

## Why invest in Bonds?

Bonds are a type of fixed-income investment that can be used to **diversify your portfolio** and **create consistent income**. They are often used as part of a balanced investment strategy, but they can also help you balance risk in your portfolio as they are considered **relatively low-risk investments** when compared to equities.

Bonds can be considered as debt instruments: loans made by governments, corporations, or municipalities to investors who purchase them on the open market. A Bond typically pays interest periodically and repays the capital at a specified maturity date.

### Types of Bond Investments

There are various types of bonds, and each has its own characteristics, contact your Portfolio Manager to consider which type best aligns with your investment goals.

Fixed-Rate Government Bonds

Inflation Linked Bonds

Zero-Coupon Bonds

Direct Corporate Bonds

Bond Unit Trust Funds

Exchange Traded Funds

### Benefits

#### Income generation:

Many investors purchase bonds to supplement retirement savings or other investments that pay dividends and interest. Bonds provide a predictable and stable source of income through regular interest payments.

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#### Attractive Yields:

South African government bonds often offer competitive yields, which can be appealing to investors seeking higher returns than what savings accounts or other lower-risk investments provide.

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#### Risk Diversification:

Bonds can be used to balance your portfolio by reducing risk while earning interest.

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#### Guaranteed returns:

As bonds are a fixed-income investment, you are guaranteed a set amount of money per year for the duration of the bond's life (typically 10 years). Interest is paid back to the investor at regular intervals.

## Risks

It is important to note that while bonds have **several advantages**, they are **not entirely risk-free**. It is essential to carefully consider your investment objectives and risk tolerance when investing in bonds and to **diversify your portfolio** appropriately.

- **Interest Rate Risk:** Although you are able to access the capital in your Bond at any time, it is important to note that the value of the Bond will fluctuate during the term as interest rates change. This could create either a capital gain or loss should you wish to liquidate before the end of the Bond term.
- **Inflation Risk:** If the inflation rate is higher than expected, the real (inflation-adjusted) return on fixed-rate government bonds may be lower than anticipated.
- **Credit Risk:** While South African government bonds are generally considered low-risk, there is always some level of credit risk. In the event of fiscal or economic instability, the government may default on its debt obligations.
- **Reinvestment Risk:** If you receive regular interest payments and intend to reinvest them, declining interest rates can result in lower returns on reinvested funds.
- **Maturity Risk:** Different South African government bonds have various maturities. Longer-term bonds may offer higher yields but carry more significant interest rate and inflation risk. Shorter-term bonds may have lower yields but are less sensitive to interest rate changes.
- **Regulatory and Tax Risk:** It is important to consider the effect of tax on the yield provided by a Bond. It could be advantageous to consider an Endowment Wrapper, Retirement Annuity or Living Annuity for tax benefits. Changes in tax laws and government regulations can affect the taxation of bond interest or capital gains. It's important to understand the tax implications of your investments.

## Eligibility

A Direct Share Portfolio with Momentum Securities or via a Momentum Personal Share Portfolio.

\* Momentum Securities do not calculate 24J interest on bonds. Please consult your tax services provider regarding reporting



**For more information, please contact your Portfolio Manager, or our Client Services team on 011 550 6270.**