

Fixed Income Overview

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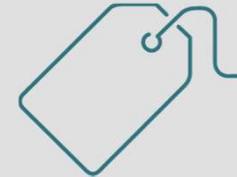
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Agenda



Fixed income
overview



What impacts
bond prices?



Purpose of
fixed income



Current
environment

How do bonds work?

Government	eg. Help fund government spending	Lower risk
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Semi-Government / Supranational	eg. Support World Bank's projects	Risk varies
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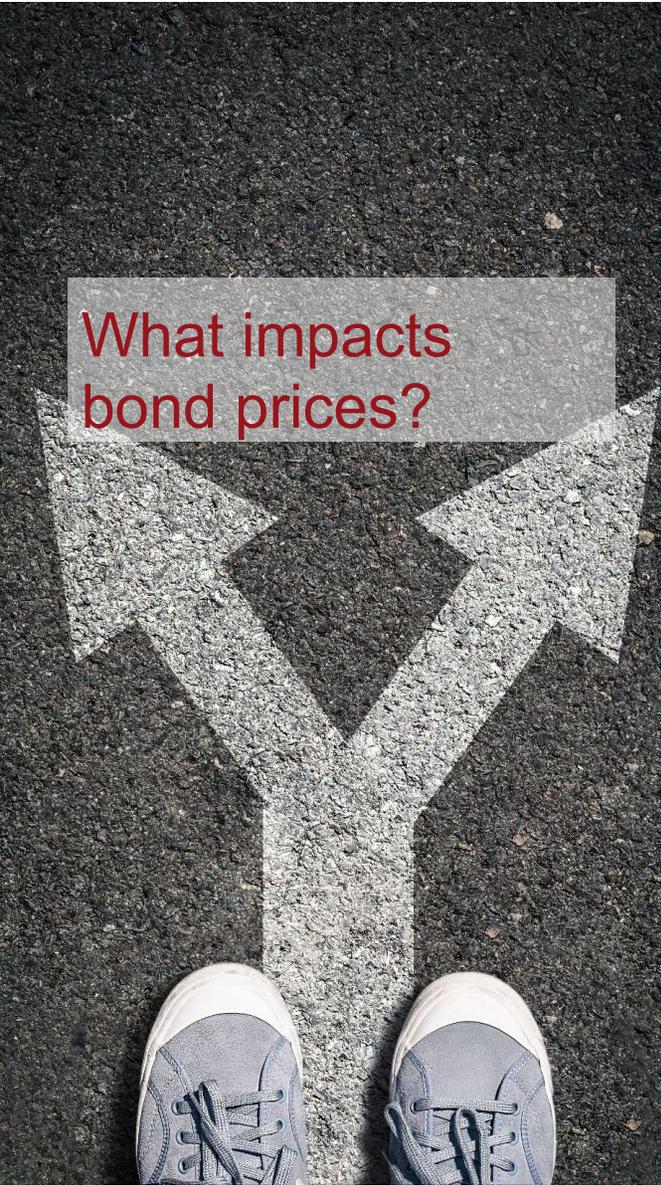
Corporate	eg. Fund public company's expansion	Higher risk
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Key components of bonds

Face Value	Value at issue and maturity	Fixed
Price (Capital Value)	What the bond is worth when its traded on the market before maturity	Varies
Coupon	Regular interest payments over the term of the bond	Fixed





What impacts
bond prices?



Interest
rates



Time to
maturity



Economic and
market conditions



Credit
Quality

The impact of interest rates

Bond Prices Yield
(expected return)

Rising interest rates			As interest rates rise, the coupon rate on existing bonds is less attractive to investors. Bond prices fall, and potential yield for buyers increases.
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Falling interest rates			As interest rates fall, the coupon rate on existing bonds is more attractive to investors. Bond prices rise, and potential yield for buyers decreases.
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Reminding ourselves:
the purpose of
fixed income



