

Bentham Global Income

Quarterly Investment Option Update

31 December 2018

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 amp.com.au

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested investment timeframe	3 Years
Relative risk rating	4 / Medium
Investment style	Active

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest		67.4
Aust. Fixed Interest	50	4.2
Cash	50	28.4

Sector Allocation	%
Banking	12.0%
Insurance	6.1%
Electronics	5.3%
Chemicals, Plastics and Rubber	4.8%
Diversified/Conglomerate Service	4.3%
CLO	4.3%
Healthcare, Education and Childcare	4.0%
Buildings and Real Estate	3.9%
Hotels, Motels, Inns, and Gaming	3.6%
RMBS	3.4%

Regional Allocation	%
Cash & Derivatives	23.8%
North America	48.5%
Australia & NZ	4.2%
Europe	14.0%
UK	9.0%
Asia-x-Japan	0.0%
Africa & Middle East	0.0%

Top Holdings	%
Allianz SE	1.6%
Zurich Finance (uk) Plc	1.5%
Abn Amro Bank Nv	1.5%
Cooperatieve Rabobank UA	1.2%
JPMorgan Chase & Co	1.1%
Deutsche Bahn Finance Gmbh	1.0%
Lloyds Banking Group PLC	1.0%
Ripon Mortgages - 1x	1.0%
Bank Of Ireland Group	1.0%
Virgin Money Holdings Uk Plc	0.9%

Portfolio Summary

- Despite the recent sell-off during the quarter, Global Credit Markets continue to be supported by strong economic fundamentals
- Political risks clearly abundant. Bentham believes they are likely transient
- Although valuations have improved, Bentham continue to be cautiously positioned and are buying credit opportunistically at these more favourable levels.

Investment Option Commentary

At quarter end, the Fund had a yield to maturity of 5.59% and a running yield of 5.02%, with the credit yield spread increasing by 84 bps to 324 bps during the quarter. The Fund had an interest rate duration of -1.22 years and credit duration of 5.25 years.

Over the course of 2018, Bentham continued to reposition the portfolio with a more defensive credit exposure (higher credit rating / higher seniority), before adding risk at year end and into 2019. Over the last 12 months, Capital security exposure has reduced by 6.3% and high yield exposure has reduced by 3.6%.

The majority of the Fund's exposure is to North America (48.5%), and Europe (23.0%, incl. UK). The Fund has a 4.2% exposure to Australia and New Zealand. Bentham remain concerned about a slowdown in China and the resulting knock-on effect into Australia.

Market commentary

Global credit markets had a very challenging quarter of returns with most credit sectors having negative excess returns. The US and European High Yield and Loan markets in particular suffered spread widening and price pressure.

For the quarter, some of the more resilient credit sectors included Asset Backed Securities and RMBS; whilst the lowest performing sectors included Global Syndicated Loans and Collateralised Loan Obligations.

The Fed implemented the fourth rate rise of the year in December based on strength in underlying economic data. In particular, the labour market remains extremely strong. However, continued market volatility saw safe haven buying of government bonds yields. Comments from Fed Chair Jerome Powell indicated a dovish shift, given the market sentiment. The Fed expects two further rate increases in 2019 instead of three previously. However, US bond yields at quarter end largely discounted the likelihood of any further rate hikes. The Fed Funds rate now stands at 2.50%, 1.00% higher than the official rate in Australia.

Outlook

The sell-off in credit markets in December appears to be technically driven with fundamentals still supportive of credit markets. The global corporate default rate is likely to continue to remain low for the medium term. Geo-political events including trade wars, the US government shut-down, Brexit uncertainty and Emerging market risk as well as global central bank policy changes are all still major risks to this outlook.

Supportive policies from global central banks have been a key factor in driving up most asset prices and Bentham believe it will be interesting to continue to watch this unwind in 2019. The fund manager outlook for global credit markets in 2019 remains cautiously optimistic even as Bentham continue to wind-down their short rates position towards neutral. Bentham are seeing buying opportunities after the December sell-off and will continue to opportunistically allocate into market weakness.

Availability

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

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