

Bond Ladders: A Compelling Solution for Investors



What is a bond ladder?

A bond ladder is a manner of investing in a combination of fixed income securities whereby the securities held in the portfolio are structured by sequential maturity dates. The portfolio is created so that maturity dates of the bonds are staggered—occurring at different intervals over time, which creates the bond ladder. They may be designed in multiple ways, such as a 1- to 5-year or 1- to 10-year ladder, depending on investor goals.

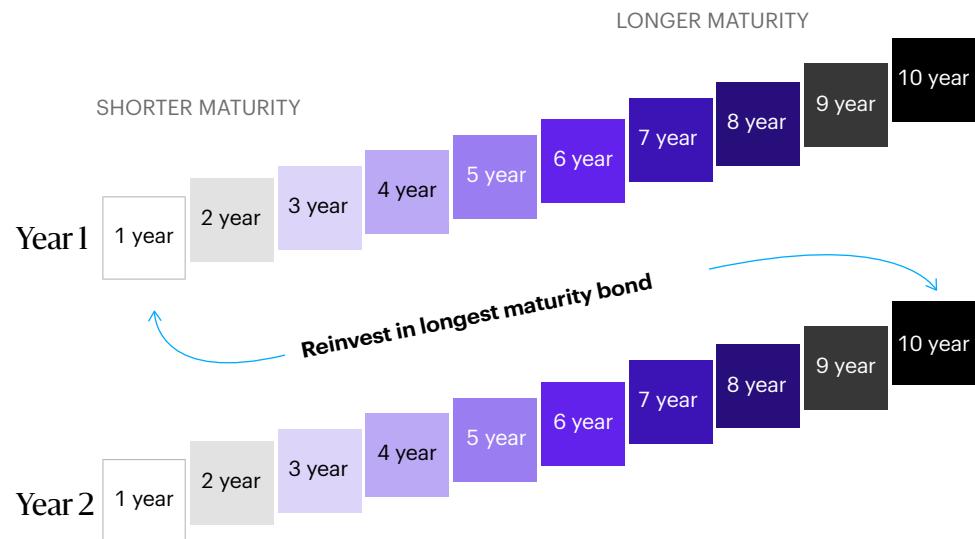
How do bond ladders work?

As each bond in the ladder matures, the principal proceeds from the maturity are then reinvested in the longest-term bond in the ladder. As the bonds mature or “roll off,” proceeds are used to buy new bonds at the top of the ladder, thereby keeping the structure of the ladder consistent over time.

Key takeaways

- 01** Bond ladders offer investors the ability to own a basket of individual bonds with staggered maturity dates in one portfolio.
- 02** Bond ladders are a popular and effective solution for investors seeking to earn a steady stream of income, diversify risk, preserve capital, and personalize exposures. Whether investors are seeking the ability to capture exposure across the yield curve or target specific maturity ranges, bond ladders offer a compelling solution.
- 03** Options for implementing a bond ladder in an investment portfolio are numerous. Investors may choose from multiple maturity ranges and fixed income sectors, such as municipal, Treasury, and corporate bonds.

