Eurobonds

Eurobonds enable investors to diversify outside the domestic Canadian economy and invest in a variety of foreign currencies.

What are Eurobonds?

Eurobonds are bonds that are issued for sale outside of the issuer's home country. They can be issued in the currency of the foreign country, or another currency. Interest payments and principal are to be returned to the holder in the currency in which the bond was issued. In most cases, the interest is paid annually.

Eurobonds are an excellent investment vehicle for RSPs. Investing in Eurobond issues may enable an investor to diversify his or her investment portfolio without affecting the foreign content restrictions set by the Canada Customs and Revenue Agency.

Any Canadian federal, provincial or corporate issue, regardless of the currency it is denominated in, will generally be treated as domestic content. As well, a Eurobond issued by a AAA rated supra-national issuer is treated as domestic content. This means that an investor can hold a Eurobond issued by Bell Canada, denominated in Swiss francs. The investor can only benefit from investing in the foreign currency while holding an issue that is treated as domestic content. All issuers incorporated outside Canada are RSP-eligible as long as the issue holds a rating of AA or better, but will be considered foreign content.

The Benefits

Diversification – One of the key advantages of buying a foreign denominated Eurobond is diversification. The purpose of diversification is risk minimization or, more simply stated, "Don't put all your eggs in one basket." Research shows that global investing works. Despite the various economic and political crises that affect parts of the globe at any given time, a well-diversified global portfolio can outperform a strictly Canadian one in the long run based on both overall return and volatility. Diversification is one of the main reasons people choose to invest in currencies other than Canadian dollars. With the large movements in the currency markets in recent years, many investors feel it prudent to diversify outside of Canada.

Eurobonds can be denominated in many different currencies ranging from Canadian, U.S. and New Zealand dollars to Deutsche marks and South African rand, to list a few. Eurobonds enable investors to diversify outside of the domestic Canadian economy and invest in a variety of foreign currencies. There are a broad range of currencies and issuers to choose from, including domestic issuers such as the Canadian government or corporate and foreign issuers such as Barclays Bank, Deutschebank or Nestlé.

Maximize Your Foreign Content Investment – Regardless of the currency in which they are denominated, the purchase of a Eurobond issued by any Canadian issuer or a "supra-national" issuer, such as the International Bank for Reconstruction and Development (better known as the World Bank or IBRD), and the European Bank for Reconstruction and Development (EBRD), allows an investor to increase foreign exposure beyond foreign content restrictions as these issuers are treated as domestic content. Another major reason Canadian investors look to foreign markets is for yield enhancement.

Liquidity – The Eurobond market is extremely liquid. While the majority of the trading is centralized around London's trading hours, Eurobond trading takes place 24 hours a day worldwide.

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The Benefits *continued*

Tax Implications – In some foreign countries, tax is withheld on any interest received on domestic bond issues. If, however, a Canadian investor purchases a Eurobond, regardless of the currency in which it is denominated, there is no tax withheld.

Potential for Currency Appreciation – With the disparities between economic situations in North America, Europe and Asia, there are many opportunities for global investment. The gyrations in the Canadian dollar in recent years have meant that other currencies have gained at our expense. To diversify their investment portfolio, investors should consider investing globally. To invest profitably in Eurobonds, an investor ideally wants to hold a bond where the currency will appreciate against the domestic currency.

The Risks

Currency Risk Exposure – When investing in Eurobonds the investor should be aware that there may be currency risk involved. This means the currency rate that exists in the market when the bonds are purchased may not be the rate that exists when the bonds are sold, mature, or when coupon payments are made. This would mean that the investor's yield to maturity could be higher or lower than the initial yield to maturity due to the fact that there will be more or less proceeds in the domestic currency. The maturity value of the bond is denominated in the foreign currency and may be higher or lower than expected in the domestic currency. Before considering an investment denominated in a foreign currency, it is important to also assess any additional political or economic risks of that country.

Price Fluctuation – When investing in any type of fixed income product, investors should be aware that they are always subject to price fluctuations due to a variety of factors. These factors may include perceptions of where future interest rates are headed or the credit outlook for a particular issuer. These risks are not exclusive to buying Eurobonds but are risks that are present when purchasing and holding any fixed income products. Remember, however, price fluctuations only impact investors who buy or sell a security prior to maturity, as most bonds mature at par.

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When you invest through TD Evergreen® Investment Services, you can feel secure in the knowledge that TD Evergreen is backed by the financial strength and stability of the TD Bank Financial Group. With offices coast-to-coast and growing, TD Evergreen is staffed by experienced Investment Advisors who have the knowledge to help you make sound investment choices.

Your TD Evergreen Investment Advisor can offer you advice on Eurobonds and help you determine how they fit in with your financial goals and strategy.

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Minimum purchase amounts may apply on corporate Eurobond issues.

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