

Overview: Fixed Income (Bond) Investing



Board of Directors
October 5, 2023

Institutional Investment Categories

- Fixed Income (Bonds)
- Equity
- Commodities
- Funds (Mutual/Exchange-traded, etc.)
- Real and Personal Property



Investments: Fixed Income versus Equities

	Fixed Income (Bond)	Equity Ownership (Stock)
Relationship	Lender (e.g., TA) / Borrower (e.g., SamTrans)	Shareholder
Returns	<ul style="list-style-type: none">• Fixed Interest payments• Promise to return principal	<ul style="list-style-type: none">• Dividends/Capital Gains or (Losses)• No guaranteed return of principal
Purpose	Development and asset purchases	Organizational growth and expansion
Risk	<ul style="list-style-type: none">• Lower risk/return• Bondholders classed as creditors: preferential treatment in the event of issuer bankruptcy	<ul style="list-style-type: none">• Higher risk/return• Shareholders “last in line” in the event of bankruptcy



Timeline of a Bond/ Fixed Income

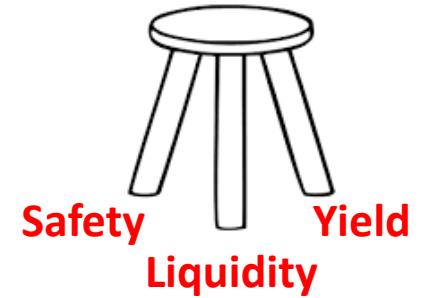
1. Issuer (e.g., SamTrans) issues Bond
2. Investor (TA) purchases Bond (aim: Return on Investment or ROI)
 - Investor's return on bond is fixed
 - Bonds can be resold/repurchased over lifetime of bond
 - Interest rates vary over time
 - Interest rates \propto Market price of existing bond
 - Coupon Rate = annual interest rate paid on a bond
3. Bond Maturity: Issuer repays bond over time
 - Par: amount Issuer (SamTrans) repays to Investor (TA) at maturity
 - Par = market price when Bond was issued + interest



Why Fixed Income (Bond) Investing

Bond Financing is a low-risk option, stabilized via:

- **Safety** - TA invests in US Treasury Bonds, US Agency Bonds, and other highly rated fixed income securities (“A” or above)
- **Liquidity** - Bonds purchased are actively traded in the secondary market and can quickly be sold at fair market value
- **Yield** - Yield in fixed income market is a factor of credit rating over time



Questions?

