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Introduction to Fixed Income Investing



Wednesday 5th October 2011
Presented by Scott Young,
FIIG Securities Ltd

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Today's agenda

- Who is FIIG?
- Fixed income investments – what are they?
- Why invest in fixed income?
- Capital structure – why bonds are lower risk
- Examples of fixed income
- Some key terms
- Summary
- Questions



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About FIIG Securities Limited



- Australia's largest fixed income specialist
- Access to the full spectrum of fixed income securities and term deposits
- Licensed custodian
- Not owned or aligned with any other financial institution
- Established 1999
- Experienced sales teams in Sydney, Brisbane and Melbourne. Perth office opening in 2011
- Specialist fixed income Research Team



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Fixed income investments – what are they?

- At-call accounts and term deposits
- Government and semi Government bonds
- Financial and corporate bonds (OTC market & ASX listed)
- Inflation linked bonds
- Hybrid securities (equity risk)



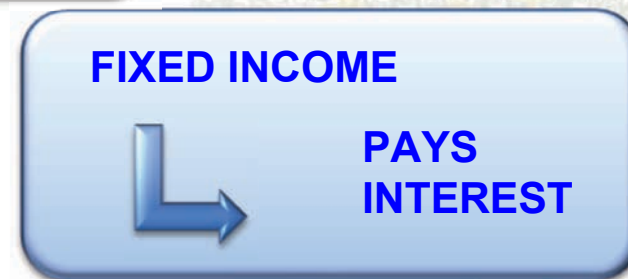
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Fixed income is identifiable by the returns it pays



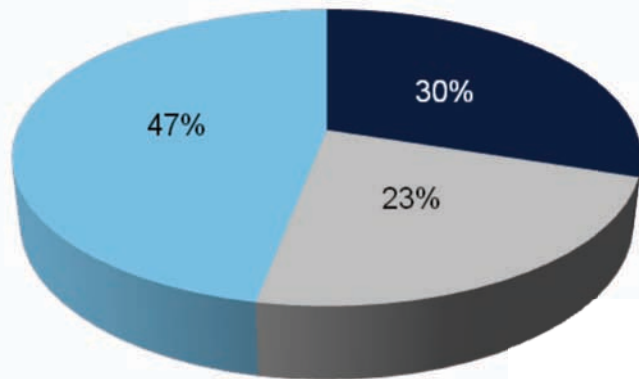
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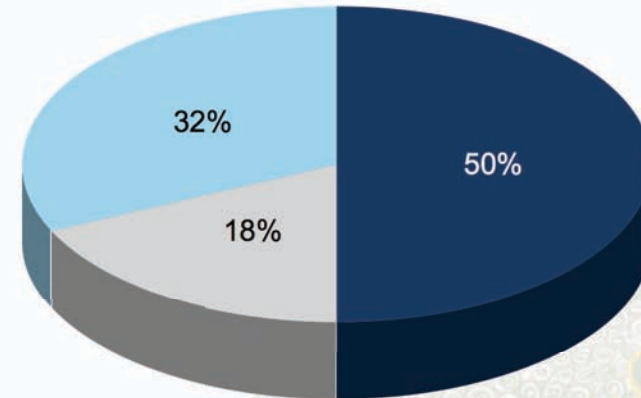
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Asset allocation within an investment portfolio

