

Australia's growing appetite for corporate bonds

What's the opportunity?



More than **\$1 trillion** of corporate bonds are outstanding in Australia: the corporate bond market is around **70%** the size of the listed share market (ASX)

Only **47%** of the Australian corporate bond market is owned by Australian investors

Average gross annual return of Australian bonds was **6.1%** between 2006-16, compared to **4.3%** for Australian shares

Snapshot of private investment



Only **16%** of high net worth individuals in Australia directly own corporate bonds

Corporate bonds are **11%** of total portfolio assets for individuals with direct holdings

95% of corporate bond investors own AUD-denominated bonds, while **72%** own USD-denominated bonds

Why corporate bonds?



Expected yield of an investment is the **#1 consideration** affecting individuals' investment decisions

Reasons for holding corporate bonds: **73%** for a reliable income stream; **72%** for the level of return given risk profile; **54%** for capital preservation

Older Australians have larger corporate bond holdings: corporate bonds are **22%** of assets for individuals aged **55+**, compared to **3-4%** for younger groups

Barriers to investing



84% of high net worth individuals in Australia do not own corporate bonds

Lack of awareness of the benefits of bonds identified as a barrier to investment by **38%** of non-investors

Almost 70% of non-investors have insufficient understanding to invest in corporate bonds

What's the outlook?



86% of corporate bond investors have had a positive experience, and a net **37%** intend to invest more in the next 12 months

A net **15%** of non-investors intend to invest in the next 12 months. Therefore the share of high net worth individuals owning corporate bonds could grow from **16% to 29%**

Low yields in cash investments is the **#1 concern** identified by investors. And **40%** are concerned about government policy uncertainty

Snapshot of issuer activity



Non-financial corporations in Australia raise around **10%** of total funding from corporate bonds

Number of unrated issues in Australia increased from 16 in 2012-14 to **39 in 2015-17**

Value of unrated issues in Australia was more than **\$1.1bn** in 2017