

Bonding with ETFs

Bonds are commonly referred to as fixed-income securities. They are one of the three main asset classes, along with stocks and cash equivalents. As bonds typically trade in large minimum blocks of at least US\$200,000 per issue, individual investors would not normally be able to gain access to them.

Exchange traded funds (ETFs) investing in bonds on the other hand, can be bought with a much smaller sum of money. In Singapore, an investor can get access to a portfolio of government and government-sponsored or quasi-government entity bond issues through Nikko AM's ABF Singapore Bond Index Fund (ABF ETF). Over 95% of the ABF ETF portfolio comprises bonds issued by the Singapore government or supranational financial institutions.

A key consideration of investing in the ABF Singapore Bond Index Fund is the relatively stable Singapore dollar, backed by stable economic growth, substantial public sector surpluses and sizable foreign reserves accumulation. In spite of the Asian Financial Crisis in 1997 and the more recent Global Financial Crisis, Singapore retains its AAA credit rating¹. The only other Asian country that is rated AAA is Hong Kong. Investors in the ABF ETF can take comfort that they are investing in the credit of a well-managed and robust financial system.

The ABF ETF is suitable for investors who do not want to be hampered by short term volatility as it seeks medium to long term capital appreciation. Its average 30-day volatility since inception on 31st August 2005 to 24th July 2013 is 10.1%² compared to the US 10-year Treasury's 32.2%² over the same period.

The ABF ETF has shown itself to be a risk-averse instrument in difficult market conditions. At the height of the global financial crisis in 2007 and 2008, the ABF ETF returned 4.96%³ and 6.88%³, respectively. In 2011, a year marked by events such as political uprisings in the Middle East and North Africa region (MENA), the Japan earthquake, ongoing Eurozone debt problems with Greece, Italy and Spain, the ABF ETF returned 6.21%³.

Today, the ABF Singapore Bond Index Fund is the largest Singapore bond index fund with over 500 million dollars of assets under management.

¹Source: Fitch Rating, Moody's and S&P Rating, as of 24th July 2013.

²Source: Bloomberg, as of 24th July 2013.

³Source: © 2013 Morningstar, Inc. Annual returns, bid-to-bid, as of 24th July 2013. Annual returns for the ABF ETF's benchmark were 5.20%, 6.98% & 6.53% for 2007, 2008 & 2011 respectively.

This is part 3 of a series brought to you by Nikko Asset Management Asia Ltd.
Registration Number 198202562H

www.nikkoam.com.sg

Why invest in a Singapore government bond index fund?



Important Information:

This article is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. Any securities mentioned herein should not be construed as a recommendation for investment. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Past performance or any prediction, projection or forecast is not indicative of future performance. The funds may use or invest in financial derivative instruments. The value of units and income from them may fall or rise. Investments in the funds are subject to investment risks, including the possible loss of principal amount invested. You should read the relevant prospectus and product highlights sheet obtainable from appointed distributors of Nikko AM Asia or our website (www.nikkoam.com.sg) before investing.

Nikko AM Asia accepts no liability for any loss, indirect or consequential damages, arising from any use of or reliance on this article. Listing of the units does not guarantee a liquid market for the units. Investors may only redeem the units with Nikko AM Asia under certain specified conditions.

Disclaimer: All forms of trading and investments carry risk. Such activities may not be suitable for everyone.