

other reason it would be prudent to inform the relevant Government department or agency.

Unit values are automatically reviewed in March and September each year resulting in the revaluation of the asset value for the assets test and deeming.

For further details contact Centrelink's Financial Information Service (FIS), the Department of Veterans' Affairs or refer to NICRI's leaflet '*Deeming Accounts*'.

Security and Risk

Bond trusts are not risk free investments. They are affected by changing interest rates which may result in capital losses or at least a very poor level of earnings.

Some trusts invest in overseas bonds and currencies. In addition to the risks involved from changes in overseas interest rates, they are affected by changes in the value of overseas currencies against the Australian dollar.

While Government and semi-Government bonds are easily traded this may not be true for all company bonds. A trust holding a high percentage of company bonds may have a higher risk level than bond trusts which hold more government bonds.

Many trusts use futures and options to protect the value of their portfolios. Investors should ask questions and satisfy themselves as to the level of control placed on their use.

Investing with Safety

Bond trusts should not be regarded as short term investments. The best returns may be gained over the medium term and, as such, money requiring ready access should not be placed in these trusts.

Before investing a determination of the acceptable level of risk should be made. Consideration should not only be given to potential changes in interest rates but also to the types of bonds and other investments held in the trust.

A bond trust should not be the only investment held. Reduce risks by spreading investments over different products and markets.

All details in the Product Disclosure Statement (PDS) should be read and fully understood before investing. This may help avoid problems in the future.

NICRI's publications '*Safety, Risk & Scams*', '*Risk Meter*' and the moneymap website may assist with determining levels of risk and suitable investment time frames.

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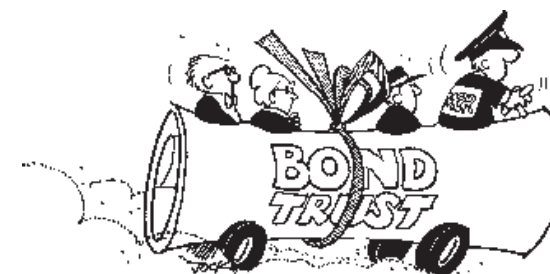
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National Information Centre on Retirement Investments Inc.

Bond Trusts



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Investment Product Series

INFORMATION CURRENT FROM 31/01/08



What are Bond Trusts?

Bond trusts (also known as income trusts, fixed interest trusts or public security trusts) allow investors to pool their funds for investment in a range of Government, semi-Government and company bonds.

By actively trading these bonds in a specialised market, the trust aims to achieve a greater rate of return for the investor than the interest which is paid on the bonds. If achieved, the result is a gain from revaluation or sale, distributed as an increase in the unit prices or as income.

In times of rising interest rates the fund manager may use other strategies to attempt to increase the trust's earnings.

Investors can buy and sell units in a bond trust directly from the fund manager. A unit is a portion of the trust and its price is determined by the value of the bonds and other investments held, eg. bank bills and short term money market deposits. As the market value of the bonds change, so does the value of the trust's units and this can translate into a capital gain or a capital loss if the units are sold.

Bond trusts do not provide a fixed return and distributions may vary each time. Actual returns are not known until received.

Some trusts allow a nominated income, eg. \$1000 p.a. to be paid. If the distribution of the fund's earnings does not equal or exceed the nominated amount, some capital will be returned to make

up the nominated income. Continued capital reductions may result in a zero balance of the investment.

Features

- Minimum investment is usually from \$1000 to \$5000 although regular savings plan options may be available from \$100 per month.
- Withdrawals may be made although minimum amounts may apply and appropriate notice may be required.
- Income payments, which include interest and realised capital gains, may be paid quarterly, half yearly or yearly depending on the trust.
- Income can be reinvested, paid into a financial institution account or paid by cheque.
- A regular fixed payment amount may be arranged.

But Remember...

- Generally they provide little capital growth.
- Income may vary with each payment.
- Bond trusts may perform below expectations during a rising interest rate period and can incur a capital loss if units are sold.
- Regular fixed payments can reduce number of units held.

Fees

- An entry fee up to 5% may be deducted from the amount invested.
- Some funds may charge exit fees on withdrawals.
- Management fees are payable on the value of the investment. They are usually taken into account when calculating the unit price and may substantially reduce income.

Taxation

Distributed income is fully assessable for income tax in the year for which the distribution applies. Any portion of the payment that represents a return of capital is not liable for tax.

Distributions may incur a Pay As You Go (PAYG) tax liability.

Capital gains tax may be payable on withdrawals made from investments purchased after 19 September 1985 or on income distributions as advised.

Government Income Support

The full market value of investments in Bond Trusts are assessed under the deeming rules for income test purposes.

The full market value less any borrowing used for the investment not secured by the principal residence is assessable under the assets test.

If the number of units held is reduced as a result of a withdrawal, a regular payment plan for any