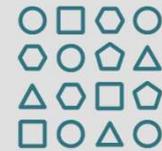
Capital stability



Income



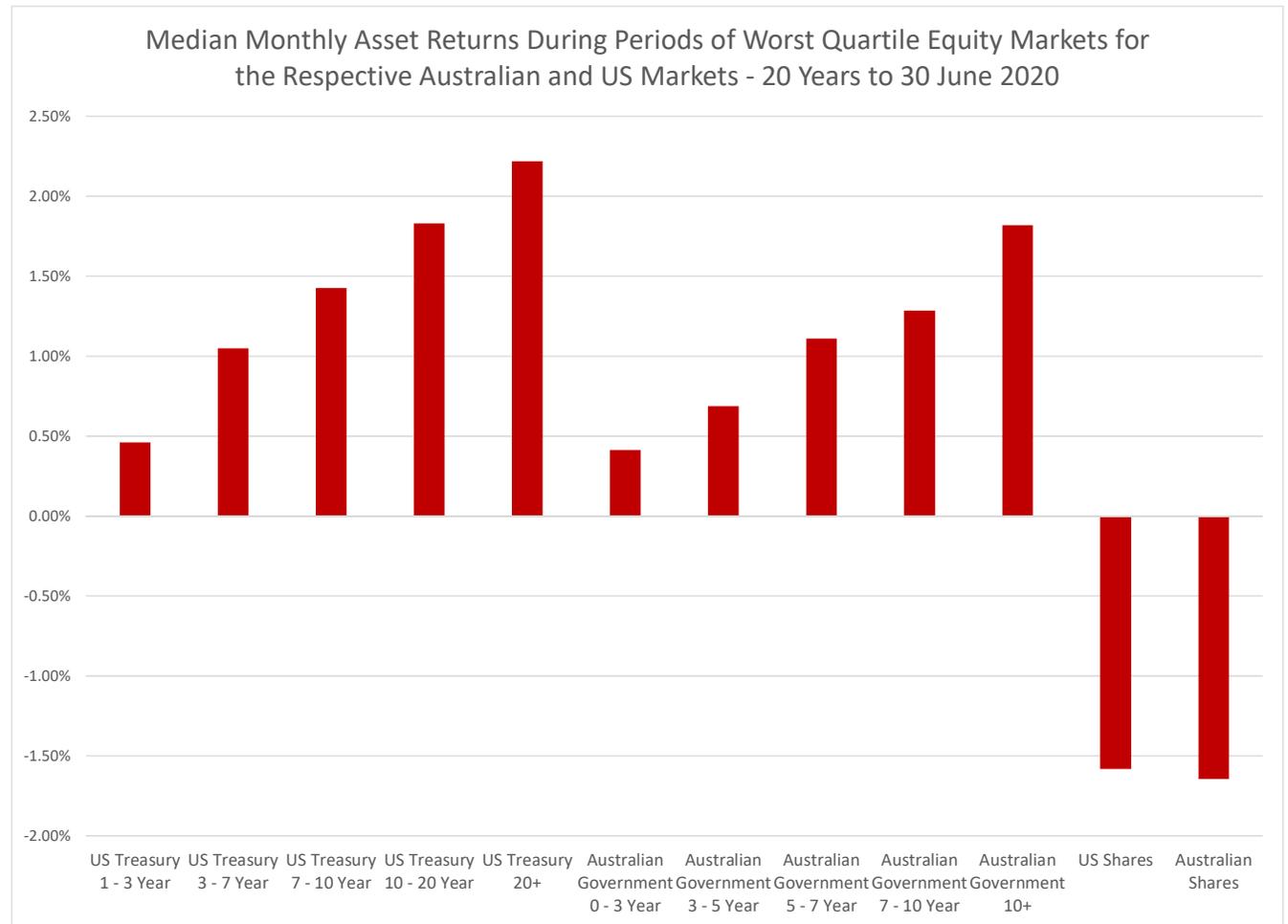
Liquidity



Diversification

Why invest in broadly diversified bond funds

Portfolio ballast in an equity drawdown scenario

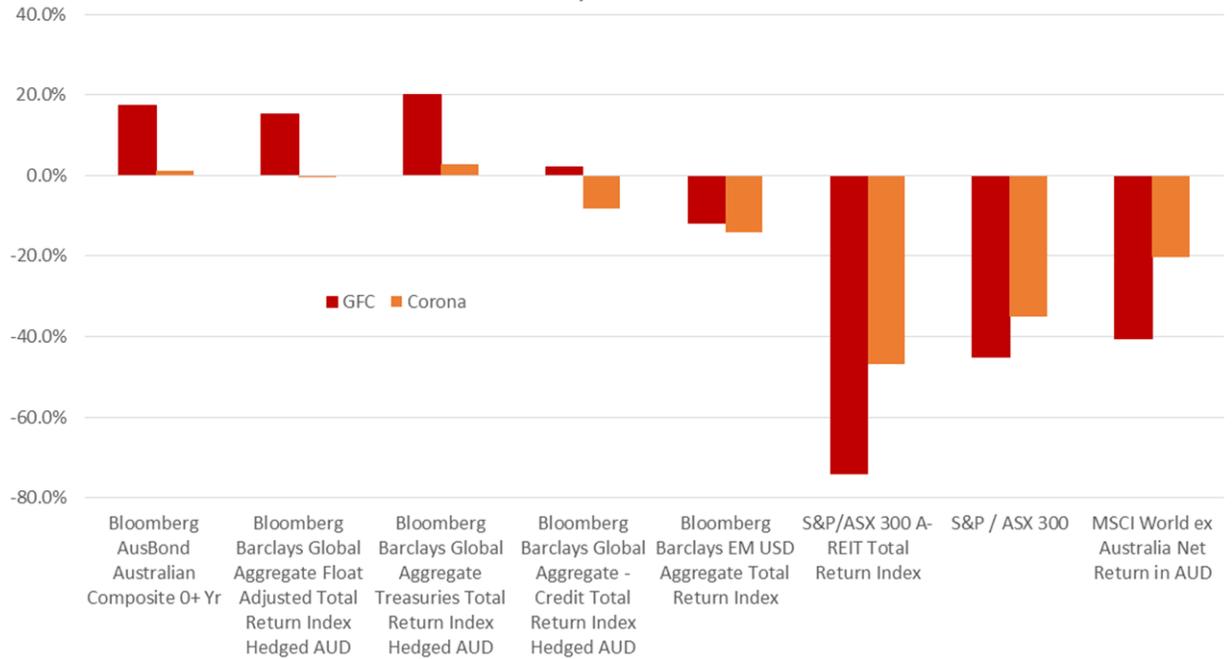


Source: Bloomberg

2020

