MURRAY ASSET MANAGEMENT

Murray Asset Management is an independent investment management and financial planning firm.

Our business is based on trust, experience and quality of service and we value the long term relationships we establish with our clients, who include private investors, trustees, charities and small pension funds.

In a financial world increasingly dominated by large and often impersonal organisations, we are an established yet relatively small business. This enables us to provide a responsive service where individual requirements are matched with tailor-made independent investment solutions. Our aim throughout the investment process is to manage and grow your wealth over the longer term through active portfolio management.

We also provide advice on all aspects of financial planning, including family protection and saving for retirement.

Bonds

As clients discuss their investment aspirations and objectives, we remain focused on understanding their needs, devising appropriate investment strategies and clearly communicating investment proposals that will encompass the main investment asset classes.

"What are Bonds or Fixed Income Investments?"

At their simplest, bonds or fixed income investments are loans that offer interest payment to the holder.

In other words, they are debt securities that pay lenders a periodic fixed income or **coupon payment** over a pre-determined period of time, or **period to maturity**. Once the bond matures, the borrowed capital is repaid to the lender.

Therefore, a bondholder pays a known price for a known series of coupon payments over a set period of time until maturity, where they receive the **face value** or **par value** of the debt.

The risk to the investor is, therefore, the ability of the bond issuer to meet interest payments and repay the face or par value of the bond on maturity.

The UK Government issues fixed income investments, or "Gilts". Since the Government is unlikely to default on either the coupon or capital payments, the risk to the bondholder is low.

Where the issuer is a company and subject to the variances of the business cycle and underlying strength of the company's balance sheet, there is greater risk of default.

All things being equal, bondholders would usually demand a greater return, or **yield** to lend money to a business to compensate for this additional risk.

The name of a bond describes critical information about it : – " 4% UK Treasury 7/09/2016 " – highlights a security that has been issued by the UK Treasury, maturing on the 7th of September 2016 and which pays a coupon payment of 4%.

Issuers, Bond Structures and Credit Ratings

It is important, however, to appreciate that bonds can differ in a number of ways. "Issuers" range from Sovereign States and Semi-Sovereign agencies to Companies. Each is able to issue bonds of different underlying structures and characteristics, suited to a diverse range of investors with different needs and attitudes towards income and capital risk.

The majority of bonds share a common underlying determinant or assessment of their quality, otherwise known as the **Credit Rating**.

If sought, the three official Credit Rating Agencies (Standard & Poor's, Moody's and Fitch) can rate the underlying credit quality of an issuer and apply a credit rating to the structure and individual bond, commensurate with the default risk that they perceive exists. The rating will fall within two significant rating categories; **Investment Grade** and **Sub-Investment Grade**.

Investment Grade Bonds are deemed to be lower risk and possess ratings from AAA through to BBB-, whereas **Sub-Investment Grade Bonds** are deemed to be riskier, possessing ratings from BB+ to D (default) and are often known as "junk bonds".

While the potential returns available to bondholders should reflect the likelihood of default, in practice a number of other factors significantly influence the returns achieved.

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Bonds

Investor Returns

The total return to bondholders is comprised of income and capital elements. Income arises from periodic coupon payments, whilst capital returns arise through changes in the underlying price of the bond since purchase and its eventual convergence towards par at maturity.

"What factors can influence the price of a Bond?"

In addition to the terms and conditions of the bond, a wide range of factors can influence underlying prices. A combination of interest rate expectations, changes to credit rating and adverse market conditions are amongst the most important.

"How can they be held?"

Bonds can either be held directly or through the use of collective investment vehicles such as Unit Trusts. Please enquire for further advice on suitability of direct holdings.

"What tax is payable for UK Investors?"

Generally, coupon interest payments are received gross but are taxable, unless held within an ISA.

UK Gilt Investors are not liable for stamp duty on purchase or capital gains tax on disposal or redemption. Similarly, the majority of corporate bonds are classified as Qualifying Corporate Bonds, meaning they are also not liable to stamp duty or capital gains tax on disposal or redemption. Please enquire for full details of tax treatment.

Please contact us for further details, or to arrange a meeting.

If you would like any further details on
the services we offer,
please do not hesitate to contact

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