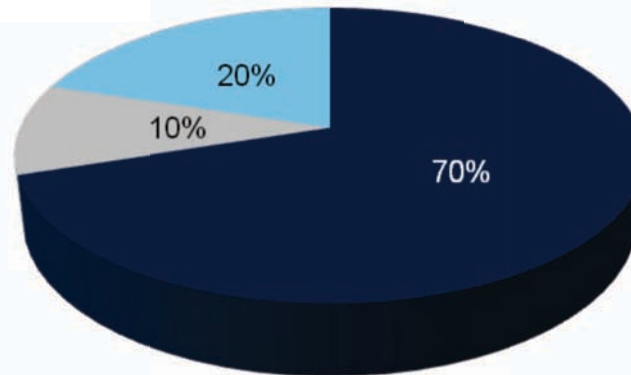
Age 30



Age 50



Age 70

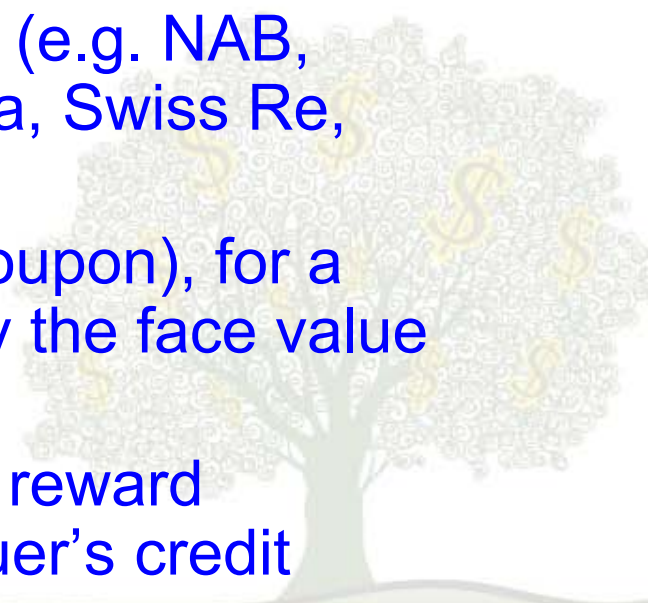


- Fixed Income
- Equities
- Property



Bonds – what are they?

- Bonds are debt securities – issued to raise funds (also shares, bank loans)
- A bond is a loan from the investor to the issuer
- Issuers include Governments, banks (e.g. NAB, Suncorp) and corporates (e.g. Telstra, Swiss Re, Wesfarmers, GE Capital)
- Pay an agreed amount of interest (coupon), for a given period of time (term) and repay the face value (\$100) on maturity
- Many varieties, with various risk and reward attributes, also influenced by the issuer's credit quality or standing



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Why invest in fixed income?

- Capital stability - issued at \$100 face value
- Regular income - in the form of fixed or floating coupons (interest)
- Diversification by asset class (shares, property, fixed income)
- Better returns than term deposits; can achieve similar returns to equities
- Ability to set maturities to suit your cash flows requirements
- Liquidity – can be traded prior to maturity
- Protection against loss in a cyclical downturn



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Why invest in fixed income? – It's less volatile

Composite bonds verses All Ordinaries (annual figures)
30 September 1989 – 30 July 2010

	Return	Risk/Volatility
Bonds ¹	8.65%	4.02%
Equities ²	9.55%	14.76%

Equities hold more than three times the risk of bonds,
for only 90 basis points extra return.

1. UBS Composite Bond Index
2. All Ordinaries Accumulation Index



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Why invest in fixed income? – Investment risk is low



