*Welcome to the Reserve Bank of Fiji Public Awareness column. In our April article, the concept of **investing** was introduced. This month, we examine some investment products that are available to you in Fiji.*

Investments You Can Make

There are a variety of investment choices that have the same characteristics. For this article, we will focus on 5 broad classes of investment products: -

1. Deposits;
2. Money Market Instruments (Short-term)
3. Shares;
4. Managed Funds: and
5. Fixed Income Securities (Long-term).

Deposits

Cash investments are investments where an investor lends money to someone else (usually commercial banks) for an agreed period of time and at an agreed interest rate. Usually, cash investments are for a period of less than a year. At the end of the agreed period, the investor gets repaid the amount he/she originally lent (principal) plus interest (the cost of lending money).

Deposits in a savings account at a commercial bank are one of the most basic and common types of cash investment. The appeal is that they provide easy access to your money when you need it, and there is very little chance you could lose any capital – so they are very secure.

Money Market Instruments

Money market instruments are short-term debt securities with maturities ranging usually from 14 days to a maximum of 365 days. Examples of money market instruments in Fiji are:

- Treasury Bills (issued by Government);
- Promissory Notes (issued by Statutory Corporations) and
- RBF Notes (issued by the Reserve Bank of Fiji and is a monetary policy instrument).

Generally money market instruments are targeted for large or institutional investors rather than retail investors. However, in the case of Fiji, the minimum investment amount for investing in Treasury Bills is $250 while it is much higher for promissory notes ($10,000) and RBF Notes ($50,000).

Money market instruments are issued at a discount. To illustrate with an example, if an investor wishes to invest in a 365 day Treasury Bill at an interest rate of 5.00 percent per annum, for a principal amount of $10,000, the investor will initially pay $9,523.81. On maturity, i.e. after 365 days, the investor will receive $10,000 of which $476.19 is the interest earned.

Shares

A share represents ownership of part of a company and is often referred to as "equity securities". When you buy a share in a company, you become a shareholder of that company. Shareholders can receive returns in two ways; in the form of dividends and capital gains:

- ***Dividends*** are income you receive for shares that you own in a company. When a company makes a profit, they may choose to pass on the profits to shareholders by paying out dividends for each share that shareholders' own. Dividends are typically paid out to shareholders twice a year.

- ***Capital Gains*** refer to the profit you earn from the increase in the share price of a company compared to the original price that you paid for each share. For example, if you bought shares in a company for $1.50 per share in 2011 and the share price increases to $2.00 per share in 2012, you would have made a profit or capital gain of $0.50 on each share that you bought in 2011. However, there is also a risk that the share prices of the company may fall if it does not perform well in a given year, for example due to economic downturn and/or market competition. This may result in a capital loss to the shareholder should the share price fall below the price at which they were purchased.

In Fiji's Capital Markets, companies in which you can buy and sell shares in are called listed companies and these can be found on the South Pacific Stock Exchange (SPSE). As at 31st May 2012, 17 companies were listed on the SPSE.

You can contact a licensed Broker for enquiries or if you intend to purchase shares of any of the listed companies on the SPSE.

Managed Funds

Managed funds are professionally managed investment portfolios that investors can purchase units from. The money that investors invest to buy units are used by the managed fund to invest in various investments such as, cash investments, fixed income securities, shares and property.

The managed fund earns money from these investments and passes this on to its investors (unit holders) in the form of dividends. Like shares, managed funds typically distribute dividends twice a year. Also like shares, where the value of the units in the managed fund increases, the benefit is also passed on to investors in the form of capital gains.

The most common managed funds in Fiji are "unit trusts". As at 31st May 2012, there are 4 RBF licensed unit trusts in Fiji, of which Unit Trust of Fiji and Fijian Holdings Unit Trust are locally managed while Hunter Hall (which is offered through Kontiki Stockbroking Limited) and BT Investor Choice (offered through Westpac Banking Corporation) are foreign managed funds.

Fixed Income Securities

Fixed income securities are similar to cash investments except that they involve the investor lending money for a period of more than one year at an agreed interest rate. Interest is paid in regular installments, usually every six months or annually and, until the end of the agreed investment period (commonly referred to as 'maturity date'). At the maturity date, the investor is also repaid the face value of their investment.

Fixed income securities in Fiji include bonds issued by Government and various statutory authorities. The RBF is the registrar of all bonds issued publicly in Fiji. Interested investors may obtain more information on up-coming issues from the RBF.

To encourage more retail investors to participate in the bond market, the Fiji Government recently introduced its Viti Bonds with a minimum investment amount of $1,000 for 5, 7 and 10 year terms.

The return on bonds and other fixed income securities may come in two forms - the regular interest income that you earn and possible capital gains (or losses) arising from the change in the value of your original investment.

Risk and Return

We will examine some of the investments in greater detail in future articles. However, at this stage, it is important to recognise that not all investments will be suitable for any one investor. The suitability of a particular investment depends on its risks and returns and how they fit in with your own investment objectives.

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This article is provided by
Financial Systems Development & Compliance Group
Reserve Bank of Fiji
Level 6, Reserve Bank Building, Suva
Tel: 3313 611 Fax: 3302 094 Email: info@rbf.gov.fj