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Fixed-interest investments

This document contains information about the properties of fixed-interest investment and informs you about potential benefits and risks of this class of products. These principles can support you in your investment decisions. Please contact your Client Advisor if you would like further information or have any questions.

General Information

Fixed-interest investments are financial instruments (e.g. debentures, borrowings, or bonds) that promise the investor the right to repayment of the invested amount (nominal value) and the agreed-upon interest (coupons). Repayment of the nominal value becomes due upon expiration of the term. Issuers (debtors) can be companies, banks, or public entities. Bonds can usually be traded on a secondary market. Credit rating agencies such as Moody's or Standard &Poor's review and assess the issuers and assign rankings in the form of ratings. The quality of a bond is based on the financial capability of the issuer to make interest payments and to repay the nominal value upon maturity. The ratings may be as follows:

S&P	Moody's	Definition
AAA	Aaa	Highest credit rating
AA	Aa	Very high credit rating
A	A-1, A	High credit rating
BBB	Baa-1, Baa	Good credit rating
BB	Ba	Speculative
B	B	Highly speculative
CCC	Caa	Substantial risk
CC; C	Ca	Highly likely to default
D	C	Default

Types of fixed-interest investments

Puttable bonds can be cancelled by the issuer and repaid early.

Convertible bonds include the right to convert the bonds into a predetermined amount of equity during a predefined period. They combine opportunities and risks of equities and fixed-interest securities. Because the price of convertible bonds depends essentially from the underlying share, the price risk is fundamentally higher than that of bonds without a conversion right. If a conversion takes place, the investor changes from a creditor to a shareholder.

Mandatory convertible bonds must be converted into equity at the latest on the maturity date.

High-yield bonds are fixed-interest investments with a lower credit quality. The credit rating is at least below BBB (S&P) and Baa (Moody's). Issuers are often start-ups, capital-intensive companies with a high debt component, or emerging countries. Such bonds offer a high interest rate but have a high credit rating risk (credit risk).

Potential benefits

Constant income: In case of bonds with coupon, the investor receives coupon payments in regular intervals.

Secondary market: Fixed-interest investments can be traded either on the stock exchange or off-exchange after issue.

Security: Fixed-interest investments are usually less volatile than equity investments.

Potential risks

Risk of loss: A partial or total loss of the invested capital may result if an issuer is unable to meets its payment obligations at maturity. Because it is possible that a potential guarantor cannot meet its payment obligations in the case of a guarantee claim.

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Interest-change risk: Fixed-interest investments may be negatively influenced by changes in interest levels during the term. For example, bonds may decrease in value if market interest levels increase in value, even if the debtor's credit rating remains unchanged. The market value of the investment may be below the redemption price at maturity during the term. If the interest rate increases, the price of the bond will fall. This risk exists only if the investment is not held until maturity. If it is held until the end, then the investor will receive the nominal value of the investment.

Limited return potential: The more secure the fixed-interest investment; i.e., the lower the debtor's default risk is, the lower is the return potential that the investment can have.

Liquidity risk: The investor bears the risk that the fixed-interest investment must be held until the end of the term in an illiquid market or sold before maturity at an unfavourable price.

Foreign currency risk: If the investment is listed in a different currency from the local currency of the investor, there is a risk that fluctuations in the exchange rate will decrease the value of the investment from the investor's perspective. It is possible that the price gains of an investment result in a total loss for the investor due to exchange rate changes. Exchange rates can fluctuate substantially.