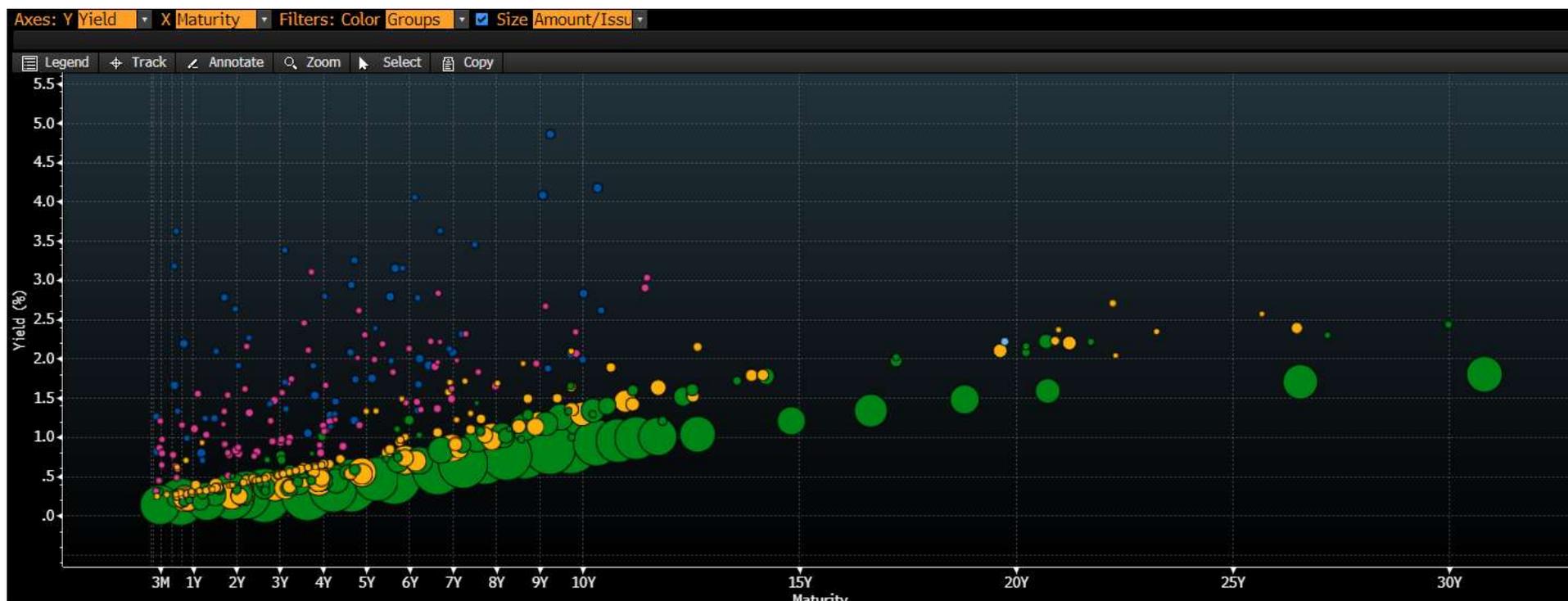
- Health Crisis
- Market Impacts
- Economic Uncertainty

GFC - Cumulative Return from 12 October 2007 to 9 March 2009
 COVID - 20 February 2020 to 23 March 2020



Source: Bloomberg

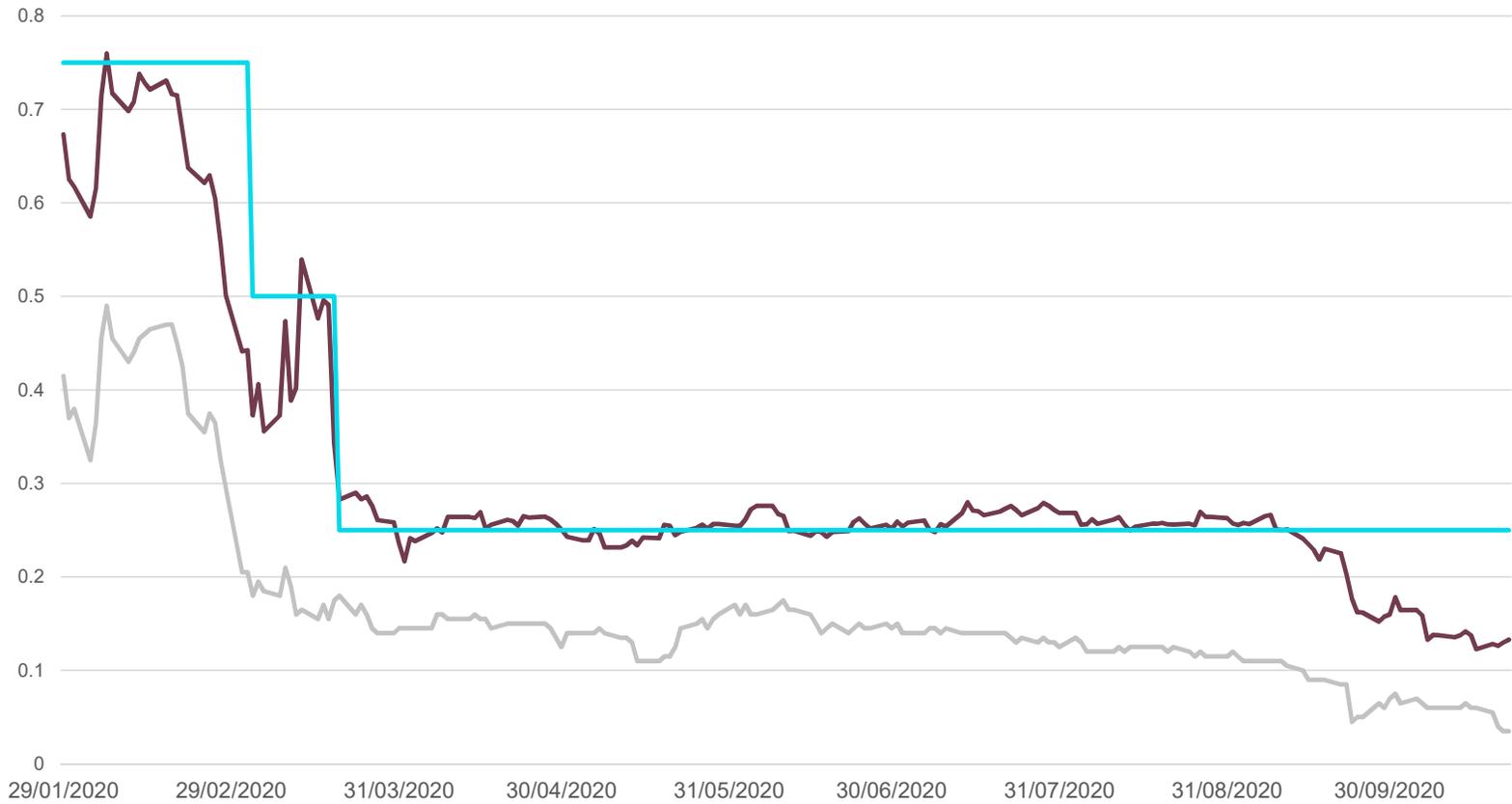
The Australian Investment Grade Bond Market



