

# The UC Retirement Savings Program

## Quick Facts: Bond maturities and why they matter

One of the defining characteristics of a bond is its *time to maturity*, or the amount of time until the bond issuer must repay the principal payment. Bonds are typically categorized into short maturity (1 to 5 years), medium maturity (5 to 10 years), or long-term maturity (greater than 10 years).

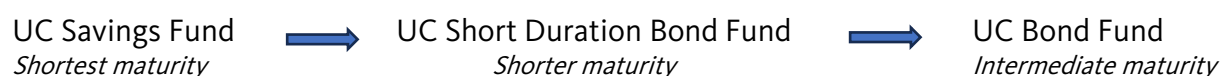
### *Why do maturities matter?*

There are two main reasons:

1. **Price sensitivity to prevailing interest rates** – Bond prices generally have an inverse relationship with interest rates. If interest rates go up, bond prices generally go down. And, conversely, if interest rates go down, bond prices generally go up. What’s more, the longer a bond has until maturity, the more sensitive it will be to a change in interest rates and the greater the possible price change—up or down. This is called “interest rate risk.”
  - Longer-maturity bonds will generally see greater price swings as interest rates change.
  - Bonds with short maturities will generally see price swings up and down with interest rate changes, but within a narrower range.
  - Finally, bonds with intermediate maturities are positioned between the two ends of the bond maturity spectrum and will generally experience greater price swings than short-term bonds, but less than long-term bonds.
2. **Bond returns (or yields)** – In general, the greater risk an investor assumes, the greater the potential reward. So, long-term maturity bonds will generally offer greater interest rates (or yields) to compensate for the greater risk to principal. At the other end, short-term bonds generally offer lower yields because they don’t have the same level of risk to principal. And intermediate-term bonds generally fall in the middle in terms of interest rates (or yields).

### *How does this relate to the UC RSP?*

The UC RSP offers bond funds of different maturities, among other differing characteristics, to help you choose the right option for your circumstances.



Knowing your own sensitivity to “interest rate risk” can help you decide among the different bond funds (and different maturities) available in the UC RSP.

- For example, if you have a long time until retirement (which could mean a low sensitivity to interest rate changes), you may decide that the longer maturity, higher expected return, and higher expected risk of the UC Bond Fund (which invests in intermediate-term securities) is right for you.
- Conversely, if you are close to or in retirement, you may have a higher sensitivity to interest rate changes—or a higher sensitivity to larger swings in the value of your portfolio. Therefore, you may decide that the UC Short Duration Bond Fund, which invests in bonds maturing between one to five years, is more appropriate for you. In fact, the UC Short Duration Bond fund mimics the bond exposure currently held by the UC Pension portfolio.

## **Planning and help**

Bond funds, such as the ones in the UC RSP, are just one possible component of a well-diversified retirement plan. You can explore all the investment options in the UC RSP. Talk to a Fidelity Retirement Planner, at no cost to you.

### [Schedule online](#)

1-800-558-9182

Monday–Friday, 5:30 a.m.–5:00 p.m. PT

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