

OPENING UP THE australian BOND MARKET



Property & Projects Partner, Paul O'Dea, chats to James Vance, Debt Capital Markets Director, about market trends and how FIIG helps Australian corporates fund their growth through access to bond markets.

▶ WHAT CHANGES HAVE YOU SEEN IN THE AUSTRALIAN CORPORATE BOND MARKET IN RECENT TIMES?

Over the last 2 years we have seen increased issuance of sub investment grade and unrated corporate bonds opening up the domestic bond market for mid sized Australian corporates across a range of industries.

Previously, access to the bond market was generally only available to larger investment grade rated corporates with at least \$500 million in debt funding requirements, largely driven by institutional investor demand. Now, smaller retail type investors, such as self managed super funds and high net worth individuals, can invest in bonds directly with a minimum investment of \$50,000. This in turn has allowed mid sized corporates with lower debt funding requirements to access the bond market. FIIG has been at the forefront of this development.

▶ WHAT ARE SOME OF THE TRENDS THAT MIGHT INFLUENCE THE EVOLUTION OF THE AUSTRALIAN BOND MARKET IN COMING YEARS?

The aging population of Australia has and will continue to grow our superannuation investment pool, including self managed super funds. As people move into retirement they generally seek lower risk regular income as opposed to capital growth. Australian investors are also becoming more aware of their ability to invest directly in fixed income products. Consequently, we expect to see increased allocations to the fixed income asset class, including direct bonds.

The ability to tap the bond market for unrated debt capital is becoming more widely known in the corporate sector. Australian corporates are also seeking to diversify and lengthen their funding sources. Consequently, we expect to see more and more mid sized corporates issuing unrated debt over the coming years.



FIIG Securities, Australia's largest independent fixed income specialist, provides private and corporate investors with direct access to a range of fixed income investments and issuers with reliable access to debt capital. FIIG has placed over \$1.6 billion in long-term bonds for both rated and unrated debt issuers.

➤ WHAT PRODUCTS ARE GAINING ACCEPTANCE WITH AUSTRALIAN INVESTORS?

In fixed income markets, high yield unrated debt is increasingly gaining acceptance with investors. With low interest rates expected to stay around for some time, investors are increasingly looking for higher yielding fixed income investments to meet their cash needs and are prepared to take on a little more risk to get them. This means they are often prepared to invest in bonds that provide greater flexibility and more competitive terms than the bank market in return for a modest premium.

➤ WHAT TYPE OF PROPERTY GROUPS CAN ACCESS THE DEBT CAPITAL MARKETS?

Bond investors want regular and reliable fixed income so issuers need to have a similar cashflow profile. Property groups with regular income to support

the payment of interest on their bonds can best access debt capital markets.

For example, last year FIIG raised \$75 million for the ASX listed 360 Capital Group at 6.9% for a 5 year term - flexible unrated debt that was unsecured and ranked behind secured bank debt. Our capital provided them with the flexibility to grow their property funds management business while not diluting equity.

We also structure deals to suit different circumstances. In late 2013, ASX listed Payce Consolidated was seeking \$50 million in holding company debt finance to secure new residential development sites. At the same time, Payce was half way through completing the construction of a \$330 million mixed use property in Sydney. Confirming that the construction risk was well mitigated and that Payce would soon have a \$200 million investment property with regular income to underpin the bond,

FIIG developed a bond structure that protected the interests of bondholders while giving Payce a piece of long term capital (5 years) that suited their needs.

➤ IS FIIG UNDERTAKING ANY SPECIFIC RESEARCH?

FIIG will shortly launch the Smart Income Guide to 2015 focusing on fixed income assets and the market factors that will drive investment in 2015. We expect this report to be available on our website (www.fiig.com.au) early February. 



➤ EMAIL

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