Source: Bloomberg

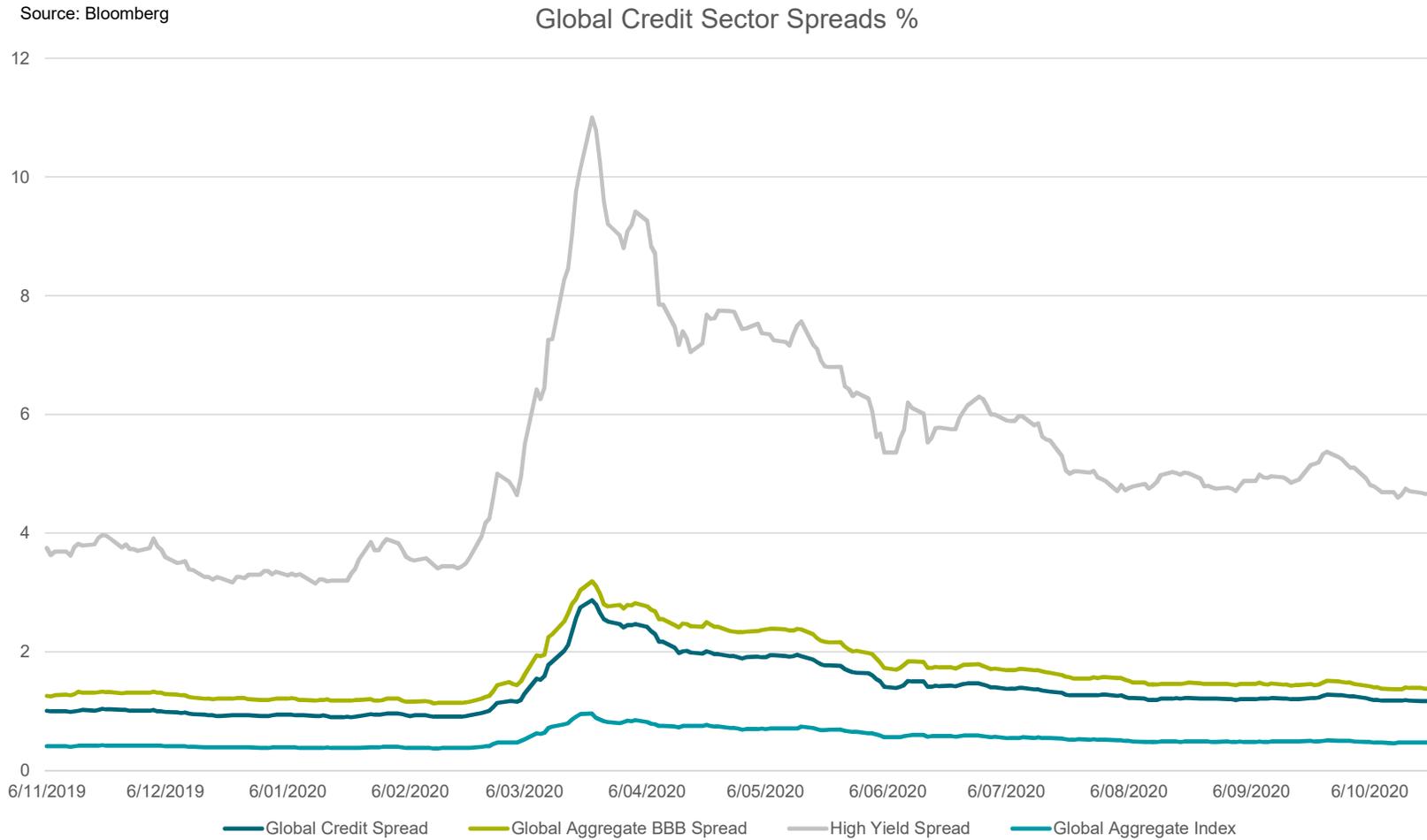
Current environment: shorter term securities

