Bentham Global Income

Quarterly Investment Option Update

30-June-2018

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	11.4%
Electronics	5.8%
Insurance	5.6%
Diversified/Conglomerate Service	4.5%
Chemicals, Plastics and Rubber	4.5%
CLO	4.4%
Buildings and Real Estate	4.3%
Broadcasting and Entertainment	3.8%
RMBS	3.7%
Aerospace and Defense	3.4%

Regional Exposure	%
Cash & Derivatives	23.6%
North America	49.9%
Australia & NZ	5.0%
Europe	12.2%
UK	10.9%
Asia-x-Japan	0.0%
Africa & Middle East	-0.1%

Top Ten Securities	%
JPMorgan Chase & Co	1.8%
Lloyds Banking Group PLC	1.1%
Allianz SE	1.1%
Ripon Mortgages - 1x	1.1%
At Securities Bv	1.1%
ABN Amro Bank NV	1.0%
Cooperatieve Rabobank UA	0.9%
Hsbc Bank Plc	0.9%
Octagon Investment Partners 33 - 2017-1x	0.9%
Zurich Finance (uk) Plc	0.9%

Market Commentary

Global financial markets were mixed over the quarter amid strong economic data out of the US but, volatility stemming from emerging markets and geopolitical tensions in Europe impacted risk premiums.

US and European equities ended the quarter higher, however Emerging Markets ("EM") were weaker owing in part to US$ strength. Currency weakness forced Turkey's Central Bank to implement an emergency rate hike in May, while Brazil 's markets were also pressured by ongoing political uncertainty and claims of corruption. The concerns in EM were exacerbated by escalations in global trade tensions as US-China trade talks failed to deliver a sustainable agreement. The US moved to extend steel and aluminium tariffs to the EU, Canada and Mexico, resulting in the announcement of retaliatory measures. Perhaps highlighting risk in China, the Chinese high yield market sold off in the quarter, now trading at a wider yield spread than the US market, a change from the relative spread seen over the last two years.

Notwithstanding the volatility, Economic data in the US continues to remain robust. The unemployment rate reached an 18-year low of 3.8%. The last time unemployment was that low in the US was in December 1969 (the year Nixon was elected US president). As expected, the US Federal Reserve (Fed) raised the target rate for Fed Funds by 0.25% and marginally increased its 2018 forecasts for growth and inflation. It now anticipates one further rate increase for this year and three for next.

Political risk re-emerged in Europe mid quarter with the Italian elections failing to deliver a decisive result. Markets feared that this would turn into an effective referendum on Italy's membership of the euro. However, an unlikely governing coalition was eventually formed between populist parties, the League and the Five Star Movement. Economic data from the Eurozone pointed to steady growth but at a slower pace than last year. GDP growth for the first quarter was 0.4%, down from 0.7% in Q4 2017.

The ECB announced no changes to the target interest rate (-0.40%), but said that it would reduce its QE programme's asset purchases to EUR15bn between October and December before ceasing net purchases thereafter. The ECB stated that it 'expects the key ECB interest rates to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path.'

Corporate fundamentals underpinning credit markets remain robust, supported by strong earnings results. The confirmation of a major tax reform package in the US will provide support in coming periods. Broader economic indicators were also upbeat, including US business confidence which hit multi-decade highs, new housing starts and manufacturing data which shows continued expansion. The oil and gas sector performed very well over the period, in line with higher crude oil prices. Oil prices climbed in response to robust global demand, continued supply discipline and geopolitical uncertainty after the US withdrew from the Iran nuclear agreement.

Investment Option Commentary

The Bentham Global Income Fund underperformed the benchmark (50% Bloomberg AusBond Bank Bill Index, 50% Bloomberg AusBond Composite Index) in the June quarter.

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.

Bentham still remain cautious about rates especially given the most recent economic prints in July. The "Double Barrel Year" continues to be both an interesting and challenging market to navigate for traditional assets and the knock-on impacts felt abroad in Emerging Markets continue to keep Bentham concerned. The manager's outlook for global credit markets remains cautiously optimistic even as they begin to wind-down their short rates position. Bentham expect that the improving macroeconomic environment in the US will continue to be supportive of credit markets and bearish for most bond markets, and potentially even for Equities. Bentham continue to be concerned about growing risks in emerging markets (where The fund is currently short) and their potential impact on Australia even after the recent sell-off.