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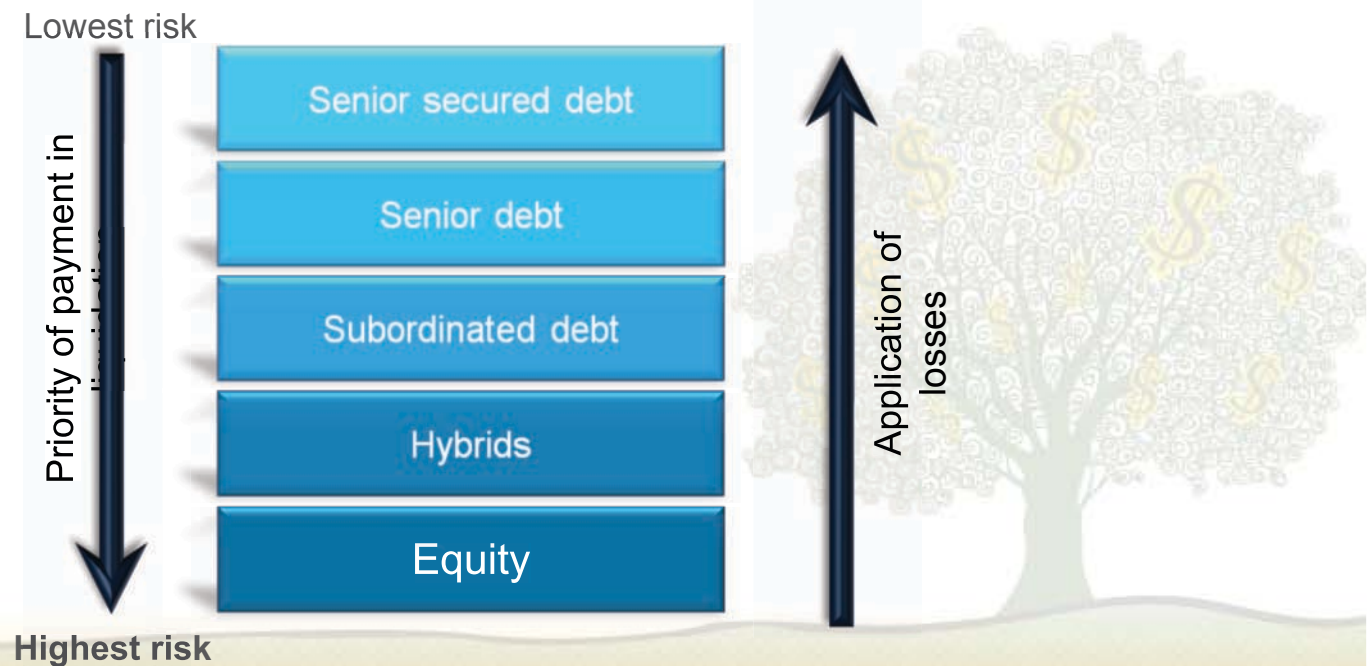
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Why is fixed income investment risk low? - capital structure

