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BENTHAM PUSHES CREDIT INVESTMENT

AS THE super, and insurance, industries are looking around for the most effective way to manage their funds – as required by regulators, shareholders, employees and insureds, global fund manager Bentham Asset Management talks of “barbelling”.

The specialist global fund manager says that retail investors and their advisers are “barbelling” their portfolio asset allocations between extremes - overlooking credit investments as an asset class.

Bentham managing director Richard Quin said credit investments were often ignored by investors despite achieving higher returns than cash and less risk than equities.

The asset manager said credit investments were especially under-represented in the self-managed superannuation fund sector.

"For retail investors and the increasing pool of SMSFs, credit is an intermediate investment class that plays a very positive role in portfolio diversification.”

“With investors shying away from the volatility of equity markets, credit provides a predictable and regular income stream with minimal capital volatility.”

Bentham argues that the current balance sheet deleveraging across the economy also increased the attractiveness of credit investments relative to equities and bonds, with some credit sectors offering risk premiums much higher than their historical average.

For example, it says US non-investment grade secured loans are currently around 6.0% over the bank bill rate compared with an historical average return of 3.5%.

"Recent discussions have given so much airplay to equities versus cash and fixed income, but we feel that's looking at two opposite ends of the spectrum.

“It makes a lot of sense for investors to look to credit as something that sits safely in the middle for higher income with less volatility."

Bentham has written a research paper to support its credit investments strategy. Titled ‘Asset Allocation: Credit lost in the middle’, the paper looks at the historical risk and return characteristics of credit investments including secured bank loans, corporate bonds, asset backed securities and high yield bonds, to demonstrate the risk and return middle ground occupied by each asset class.