



ADVERTORIAL / AUSTRALIAN CORPORATE BOND COMPANY

Corporate bond exposure made easy

Richard Murphy, CEO of Australian Corporate Bond Company, talks to *ifa* about opening up the corporate bond landscape through XTBs



EXCHANGE-TRADED bond units (XTBs) have opened up corporate bonds to the masses via the ASX. They allow investors and advisers to choose their fixed income portfolio in the same way they do with shares.

Before XTBs, if you wanted to access the performance of individual corporate bonds, you could only do so through the over-the-counter (OTC) market. Now investors can access the performance of corporate bonds through the ASX, using their brokers or advisers.

Remind us, what are XTBs?

XTBs are ASX-traded securities that have the income and capital stability of corporate bonds, together with the transparency and liquidity of the ASX. Each XTB covers a different corporate bond, giving investors choice and control.

XTBs trade on the ASX just like shares, and have no minimum investment. There are currently 33 XTBs across fixed and floating rate bonds from top ASX companies. There is something for everyone, whether investors are looking for variable interest rates, or to lock in regular income.

How can XTBs fit into a portfolio with other types of fixed income?

The most popular fixed income investment has been term deposits (TDs). APRA quotes that there is over \$765 billion in household deposits

as of January 2016, an increase of more than \$150 billion in the past year. XTBs give investors exposure to the risks of the bonds of ASX top 50 companies and can offer returns around 1 per cent higher than many TDs. This higher return does not come with the capital instability of equities and hybrids.

Bond funds or ETFs are diversified with some linked to broad market indices, which may be dominated by lower yielding government bonds. By selecting a portfolio of XTBs, you focus your fixed interest portfolio on exposure to higher yielding corporate bonds.

By bringing corporate bonds to the ASX through XTBs, what does this mean for advisers and their clients?

Firstly, XTBs provide access to the performance of bonds previously unavailable to most. XTBs facilitate investor choice in fixed income.

Secondly, XTBs have the transparency of the ASX. You also have the advantage of ASX liquidity provided by Market Makers - you can buy or sell through any broker.

Thirdly, 2014, 2015, and the start of 2016 have seen high volatility for equities and hybrids. Investors want stability. XTBs and corporate bonds are stable, relative to equities and hybrids, and they don't require a compromise on returns.

For example, total returns for XTBs from January 2015 to January

2016 ranged from 0.3 per cent to 9.1 per cent. All 33 XTBs had positive total returns in what was a very bad year for equities and hybrids. XTBs can be the cornerstone of any investment portfolio.

How much fixed income should a portfolio have?

There are many schools of thought. John Bogle, the Vanguard founder, coined a rule of thumb that "your bond allocation should roughly equal your age".

Fixed income plays a defensive role in any portfolio. The recent difficult conditions highlight that capital stability is not always available with equities and hybrids.

What about hybrids - are they part of a fixed income portfolio or not?

Increasingly, analysts and advisers are classifying hybrids as more equity-like than fixed income, or even as a separate asset class of its own.

John Likos, Head of Australian Credit Research at Morningstar recently commented to us:

"The increasingly issuer-friendly terms contained in hybrids suggest they shouldn't be included in the defensive fixed income part of a portfolio".

What platforms are XTBs available on?

XTBs are available on 20

investment and retail super platforms, including Macquarie Investment Wrap, Netwealth and HUB24. Platform presence continues to grow with demand.

XTBs are also available through full-service brokers, online brokers, wholesale brokers (such as Desktop broker and Virtual broker) and administration platforms, such as Class.

The next growth area we see is inclusion in SMA and IMA portfolios. Bond Adviser have launched the first SMA via HUB24.

What's next for XTBs?

We started with 17 XTBs in May 2015 and by year-end had 33 on the ASX. This year we are looking forward to further expanding the XTB range and working with SMA and IMA providers to improve access.

How can advisers take the next step with XTBs?

We've developed a range of tools and educational materials to help advisers and their clients understand how corporate bonds work.

These include:

- Cash flow and yield calculators
- *Yield matters* newsletter
- Product Disclosure Statements

We want to ensure that everyone - from investors to advisers - has the level of knowledge required to make an informed fixed income decision.

Want to know more?

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