



# Fixed interest is back in fashion

Moves are afoot to offer more people more places to save, says **Jan McCallum**.

ANYONE who rates the returns from fixed-interest securities as too low to consider as serious investments. But fixed interest is back in fashion as the sharemarket's recovery falters and banks are offering savers high rates to attract funds.

Last month brought further incentives with the budget announcement of a 50 per cent discount in tax payable on the first \$1000 of interest earned, and the Australian Securities and Investment Commission's decision to allow simplified prospectuses for corporate bonds. The ASIC move is intended to encourage companies to issue bonds to retail investors, offering them a wider choice of where to put their money.

Although the initiatives have been welcomed as first steps, money market analysts question whether they will be enough to encourage people with more than a few thousand dollars to invest, or boost interest in the corporate bond market. Although major companies will find it easier to issue bonds to retail investors, analysts wonder whether there is enough incentive for them to do so.

Interest-bearing bonds and notes do not have the volatility of shares and generally do not have as high rewards. But with the equities slump, investments offering regular interest payments and no capital loss have looked increasingly attractive.

Director of fixed-income specialist FIIG Securities Brad Newcombe said many investors wanted to diversify their investments, particularly retirees and people running their own superannuation funds.

"They just want to move away from the sharemarket, where they wake up every morning to see the value of their portfolios decimated," he said.

Newcombe said investors had found it hard to access the fixed-

interest market and Australians were more familiar and comfortable with shares and property investment.

He said the tax relief on interest was an important first step in encouraging investors to diversify, though it was "a little bit on the light side" in applying only to the first \$1000 of interest earned.

The wholesale money market, trading the highest-quality government and company bonds, has mostly been the preserve of institutions and superannuation funds with millions to invest.

Retail investors have had to put their money in a term deposit or opt for riskier products, in some cases losing money on debentures that promised high returns. Of other popular income-earning investments, property trusts lost value after going on debt binges, mortgage funds were frozen in the credit crunch and the price of hybrids — a mix of equity and debt — fell when the equity component dived with stockmarket falls.

ASIC no doubt had debenture company collapses in mind when it cautiously allowed companies to use a simplified prospectus to issue bonds to retail investors. Previously a prospectus had to be so detailed that the cost and effort discouraged companies from bothering and, according to critics, reproduced information that was already publicly available.

Under the new rules, issues will still be limited to listed companies issuing vanilla bonds — ones that are easy to understand. The issues must be at least \$50 million and the bonds must be listed, so there is a market for investors who want to trade them.

Antares Fixed Interest director of investment Ken Hyman welcomed the ASIC move but said it was being described around the market as "a glass half-full and a glass half-empty" because the terms were so restrictive.

Mr Hyman said Australia was still a long way from having a deep

and liquid corporate bond market, although during the credit crunch many new investors were attracted to fixed interest because borrowers had to offer higher rates and worked hard to attract more sources of money.

This is the experience from Tabcorp, which broke new ground in April 2009 when it issued Tabcorp Bonds with a minimum investment of only \$5000.

The five-year bonds pay a margin of 4.25 per cent over the benchmark bank-bill swap rate, and this quarter's interest rate is 9.1 per cent.

The bonds are listed on the Australian Securities Exchange and have consistently traded above their \$100 issue price.

Tabcorp chief financial officer Matt Bekier said banks were not lending five-year money last year when the company wanted to raise funds, and after the initial \$200 million offering, the company drew an extra \$87 million from investors who could apply directly to Tabcorp over the internet. The average investment was \$20,000.

Most investors were not existing shareholders and Bekier said the issue showed how much demand there was from smaller investors.

"There were a lot of reasonably sophisticated investors who worked out this was a much better investment than locking their money away in a term deposit. It is liquid and gives them a nice diversification against equities," he said.

But corporates issuing now will have to compete against high term-deposit rates being offered by banks.

The standard term deposit is currently paying about 6 per cent for under 12 months. Hyman said term deposits were simple to understand, easy to set up and currently paying a much higher margin than normal over the official cash rate.

Major companies could raise

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funds cheaper on the money market and would not be interested in issuing bonds to small investors when they could lock away major issues to the professionals within days, with just a few phone calls and a few pages of documentation.

While markets are looking for the first retail bond issue from a "household name", Newcombe said these companies could still access the wholesale and international

markets to raise money. He said one way for individuals to get access to these bonds was for FIIG to take a large offering and break it down into smaller parcels.

Hyman said retail bonds could also be offered by established infrastructure companies with predictable revenues, such as airports. They could also be used to revive mortgage-backed securities. He said lenders were holding first-

class mortgages that could be packaged and offered to smaller investors.

"You would get your money back in three years and an interest payment every quarter. If there was funding available from the retail market it would be welcomed by the government and the regulatory agencies," he said.



**Australia was still a long way from having a deep and liquid corporate bond market.**

**KEN HYMAN, Antares**