Australian Short Term Rates (%)

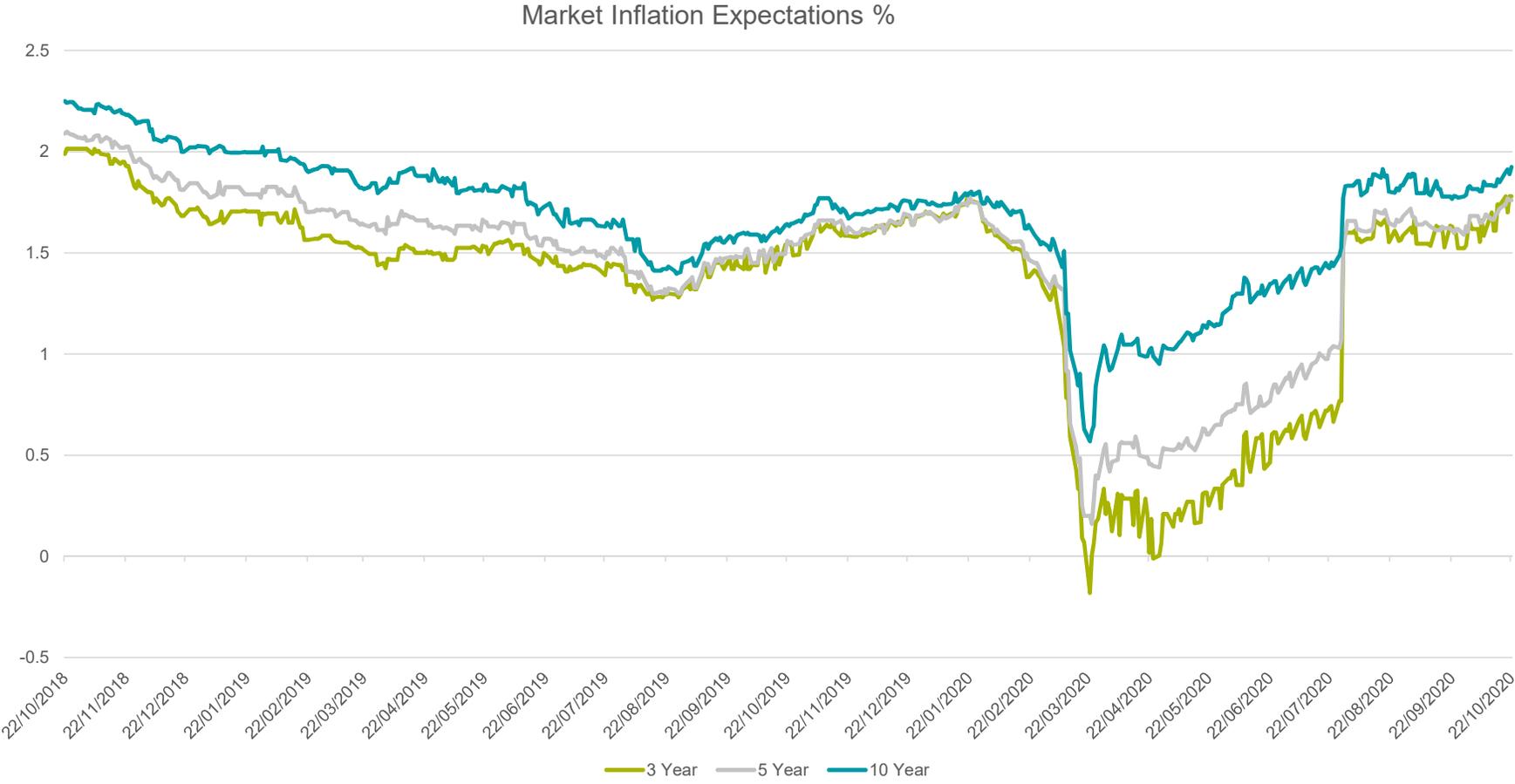


Source: Bloomberg — 12 Month Cash Rate Market Yield — Australian 3 Year Bond — RBA Cash Rate

