higher return via non-investment grade bonds.
- The returns shown are based on ~\$480,000 investment. \$50,000 is the minimum amount that can be invested with FIIG..

\* Pricing as at May 2024. Return is yield to maturity. Subject to change and before fees. Please see our FSG for any applicable fees.

LET FIIG CHOOSE THE PORTFOLIO FOR YOU

# The FIIG Australian Bond Fund

A highly diversified exposure to the Australian Investment Grade Fixed Income Market. The Fund comprises a range of government (Federal and State) debt, corporate credit, asset-backed securities, mortgage-backed securities, enhanced cash products and cash issued and denominated in Australian dollars.



Predictable Income



Diversification



Capital Preservation



Professional Portfolio Management



Daily Liquidity



“Superior” High Investment Grade  
rating by SQM Research

LET FIIG CHOOSE THE PORTFOLIO FOR YOU

# The FIIG Australian Bond Fund

Provides all investors with access to a diversified basket of fixed-interest securities typically only available to wholesale investors, managed by a highly experienced investment management team.

The investment management team monitor the market daily and respond to market and economic data releases on an active basis. Dedicated credit research is undertaken regularly, with monthly and quarterly reviews.



Head of Portfolio Management – Kieran Quaine

Portfolio Manager – Megan Romeo

Actively managed by an Investment team at FIIG who boasts extensive experience and a successful track record in similar Funds. Led by Portfolio Manager, Keiran Quaine, who holds over 30 years of fixed-income market expertise, including 15 years at FIIG, the team is highly capable.

LET FIIG CHOOSE THE PORTFOLIO FOR YOU

# The FIIG Australian Bond Fund

## Investment Philosophy and Strategy of the FIIG Australian Bond Fund

**Duration:** Actively managed in line with inflation expectations across a diversified holding of government and non-government debt – the latter rewarding investors with sufficiently high yield for the term to maturity exposure commitment and any probability of change in future investment grade rating.

**Active Management:** The management team are active, changing duration and the exposure to asset sectors opportunistically, with the intention of adding absolute and relative value advantage. Actively managing duration in times of interest rate volatility is key to driving performance, and the Fund allows investors to access FIIG's professional management team to do so on their behalf.



LET FIIG CHOOSE THE PORTFOLIO FOR YOU

# The FIIG Australian Bond Fund

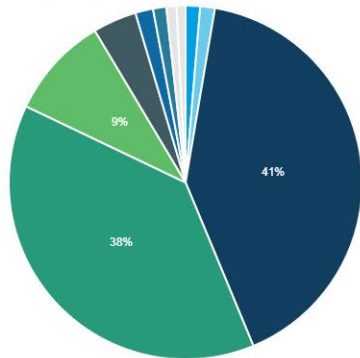
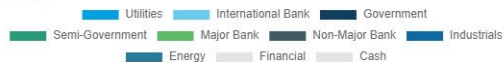
## Portfolio Composition

The Fund has returned 4.95% in the 6 months to 30 April 2024, outperforming its benchmark by 0.24% over this period.

As at 31st March 2024

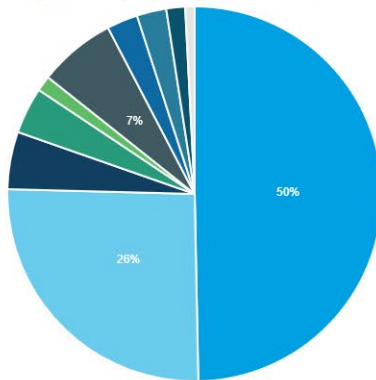
### Sector Allocation

[Chart](#) [Table](#)



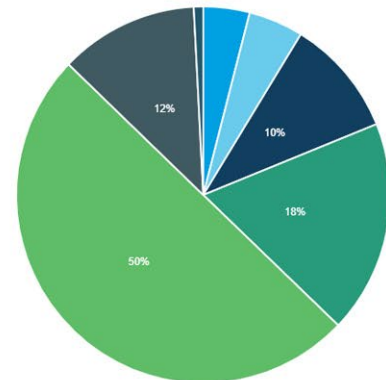
### Allocation by Credit Quality

[Chart](#) [Table](#)



