

Bentham Global Income

Quarterly Investment Option Update

31 March 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	80.6
Aust Fixed Interest	N/A	5.8
Cash	N/A	13.6

Sector Allocation	%
Government Backed Bonds (EM)	-0.1
Global High Yield	1.8
Global Syndicated Loans	41.0
Global Hybrids	3.2
Capital Securities	17.3
Collateralised Loan Obligations	11.3
Investment Grade Corporate Credit	8.7

Industry Allocation (Top Exposure)	%
Banking	18.1
Aerospace and Defense	8.6
Electronics	7.1
Healthcare, Education, and Childcare	6.0
Diversified/Conglomerate Service	4.8

Regional Allocation	%
Cash, Derivatives & Other	13.6
North America	49.0
Australia & NZ	5.8
Europe	19.5
UK	11.0
Emerging Market	0.1
Other	1.0

Credit Rating	%
Cash & Derivatives	13.6
AAA	4.9
AA	9.7
A	4.4
BBB	18.2
BB	15.8
B or Below	33.4

Portfolio Summary

The investment option outperformed the benchmark in the March quarter.

Investment Option Commentary

The Fund continues to be positioned for a rebound in global economic growth that will benefit corporate earnings and also be beneficial to credit markets. Sector allocations over the quarter were largely maintained with key allocations to Global Syndicated Loans, Capital Securities and CLOs. Loans are floating rate assets and benefit from a rising interest rate environment. The Fund's credit spread duration ended the quarter at 4.46 years. The Fund remains close to fully invested with 86% credit exposure, a similar level to the previous quarter. 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. We remain positive on Bank Capital Securities as we believe bank earnings outlook should benefit from rising interest rates and the government pandemic support which assists in lowering defaults.

Market Commentary

Investment markets started 2022 with a negative tone as Central Banks became increasingly hawkish as investors' started pricing in earlier than expected rate rises. Both equities and government bond markets sold-off in tandem, but credit markets were mixed. The start of the Russia/Ukraine conflict further contributed to the selloff as it put pressure on commodity prices (including oil), and on already strained supply chains, which further reinforced inflation concerns. Inflation data in the US reached a 40 year higher of 7.9% in February and Eurozone inflation hit a high of 7.5%. US economic growth remained strong, with the unemployment rate dropping from 3.8% in February to 3.6% in March (now close to full employment). The Federal Reserve (the Fed) made its long awaited first cash rate increase of 0.25%. The Federal Reserve's dot plot, which the US central bank uses to signal its outlook for the path of interest rates, shows officials expect to raise the Fed Funds rate six more times this year, based on median projections. The sharp rise in rate expectations, combined with worries over the growth and inflation outlook, caused the US yield curve to invert late in the quarter. The Bank of England increased its official rate by a combined 50 basis points (bps) with a further two 25 bps hikes on top of December's 15 bps increase. Locally, the Australian fixed interest bond market significantly underperformed (-5.9%) with Australia also seeing robust economic data and rising inflation expectations. The Australian 10-Year bond yields rose by over 1% to 2.85%. Australia's unemployment rate dropped to 4.0% in February, the lowest rate since 1978. The RBA kept the cash rate unchanged at 0.10%. However, the futures market is now pricing in Eight rate hikes before the end of 2022. Global credit markets broadly underperformed over the quarter.

Outlook

The first quarter of 2022 was difficult for traditional asset allocation models that rely on the negative correlation between bonds and equities. Government bond and equity markets both had negative returns as investors factored in both slowing economic growth and an increasingly inflationary environment. In addition, valuations for European asset markets in particular decreased on the likelihood that the Russian invasion in Ukraine may negatively impacting earnings. European bank shares underperformed YTD (-9.6%) despite the previous positive momentum in earnings outlook. The manager views the increased uncertainty relating to the conflict more relating to earnings growth rather than a fundamental credit issue for the European banking sector. Despite these events Bentham believe that credit market fundamentals still remain sound on average with brokers and credit rating agencies forecasting default rates to remain well below historical averages in 2022. However, corporate earnings are still facing headwinds from short-term supply chain issues, tight labor markets and lingering pandemic interruptions. Bentham believe that the increase in credit spreads compensates for the increased risk of a slowdown. Some credit spreads are now back at levels seen in late 2020. Bentham believe that credit markets are likely to provide favorable risk adjusted returns over the next 12 months (particularly floating rate credit) despite the increased risk from higher government bond yields. Bentham expect floating rate credit markets, such as Syndicated Loans and Asset Backed Securities, to continue to perform well as they will ultimately benefit from higher cash rates.

Availability

Product name	APIR
SignatureSuper*	AMP2005AU
SignatureSuper – Allocated Pension*	AMP2012AU

**Closed to new investors

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