Complex bonds

Below you will find information about the characteristics of other complex bonds, including information about return, risk and investments via investment funds.

General characteristics

COMPLEX BONDS

The products within this category are typically different bond-based products. As opposed to traditional government and mortgage bonds, these products differ with respect to one or more factors, e.g.:

- Higher credit/default risk in relation to the issuer
- The return may consist of more components – fixed/floating rate yields and capital gains or losses
- The bonds will not necessarily mature at par value
- Poorer liquidity than traditional bonds
- Extraordinary terms, e.g. time of redemption, tax calls and convertible elements

The typical products within this category are corporate bonds issued by companies (corporate/credit bonds) and bonds that are not traded on regulated markets.

RETURN

Corporate/credit bonds generally offer a higher return than government and mortgage bonds, since the credit/default risk is higher. Even though the company can repay the principal at maturity, the bond may experience high volatility during its lifetime if the company experiences financial difficulties, or the market is struck by, for example, a financial crisis.

RISK

The products within this category are affected by the usual overall factors that also affect traditional bonds:

- The market rate of interest increases – this leads to a decrease in the bond price (interest rate risk)
- The issuer is unable to pay interest/the principal (credit/default risk)
- The currency in which the bond is denominated decreases relative to the reference currency of the portfolio – this leads to a decrease in the bond value (currency risk)

However, for products in this category it is often credit rating and extraordinary terms and conditions that have the largest impact on the pricing of the products.

Credit rating
The credit/default risk is typically assessed by rating agencies in order to indicate the quality of the individual bonds. Standard & Poor's, Moody's and Fitch are three independent agencies who make such credit ratings.

The rating, which is dynamic over time, consists of letter codes that indicate the agency's rating of the company's ability to pay back its debts.

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In addition, bonds are generally divided into two primary categories. The “secure” bonds are referred to as “Investment Grade” bonds, and the “less secure” bonds are referred to as “Speculative Grade” or “High Yield” bonds.

Extraordinary terms and conditions

In line with their prospectuses, some products may change repayment terms during the term to maturity. Typically, it will result in a longer term to maturity than initially indicated. Certain bond issues can be fully or partially written down or converted into equities if the company runs into financial difficulties. This will change the characteristics of your product.

LIQUIDITY RISK

Most of the products within this category have a poorer liquidity in the market than traditional bonds. Therefore, you should not expect a continuous pricing of the products; furthermore, in certain periods, you are at risk of not having access to sell the products.

PRODUCT DOCUMENTATION

It is important that you, as an investor, seek thorough information about the characteristics of the products.

For products within this category, there will usually be additional product documentation available, e.g. brochures, fact sheets, prospectuses etc. Please request these documents and discuss the content with your adviser.

YOUR RESPONSIBILITY AS AN INVESTOR

To which extent complex bonds are suitable for your portfolio will depend on your attitude to risk and the investment horizon in your investment profile. If there are any doubts as to whether a product is appropriate for your portfolio, you should seek additional information and advice or avoid investing in the product.

Investments via investment funds

INVESTING IN COMPLEX BONDS VIA INVESTMENT FUNDS

If you invest in complex bonds via investment funds, these bonds will have the same characteristics as those associated with investing in similar individual complex bonds. However, you will obtain a more efficient diversification and ongoing management of your investments.

WHAT IS AN INVESTMENT FUND?

A mutual fund, or fund, is an investment instrument where the assets are invested in various financial instruments, e.g. equities and/or bonds. The investors that invest in the fund own a share of the fund proportionate to the amount of their investment. A fund management company takes care of the administration of the fund and its assets in accordance with the fund's regulations.

A portfolio manager appointed by the fund management company makes the investment decisions in the fund; therefore, investors will benefit from professional investment expertise, even with only a small investment in the fund.

RETURN

Return expectations will depend on the investments of the fund. When selecting a fund it is worth remembering that expected return and risk go hand in hand. Greater possible returns means greater risk. Past fund performance is no guarantee of future returns.

RISKS

Fund investment is always subject to risk, regarding both the return on the capital and the value of the capital. Funds are subject to the same market risks and value fluctuations as direct investments in individual securities.

The level of risk depends on what type of assets the fund holds. Generally, risk is lowest in money market funds and highest in equity funds with narrow investment universes, e.g. emerging market areas.

The main risks associated with an investment fund are described in the fund's key investor information document.

A fund must diversify its risks by investing in accordance with its regulations – meaning that other investments can compensate for losses caused by more poorly performing investments.

A fund is subject to currency risk when it invests in investment instruments not denominated in the fund's currency (for example, a fund denominated in euros invests in a security denominated in a currency other than euros). A decrease in the value of a currency in which an investment instrument is denominated will have a negative impact on the value of the fund, and, conversely, an increase in the currency value will have a positive impact on the fund value.

LIQUIDITY RISK

Liquidity risk regards the possibility to have your investment in the fund redeemed and transformed into cash. Generally, fund redemptions will be carried out on the banking day following the submission of a redemption order.

A fund must have sufficient cash assets. If a fund's cash assets are insufficient to pay for the redemptions of fund unit holders, the fund management company must sell off assets invested into cash. A mutual fund's liquidity risk refers to the risk of a situation arising where the assets in which a fund invests cannot be liquidated according to a desired timetable and/or at a reasonable price. Furthermore, it will have an effect on the fund unit value if the fund's investments have to be liquidated at an inopportune time.

FEES

Fees are charged for the services you receive through funds and the professional management of your assets. There are usually one-off fees when buying (subscription fee) and selling (redemption fee) fund units as well as an ongoing annual management fee as a percentage of the entire fund's value.

The fees vary from fund to fund, and additional information is available in the fund's key investor information document and the price list for mutual funds.

More information about the funds and the funds' official documentation is available at their homepage.