- Fixed income is less risky than equity
- Ranking determines risk

Capital Structure – Corporate



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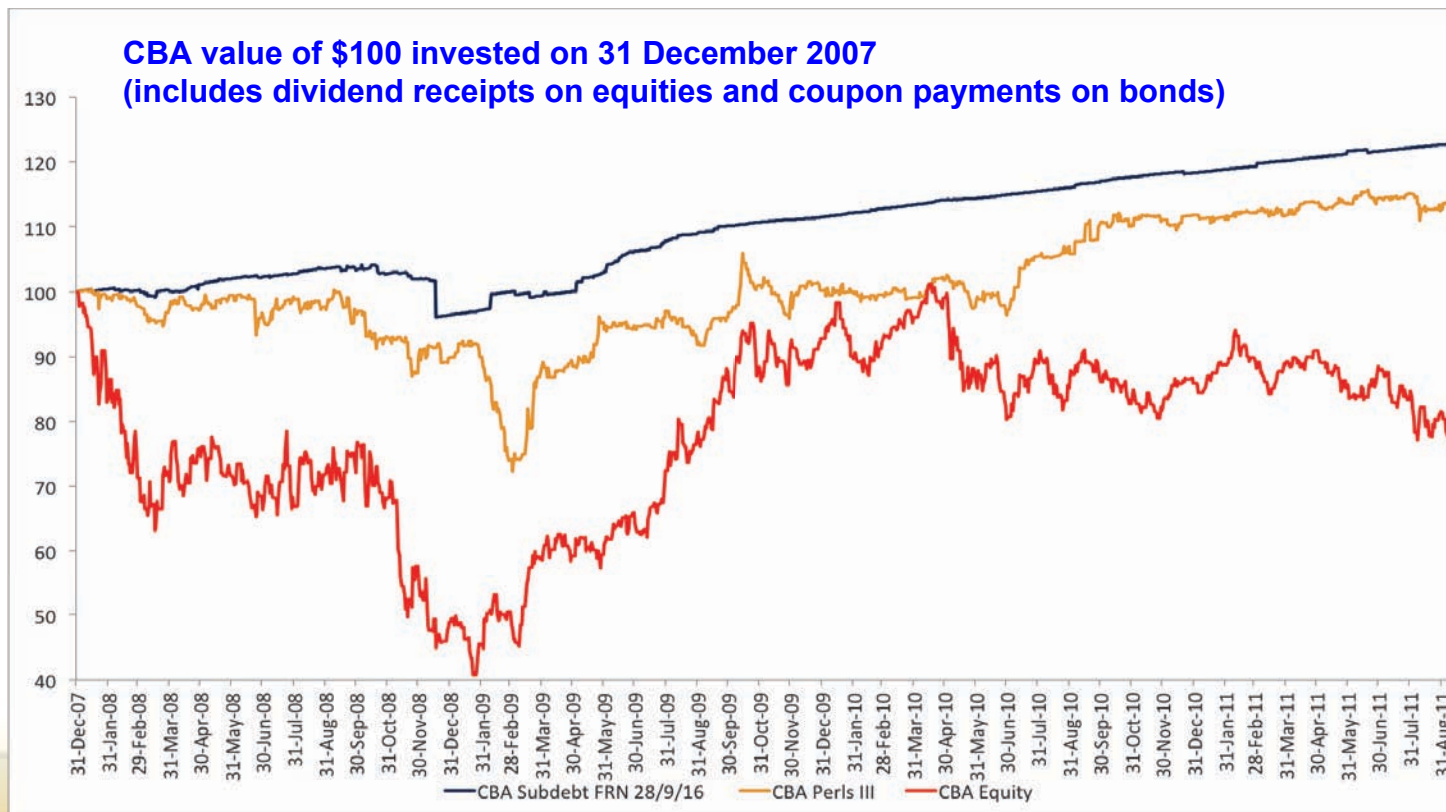
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How the capital structure translates in the market

- Performance of CBA instruments throughout the GFC illustrates why the capital structure is so important.



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Examples of fixed income

Term Deposits – well known to investors

- FIIG has raised \$6bn of term deposits for key institutions
- Offer clients daily rates from > 60 Banks & Other Institutions (ADIs)
- Save you time by completing all the paperwork

Bonds – not so well known

- Debt security, pays interest (coupon), for an agreed period (term) and repays face value on maturity
- Bond issuers include Governments, banks (e.g. NAB, St George, Suncorp), corporates (e.g. Telstra, GE Capital, Swiss Re, AXA)
- Issues at various levels of risk and reward
- Offer capital preservation, steady income and potential for capital gain



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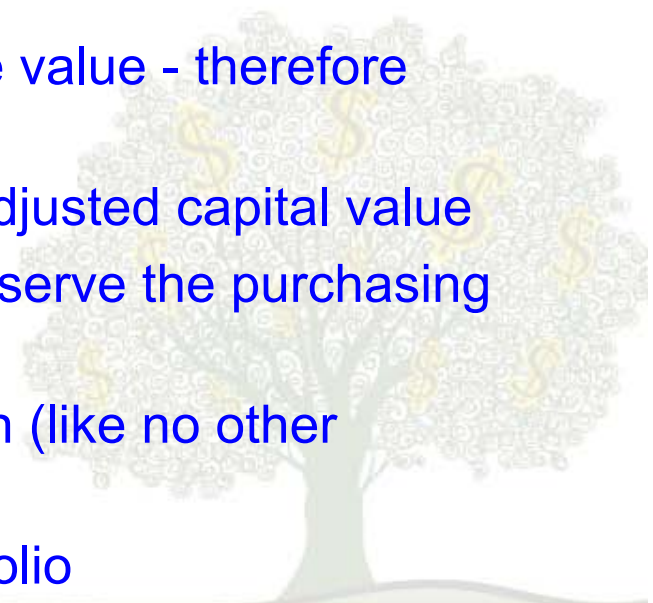
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Inflation linked bonds

