BNY | INVESTMENTS

The 5 Ws of FIXED INCOME

WHAT is fixed income?

Fixed income **securities** or 'bonds' are loans to governments and companies. In return for lending money, you, the investor, would typically receive regular interest payments called coupons, plus a cash payment when the bond reaches **maturity**. This can be more or less than you initially paid for the bond.

Whilst fixed income is generally considered a less risky investment option than equities (also known as company shares), there are still some risks to consider.

1) Value can still change dramatically. Although the payments on a fixed income security are known in advance, its price can go up and down as interest rates change.

2) Default risk. This is the risk that interest payments or the amount loaned are not repaid.

Borrowers less likely to default, like governments, typically pay a lower rate of interest on bonds than companies that may be at higher risk of default. Expectations about the likelihood of default will affect prices. If the bond **issuer** does default, you could lose part of, or all of, your investment.

WHERE is fixed income available?

Fixed income investments are available globally from companies and governments. They can also be issued in a variety of currencies. For example, you could have a European company issuing bonds denominated in US dollars.

WHY could fixed income be an attractive investment option?

Fixed income can provide an alternative investment choice when equity markets are more **volatile**. A fund manager can combine equities and fixed income investments in a mixed investment (multi-asset) portfolio. This combined approach could potentially produce more reliable **returns**.

Including fixed income assets in your investment strategy can be useful if you wish to reduce risk, receive regular income or cultivate growth. It's important to decide which of these goals is most important to you in order to choose the right type of fixed income strategy to match your investment objectives.

WHEN might fixed income be useful to implement into an investment strategy?

When you are hoping to increase your certainty of outcome. This is because you are able to forecast the return from interest payments and the eventual return of capital.

If a bond is held until its maturity date (and doesn't default) it can provide, as the name suggests, a more 'fixed' return. If **managed actively,** you can buy and sell bonds with the aim of generating profit as the prices change.

WHO can benefit from fixed income?

Bonds can be held by a wide variety of investors but tend to be more popular with investors looking to take less risk. This may include those in retirement who value certainty of return, and protecting their initial investment above maximising their potential returns.

Active management: A process whereby an investment professional actively makes buy, hold and sell decisions and aims to outperform the overall market.

Issuer: A legal entity that develops, registers and sells securities.

Maturity: The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Return(s): The gain or loss from an investment over a stated period of time – expressed in either percentage or cash terms.

Securities: A tradable financial asset such as a share in a company or a fixed income security also known as a bond.

Volatility: Large and/or frequent moves up or down in the price or value of an investment or market.