

# Fixed income assets (e.g. bonds)

## Asset class fact sheet

This document informs you about the characteristics, advantages and risks of direct investments in fixed income assets and is designed to help you make your investment decisions. If you have any questions, please do not hesitate to contact your client adviser at any time.

Fixed income assets is the generic term for all forms of interest-bearing or generating debt instruments (securities), such as for example debentures, bonds, mortgage notes and bonds, that certificate claims. As a rule, these are used for short- to long-term external financing or capital investment purposes.

Fixed income assets can be issued by companies, banks or by the public sector (e.g. federal government, municipality) (issuers). The normal maturity can be up to 30 years. As a rule, a debt instrument certifies the right to repayment of the investment sum (nominal value) and any possible interest payments (coupons). Repayment is performed at the end of the maturity.

## Typical fixed income assets

Term money, time deposits, Public notes issued by banks, classic bonds, variable-rate bonds, mortgage notes, zero-coupon bonds (zero bonds), terminable bonds and warrant bonds (convertible bonds).

## Principal characteristics of fixed income assets

- Nominal value – sum that is repayable to the investor on the due date.
- Coupon – periodically due interest sum (as percentage of the nominal value).
- Maturity date – the final bond payment deadline, on which the capital and the still-outstanding interest is due for payment.
- Provisions governing premature termination or partial repayment – right of the issuer to repay the bond in full before the due date.
- Securities provided by the issuer – promises of the issuer in the formal bond agreement to perform or to omit certain activities in order to provide the investor with additional security.

## Bond ratings

The quality of a bond is based on the financial ability of the issuer to perform interest payments and to repay the nominal value in full upon maturity. The financial circumstances of the issuer is checked by credit rating agencies and is given a rating. A rating of this nature helps to assess the credit quality (creditworthiness) of a bond in comparison to other bonds.

Moody's and Standard & Poor's (S&P) are two major, independent, international credit rating agencies that assess the credit quality of bonds and give these ratings.

S&P	Moody's	Meaning of the ratings
AAA	Aaa	The ability of the debtor to fulfil their financial obligations is outstanding.
AA	Aa	The ability of the debtor to fulfil their financial obligations is very good.
A	A-1, A	The ability of the debtor to fulfil their financial obligations is good, but slightly vulnerable if the situation deteriorates.
BBB	Baa-1, Baa	The ability of the debtor to fulfil their financial obligations is reasonable, but vulnerable if the situation deteriorates.
BB	Ba	The debtor is not in great jeopardy in the short term. If the situation deteriorates, however, this would give rise to significant uncertainty factors.
B, CCC, CC, C	B, Caa, Ca	If the situation deteriorates, losses are likely or a default is highly likely.
D	C	Payment default in the event of financial obligations.

## Benefits

### Stability

Fixed income assets tend to be less volatile (fluctuation of financial market parameters) than equities and are therefore considered to be more conservative investments.

### Fungibility

Fixed income assets are traded on an organised capital market (stock exchange) or OTC between financial institutions. If a counterparty can be found, they can be sold or bought before the due date. Prices are determined by the current interest situation as well as supply and demand.

### Steady returns

In the case of fixed income bonds with coupons, coupon payments (in contrast to equity dividends) are continuously performed at regular intervals.

## Risks

### Potential loss

If an issuer fails to fulfil their payment obligations arising out of a bond, a partial or total loss of the investment capital is possible (further information is set out in the section "Credit risk").

### Market risk

The investor bears the risk that fluctuations in interest could have a negative impact on the value of the fixed income asset during its term. The market value of a bond during its term may be below the redemption price upon maturity.

### Credit risk

The investor bears the credit risk of the issuer, i.e. the risk of the insolvency of the debtor. This potentially means a partial or total loss of the invested capital.

### Liquidity risk

In an illiquid market, investors are exposed to the risk that the bond could be held either to the end of its term, or may need to be sold before maturity at an unfavourable price.

### Foreign exchange risk

The investor may be exposed to a foreign exchange risk if the bond is denominated in a currency other than the domestic currency of the investor.

---

### Legal notice

The information used in this publication derives from external sources that Zuger Kantonalbank considers reliable. Zuger Kantonalbank has no reason to assume otherwise. Nevertheless, Zuger Kantonalbank cannot guarantee that the information in this publication is up-to-date, correct or complete. **This is provided for information and marketing purposes only.** It constitutes neither an offer in the legal sense nor a solicitation or an individual recommendation for the purchase or sale of certain financial instruments or banking services, and therefore cannot replace a client consultation with further specific product information. This publication does not relieve the recipient of the need to exercise his/her own judgement. The recipient should in each case also draw upon the specific product documentation as well as the brochure of the Swiss Bankers Association concerning 'Risks Involved in Trading Financial Instruments' (available on the home page of the Swiss Bankers Association: [www.swissbanking.org](http://www.swissbanking.org)) for information purposes. This publication contains no recommendations whatsoever of a legal nature or pertaining to investment, accounting or tax, nor can it disclose all risks relating to financial instruments. The recipient of this publication is advised to check before each transaction whether this is appropriate for his/her specific circumstances and objectives. For this purpose, Zuger Kantonalbank recommends that the recipients of this publication conduct an independent assessment of the specific financial, legal, regulatory, tax, credit and accounting consequences together with a professional financial adviser. The present publication is moreover intended exclusively for persons domiciled in Switzerland, who are not US persons, and is consequently expressly not intended for persons whose nationality and/or place of residence prohibits access to such information on the basis of applicable legislation. Neither the present publication nor copies thereof may be sent or taken abroad. The bank accepts no responsibility for any such activities by third parties. Zuger Kantonalbank otherwise assumes no liability for potential losses or damage arising from the distribution or utilisation of this publication.