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$10 $10 AA 39994

REPUBLIC OF IRELAND

BOND CERTIFICATE

78298 78298

TEN DOLLARS

To Miss J. Sheerin

I Eamon De Valera, President of the Elected Government of the Republic of Ireland, acting in the name of and by the authority of the elected representatives of the Irish Nation issue this Certificate in acknowledgment of your subscription of $10 to the First National Loan of the Republic of Ireland. This Certificate is not negotiable but it is exchangeable if presented at the Treasury of the Republic of Ireland one month after the international recognition of the said Republic for one $10 Gold Bond of the Republic of Ireland. Said Bond to bear interest at five per cent per annum from the first day of the seventh month after the freeing of the territory of the Republic of Ireland from Britain's military control, and said Bond to be redeemable at par within one year thereafter.

Dated January 21st 1920

Seán ua Duinnín, Registrar — Éamon de Bailéara, President

Understanding the Risks of Bonds

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Investment Risk Factors

What is a Bond?

A bond is a loan agreement that is typically issued by governments or companies that includes an indenture which is a legal document that gives terms of the loan including the type and timeliness for repayment. A government bond is typically referred to as a 'safe haven' asset, however investors must look at what government they are lending money to as some countries have a much better credit rating than others and therefore likelihood of default varies.

Some of the risks of investing in bonds are as follows:

Interest Rate Risk

Interest rate risk is the risk that the value of your bond investment fluctuates as interest rates rise and fall. The current interest rate and the price of a bond have an inverse relationship. When interest rates rise, the price of the bond falls. When interest rates fall the price of the bond increases. Not all bonds are affected by interest rate changes to the same degree, therefore it is important to understand the duration of the bonds you are holding. A bond with a higher duration will be more sensitive to increases/decreases in interest rates. However, it is important to remember that low duration does not mean your investment will be risk free.

Credit Risk

Credit risk is the risk that the borrower may default on the payments expected to the lender. The payments due when you invest in a bond will be based on the coupon rate and the repayment of principal upon maturity.

Comparing a funds overall credit rating will give the investor awareness of the expected level of credit quality of the issuers as well as the likelihood you will receive all contractual payments for investing in the bond. Standard & Poor's (S&P), Moody's and Fitch are the main providers of credit ratings which are assigned and monitored on a regular basis having analysed the financial and business conditions of each issuer. As an example, based on Standard & Poor's rating methodology any bond issued with a rating of BBB- or above is considered investment grade whereas anything rated BB+ or below is considered non-investment grade or "junk".

Liquidity Risk

Liquidity is how easy you can buy and sell assets. Liquidity risk exists if you cannot encash your assets in a reasonable time frame. If a bond investment is illiquid, it will be difficult to find a buyer for the bond and the investor may have to sell their bond at a discount to the market value. For a bond investment to be liquid there must be a large number traded thereby creating a large pool of buyers and sellers, in turn enabling either the buying or selling of a bond in a timely manner. Government bonds are typically more liquid than corporate bonds.

Investment Risk Factors (continued)

Liquidity Risk (continued)

The liquidity of your bond investment will be of importance if you are nearing retirement or need to realise your investment portfolio. In times of market turmoil/stress corporate bonds have been known to be less liquid than in periods when markets are thriving and those with higher credit risk (lower rated) are exposed to the greatest liquidity risk. This was evident in Q1 2020 when market stress due to the coronavirus saw a “flight to safety” for bond investors into government bonds on the back of uncertainty of how the virus would impact on economies and over what time period.

Currency Risk

Investors may hold these bonds in currencies other than euros to diversify their holdings and also to possibly attain higher yields than bonds issued in their own currency. If you purchase a non-Euro denominated bond, the coupon and principal payments you receive will be exposed to changes in the exchange rate between those currencies.

One method to reduce the impact of currency fluctuations on a foreign currency bond is to hedge the currency exposure of the bond. However, it should be noted that currently there is a cost incurred to hedge exposure which will ultimately impact the overall returns for your investment.

Reinvestment Risk

This is the risk that investors have to invest any coupons and maturity value of their bond holdings at a time when interest rates are declining, therefore investors will get a lower return on the reinvestment of the coupons compared to when the bond was originally purchased. The longer the duration of the bond, the higher the yield on the bond and the greater the reinvestment risk due to there being significantly more coupons to reinvest.

Inflation Risk

This is the risk that investors who invest in bonds will find that the value of the coupon and principal payable is eroded by increases in inflation as those fixed payments won’t buy the investor the same amount of goods as inflation increases. If an investor has inflation-linked liabilities, then consideration should be made into investing in inflation-linked bonds. These bonds will protect the investor against inflation eroding the purchasing power of their investment.

Conclusion

Given the magnitude of negative yielding government bonds, many investors have had to consider a wider spectrum of bond investments in order to generate positive returns. In consideration of the wider spectrum of the bond universe, not all bond investments are the same and investors should be aware of not just the yield but also the associated risks inherent in their specific bond investment. Understanding the risks associated with certain bond investments will lead to a more informed investment in the bond market. Having weighed up the risks with what is acceptable, an investor can be duly rewarded for these risks in the form of higher potential returns over the longer term on a risk-adjusted basis.

If you are considering making an allocation to bonds or revising your bond allocations do reach out to us for a greater understanding of the risk and rewards of the bond universe. If you would like access to our comprehensive paper on this topic or any further information please get in contact with us at CorporateInvestment@invesco.ie

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WE WOULD WELCOME THE OPPORTUNITY TO ANSWER ANY QUESTIONS YOU MAY HAVE

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