- ILBs are issued by Government, semi Government, banks & corporates
- Pay a fixed coupon on an inflation adjusted principal (quarterly CPI)
- The fixed coupon is paid on increasing face value - therefore coupons increase over time
- At maturity, the investor receives the CPI adjusted capital value
- Returns are 'real returns' because ILBs preserve the purchasing power of your investment dollar
- ILBs provide a direct hedge against inflation (like no other investment)
- Should form a core part of investment portfolio



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Some key fixed income terms

- “Face Value” - bonds are usually issued at \$100 face value
- Can subsequently trade at a “premium” or a “discount”
- “Price” is determined by direction of market yields, macro and micro credit events and supply
- “Running Yield” – return on cash investment (coupon/price)
- “Yield to Call/Maturity” – overall return on investment if held to call/maturity
- “Fixed Coupon Bonds” v. “Floating Rate Notes”
- “Inflation Linked Bonds”



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Bank of Queensland

Issuer	BOQ (floating)
Rating	BBB
Call/ Maturity date	10th May 2016 / 10th May 2021
Coupon	3m BBSW + 3.75%
Coupon if not called	3m BBSW + 3.75%
Indicative price	\$103.28
Running yield (income p.a.)	8.36%
Yield to call (total return p.a.)	3m BBSW + 2.90% (7.54%)
Face value	\$100,000
Capital value	\$103,280



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Swiss Re

Issuer	Swiss Re (fixed)
Rating	A-
Call/ Maturity date	17th May 2017 / perpetual
Coupon	7.64%
Coupon if not called	3m BBSW + 2.17%
Indicative price	\$80.65
Running yield (income p.a.)	9.47%
Yield to call (total return p.a.)	12.52%
Face value	\$100,000
Capital value	\$80,648



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National Wealth Management

Issuer	National Wealth Management (fixed)
Rating	A
Call/ Maturity date	16th June 2016 / 16th June 2026
Coupon	6.75%
Coupon if not called	3m BBSW + 1.63%
Indicative price	\$98.80
Running yield (income p.a.)	6.83%
Yield to call (total return p.a.)	7.03%
Face value	\$100,000
Capital value	\$98,896



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Direct Bonds

- Suit SMSF investors in particular
- Ability to buy wholesale bonds in retail parcels
- Bonds can be purchased as a single bond (\$50K) or as a portfolio
- A diverse selection of wholesale bonds available through FIIG's Direct Bonds
- FIIG offers a free custodial service for clients
- Provide comprehensive research by fixed income specialists
- Assistance with portfolio construction






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Market snapshot

Issuer	Security Type	Amount	Yield to Maturity
 Australian Government	Commonwealth Government Bond (Senior)	\$1,000	3.95%
 Queensland Treasury Corp	Bond (Senior)	\$1,000	4.50%
 Wesfarmers Limited	Bond (Senior)	\$100,000	5.10%
 BNP Paribas	Bond (Senior)	\$50,000	5.95%
 GE Capital	Bond (Senior)	\$50,000	6.00%
 Melbourne Airport	Bond (Senior)	\$50,000	5.75%
 Macquarie Bank	Bond (Subordinated)	\$50,000	6.60%
 Westpac Banking Corporation	Bond (Senior)	\$100,000	6.00%
 Telstra Corp Ltd	Bond (Senior)	\$50,000	6.20%
 Brisbane Airport Group	Bond (Senior)	\$50,000	6.00%
 Stockland Trust Management	Bond (Senior)	\$50,000	6.30%













