Bentham Global Income

Quarterly Investment Option Update

30 June 2022

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 (50% Bloomberg AusBond Composite Bond Index/ 50% Bloomberg AusBond Bank Bill Index) 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 amp.com.au/performance

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	n/a	72.4
Aust Fixed Interest	n/a	5.7
Cash	n/a	21.9

Sector Allocation	%
Government Backed Bonds (EM)	-1.5
Global High Yield	0.5
Global Syndicated Loans	38.6
Global Hybrids	2.7
Capital Securities	15.5
Collateralised Loan Obligations	13.6
Investment Grade Corporate Credit	6.8

Industry Allocation (Top Exposure)	%
Banking	16.7
Aerospace and Defense	7.2
Electronics	6.6
Healthcare, Education, and Childcare	5.8
CLO	4.7

Regional Allocation	%
Cash, Derivatives & Other	21.9
North America	45.5
Australia & NZ	5.7
Europe	18.2
UK	10.0
Emerging Market	-1.3

Credit Rating	%
Cash & Derivatives	21.9
AAA	5.7
AA	10.9
A	3.1
BBB	16.6
BB	11.7
B or Below	30.1

Portfolio Summary

The investment option outperformed the benchmark in the June quarter.

Investment Option Commentary

The Fund moved to a more conservative position over the quarter by decreasing credit duration, increasing credit quality and increasing cash holdings. The Fund began moving its interest rate exposure at the end of Q1 and this continued into Q2. The fund closed the quarter with +3.55 years of interest rate duration. This position adds to the conservative positioning of the fund and improves the funds yield. Senior secured Syndicated Loans is the Fund's largest sector exposure. The yield in this sector offers good prospective risk adjusted returns and the floating rate coupons will benefit from a rising interest rate environment. Syndicated loans remain one of the Fund's largest sector exposures. Loan marks moved down in the quarter with other risk markets. We continue believe the sector is among the best absolute value higher yielding floating rate credit sectors, which benefits from rising rates. The Fund's credit spread duration ended the quarter at 3.49 years. The Fund finished the quarter with a credit exposure of 78% which is lower compared to the previous quarter's close of 86%.

Market Commentary

Investment markets traded lower over the quarter as concerns over inflation prompted investors to price-in further interest rate rises as well as an increased possibility of recession. Equity markets registered their worst first-half losses in 50 years, while credit and fixed income markets were also lower, particularly Emerging Markets which were under pressure on risk aversion and a rising US dollar.

Consumer inflation hit multi-decade highs in many major economies, reflecting supply chain interruption, strong goods demand and surging energy prices which continue to be impacted by the War in Ukraine. The US FOMC accelerated the pace of its rate hikes to 75bps in June, with the market pricing in another seven (25bps) rate hikes this year. Government bonds sold off over the period, with the US 10-year bond yield rising from 2.35% to 2.97%. However, bonds recovered some losses into quarter-end amid rising growth concerns and weak consumer sentiment. Consensus economist forecasts show inflation expectations continuing to rise and GDP expectations falling, prompting concerns around stagflation. Markets are now pricing a higher probability of a recession as rate rises bite into disposable income and impact business and consumer confidence. The broad market sell-off saw credit market spreads increase across the spectrum from AAA rated securities to non-investment grade. Credit spreads for most credit sectors are now much higher than 10-year averages. The addition of higher base cash rates and bond yields means that credit markets are now offering relatively high prospective yields.

Outlook

The second quarter of 2022 was difficult for Government bond, equity and credit asset classes. Interest rate markets began to price in both rate hikes reflecting higher inflation and rate cuts for the risk of recession. Credit market spreads are much higher than where they were at the start of the year, reflecting the increased economic downside risks. We expect credit spreads to remain elevated with the potential to move wider on the realization of negative economic developments. The current US loan spread of 605bp was last seen in June 2020 (Covid Period) and before that February 2016 (impacted by China growth concerns and Commodity price falls). Credit spreads in Europe are much higher when compared with similarly rated US credit sectors. This is because of the risk of Russia switching off gas supplies to Europe. Germany in particular has a high reliance on Russian sourced gas for industry and domestic use. Growth concerns will have a particular effect on equity markets but will also continue to impact credit market sentiment. Credit markets are facing a more challenging outlook, but we do not expect a 2008 style liquidity event to be repeated. The banking sector has more capacity to absorb a weakening economy, particularly given increased capital requirements. Consumer and corporate balance sheets are currently in a relatively good position.

Availability

Product name	APIR
SignatureSuper*	AMP2005AU
SignatureSuper – Allocated Pension*	AMP2012AU
Flexible Lifetime – Investments (Series 2)	AMP2032AU

**Closed to new investors

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