Bentham Global Income

Quarterly Investment Option Update

31-December-2017

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
Flexible Lifetime Investment (Series 2)	AMP2032AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & 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 category: Global bonds – income

Suggested Investment Timeframe: 3 – 5 years

Standard Risk Measure: 5/ Medium to high

Asset Allocation	Actual (%)	Range (%)
Equity securities		0 to 10
High yield		0 to 30
Australian Hybrids		0 to 50
Global Hybrids		0 to 40
Syndicated loans		0 to 50
High grade bonds		0 to 75
Australian Fixed Income	50%	
Cash	50%	0 to 30

Holdings

Industry Exposure	%
Banking	14.6%
Insurance	8.4%
Electronics	5.7%
CLO	4.5%
Diversified/Conglomerate Service	4.3%
Chemicals, Plastics and Rubber	4.3%
RMBS	4.3%
Buildings and Real Estate	4.2%
Aerospace and Defense	3.7%
Broadcasting and Entertainment	3.6%

Regional Exposure	%
Cash & Derivatives	17.8%
North America	44.5%
Australia & NZ	5.0%
Europe & UK	31.7%
Asia-x-Japan	0.9%
Africa & Middle East	-0.1%
Other	0.1%

Top Ten Securities	%
JPMorgan Chase & Co	2.2%
Groupama Sa	1.8%
HSBC Bank PLC	1.4%
Allianz SE	1.3%
AT Securities BV	1.3%
Ripon Mortgages - 1x	1.3%
Cooperative Rabobank UA	1.2%
AXA SA	1.1%
NZCG Funding Ltd - 2015-2X	1.1%
Zurich Finance (uk) Plc	1.0%

Market Commentary

It was a positive quarter for risk assets in what was a strong year for markets. Investor sentiment in Q4 was boosted by healthy economic growth, US tax cuts, and strong corporate earnings reports. Owing to the stronger economic fundamentals, credit outperformed government bonds for both the quarter and the year. Similarly, equity markets posted strong gains. Notably, market gains in 2017 were generated with low levels of volatility despite rising short-term interest rates.

Underlying economic activity out of both the US and Europe remained robust (stronger than expected), with US unemployment dropping from 4.7% to 4.1% during 2017, a 17-year low. Confidence measures remained elevated in the US reflecting high animal spirits. Positive European economic momentum was also a theme for Q4, with manufacturing activity at multi-year highs.

Markets are preparing for a year of "doubled barrelled" US monetary policy, with both cash rate increases and less bond purchases. In December, Fed Chair Yellen delivered her third hike of 2017, and bringing the US cash rate equal to the Australian cash rate of 1.50%. 2017 marked the first time in many years that the Fed delivered more increases than the market had expected but were in-line with the Fed's own forecast increases. Markets now anticipate the next hike to occur in March 2018.

In the US, the anticipated "Trump-Bump" which had markets optimistic at the start of 2017, was muted for most of the year after numerous false-starts. Approaching year-end, the Republicans finally managed to narrowly pass a generational tax-reform that will see the US corporate tax rate drop from 35% to 21%. Risk markets rallied on the news, and government bonds underperformed with a rebound in inflation expectations. The US fiscal deficit is likely to now increase by over one trillion dollars over the next decade if growth does not correspondingly increase federal coffers.

In Europe, the ECB announced a reduction in the quantum of asset purchases, but extended the term of the programme, which proved a significant boost to bonds. Concerns of the trend in political event risk surrounding the rise in populism in Europe (following Brexit and Trump) that had defined 2016 failed to materialise in 2017. Although these risks still remain in the background in countries like Spain and Italy. European growth materialised with Euro area unemployment dropping from 9.77% to 8.97% (as at 30-Sep-17). European equity markets underperformed the US over the quarter, paring back strong gains from previous quarters.

Investment Option Commentary

The Bentham Global Income Fund outperformed the benchmark (50% Bloomberg AusBond Bank Bill Index, 50% Bloomberg AusBond Composite Index) in the December quarter. For the quarter, the main contributors to performance were Global Syndicated Loans, Bank Capital Securities and Collateralised Loan Obligations; whilst the lowest performing sectors included Investment Grade Credit, European Convertibles and Domestic Hybrids.

Outlook

Credit markets remain well positioned to deliver positive risk adjusted returns despite credit spreads continuing to decrease. Underlying fundamentals are supportive to credit quality with synchronized global economic growth helping consumer balance sheets and corporate earnings. Corporate default rates are likely to continue to remain low while these conditions persist.