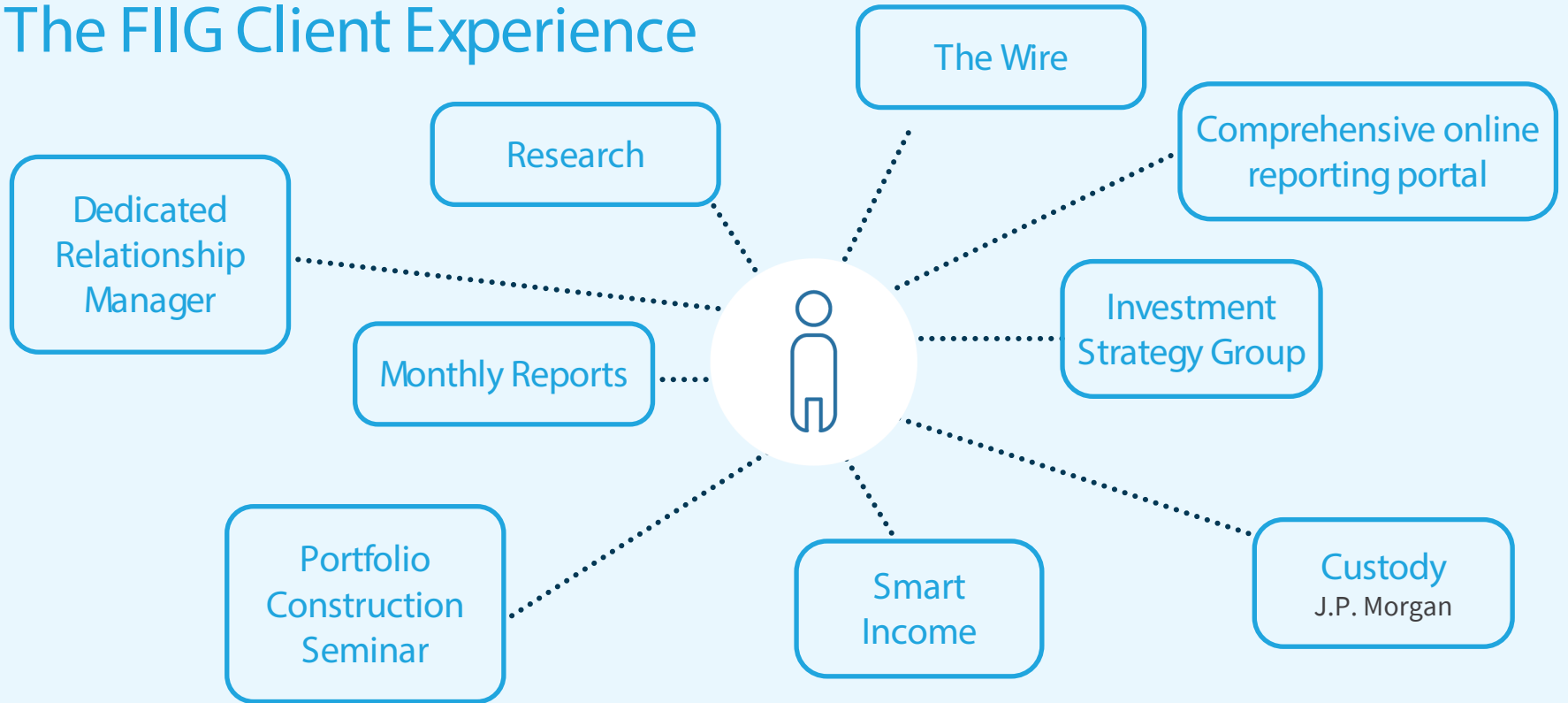
### Portfolio by Maturity

[Chart](#) [Table](#)



NEXT STEPS

# The FIIG Client Experience



# Thank you - Any questions?

To speak to one of our Fixed Income experts, please call 1800 01 01 81

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