

| | |
|---|---|
| Topic 1: Investing for income and security..... | 3 |
| What are Exchange-traded AGBs? | 3 |
| The trade-off between risk and return? | 3 |
| Topic 2: Exchange-traded AGBs | 5 |
| Buying and selling Exchange-traded AGBs..... | 5 |
| Settlement structure of Exchange-traded AGBs..... | 5 |
| Topic 3: Your choice of Exchange-traded AGBs..... | 7 |
| There are two types of Exchange-traded AGB..... | 7 |
| Why inflation matters | 7 |
| When is your income paid?..... | 7 |
| Summary..... | 8 |

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Topic 1: Investing for income and security

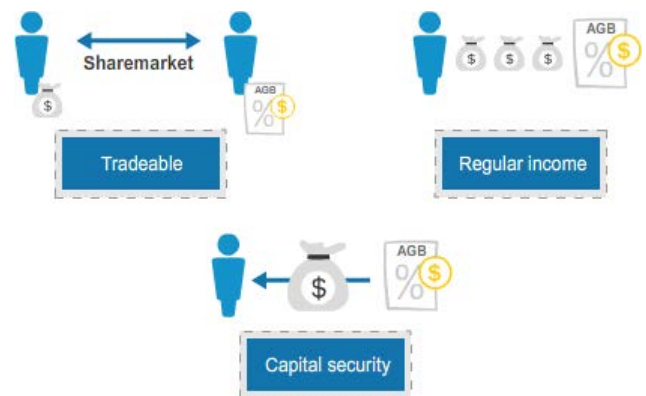
The main reason for buying fixed income securities is to secure a regular income stream.

Holders of fixed income securities expect to receive the security's face value at maturity.

Exchange-traded Australian Government Bonds (AGBs) are a type of fixed income security.

Exchange-traded AGBs can provide you with regular income and the ability to receive face value at maturity. Plus being traded on ASX makes it easy to convert part or all of your investment to cash when you need it.

The market price of AGBs may rise or fall presenting the potential for profits or losses.



What are Exchange-traded AGBs?

Australian Government Bonds are debt securities issued by the Australian Government. Exchange-traded AGBs offer a convenient and readily accessible way for investors to invest in Australian Government Bonds.

The holder of an Exchange-traded AGB beneficially owns an interest in an Australian Government Bond in the form of a CHESS Depository Interest (CDI).

The CDI gives the holder all the economic benefits (including payments) attached to the interest in the Australian Government Bond over which the CDI has been issued.

(CHESS is an ASX computer system that manages the settlement process and records the ownership interest of holders of CDIs over Exchange-traded AGBs.)

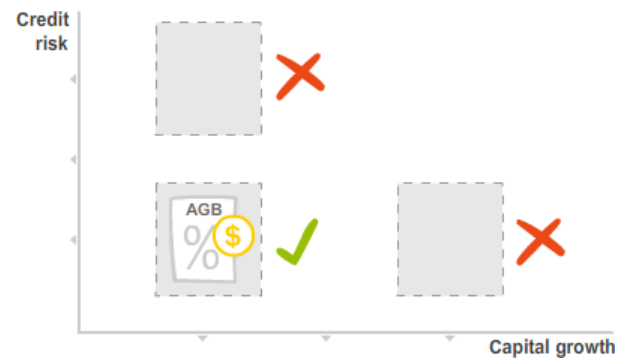


The trade-off between risk and return?

Australian Government bonds have one of the lowest credit risks because they are issued by the Australian Government.

As a holder of an Exchange-traded AGB, you can have a high degree of confidence that you will receive your regular income payments and receive face value at maturity.

As a consequence, however, you can expect to receive a lower level of return than investments that expose you to a greater level of credit risk.



Topic 2: Exchange-traded AGBs

Key elements of Exchange-traded AGBs

- *Face value* - the amount of money that is paid to the holder at maturity.
- *Maturity date* - the date the AGB is due to be redeemed and the holder is paid the face value of the AGB.
- *Coupon* - interest paid to the holder. The coupon is expressed as a fixed percentage of the face value of the AGB.
- *Payment cycle* - how often AGB holders will receive income (coupons). These cycles are quarterly or half yearly depending on the type of AGB.

