# Bentham Global Income

Quarterly Investment Option Update

30 September 2020

## Aim and Strategy

The strategy aims to provide exposure to global credit markets and to generate income with some potential for capital growth over the medium to long term. The strategy aims to outperform its composite benchmark over the suggested minimum investment timeframe. Bentham aims to fully hedge any foreign currency exposure back to the Australian dollar.

## Investment Option Performance

To view the latest investment performances for each product please visit [www.amp.com.au/performance](http://www.amp.com.au/performance)

## Investment Option Overview

| | |
|---|---|
| **Investment Category** | Specialist Fixed Interest |
| **Suggested Investment timeframe** | 3-5 years |
| **Relative risk rating** | 5 / Medium to High |
| **Investment style** | Active |
| **Manager style** | Single Manager |

| Asset Allocation | Benchmark (%) | Actual (%) |
|---|---|---|
| Global Fixed Interest | 50 | 86 |
| Aust Fixed Interest | 50 | 8 |
| Cash | N/A | 6 |

| Sector Allocation | % |
|---|---|
| Government Backed Bonds (EM) | -0.6 |
| Global High Yield | 2.3 |
| Global Syndicated Loans | 47.7 |
| Global Hybrids | 4.1 |
| Capital Securities | 12.7 |
| Collateralised Loan Obligation | 14.8 |
| Investment Grade Corporate Credit | 3.3 |

| Industry Allocation | % |
|---|---|
| Banking | 12.1 |
| RMBS | 6.9 |
| Healthcare, Education, and Childcare | 6.2 |
| Electronics | 6.0 |
| CLO | 5.7 |

| Regional Allocation | % |
|---|---|
| Cash, Derivatives & Other | 5.9 |
| North America | 51.3 |
| Australia & NZ | 7.8 |
| Europe | 18.1 |
| UK | 16.8 |
| Cash, Derivatives & Other | 5.9 |

| Credit Rating | % |
|---|---|
| Cash & Derivatives | 6.4 |
| AAA | 8.6 |
| AA | 14.0 |
| A | 5.4 |
| BBB | 14.9 |
| BB | 14.8 |

## Portfolio Summary

The Fund had a total return of 3.31% (before fees) in the September quarter, outperforming the benchmark (50% Bloomberg AusBond Bank Bill Index, 50% Bloomberg AusBond Composite Index) after fees by 2.78%.

## Investment Option Commentary

Against a backdrop of generally contracting credit spreads we increased the Fund's exposure to higher yielding credit sub-sectors such as loans and bank capital as well as selected corporate investment grade bonds. Although the positioning increases the average credit risk in the Fund, the risk exposure is primarily to senior secured credit or in companies with strong capital positions and business models. The higher spread purchases where funded largely though sales of higher quality CLO securities. The Fund is mostly fully invested with 94% credit exposure, compared with an exposure of 85% going into the March Covid sell-off. The Fund's exposure to changes in government bond yields remains relatively low. Interest rate duration in the Fund decreased from 1.29 to 0.64 over the quarter.

## Market Commentary

Equity and credit markets recorded modest gains over the quarter, underpinned by ongoing supportive monetary and fiscal stimulus and indications of a recovery in economic activity at least for the moment. However, the recovery remains on fragile ground and is dependent on developments in vaccines or treatments for Covid-19. Government bonds yields were little changed in the quarter whilst commodity markets traded higher. The US Federal Reserve (the Fed) doubled down on its accommodative policy, announcing it will now use average inflation targeting (AIT) in setting the policy interest rate, allowing for temporary overshoots in inflation.

The new policy means the Fed is willing to wait until inflation has gone above 2% until it responds in attempting to dampen demand. US equities ended the period higher despite a fall in risk appetite in September on the back of a resurgence in Covid-19 cases particularly out of Europe and as well as questions over continuation of fiscal stimulus measures. Adding to the unease was uncertainty relating to the US Presidential election in November, also stoking uncertainty for relations between the US and China.

## Outlook

Credit markets have continued to find support over the quarter with higher credit spreads attracting investor demand. However, investors remain sensitive to new infection rates of Covid-19, the timing of a potential vaccine or virus treatment, approval of new government fiscal support packages and central bank support. Brexit trade deal remains an issue for UK and European affected sectors. The outlook for credit markets has improved significantly over the past six months. The early stages of the pandemic saw a significant upward increase to base case high yield credit losses. While expected default rates have fallen, the pandemic has created divergent trends in corporate earnings for different industry sectors.

Companies that are likely to struggle include those that went into the pandemic over leveraged, in the oil & gas sector, or directly impacted by the shutdowns such as; Leisure and Travel, and Hotels & Gaming. While some sectors such as Food, Telecommunications and Information Technology have seen relatively little disruption or have been advantaged. Overall, we believe that credit markets will continue to benefit from both investor demand to generate more stable returns that equities and favourable relative value as an alternative to negative real yields in government bond markets. The fourth quarter will likely see episodic volatility, with elections and rolling virus pandemic waves with corresponding activity shutdowns

## Availability

| Product name | APIR |
|---|---|
| AMP Flexible Super – Choice (Retirement) | AMP2020AU |
| AMP Flexible Super – Choice (Super) | AMP2025AU |
| CustomSuper | AMP1995AU |
| Flexible Lifetime – Allocated Pension | AMP2000AU |
| Flexible Lifetime – Super | AMP1995AU |
| SignatureSuper | AMP2005AU |
| SignatureSuper – Allocated Pension | AMP2012AU |
| Flexible Lifetime - Investments (Series 2) | AMP2032AU |

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