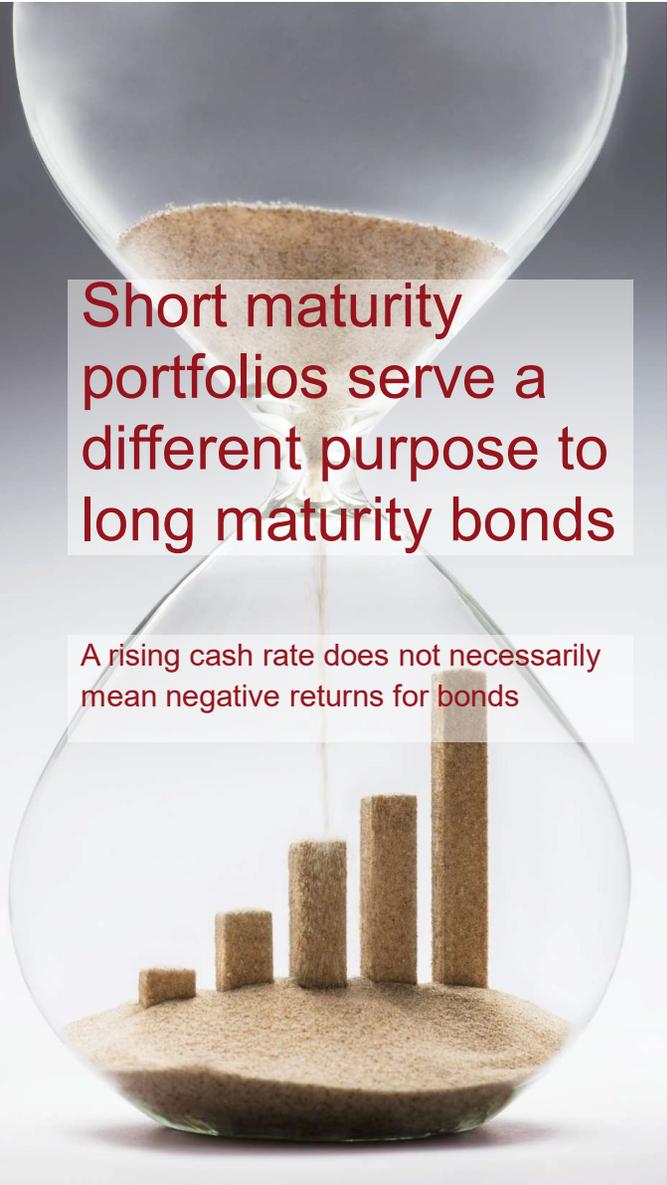
Not all bonds are created equally...



Inflation expectations are low, what does this mean?



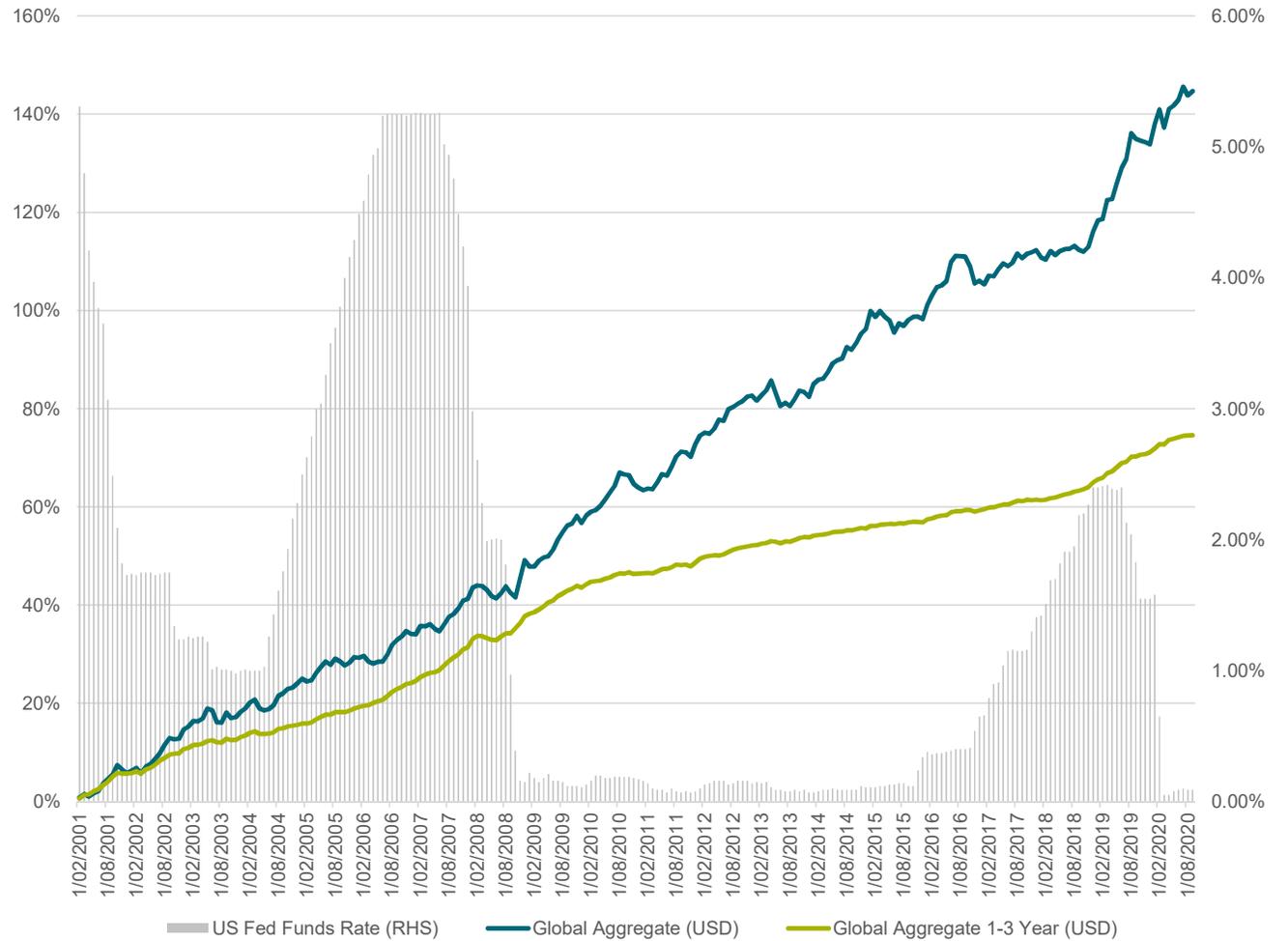
Source: Bloomberg



Short maturity portfolios serve a different purpose to long maturity bonds

A rising cash rate does not necessarily mean negative returns for bonds

US Fed Funds Rate Change and Cumulative Performance of Global Aggregate and Global Aggregate 1-3 Year



