

Bentham High Yield Fund

Annual fund profile – 30 June 2017

Investment style

The Bentham High Yield Fund (the Fund) is actively managed and focused on generating higher income than traditional fixed income investments.

The Fund provides diversified exposure to the US high yield bond market with active allocation between individual securities and industries.

Investment objective

The investment objective of the Fund is to outperform the Merrill Lynch High Yield Cash Pay Constrained Index (hedged to AUD) over the suggested minimum investment timeframe. The Fund's investment performance is also compared with the Bloomberg AusBond Composite Bond Index.

The Fund aims to provide returns higher than traditional fixed interest investments through investing primarily in US sub-investment grade corporate debt securities.

Management team

Bentham is a specialist fixed interest and credit investment manager. Bentham actively manages a number of high yielding funds with varying risk profiles. The portfolios are designed to generate income while diversifying risk in global credit markets. Bentham's goal is to deliver higher income to investors than can generally be achieved in traditional fixed interest and equity markets.

Prior to the establishment of Bentham, the founders worked together as part of the Credit Investments Group of Credit Suisse Alternative Capital Inc. Credit Suisse continues to provide exclusive sub-advisory investment management services for the Fund.

Bentham has 12 staff located in Australia and the Credit Investments Group has 35 investment staff based in New York and London. The Australian team have a strong

track record of managing global diversified fixed interest portfolios and are well resourced with market leading risk portfolio systems.

Fund facts

Fund name	Bentham High Yield Fund
Investment Manager	Bentham Asset Management
Responsible Entity	Fidante Partners Services Limited
Fund aim	To provide investors with a diversified exposure to the US high yield bond market with active allocation between individual securities and industries
Portfolio managers	Tom Flannery and Richard Quin
Inception date	15 October 1998
APIR code	CSA0102AU
Fund size	A\$89.45 million as at 30 June 2017
Entry and exit fees	Nil
Management costs*	0.79% p.a.
Buy/sell spreads	+0.29%/-0.29% (reviewed periodically)
Pricing frequency	Daily unit pricing
Minimum initial investment	A\$10,000
ASX mFund	Available via mFund code BAM03

* Inclusive of management fee and estimated reimbursable expenses (% p.a.)

Fund features

- Access to a diversified high yield credit portfolio
- Targeted income distribution frequency: quarterly
- Open Fund with daily unit pricing
- Australian domiciled trust with an 18 year+ track record – one of Australia's longest running high yield funds
- Investments not generally available to direct retail investors
- Access to a global investment universe.

High yield bonds – overview

High yield bonds are corporate debt securities that are generally senior unsecured or subordinated and have below investment grade credit ratings. High yield bonds generally pay a fixed rate coupon. This fixed rate tends to be much higher than investment grade bonds in order to compensate investors for default risk. While high yield bonds are traded in many geographical locations, the US has the largest and most mature high yield bond market.

Historically, the high yield bond market has outperformed cash and has had a low correlation with traditional fixed interest and equity markets.

Portfolio construction

The Fund consists mainly of high yield unsecured bonds with additional discretion to make investments in senior secured loans and collateralised loan obligations.

The Fund is constructed using bottom up analysis to select individual investments and employs a conservative approach to credit selection emphasising preservation of principal.

Using a credit-intensive relative value approach, high yield bonds are managed on the belief that returns above benchmark are driven by a strong credit culture and a systematic investment process. Security selection is based on relative value within the capital structure of comparable companies and industries.

The preservation of principal plays an important role in the investment process and the Fund has a high level of industry and issuer diversification.

