

East Sussex Pension Fund

Fixed Income Training

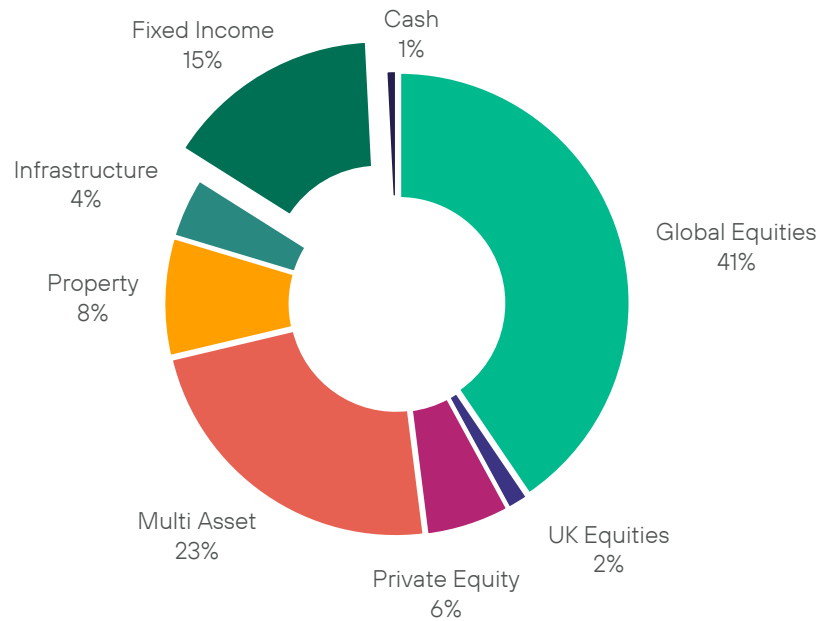
May 2021

isio.

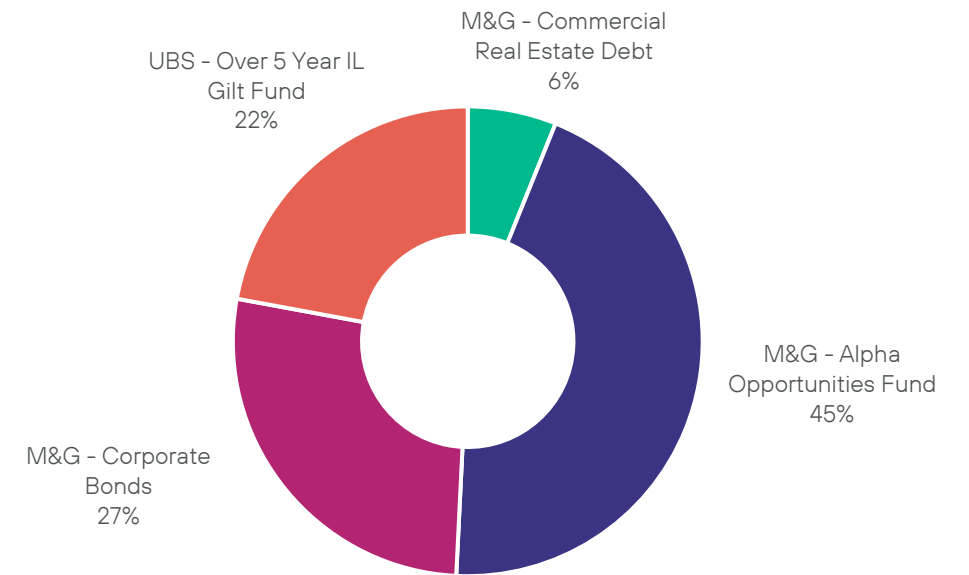


Current Strategy

Current asset allocation



Current fixed income allocation



Note: Asset allocations as at 31 December 2020
Source: Investment managers, Isio calculations

What is a Fixed Income Bond?

A form of lending money



But bonds are bought & sold – the price is affected by supply & demand



Who Issues Bonds?

Government bonds

- Debt securities issued by Governments - 'UK Gilts' and 'US Treasuries'
- Currently c.\$3.3tn outstanding in the UK and c.\$23.5tn in the US
- UK Government debt is rated "AA" and range up to very long term issues
- Can be:
 - *Fixed-interest* - when a set interest payment is made in regular periods;
 - *Index-linked* - when interest payments and principle move in line with an inflation measure

Corporate bonds

- Issued by a private company in order to raise capital.
- Investor lends money to the company and is paid either fixed or variable interest payments
- Currently \$3.4tn in corporate bond debt outstanding in the UK and \$22.5tn in the US (the most liquid market)
- Lower terms than most government bonds – average 8 years
- Higher interest rates to compensate for the additional risk of default.
- Liquid secondary market with trading costs higher than government bonds