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|---|---------------|
| Frequency of income | Payment cycle |
| Date AGB is redeemed | Maturity |
| Percentage of face value paid to holder | Coupon |
| Money paid at maturity | Face value |

Buying and selling Exchange-traded AGBs

Exchange-traded AGBs can be bought and sold through the full range of ASX market participants - from full service brokers to online execution-only brokers.

Your broker will require your bank account for payment of your income. You will also receive a CHES holding statement which itemises your holding. (Your CHES sponsoring broker will make sure your details are up to date.)

Coupon payments and redemptions at maturity are made via electronic funds transfer only - there are no cheque payments for Exchange-traded AGBs.

Settlement structure of Exchange-traded AGBs

Bonds issued by the Australian Government have historically been traded in large amounts on wholesale markets that are inaccessible to retail investors.

Exchange-traded AGBs are bought and sold just like shares. They settle through CHES and your holdings are managed through a registry just like shares.

For this to be able to happen, AGBs are traded on ASX and settle through CHESS as CHESS Depository Interests (CDIs).

It is useful to know that AGBs trade via CDIs - however understanding the mechanics of CDIs is not essential to your investment.

Topic 3: Your choice of Exchange-traded AGBs

There are two types of Exchange-traded AGB

- Exchange-traded Treasury Bonds (TBs), and
- Exchange-traded Treasury Indexed Bonds (TIBs).

TBs share the features of a simple (vanilla) bond.

TIBs compensate you for the effects of inflation by their face value adjusting in line with the Consumer Price Index (CPI).

There is a range of TBs and TIBs on issue offering different maturity dates and coupon rates.

Why inflation matters

TIBs offer you some protection against the effects of inflation.

Inflation is a risk to your capital because it erodes the value of money over time. \$100 today may not be worth \$100 next year.

If you are concerned about inflation and its eroding effect, TIBs may be a good product for you to consider.

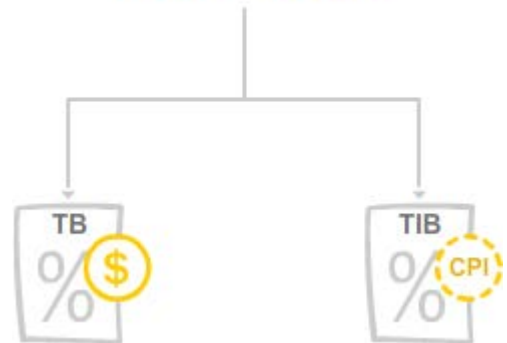
Module 4 explains TIBs in detail.

When is your income paid?

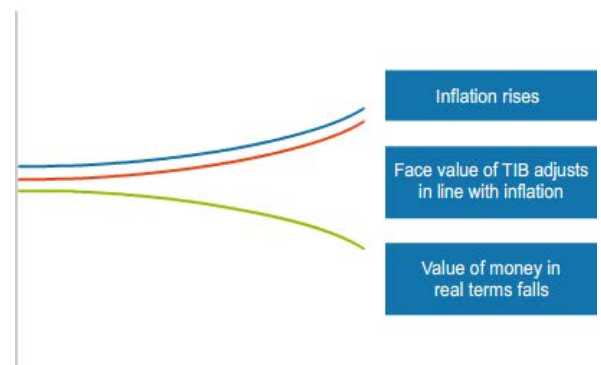
Another difference between the two different types of AGBs is how frequently you receive coupon payments.

TBs pay coupons twice per year and TIBs pay every quarter.

Exchange-traded AGB market



TIBs adjust their face value in line with inflation.



Summary

- When you buy an Exchange-traded AGB you get a security that delivers a defined income stream for a defined period. At the end of that period the AGB's face value is paid to the holder. With Exchange-traded AGBs, you are not locked into holding them for any pre-set timeframe.
- This flexibility means you can sell part or all of your AGB holding when you need to. You can also switch your investment from one Exchange-traded AGB to another AGB that is paying a different amount of income or has a different maturity date.
- The market price of an AGB may rise or fall creating the potential for profit or loss.
- There are two types of Exchange-traded AGBs available:
 - Exchange-traded Treasury Bonds (TBs), and
 - Exchange-traded Treasury Indexed Bonds (TIBs).
- TBs are equivalent to a simple (vanilla) bond. TIBs compensate you for the effects of inflation by their face value adjusting in line with the Consumer Price Index (CPI).