This information should be viewed in conjunction with information about simple bonds and investing in general.

A bond functions like a loan, where as an investor you receive interest for providing funds to the issuer of the bond.

Complex bonds cover:
- Government, mortgage and corporate bonds traded in unregulated markets, on stock exchanges outside the EU/EEA or in similar markets
- Convertible bonds
- Index-linked bonds
- Particularly complex bonds

They may be issued as:
- **Bullet loans** - where the entire loan is repaid at maturity
- **Amortised loans** - where both interest and instalments are paid over the life of the loan

1. Target group

Complex bonds may be relevant for investors who:
- Seek a greater return potential than that offered by simple bonds
- Wish to accept a higher risk in exchange for potentially higher returns
- Wish to invest in corporate bonds or convertible bonds, which can offer significant potential but also come with specific terms
- Wish to protect themselves against inflation or track a specific index through index-linked bonds
- Wish to invest with either a short or long investment horizon

Please note: Always familiarise yourself thoroughly with the terms and the market, as complex bonds can function very differently from, for example, government bonds and Danish mortgage bonds.

2. Pros and cons

Pros	Cons
Bonds from exotic countries or corporate bonds may yield higher returns than bonds from well-established markets such as Denmark.	Investing in less regulated markets involves higher risk than investing in well-regulated markets such as the EU and the US.
Convertible bonds carry the right to exchange the bond for shares.	Corporate bonds can have an indefinite maturity, with the issuer having the option to redeem them on specific dates.
You receive regular interest payments, which are often higher than those of simple bonds. The higher interest serves as compensation for the rating and complexity.	Risk of forced conversion on convertible bonds if the share price reaches the predetermined cap.
Index-linked bonds can provide a fixed real return, which is protected against inflation.	Some complex bonds may be difficult to sell at a good price, especially if you want to sell before maturity.

3. Returns

Your overall return primarily depends on:
- Price developments during the period
- Interest payments
- Exchange rates if the bond is denominated in a foreign currency
- Indexation of an index-linked bond

The price of bonds fluctuates with the market interest rate. This is especially true for fixed-rate bullet bonds with a long time to maturity:
- When interest rates fall, the price goes up
- When interest rates rise, the price goes down

The interest rate level typically depends on the maturity and the issuer's credit rating. If the credit rating is changed, it will affect the price - especially for corporate bonds.

When a bond matures, you normally receive a redemption price of 100. If you sell before maturity, the price may be higher or lower. The closer to maturity, the closer the price will usually be to the redemption price.

In the case of amortised loans - such as mortgage bonds - the borrower makes regular instalments, and in some markets the loan can be repaid early. This means, as an investor, you can gradually receive parts of your investment back.

Returns may vary significantly:
- Corporate bonds are affected by factors such as redemption terms and the company's results and credit rating
- Returns on convertible bonds are affected by factors such as the conversion terms

4. Risk

Market risk
The price of bonds is primarily influenced by interest rate developments. When interest rates rise, bond prices fall, and when interest rates fall, bond prices rise. The extent of the price movements depends on the bond type and the maturity.
- Bonds with long maturities react more strongly than those with short maturities
- Bullet bonds fluctuate more than amortising bonds
- Fixed-rate bonds are affected more than variable-rate bonds
- Index-linked bonds can, in some cases, offset the impact of interest rate changes
- The price also depends on supply and demand - in other words investors' expectations for interest rates and the issuer's ability to repay

Maturity risk
The risk depends on how well the bond's maturity matches your own investment horizon.
- If your investment horizon matches the bond's maturity, the risk is low, as you can expect to receive the agreed value at maturity
- If you invest short term in bonds with a long or indefinite maturity, the risk may be higher, since the price can fluctuate significantly and you may have to sell before maturity

Credit risk
The price of bonds is closely correlated with the issuer's credit rating.
- The price will fall if the issuer's credit rating is impaired
- If the issuer goes bankrupt, the bond may become worthless
- A low credit rating means higher risk - but also the potential for higher returns

Currency risk
If you trade bonds in foreign currencies, the value is affected by the exchange rate between that currency and the Danish krone.
- For example, if you buy bonds denominated in SEK or USD, a fall in the exchange rate can reduce the value of your investment

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- Bonds in major currencies (EUR and USD) typically carry lower exchange rate risk than bonds in more exotic currencies, where exchange rates can fluctuate significantly

Diversification of risk

As with share investments, you can reduce your exposure by diversifying your investments in complex bonds.

