

## Hybrid Securities Definitions and Examples – The Wire article 23/2/10

### ***Do you understand the difference between a reset preference share and a step-up preference share?***

Hybrid securities are complicated and investors keen to take advantage of current high returns should ensure they understand the differences between types of hybrid securities.

Each individual hybrid security should be assessed individually as even within sub classes, terms and conditions vary. Before acquiring hybrids, it is best to seek advice from a specialist broker or your financial advisor. Below we describe five types of hybrids securities and provide examples of listed hybrid securities within each type.

1. **Income Notes and Securities** are true perpetual securities, that is, they have no maturity date or a very long maturity. These securities usually pay floating rate coupons and while the issuer normally has the option to call (i.e. redeem them for their face value) on any payment date, it is unlikely they will ever be redeemed.

*Income Notes and Securities include: Bendigo Bank (BENHB), Macquarie Group (MBLHB), National Australia Bank (NABHA) and Suncorp Metway (SUNHB).*

2. **Reset Preference Shares** are typically fixed rate preference shares where the coupon is set for a defined term, normally five years. At the end of the five year period, the preference shares are remarketed where they are either redeemed or a new fixed coupon rate is set. They are technically perpetual in nature.

*Reset Preference Shares include: Bendigo Bank RPS (BENPA), Bank of Queensland (BOQPA), IAG Reset Preference Shares 1 (IAGPA) and, Suncorp Metway RPS (SUNPA).*

3. **Converting Preference Shares** are preference shares that convert into the ordinary shares of the issuer after a defined period of time assuming certain conditions occur. Most converting preference shares offer the option for the issuer to redeem them for cash, however equity conversion is usually the default option. They are technically perpetual in nature.

*Converting Preference Share include: ANZ (ANZPA & ANZPB), Westpac (WBCPA & WBCPB) and Commonwealth Bank PERLS 4 &5 (CBAPB & CBAPA)*

4. **Step-up Preference Shares** are the most common type of corporate hybrid. These preference shares normally pay a floating rate coupon and have a call date after a set period, normally five years. If these securities aren't called at the first call date, then the coupons 'step up' to a higher rate to compensate investors for non-redemption. They are technically perpetual in nature.

*Step up Preference Share include: Elders SPS (ELDPA), Fairfax SPS (FXJPB), Goodman Plus (GMPPA), Orica SPS (ORIPB), Santos FUELS (STOPB) and Woolworth's Notes (WOWHB).*

5. **Stepped-up Preference Shares** are step up preference shares that have already passed the step up date and pay a higher coupon over and above the original coupon. They are perpetual in nature although the issuer has the option to call the securities on any future coupon payment date.

*Stepped up Preference Share include: Australand Assets Trust (AAZPB) and Gunns Limited (GNSPA).*

*Brad Newcombe, FIIG's resident hybrid expert recently presented opportunities in the hybrid asset class to investors in Melbourne, Sydney and Brisbane. If you missed the presentation and would like to view it [click here](#). Brad will be presenting hybrid seminars two to three times a year. If you'd like to attend in future, please call and register with your dealer.*

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