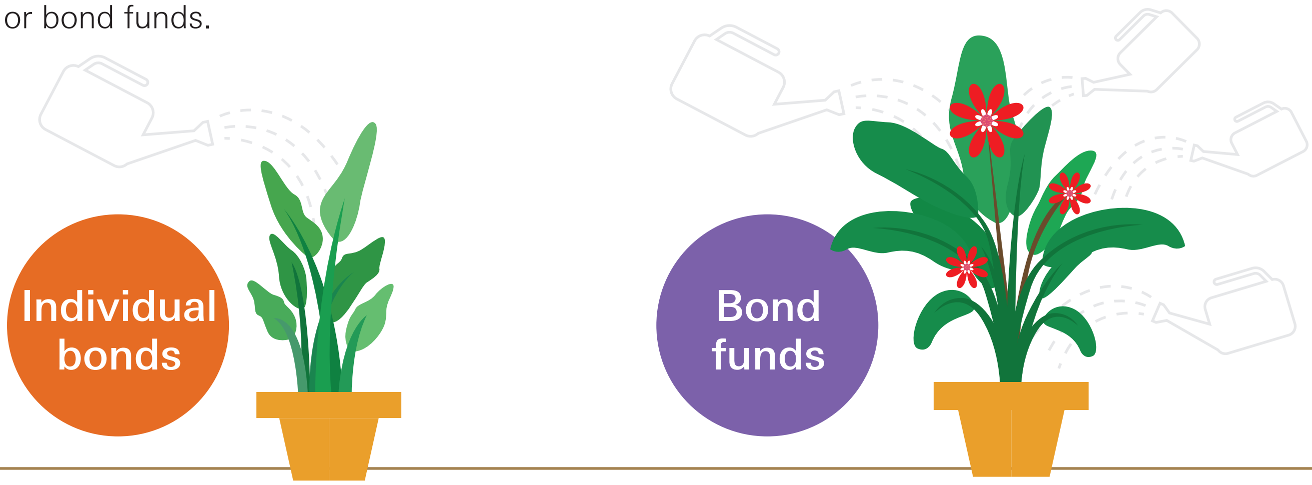
What are fixed term bond funds?

Individual bonds vs Bond funds

Bonds play an instrumental role in any investment portfolio as they provide relatively stable return with lower volatility than equities. Traditionally, there are two ways to invest in bonds: buying individual bonds or bond funds.



Individual bonds

✓
- Pre-set maturity date
- Provide regular income (coupon)
- Repay principal on maturity date if not default

✗
- Singular income source
- High minimum subscription
- Concentrated default risks
- Liquidity depends on the secondary market

Bond funds

✓
- Aim to provide regular income
- Diversification (as opposed to single issuer risks)
- Managed by professionals
- Offer daily dealing
- Lower minimum subscription

✗
- Fluctuations in price and yield reflect changing market conditions
- Subject to interest rate changes
- Principal is not guaranteed

For illustrative purpose only.

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Fixed-term bond funds
- offer benefits of both Individual bonds and bond funds

Fixed-term bond funds, which enjoy the advantages of both individual bonds and bond funds, have been a rising star in the investment universe.

Investing in a basket of debt securities with similar duration, the strategy is designed to diversify risks and expand income sources. A "buy-and-monitor" approach allows investor to receive potential fixed dividend every month throughout the fund's life based on the pre-defined dividend yield at the beginning, and get the principal repaid at maturity (subject to price movements, numbers of defaults and reinvestment rates). It also frees them from worries related to daily price fluctuations and market noises.

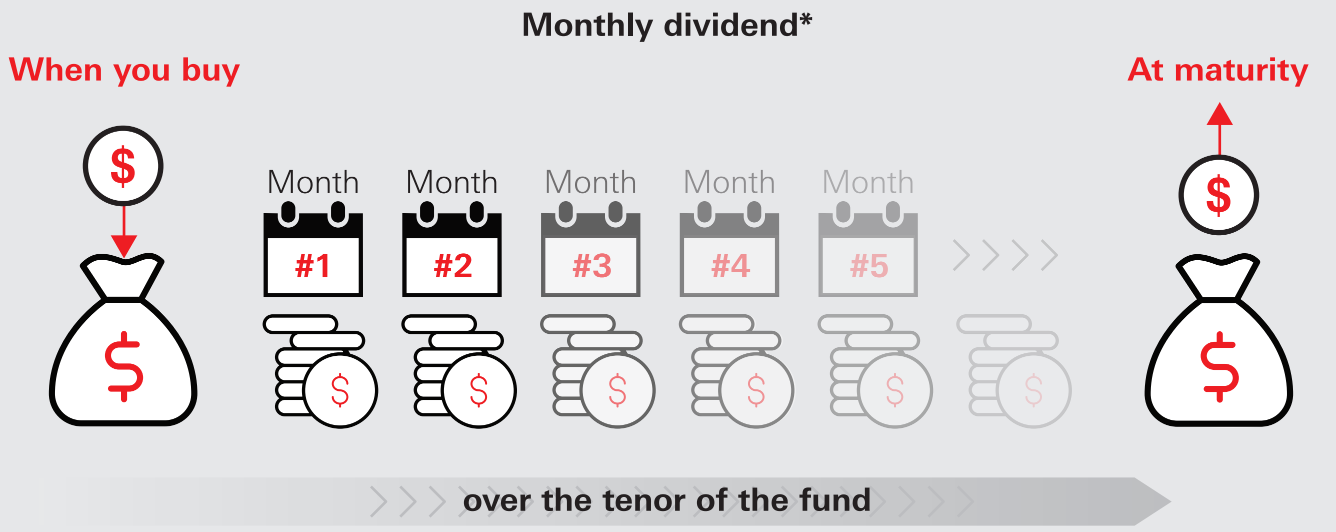
Similarities to bonds:

- Holding bonds with pre-set maturity dates
- Offer potential regular income
- Net asset value shall return to par if no default at maturity
- Lower price fluctuations and interest rate risks

Similarities to bond funds:

- Managed by professional investors
- Invest in a basket of bonds
- Risk diversification
- Lower minimum subscription

Example: How a fixed term bond fund works



*Dividend is not guaranteed and may be paid out of capital which will result in capital erosion and reduction in net asset value.

For illustrative purpose only.

Before investing in a fixed term bond fund, investors should first understand its strategy and the relevant risks and opportunities.

Interest rate levels

For fixed rate fixed term bond fund, yields can be locked in if bonds are purchased before the central bank lowers its interest rates, vice versa.

Think about it ?

Is the bond portfolio providing attractive interest rates? Can it beat inflation?

Credit risks

Bonds can generally be classified into investment grades and non-investment grades. Therefore, the fund is exposed to the credit / default risks of bonds held in the portfolio.

Think about it ?

How high is the chance of default in the bonds held in the portfolio?

Investment horizon

If an investor chooses to redeem the funds before the maturity dates, he or she has to incur some transaction costs (reflected in the swing price), given the hold-to-maturity strategy.

Think about it ?

Is there a need to redeem the fund before maturity?

Reinvestment risks

The Fund's investments may mature prior to the term date, so it will be reinvested in some shorter-dated securities or deposited as cash, which may not offer as high a return as the securities they replace.

Think about it ?

There is a chance that you might receive less than your initial investment at maturity, are you fine with it?

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