Fund risk profile

Suggested investment time frame	Medium to long term – three years plus
Volatility/risk level	Medium
Income distribution frequency	Quarterly
Fund benchmark	Merrill Lynch High Yield Cash Pay Constrained Index (hedged into Australian dollars)
Currency exposure	Hedged into Australian dollars
Diversity	Minimum of 50 issuer exposures
Issuer exposure limits	Maximum of 2% per issuer
Industry exposure limits	Maximum of 12% per industry

Benchmark profile as at 30 June 2017

Fund benchmark	Merrill Lynch High Yield Cash Pay Constrained Index (hedged into Australian dollars)
Market size	US\$1,690 billion
Number of issuers	835
Security	Predominately senior unsecured debt
Average credit rating	B+/B1 (S&P/Moodys)
Interest rate duration	4.18 years

Distribution history (% of NAV)*

Financial Year	Sep	Dec	Mar	Jun	Year**
2017	1.20	1.21	1.15	1.03	5.11
2016	1.22	1.24	1.29	2.43	6.14
2015	1.76	1.62	0.00	3.10	6.67
2014	2.43	2.91	2.42	1.94	10.43
2013	1.53	2.32	2.57	3.07	10.37
2012	2.77	0.78	3.20	4.38	11.82
2011	0.96	4.26	2.64	6.69	16.38
2010	0.24	0.00	1.72	5.87	9.66
2009	1.96	0.00	0.00	1.95	3.63
2008	0.85	1.16	0.41	14.34	16.90
2007	1.40	0.99	1.10	1.63	5.55

Source: Fidante Partners

* Calculated as the cents per unit (CPU) distribution at month end divided by the ex-distribution unit price at the start of the month.

** Annual Distribution Return (Year-to-Date) is calculated as the Total Return (after fees) minus Growth Return. Total Returns (after fees) are calculated using pre-distribution month end withdrawal unit price and assumes all distributions are reinvested. Growth Returns equal the percentage change in the unit price.

Past distributions are no indication of future distributions.

Long-term correlation of asset class returns^{#A}

High yield bonds as an asset class have historically had some correlation to equities and a negative correlation to government bonds as shown in the table below. An allocation to high yield bonds may improve the diversity of a balanced portfolio and has historically improved the risk and reward outcome.

1 January 1992 to 30 June 2017

	Australian Bank Bills	Global Govt Bonds	Australian Fixed Interest	Australian ILBs	US IG Corporates	Syndicated Loans	US High Yield	World Equities (Unhedged)	Australian Equities	Emerging Market Bonds	Australian Property Trusts
Australian Bank Bills	1.00	0.21	0.31	0.14	-0.11	-0.29	-0.26	-0.26	-0.28	-0.13	-0.31
Global Govt Bonds	0.21	1.00	0.67	0.48	0.44	-0.36	-0.21	-0.25	-0.16	0.25	0.11
Australian Fixed Interest	0.31	0.67	1.00	0.66	0.16	-0.36	-0.28	-0.03	-0.31	0.02	0.07
Australian ILBs	0.14	0.48	0.66	1.00	0.28	0.04	0.09	-0.04	-0.06	0.23	0.19
US IG Corporates	-0.11	0.44	0.16	0.28	1.00	0.44	0.63	0.04	0.39	0.78	0.41
Syndicated Loans	-0.29	-0.36	-0.36	0.04	0.44	1.00	0.89	0.35	0.55	0.52	0.46
US High Yield Bonds	-0.26	-0.21	-0.28	0.09	0.63	0.89	1.00	0.34	0.64	0.74	0.47
World Equities (Unhedged AUD)	-0.26	-0.25	-0.03	-0.04	0.04	0.35	0.34	1.00	0.53	0.07	0.50
Australian Equities	-0.28	-0.16	-0.31	-0.06	0.39	0.55	0.64	0.53	1.00	0.52	0.70
Emerging Market Bonds	-0.13	0.25	0.02	0.23	0.78	0.52	0.74	0.07	0.52	1.00	0.49
Australian Property Trusts	-0.31	0.11	0.07	0.19	0.41	0.46	0.47	0.50	0.70	0.49	1.00

of years: 10 years to 30 June 2017. BoA Merrill Lynch, Bloomberg, Credit Suisse, JP Morgan, Morgan Stanley & UBS.

