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Kōrero Haumitanga

We've been expecting you, Mr Bond

BY SARAH DELANY

Bonds are an essential component of many of our portfolios. But they can sometimes be confusing. This issue gives you a brief rundown of the bewildering bond!

Most of us are used to borrowing money, whether it's a mortgage, credit card or overdraft. Similarly, companies and governments also borrow money - and they do it by issuing bonds. Investors then buy the bonds, effectively lending money to the companies and governments. Investors expect an income regularly (interest payments) and the original investment back at the end of the term (called a maturity date).

Let's take our government as an example. They raise money from investors by selling bonds, we call this "issuing". They offer different maturities with different interest rates.

For example:

TERM	RATE
6 MONTHS	3.75%
1 YEAR	4.25%

Interest is paid quarterly, and your original investment is returned at the end of the term.

(Interest rates are current at April 2023, other terms available)

Newsletter Highlights

ITS ALL ABOUT BONDS

HOW MANY BONDS ARE IN YOUR PORTFOLIO?

Benefits of Bonds

Bonds are an important part of many portfolios as:

- they provide a predictable income
- your funds are returned at the end of the term
- they usually provide higher returns than term deposits
- they are usually stable compared to shares

What to watch out for...

If Bonds had a villain, it's Interest Rates!

Bonds are not totally risk-free, and when interest rates rise, as they did throughout 2022, the value of your bond can decrease.

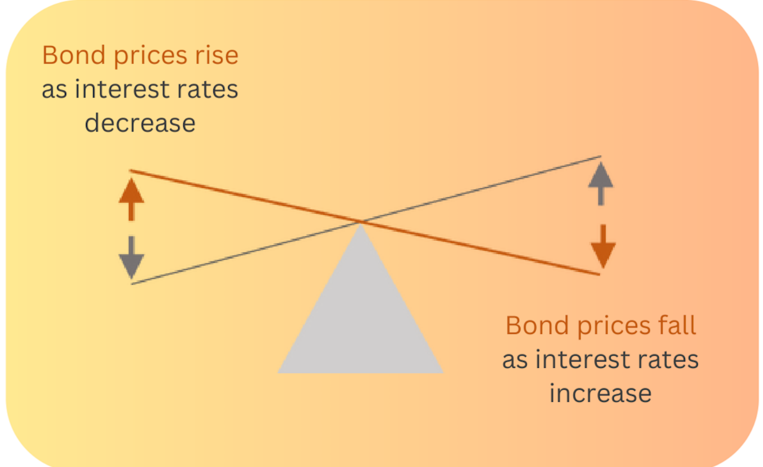
This is because the interest rates you receive from your bond become less attractive to new investors as newer bonds are being issued at higher interest rates.

For example, let's say you own a bond paying 4% per annum. If interest rates rise to 6%, newly issued bonds will pay this higher interest rate, which means investors will be willing to pay less for your 4% bond to invest in the newer, higher-interest rate bonds. This results in a decline in the value of your bond.

The change in value depends on the time to maturity. Longer-term bonds are more sensitive to interest rate changes because their interest rates are locked in for a longer period of time.

Short-term bonds have less risk because their interest rate payments are reset more frequently.

Bond prices and interest rates generally move in opposite directions



As with all investments, diversification is an excellent way to decrease risk, and bonds are no different. The most efficient way to diversify is through a Managed Fund (see issue 5 for information on how Managed Funds work). The Fund Manager buys and sells multiple bonds to achieve a diversification we couldn't do as individual investors.

Listed below are the Managed Funds which specialise in bonds that you will have in your portfolio:

		NO. OF BONDS
Simplicity	New Zealand Bond Fund This fund buys bonds from the New Zealand Government, Local Government and NZ Banks.	30+
	Core Income Fund This fund buys bonds with maturities less than 2 years from banks and Corporations mainly in Australia.	270+
	Global Bond Sustainability Trust This Trust holds longer term bonds with maturities of 3+ years, from Governments, banks and high quality corporations from all over the world.	560+

Combining these three bond Managed Funds means you are invested in over 800 bonds with different maturities and interest rates across multiple countries, governments and corporations.

Whilst returns from your bond funds have decreased over the past year, we should start to see a recovery as your bonds mature and reinvest into newer, higher interest rate bonds.

If you have any questions regarding your portfolio, please don't hesitate to contact your adviser. We are always available to answer any queries about your investment.

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