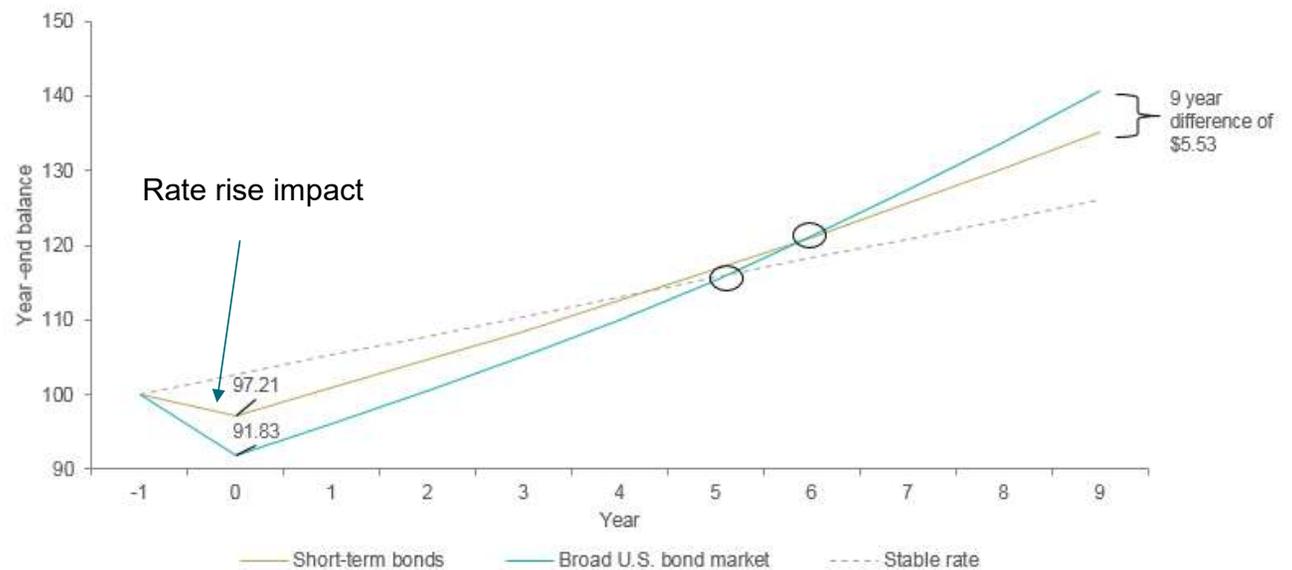
Source: Bloomberg



Investor timeframe
is a crucial factor in
choosing fixed
income styles

Clients with an investment horizon
longer than portfolio duration

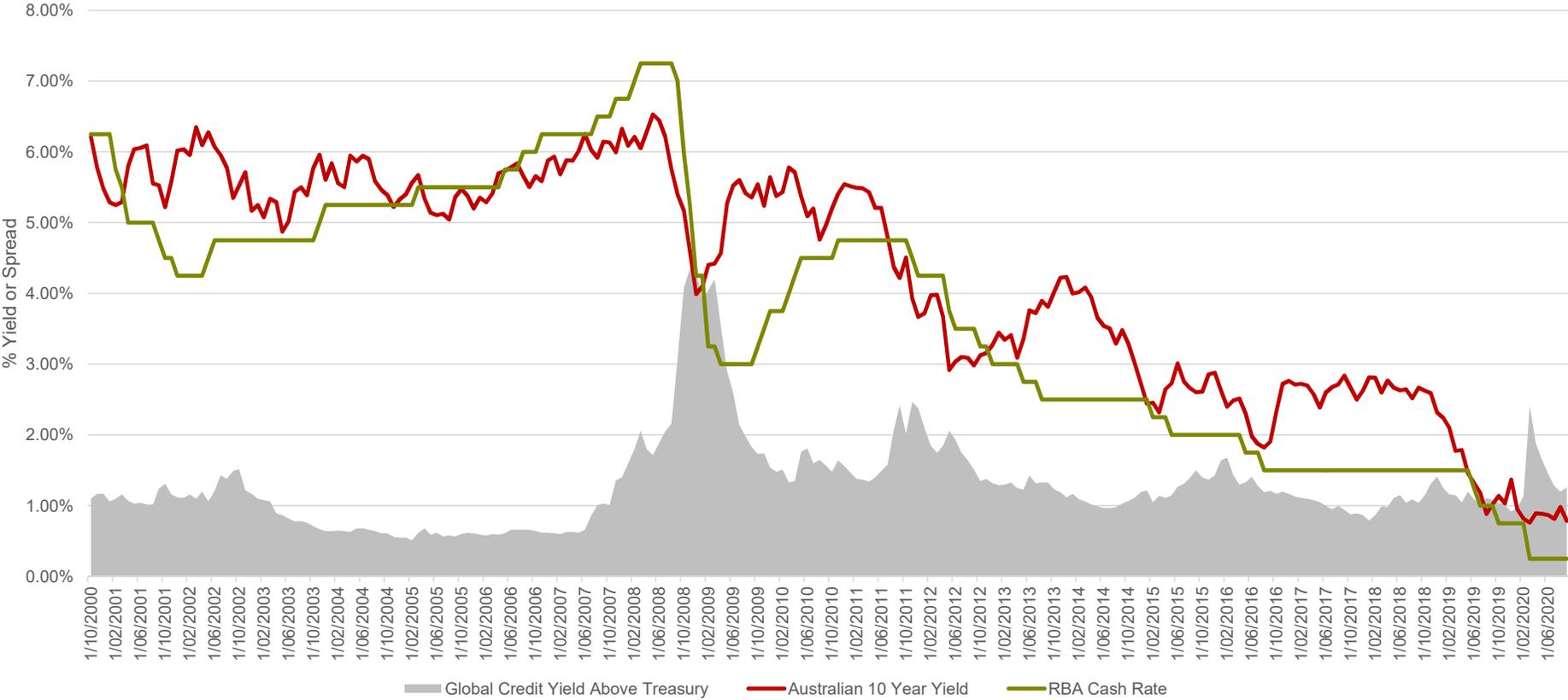
Holding longer duration bonds can actually benefit investors when interest rates rise and their investment horizon is longer than their duration



