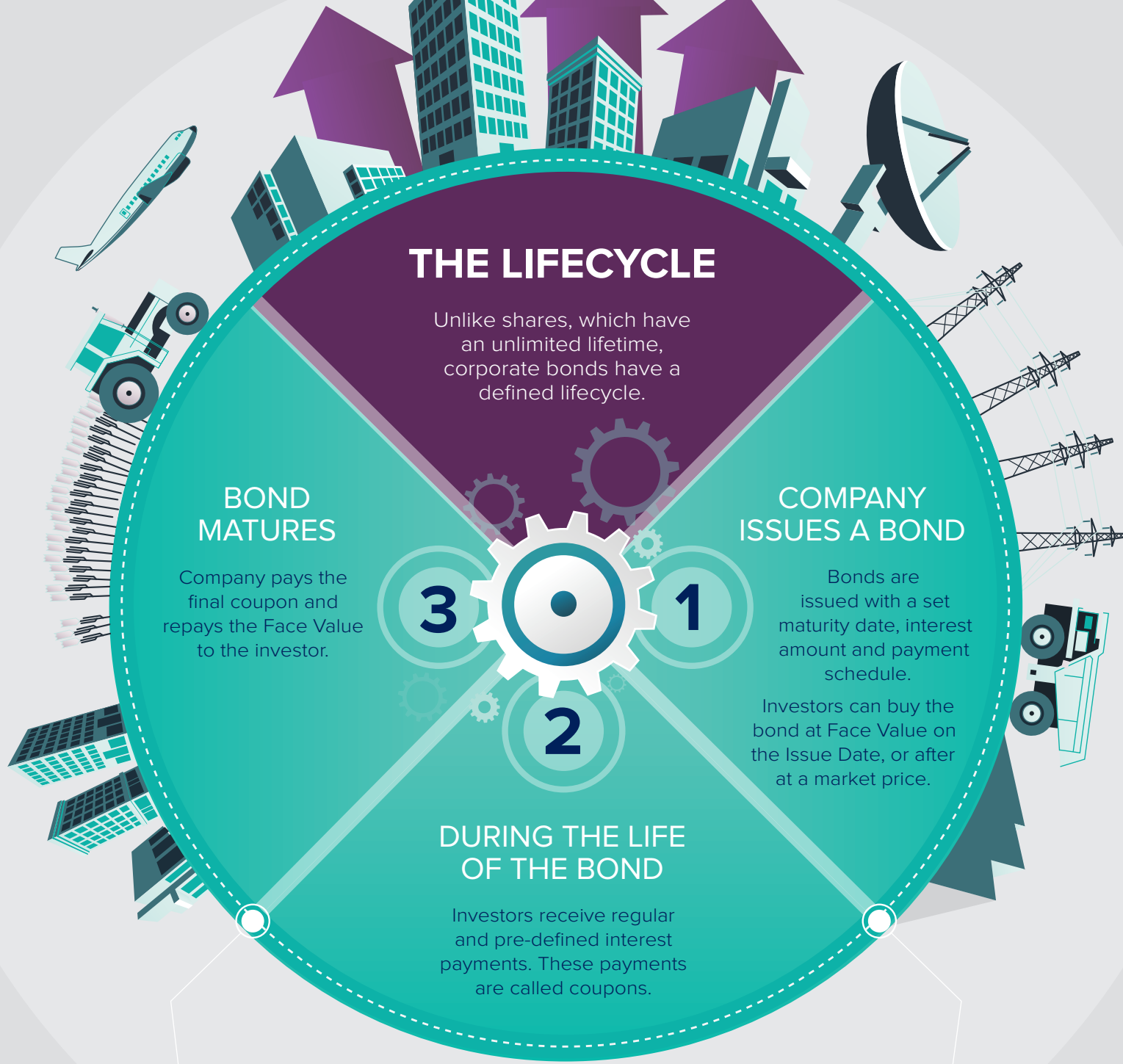


# YOUR GUIDE TO CORPORATE BONDS

A World of Opportunity

## WHAT ARE CORPORATE BONDS?

Corporate bonds are loans to companies from investors. In return, investors receive regular interest payments. When the loan matures, investors receive the original loan amount and the final interest payment.



## UNDERSTANDING CORPORATE BONDS

### THE ESSENTIALS

**5% REGULAR PAYMENTS**

**COUPONS**

Regular interest payments made by the company until maturity. A \$10,000 bond with a 5% coupon would pay investors \$500 a year.

**FIXED vs FLOATING**

Coupon rates can be fixed or floating. Fixed rate coupon bonds provide investors with the same income each year, similar to Term Deposits. The income from Floating rate coupon bonds varies with interest rate fluctuations, similar to "at-call cash" accounts.

**FACE VALUE vs BOND PRICE**

Bonds are issued with a Face Value (e.g. \$100). Investors receive this amount at maturity. The Face Value remains constant through the life of the bond. The Bond Price is the price it trades at or after issue.

### EXAMPLE CASH FLOWS OF A BOND



## WHO ISSUES THEM?

Some of Australia's biggest companies issue corporate bonds. They are available over a diverse range of industries.

**Qantas (QAN)**

**Bank of Queensland (BOQ)**

**BHP (BHP)**

**Stockland (SGP)**

**Telstra (TLS)**

**Woolworth (WOW)**

## WHY ARE THEY SO IMPORTANT?

Investors need diversification and exposure to assets other than shares. Corporate bonds play a key role in the portfolio and provide much needed capital stability. Investors have been keeping their money in the bank since the GFC. They need an alternative without taking on significantly greater risk.

Australian household deposits keep growing. There was more than **\$880bn** in December 2017. This was up almost **\$50bn** from the previous year and is close to triple pre-GFC levels. Corporate bonds can provide higher yields than Term Deposits.



## CORPORATE BONDS COMPARED

Corporate bonds are less volatile than equities and hybrids.

| CASH                  | BONDS (fixed & floating) | HYBRIDS (tier 1 & 2)  | EQUITIES   |
|-----------------------|--------------------------|-----------------------|------------|
| RISK LEVEL            | RISK LEVEL               | RISK LEVEL            | RISK LEVEL |
| 0%                    | 0.5-3%                   | 7%                    | 15%        |
| DEFENSIVE TO EQUITIES | DEFENSIVE TO EQUITIES    | DEFENSIVE TO EQUITIES |            |

## HOW INTEREST RATES AFFECT CORPORATE BONDS

Interest rates affect corporate bond prices and coupons differently depending on whether the bond is fixed or floating.

**PRICES**

**BOND PRICES** ↓  
**INTEREST RATES** ↑

**INTEREST RATES RISE**  
Typically, the value of fixed rate bonds will **FALL** when interest rates rise. The value of floating rate bonds won't typically change.

**INTEREST RATES FALL**  
Typically, the value of fixed rate bonds will **RISE** when interest rates fall. The value of floating rate bonds won't typically change.

**COUPONS**

**FIXED RATE COUPONS PROTECT YOU...** if interest rates **FALL**

**FLOATING RATE COUPONS RISE...** if interest rates **RISE**

## HOW TO INVEST

Until now corporate bonds have generally only been available to wholesale investors with a minimum investment amount of \$500,000.

**XTB**s allow you to select the individual corporate bonds you want exposure to. They are on ASX and have no minimum investment.

XTBs give you the **ACCESS** and **TRANSPARENCY** of the ASX market, with the **INCOME** and **CAPITAL STABILITY** of corporate bonds. XTBs provide a solid foundation for your investment portfolio.



Explore [www.xtbs.com.au](http://www.xtbs.com.au) to find out more about how XTBs can help you access the corporate bond market.