Nominal gilt yields - last 10 years



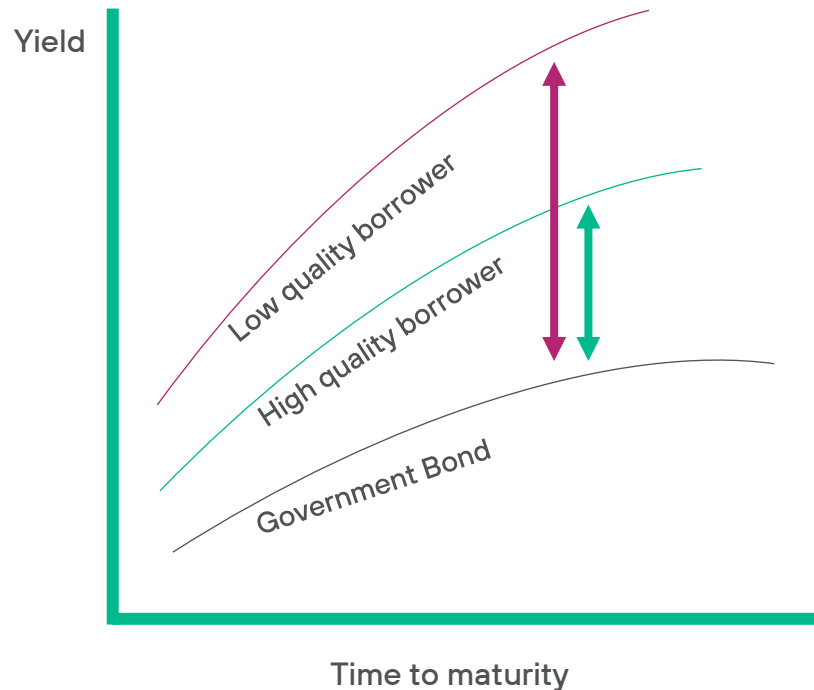
Note: Government and corporate bond debt outstanding as at 30 September 2020. The yield chart shows yield movements at the 10-year tenor over the past 10 years.

Source: Bank for International Settlements, Bank of England, Isio calculations.

© Isio Group Limited/Isio Services Limited 2021. All rights reserved

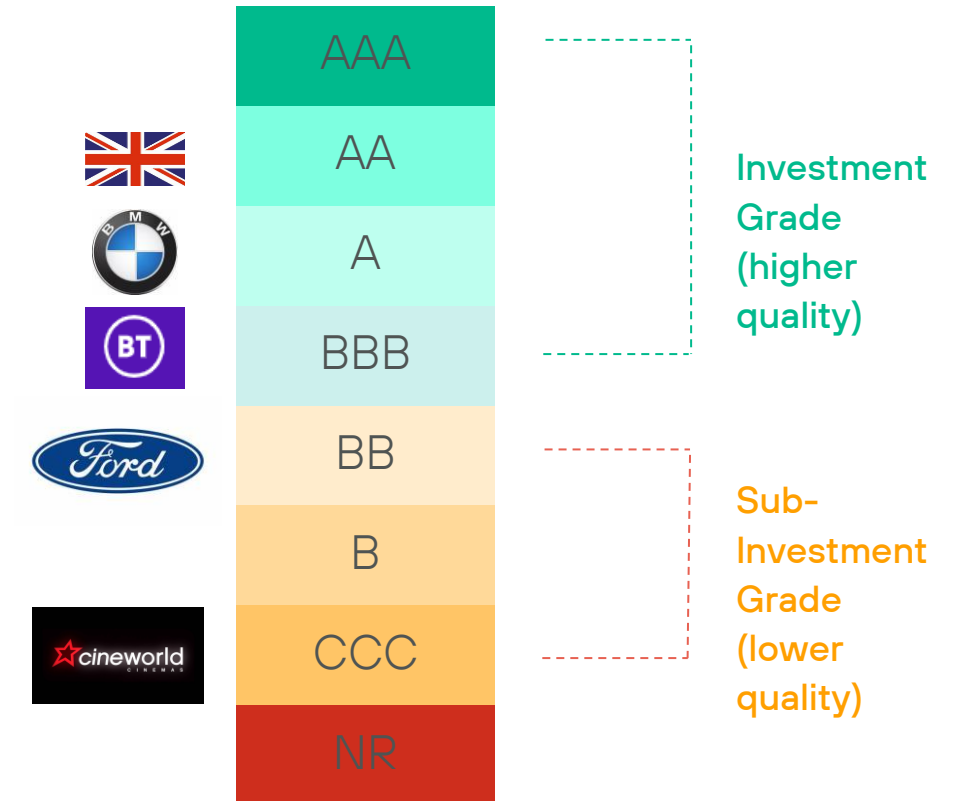
Yield Paid Depends on a Range of Factors

