

Michael Anderson
Chief Investment Officer

At Hi-Line Capital Management, our intrinsic-value philosophy and decision-making principles drive how we approach investing and provide guard rails for thinking during periods of extreme uncertainty and volatility. Our piece, *Foundational Decision-Making Principles*, details the seven pillars of our decision-making process and its critical function in long-term success and rationality.

ABOUT HI-LINE CAPITAL MANAGEMENT

Hi-Line Capital Management, LLC (“HLCM”), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission (“SEC”) in March 2010.

BOND INSIGHT: BEYOND THE COUPON

April 2026

“**Bonds are Confusing**” is perhaps the most common thing heard from others at Hi-Line Capital Management. We are undertaking an initiative to provide – in plain English as best we can – the necessary elements about bonds and bond investing. In our minds, there are **10 elements** judged necessary to understand the “big picture” as it relates to lending, bonds and bond investing. This Insight piece provides an outline or table of contents regarding the 10 elements that will be further expanded upon in a special Whitepaper: **Beyond the Coupon** that will provide further depth and the methodical foundation to better understand how bonds work and how to assess risk in bonds.

The 10 elements include;

1. Investors with savings in the bank may want to “earn more” by **lending money** to a borrower. And often lenders come together to create a bond or partnership for raising capital.
2. Bonds are a **contract** that outlines the terms and conditions of a bond. And it includes provisions for what happens when promises are broken.



HI-LINE CAPITAL MANAGEMENT, LLC
1200 33RD ST. SE, SUITE #309
WATERTOWN, SD 57201

*For additional details see White Paper: **Beyond the Coupon***

EMAIL: INFO@HI-LINECAPITAL.COM
PHONE: 605.878.0897
WWW.HI-LINECAPITAL.COM

Hi-Line Capital Management, LLC is a Registered Investment Advisor. Advisory services are only offered to clients or prospective clients where Hi-Line and its representatives are properly licensed or exempt from licensure. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. All investments include a risk of loss that clients should be prepared to bear. Principal risks of Hi-Line strategies are disclosed in the ADV Part 2A.

Michael Anderson
Chief Investment Officer

At Hi-Line Capital Management, our intrinsic-value philosophy and decision-making principles drive how we approach investing and provide guard rails for thinking during periods of extreme uncertainty and volatility. Our piece, *Foundational Decision-Making Principles*, details the seven pillars of our decision-making process and its critical function in long-term success and rationality.

ABOUT HI-LINE CAPITAL MANAGEMENT

Hi-Line Capital Management, LLC (“HLCM”), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission (“SEC”) in March 2010.

BOND INSIGHT: BEYOND THE COUPON

Page 2 of 2

3. Bonds have a **stated coupon or rate of interest**, which is determined by several factors. And counterparties, except US Federal Gov’t would be considered to have some form of credit risk and higher rate of interest.
4. Bond math is based on **net present value** principles which is the **cost of money**.
5. **Yields summarize total return**. Yield is the combination of the net present value derived from coupon payments and return of principle are different than bond coupon.
6. **Duration** is a risk profile or characteristic that quickly summarizes exposure to inflation and interest rate risk. It describes the price sensitivity to changes in interest rates.
7. The **discount rate** represents a baseline opportunity cost and is fundamental in calculating net present value. And inflation represents most of baseline interest rates.
8. Bonds are often **traded on the secondary market**, just like stocks. Since most bonds are traded in the secondary market a degree of liquidity exists.
9. Bonds issued by the same counterparty carry vastly different risk profiles.
10. **Due diligence** are based on 5 key variables derived from traditional bank lending standards and a few metrics may summarize various degrees of safety.

In Summary: A good bond investor must **assess and invest**, which is another way of saying “how do you reduce and mitigate bond risks in the pursuit of generating additional income and returns”and do so **safely**.