

FIXED INCOME RISKS

Credit Risk

- The risk the borrower (bond issuer) fails to pay back the loan (bond)

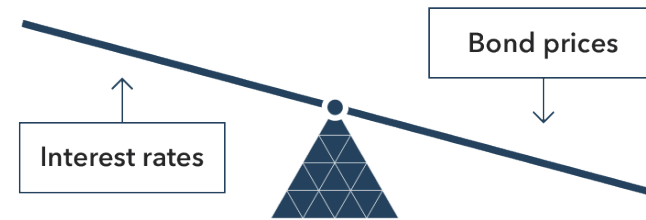


How to Manage It:

- ✓ Lend to Companies with the cash flow to pay
- ✓ Collateral, Cash Flow Sweeps and Other Protective Covenants
- ✓ Be properly compensated for the risk!

Interest Rate Risk

- The risk that rising interest rates cause bonds to fall in value



How to Manage It:

- ✓ Avoid Long Duration Government Bonds
- ✓ Own Floating Rate Notes with payments that move with interest rates
- ✓ Own bonds with shorter maturities and higher coupon payments