- Invest in several bonds from different issuers
- Choose bonds with varying maturities

Liquidity risk

The ease of buying and selling bonds varies considerably. For example, newly issued mortgage bonds are typically as easy to trade as government bonds. However, as they approach maturity, liquidity tends to decline, making it harder to sell the bond before maturity.

- The closer a bond gets to maturity, the more difficult it can be to trade
- In unregulated markets, liquidity is also influenced by the issuer's credit rating, the size of the issue and general market conditions
- During periods of market turmoil, selling bonds can become particularly difficult

Sustainability risk

Environmental, social or governance factors (e.g. environmental disasters, violations of labour rights or weak management) can negatively impact value - and the risk is assessed to be higher in exotic markets.

5. Special circumstances

Complex bonds can have specific characteristics that distinguish them from the more familiar government and mortgage bonds. It is important to understand how each type of bonds works before investing.

Common features of most complex bonds:

- They are often traded on less regulated exchanges or may not be listed at all
- In some cases, it can be difficult to assess a fair price for the bond

Complex bonds are available with both fixed and variable interest rates. If you invest in a fixed-rate bond, you will know the interest payments for the entire term of the bond. If you invest in a variable-rate bond, the interest payments will change during the term of the bond.

Foreign mortgage bonds

These are bonds secured by real estate in other countries such as Sweden or Germany.

- They are similar to Danish mortgage bonds, but the systems can differ significantly
- Risk, loan structures and investment policies may differ considerably from the Danish market

Corporate bonds

Companies issue bonds to raise funds.

- They carry a higher credit risk than government and mortgage bonds, but also offer higher potential returns
- As an investor, you rank ahead of shareholders if the company goes bankrupt
- Some corporate bonds can have an indefinite maturity, with the issuer having the option to redeem them on specific dates

Convertible bonds

Convertible bonds can be an option for companies that find issuing regular corporate bonds too expensive. Instead, they offer investors the option to convert the bonds into shares if the company performs well and the share price rises. For the company, convertible bonds can also be an alternative to issuing new shares.

For investors, the option of converting bonds into shares provides an additional opportunity compared with regular corporate bonds.

- The right to convert into shares materialises at an agreed price on a specified date
- Interest rates are usually lower than on corporate bonds because the conversion option is a benefit to the investor
- Returns depend on both the interest terms and the share price
- If the share price is lower than the conversion price, the bond mostly resembles a regular corporate bond
- If the share price is higher than the conversion price, the bond mostly resembles a share
- There is often a cap on how much the share price can rise before the issuer can force conversion

Index-linked bonds

Index-linked bonds are linked to a specific index, typically the consumer price index. This means:

- The return is adjusted for inflation, giving you a real (inflation-free) return
- These bonds may be used to preserve the purchasing power of your money

6. Useful information

Investing in a bond generally involves lower risk than investing in a share, because you are lending money to the issuer rather than buying an ownership stake. With shares, returns are not guaranteed, whereas a bond has fixed terms for interest and principal repayments. If a company goes bankrupt, bondholders have priority in receiving their money, while shareholders are last in line.

Tax

The applicable tax rules depend on how you invest - whether as a private individual, a company, through pension savings or otherwise.

We can only offer general advice on taxation. For specific tax advice, we recommend that you consult an auditor.

Cost and expenses

You will always be informed about all costs and expenses, before making an investment. These may consist of:

- **Brokerage fee:** Paid to the bank in connection with buying/selling
- **Currency fee:** For the purchase of foreign bonds
- **Custody fee:** For safe-keeping your bonds

If you engage in foreign bonds, stock exchange taxes or foreign security fees may apply.

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