Get to know Corporate Bonds

Some Australians are missing out on what the rest of the world and professional investors already know - corporate bonds are critical to portfolio performance.

Earn a better return

With interest rates on savings accounts as low as 2% - and unlikely to rise in the near future – it's no longer enough for investors to depend solely on term deposits as a reliable source of interest income. In general, Corporate Bonds pay higher income than term deposits. A sample portfolio created by FIIG pays over 6% per annum[1].

Corporate Bonds have also outperformed Australian and global shares over the past 10 years – returning 6.2% compared to 4.0% and 6.1% respectively[2].

Predictable income

Corporate Bonds provide a regular income stream through interest payments. Unlike dividends from shares, these interest payments are a legal obligation so can give you income certainty – crucial if you're making plans for your retirement.

Replacing your salary with regular interest income gives you more freedom to make choices about everyday expenses and bigger lifestyle decisions. You can plan cashflow with some certainty, including major lump sum payments.

Capital preservation

As a defensive asset class, Corporate Bonds are a lower risk investment than shares in the same company because your principal must be repaid when the bond matures. Most Corporate Bonds have known maturity dates, so you can invest to ensure those dates coincide with your plans.

In the rare event that a bond issuer becomes insolvent, you will also have priority over hybrid or equity investors when the proceeds of assets sales applies.

Diversify your portfolio

Diversifying your investments across different asset classes and markets is an important way to protect your wealth from market volatility, currency fluctuations and inflation.

Generally when shares underperform, Corporate Bonds outperform – and vice versa. When markets are declining or unpredictable, Corporate Bonds look more attractive as a way of locking in returns and preserving capital.

Investing in Corporate Bonds can also give you access to assets that would otherwise be out of reach – long-term income producing infrastructure (like airports), universities and companies not listed on the Australian Securities Exchange, like Maurice Blackburn or international banks. This can add extra diversity to a portfolio.

[1] As at 20/03/19. Subject to change without notice and is before fees. See our FSG available at www.fiig.com.au/fsg for any applicable fees.
[2] Gross returns for 10 years to December 2017. ASX 2017 Long-term Investing Report July 2018.

Building a diversified bond portfolio

Experienced investors appreciate the need to diversify their portfolio, but it isn't enough to just add Corporate Bonds to the mix - you still need to diversify within your Corporate Bond portfolio.

For 20 years, FIIG Securities has helped customers build their own balanced bond portfolios. As part of that process we have developed five key questions to help you choose which Corporate Bonds to include in your portfolio.

1

How much income do you need from your Corporate Bond portfolio?

Most people want to maximise their income once they retire so they can live off this income. They also want the freedom of being able to take advantage of bigger lifestyle decisions, like travel when the opportunity arises.

2

What return do you aim to achieve?

There are a range of Corporate Bonds available, with returns ranging from 2 - 9%. These can be combined to give you the return you aim for with the lowest possible risk.

3

What is your appetite for risk?

What we're really asking here is, how much are you willing to lose?

Corporate Bonds with a higher return are usually higher risk than bonds with lower returns and this is something you need to factor in to your calculations.

To help you evaluate the risk of specific bonds, credit ratings agencies independently assess bond issuers' ability to pay interest and repay capital. They assign credit ratings of AAA (lowest risk) to CCC (highest risk), with BBB- being the cut-off for investment grade securities.

How to invest in Corporate Bonds

You can invest directly in Corporate Bonds through FIIG. Our service is accessible, straightforward and transparent. There are two options, depending on how much time you want to spend thinking about your choice of Corporate Bonds.

Option #1

DirectBonds Service

Our DirectBonds Service enables you to build a personalised Corporate Bond portfolio to suit your investment goals. Choose from over 400 bonds, from $10,000 per bond with a minimum portfolio balance of $250,000.

Your Relationship Manager will help you with all the paperwork to set up your FIIG client account. They will also provide you with sample portfolios, general advice on portfolio construction and help you with each bond trade.

Option #2

Managed Income Portfolio Service (MIPS)

If you want direct access to the Corporate Bond market but don't have the time or expertise to make these investment decisions, MIPS combines the benefits of owning Corporate Bonds directly with the services of a professional portfolio management team. You still directly own your Corporate Bonds but FIIG constructs and manages the portfolio to match your investment goals and risk appetite. You'll need to be a wholesale client with a minimum of $500,000 to invest through MIPS.

Sub investment grade or unrated bonds (often called high yield), tend to have higher risk and return than investment grade bonds. Due to licensing restrictions, credit ratings are only able to be provided to Wholesale investors.

The challenge for investors is to find a mix of bonds with an acceptable risk profile that still provides a suitable yield.

4

Do you have any anticipated future expenses?

If you know you have a large expense coming up, purchase bonds with maturity dates that correspond with that timeline. Maturity timeframes can vary from anywhere between 18 months to 20 years. Staggering maturity dates can help you plan and reduce reinvestment risk at any single point in time.

5

How do you keep safe custody of your bonds?

You are required to hold bonds in safe keeping of a licensed custodian until they mature or if you decide to sell them. Licensed custodial service providers, like FIIG, hold an electronic record of your beneficial ownership of the bond. They also provide a range of services including account administration, transaction settlements and reporting.

Why FIIG?

400+

Bonds available

4

Offices in Australia (and 1 in Malta)

100+

Employees

7,000+

Australian Investors

1998

FIIG established

$Billions+

Assets under advice

Privately owned

FIIG is privately owned and not owned by any financial institution

FIIG's fixed income expertise and market access provides over 400 different Corporate Bonds to more than 7,000 Australian investors. FIIG is privately owned and not owned by any financial institution.

Our clients appreciate the depth and quality of our research, portfolio construction and general trading strategy advice conducted by our highly experienced market research and investment strategy team.

Get started today

Ready to get more certainty over your investment income and achieve stability in a volatile market? FIIG can help you build a bond portfolio to suit your financial goals.

Call FIIG on 1800 01 01 01

Or visit www.fiig.com.au

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