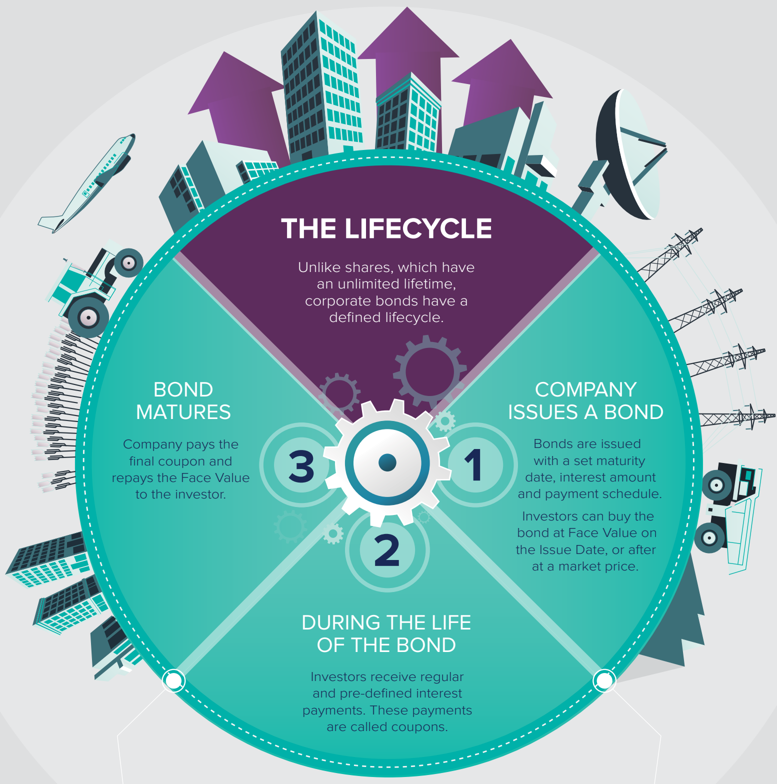
CMC stockbroking

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.



THE LIFECYCLE

Unlike shares, which have an unlimited lifetime, corporate bonds have a defined lifecycle.

1 COMPANY ISSUES A BOND

Bonds are issued with a set maturity date, interest amount and payment schedule.

Investors can buy the bond at Face Value on the Issue Date, or after at a market price.

2 DURING THE LIFE OF THE BOND

Investors receive regular and pre-defined interest payments. These payments are called coupons.

3 BOND MATURES

Company pays the final coupon and repays the Face Value to the investor.

UNDERSTANDING CORPORATE BONDS

THE ESSENTIALS

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

You buy a 5% Fixed Rate bond
INITIAL INVESTMENT $10,000

YOU RECEIVE $500 INTEREST EACH YEAR

21 MAR 2016 $250 COUPON PAYMENT
21 SEP 2016 $250 COUPON PAYMENT
21 MAR 2017 $250 COUPON PAYMENT
21 SEP 2017 $250 COUPON PAYMENT
21 MAR 2018 $250 COUPON PAYMENT
21 SEP 2018 $250 COUPON PAYMENT

At maturity, you receive a
FINAL PAYMENT $10,000
+ THE FINAL COUPON

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 defensive role in a 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 almost **$770bn in March 2016**. This was up more than **$150bn from the previous year** and is a **10 fold increase from pre-GFC levels**.
Corporate bonds can provide higher yields than Term Deposits.

10x INCREASE ON PRE-GFC LEVELS

OVER **$770bn** IN MARCH 2016

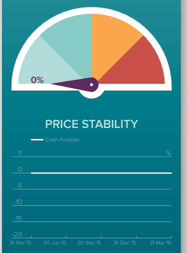
Source: APRA March 2016

CORPORATE BONDS COMPARED

Corporate bonds are less volatile than equities and hybrids.

CASH

RISK LEVEL

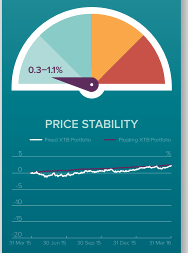


DEFENSIVE TO EQUITIES

✓ ✓

BONDS
(fixed & floating)

RISK LEVEL

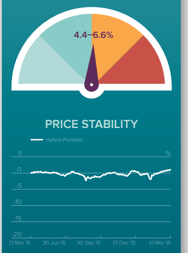


DEFENSIVE TO EQUITIES

✓

HYBRIDS
(tier 1 & 2)

RISK LEVEL

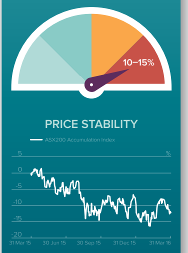


DEFENSIVE TO EQUITIES

✗ ✗

EQUITIES

RISK LEVEL



Price performance charts for the year ended Mar 2016. Source: Australian Corporate Bond Company

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

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

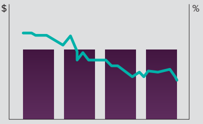
Typically, the value of fixed rate bonds will **RISE** when interest rates fall.

The value of floating rate bonds won't typically change.

COUPONS

FIXED RATE COUPONS PROTECT YOU...

if interest rates **FALL**.

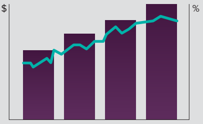


▇ Fixed rate payments ($)

— Interest rates (%)

FLOATING RATE COUPONS RISE...

if interest rates **RISE**.



▇ Floating rate payments ($)

— Interest rates (%)

HOW TO INVEST

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

XTBs 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 STABILTY** of corporate bonds.

XTBs provide a solid foundation for your investment portfolio.

TRADED ASX

Explore www.xtbs.com.au to find out more about how XTBs can help you access the corporate bond market.

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