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Market snapshot

Issuer	Security Type	Amount	Yield to Maturity
 Mirvac Capital Pty Limited	Bond (Senior)	\$50,000	6.40%
 Morgan Stanley	Bond (Senior)	\$50,000	7.20%
 Leighton Holdings	Bond (Senior)	\$100,000	6.70%
 National Wealth Management	Bond (Subordinated)	\$50,000	6.80%
 Rabobank Nederland	Tier 1 Hybrid	\$100,000	7.50%
 Vero Insurance Ltd	Bond (Subordinated)	\$50,000	7.50%
 Suncorp Metway Insurance Ltd	Bond (Subordinated)	\$50,000	7.80%
 Dalrymple Bay Coal Terminal	Bond (Senior)	\$50,000	6.80%
 Sydney Airport Finance	Inflation Linked Bond (Senior)	\$50,000	8.45%*
 AXA SA	Tier 1 Hybrid	\$100,000	12.60%
 Swiss Re Reinsurance	Tier 1 Hybrid	\$100,000	11.65%



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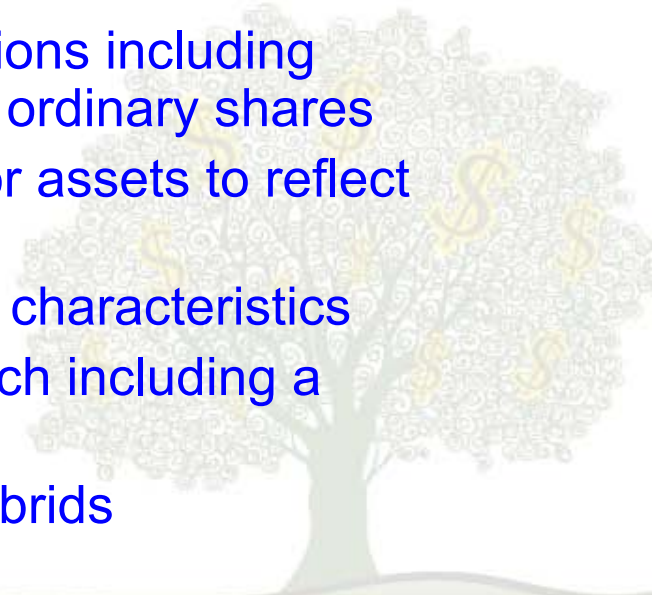
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Hybrids – what are they?

- Combine both debt and equity characteristics
- Pay a predetermined (fixed or floating) rate of return until agreed date
- At that date holder may have number of options including converting the securities into the underlying ordinary shares
- Usually offer higher returns than more senior assets to reflect the higher risk
- Think of these as equities with fixed income characteristics
- FIIG offers comprehensive specialist research including a weekly summary
- Full service broking facility for ASX listed hybrids



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Summary

- Bonds provide capital stability & income certainty – plan with certainty
- Numerous investment types with equity equivalent returns
- DirectBonds enables access to wholesale bonds (\$50-\$100K minimum)
- FIIG can establish a portfolio to meet your objectives
- FIIG will support you with research, market updates and relative value assessments
- FIIG is a specialist fixed income broker with significant expertise and market leading research



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FIIG publications

'An Australian Guide to Fixed Income':

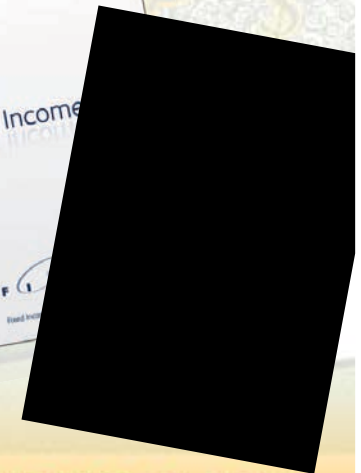
- A comprehensive guide book to the Australian fixed income market.
- Includes descriptions of fixed income products and features.
- Informative and educational with over 6,000 copies distributed.

'The WIRE':

- Weekly newsletter providing research, analysis and commentary on developments in the local and international fixed income markets.

FIIG Essentials Guides:

- Fixed Income
- RMBS



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