Manulife Investment Management

What is a bond?

(NARRATOR) What is a bond? A bond is the loaning of money and a common way for governments and corporations to raise funds in order to fix roads, build bridges, buy equipment, and other things.
(ON SCREEN) Images of a building, a maple leaf, a dollar bill, a road, a bridge, and a group of windmills.
(NARRATOR) For example, the federal government will issue a 10-year bond worth 100-dollars, available for investors to purchase.
(ON SCREEN) A maple leaf to depict the federal government sends a piece of paper through the air, which is caught by a hand. The hand sends a dollar bill over to the maple leaf. On the bill is shown the terms of bond: $100 for 10 years at 3.25 per cent.
(NARRATOR) In effect, you're agreeing to loan the government 100-dollars for a decade. And just like any other loan, there are predefined terms such as interest (known as the coupon rate), duration (a specific period of time) and principal (or face value amount).
(ON SCREEN) On the bill is shown the terms of bond: $100 with an arrow indicating Face Value Amount, 10 years with an arrow indicating Duration, and 3.25 per cent with an arrow indicating coupon rate.
(NARRATOR) The borrower – in this case the federal government only needs to make regular interest payments and return the principal when the loan matures.
(ON SCREEN) A line rule appears onscreen with the paper bond on one end of the line and dollar bills representing money appearing at regular intervals.
(NARRATOR) In general, the safer the investment is, the lower the rate of interest an issuer will have to pay. Government bonds are widely regarded as low risk, and usually have the lowest rate of interest, as do some larger and established companies with excellent credit ratings.
(ON SCREEN) A graph appears with a line curving up indicating increasing interest rates. Buildings and maple leaf appear in the background.
(NARRATOR) On the other hand, smaller companies and start-ups that don't have stellar credit ratings can also issue bonds to raise capital for their operations.
(NARRATOR) These companies usually have to pay a higher rate of interest to persuade lenders to take the risk and buy their bonds.
(ON SCREEN) A hand appears on screen and extends money to a building. A bubble appears above the building, with 1 per cent quickly going up increments of one to 8 per cent. Pieces of paper representing bonds pop out of the top of the building and land in the person's hand.

(NARRATOR) A bond's interest rate can also be affected by the period of time that it covers. Usually, the longer the duration, the higher the bonds interest rate will be. This is because investors must be encouraged to keep their capital invested for longer.
(ON SCREEN) A line graph appears on screen with a piece of paper representing a bond, showing steady growth.
(NARRATOR) For the everyday investor, bonds are only accessible through a fixed income product, such as a mutual fund. An experienced portfolio manager evaluates each bond based on its credit rating and duration. An investor can then gain exposure to a variety of bonds in a single fund.
(ON SCREEN) Images of two buildings and a maple leaf appear on screen. The three images merge together to make a piece of paper that depicts a bond.
(NARRATOR) Speak to your advisor about bonds and other fixed income investments and how they can fit into your overall asset allocation.
(ON SCREEN) A smart phone, tablet and laptop appear, indicating how to contact your advisor.

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