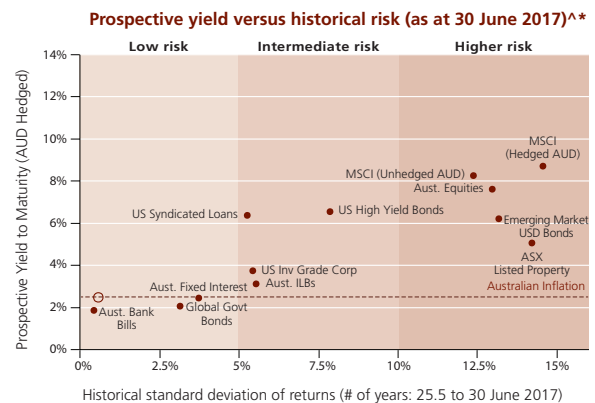
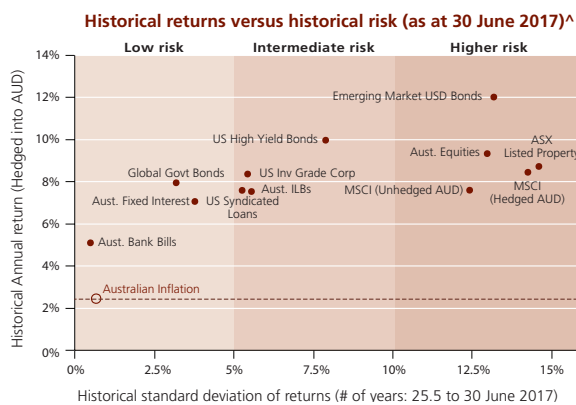
Overseas returns (except World Equities) are fully hedged into Australian dollars.

Sources: Barclay's Capital, Bentham, BoA Merrill Lynch, Bloomberg, Credit Suisse, JP Morgan, Morgan Stanley & UBS.

Past performance is no indication of future performance.

Risk and return

High yield bonds have historically generated returns above the Bloomberg AusBond Composite Bond Index over the medium to long term. High Yield bonds as an asset class have a level of intermediate risk as characterised in the risk return chart below. For specific and current return data please refer to the current monthly fact sheets or quarterly commentaries.



Sources: Barclay's Capital, Bentham, BoA Merrill Lynch, Bloomberg, Credit Suisse, JP Morgan, Morgan Stanley and UBS. Note: for equities we have added an additional 2.5% for growth to the inverted fwd PE. **Past performance is not a reliable indicator of future performance.**

^A Overseas yields are hedged into AUD using the one-month interest rate differentials *The Australian Equities and World Equities (unhedged) yields represent the estimated earnings yield. The historical standard deviation shown for these equity asset classes is based on the total return for the relevant index. The total return on equities will generally be comprised of both dividend income and share price movement and as a result could vary substantially from those shown above. The outcomes shown above may be affected by known or unknown risks and uncertainties that cannot presently be identified. Accordingly actual outcomes may differ from those shown above.

Asset Class definitions; Australian Cash is Bloomberg AusBond Bank Bill Index, Global Govt Bonds is JP Morgan GBI, Australian Fixed Interest is Bloomberg AusBond Composite Bond Index, US IG Corporates is Barclay's US Corporates, US Leveraged Loans is Credit Suisse Leveraged Loans Index, US High Yield Bonds is Credit Suisse High Yield Bond Index, World Equities (Unhedged) is Morgan Stanley MSCI Index (Developed), Australian Equities is S&P/ASX200 Accumulation Index, US Hybrid Securities is Merrill Lynch BoA Preferred Hybrids Index, Emerging Market Bonds is JP Morgan EMBI+, and Australian Property Trusts is S&P/ASX200 Accumulation A-REIT Index. Overseas index returns (except World Equities) are fully hedged into Australian dollars.

Fidante Partners

Fidante Partners Services Limited is the responsible entity of the Fund and issues units in it. Fidante Partners has appointed Bentham Asset Management Pty Limited as the Fund's investment manager. A related entity of Fidante Partners holds a partial equity stake in Bentham.

Contact us

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