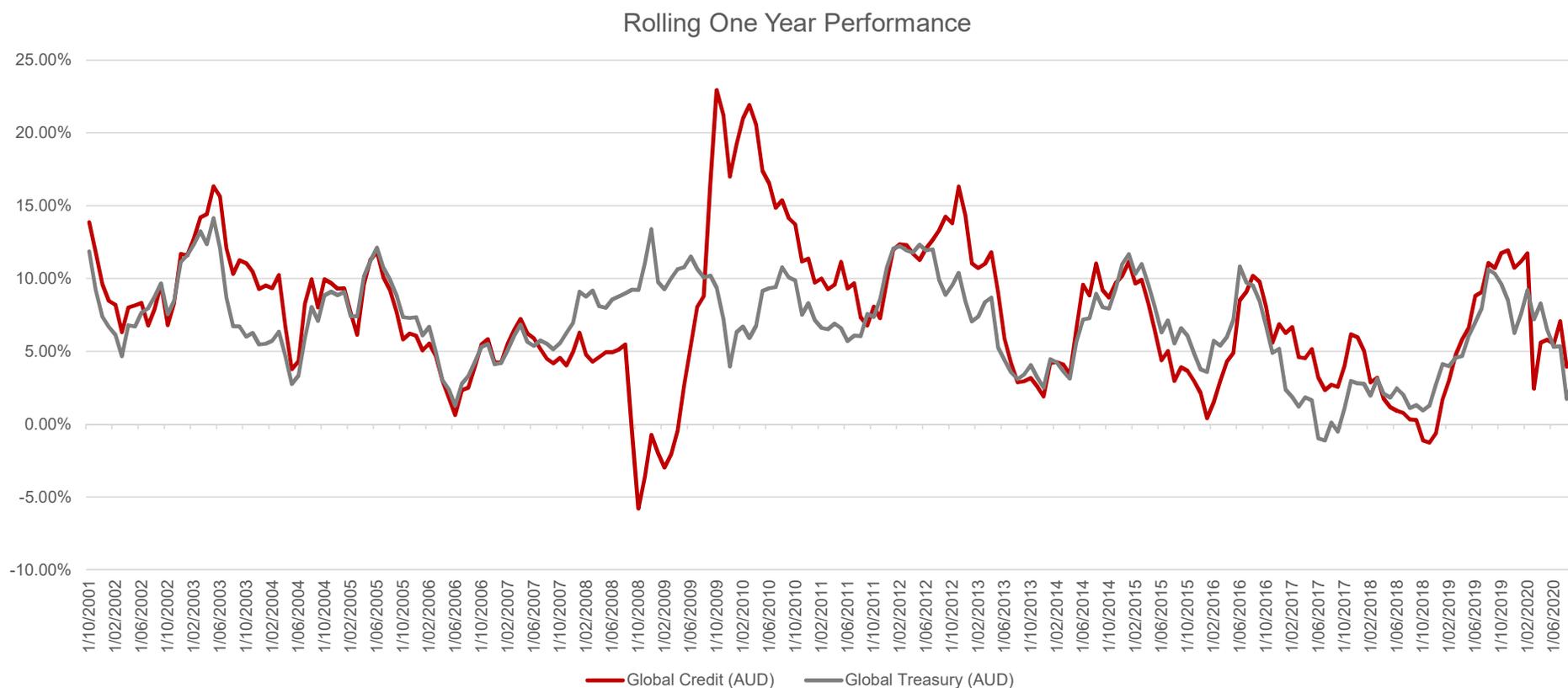
Source: Vanguard using Bloomberg data.

Relative attractiveness of credit strategies

Rates of Return Across the Fixed Income Landscape



Retaining duration exposure – maintaining defensiveness



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