Reward for taking on credit risk



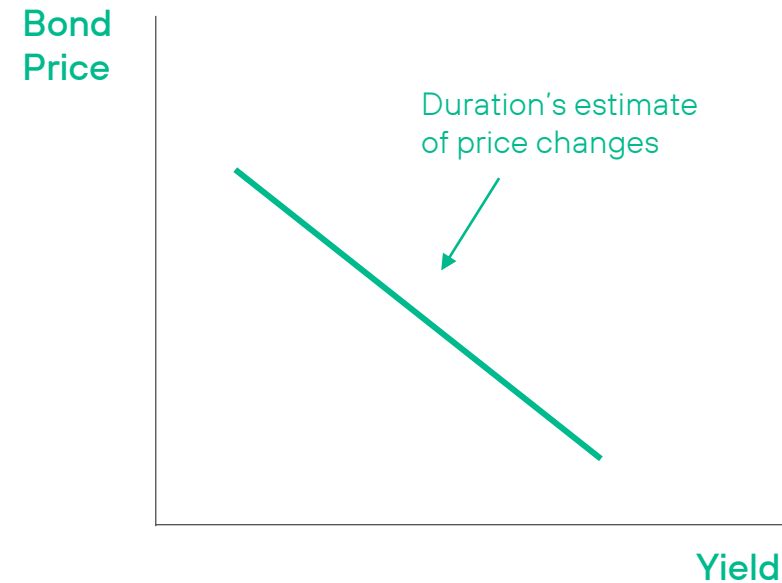
Higher return (yield) paid for longer maturities, and for taking on a higher risk of default

Credit ratings



What is Duration?

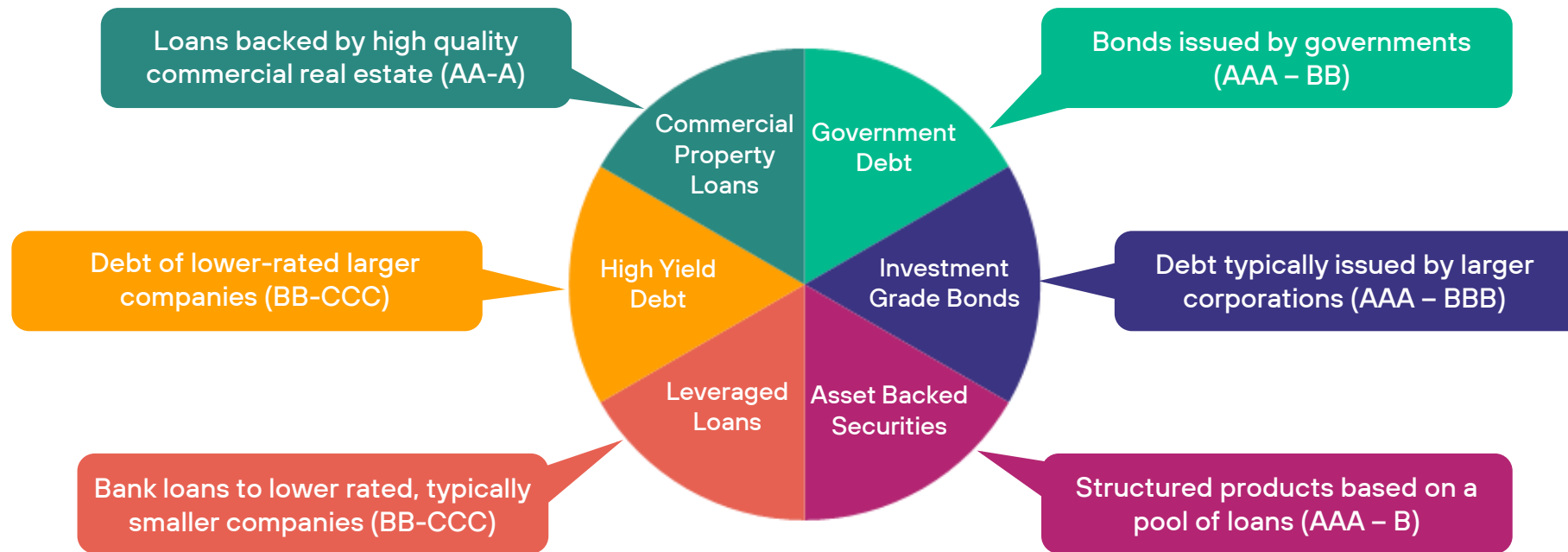
- Duration measures a bond's price sensitivity to interest rate changes.
- The duration of a bond is measured in years as it is also measure how long it takes for an investor to be repaid the bond's price by the bond's total cash flows.
- In general, the higher the duration, the more sensitive a bond's price is to interest rates
- Certain factors can affect a bond's duration, including:
 - Time to maturity
 - Yield



Higher Duration = Higher Interest Rate Sensitivity

↑ Interest Rates = ↓ Bond Value
...and vice versa

Different Types of Fixed Income Investments



Different managers and mandates target different areas of the market
These differ across public/private, credit quality, collateral and risk/ reward

Contacts

David O'Hara

Partner
Investment Advisory
+44 (0) 141 739 9133
David.Ohara@isio.com

Andrew Singh

Principal Consultant
Investment Advisory
+44 (0) 131 202 3916
Andrew.Singh@isio.com

Douglas Sayers

Executive Consultant
Investment Advisory
+44 (0) 141 739 9139
Douglas.Sayers@isio.com

Aimee Hunter

Assistant Consultant
Investment Advisory
+44 (0) 141 739 9125
Aimee.Hunter@isio.com