EXHIBIT 1: 1- TO 10-YEAR BOND LADDER

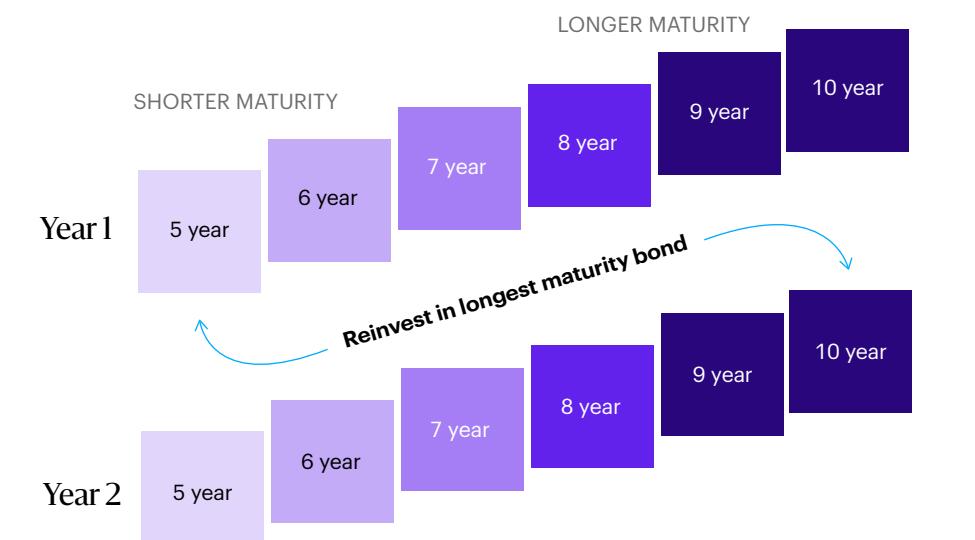


Hypothetical ladder for illustration purposes only.

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In the case where the investor is seeking to gain access to the middle or long end of the yield curve, the process is slightly different. Instead of the shortest-maturity bond maturing and collecting the proceeds, these bottom-rung bonds are sold and proceeds from the sale are used to fund new bonds at the top of the ladder.

EXHIBIT 2: 5- TO 10-YEAR BOND LADDER



Hypothetical ladder for illustration purposes only.

For example, a 5- to 10-year bond ladder would sell bonds that reach a maturity of 5 years, using the proceeds to buy 10-year bonds at the top of the ladder.

Why does this matter? Because any time an investment is sold, it triggers a taxable event. If the bond is sold for a gain, a tax is owed. Conversely, if the bond is sold for a loss, the loss can be used to offset taxes owed on current or future gains. Nevertheless, investors should be aware of this often overlooked but important distinction.

Fortunately, structures for accessing bond ladders often have built-in tax management capabilities and other potential benefits. A good example is a separately managed account (SMA), where taxes may be managed systematically on a continual and year-round basis.

What are the benefits of bond ladders?

Bond ladders can be an appealing option for many investors and for multiple reasons.

- **Predictable income:** Investors seeking a consistent and reliable source of income may choose a bond ladder in an SMA, for instance, to deliver a steady stream of income. Since bonds typically pay coupon payments semi-annually, a ladder can be structured in such a way as to deliver income in relatively consistent intervals. Further, as each bond in the ladder reaches maturity, it generates cash flow, which can be reinvested or withdrawn. The combination of income and convenient access to maturity proceeds can appeal to investors facing specific future financial obligations.
- **Enhanced diversification:** Rather than holding an individual bond, a bond ladder constructed with multiple bonds can help mitigate credit, interest rate, and reinvestment risk. This can be particularly beneficial during periods of economic uncertainty and interest rate volatility. These diversification benefits also apply at the overall portfolio level, as higher-quality fixed income tends to pair well with more volatile (and higher return potential) asset classes, such as equities, private market investments, and others.
- **Increased flexibility:** Investors have many options when creating a bond ladder portfolio. Ladders may be customized to target specific segments of the fixed income markets as well as different maturity, yield, and duration profiles. This gives investors more control over the portfolio's construction and potential outcomes.
- **Effective tax management:** Owning a portfolio of individual bonds, as opposed to a bond mutual fund or exchange-traded fund, allows for enhanced, ongoing, and proactive tax management at the individual security level, which may lead to greater after-tax performance over time.
- **Institutional pricing power:** Scale matters when trading fixed income securities. Institutions that have longstanding relationships and the ability to buy and sell in large blocks have significant pricing advantages when compared with retail investors. Investors seeking to invest in a bond ladder portfolio should consider the pricing power capabilities of the provider.

Interested in bond ladder investing? Meet Remi

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- **\$38B+** in municipal bond assets across institutional and retail strategies
- **\$445B+** in taxable fixed income assets across institutional and retail strategies

Remi leverages an efficient trading ecosystem to automate order creation, automate workflows, reduce operational complexity, and create scale for trading fixed income strategies. Investors may choose from multiple bond ladder options with Remi. If you are seeking to build a ladder of corporate, municipal, or Treasury bonds for a wide range of maturity possibilities, explore Remi.



Unlocking smart outcomes

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