Simple bonds

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

General characteristics

SIMPLE BONDS

A bond is a debt instrument where the issuer (the borrower) is obligated to pay fixed or floating rate interest and the principal during a fixed period of time. The return of a bond is made up of interest calculated on the basis of the bond's nominal value and capital gains/losses.

The value of a bond is determined by the market rate of interest. If the market rate increases, the bond price decreases in accordance with the price sensitivity of the bond. The degree of price sensitivity primarily depends on whether the bond has a short or long term to maturity. The longer the term to maturity, the more sensitive the bond price is to changes in the market rate of interest.

Simple bonds are traded on regulated markets, which ensures a high level of information about the products and statistics on trading.

RETURN

In terms of value, bonds often constitute the stable part of a securities portfolio. On the other hand, the expected return on bonds is typically relatively low compared to other asset classes. Bonds are found in many different variants, rendering them suitable for most investors' profile in terms of investment horizon and attitude to risk.

RISKS

Bond investments entail three overall types of risk:

- 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)

Government bonds
One of the most secure bonds in which investors can invest is a bond issued by the local government. There is no currency risk, and the risk that, for example, Denmark will be unable to meet its repayment obligations is minimal.

Mortgage bonds
Danish mortgage bonds, which are secured against recorded mortgage on real property, are also highly secure bonds. Danish mortgage bonds are usually issued in Danish kroner: therefore, there is no currency risk associated with these bonds for a local Danish investor.

Corporate/credit bonds
Today, it has become more common for large companies to issue bonds when they need to raise capital. Corporate/credit bonds normally provide a higher return than

government and mortgage bonds, since the credit/default risk is higher. Even though the company ends up paying back the principal at maturity, the bond may experience great price fluctuation during its term to maturity if the company runs into financial difficulties, or the market is struck by a financial crisis.

Currency

Trading in bonds issued in a foreign currency is associated with a currency risk, as opposed to trading in bonds issued in a local currency. Changes in the exchange rate may affect the overall bond return either positively or negatively. Please note that the price development of global government bonds may also be affected by the individual countries' economic and political stability.

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.

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.

LIQUIDITY RISK

Simple bonds are highly liquid and continuously priced in the market. However, if the issuer experiences financial difficulties, or the market is struck by a financial crisis, for example, the bond may be difficult to sell.

YOUR RESPONSIBILITY AS AN INVESTOR

How your portfolio is compiled is based on the risk tolerance and investment horizon in your investment profile. In the event that you experience a lack of clarity as to the composition of your portfolio or elements of it, it is important that you request more information.

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Investments via investment funds

INVESTING IN BONDS VIA INVESTMENT FUNDS

If you invest in bonds via investment funds, these bonds will have the same characteristics as those associated with investing in similar individual bonds. However, you will obtain a more efficient diversification and ongoing management of your investments. Funds within this category will be funds that meet the European regulation of funds, UCITS, which ensures adequate diversification and liquidity.

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.

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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.