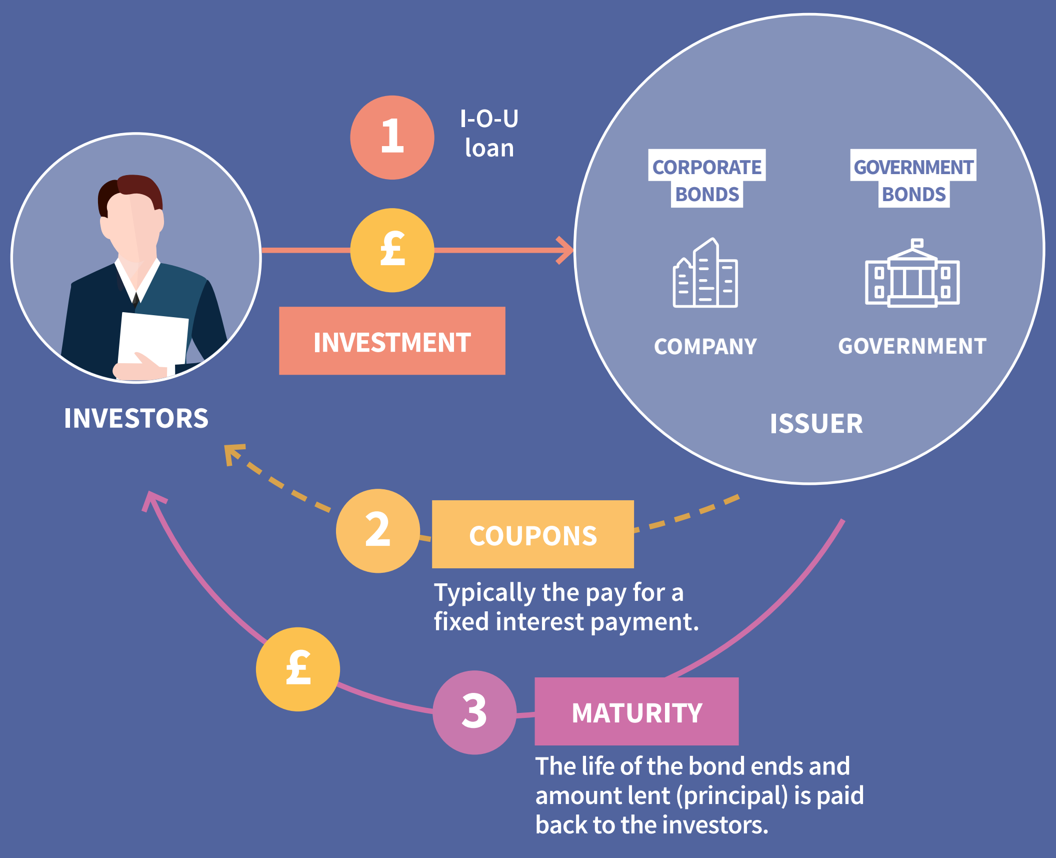
AXA Investment Managers

What is a bond?

Bonds are essentially fixed term **'IOUs'** issued by governments and corporations looking to raise money.



1 When you invest in a bond you are lending the bond issuer money. Issuers could be:
- Governments = Government bonds (a.k.a. gilts)
- Companies = Corporate bonds

2 In return the issuer agrees to pay the investor a fixed rate of interest, known as the coupon, during the life of the bond.

3 There is a risk of default if the issuer is unable to pay interest or principal on a bond when due. The issuer agrees to pay the capital back to the investor when the bond matures.

This infographic is provided for illustration purposes only. Issuers can fail to make an interest or principal payment and there is a risk that investors may not get back the amount invested.

Types of bonds

Callable bonds

Can be redeemed ("called") by the bond issuer, allowing the issuer to return the principal prior to the bond's maturity. These bonds often have a scaled call schedule and usually a premium redemption price above par is paid to the bond owner.

Corporate bonds

Bonds issued by businesses looking to raise cash. Generally companies pay in two instalments in a year, but this can vary.

Government bonds

Bonds issued by governments looking to raise cash. UK government bonds are also known as Gilts while US government bonds are called Treasuries.

Junk bonds

High-yield or non-investment grade bonds. They are viewed as far higher risk than many bond investments, as the issuer carries a greater chance of defaulting on payment (see definitions in glossary).

Key benefits

Less risky than equities

Bonds, also known as fixed interest securities are considered less risky than equites.

Income

1. Coupon payments
2. Payment from selling the bond.

If the investor holds the bond until it matures, they will get the entire capital (principal) back, unless the entity which issues the bond defaults.

Key risks

Credit risk

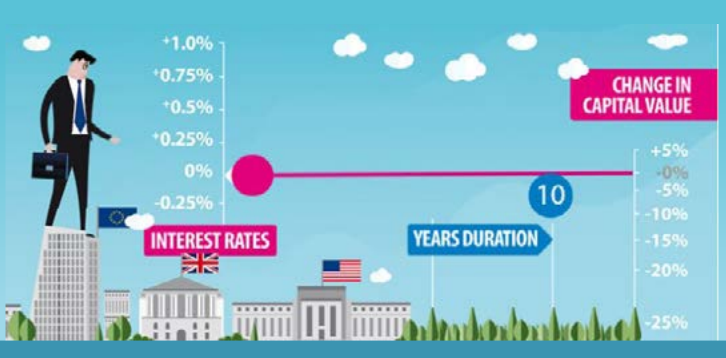
The issuer could get into financial trouble. Credit risk is the probability that the issuer will not pay the coupons or the principal i.e. the original loan back, on the agreed dates.

Interest rate risk

The risk of interest rate fluctuations. If interest rates rise or fall, depending on the duration of the bond, the price of the bond can change.

To illustrate the possible impact of duration with changes in interest rates on bond prices, visit the 'duration tool' to help visualise this important characteristic of a bond – or bond fund.

VISIT OUR INTERACTIVE TOOL



Bond funds

Like stocks, bonds can be packaged into a bond mutual fund, where an experienced fund manager will pick and choose bonds to hold on behalf of investors.

AXA Investment Managers is providing this for information purpose only. We do not give financial advice, and you should speak to a financial adviser if you are not sure about the suitability of your investments. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested.

A–Z

Your A – Z glossary of key words used in the investment management industry.

VISIT OUR GLOSSARY

Design & Production : Internal Design Agency | Photo Credit : GettyImages