

Invesco Global Targeted Returns

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

The strategy is a fundamental, unconstrained, global macro style approach focused on blending a diversified, value-adding set of investment ideas into a single risk-managed portfolio. It aims to achieve a positive total return in all market conditions, targeting a gross return of cash + 5% p.a. with less than half the volatility of global equities over rolling three-year periods.

The strategy invests in an underlying fund that is hedged to Australian dollars. This underlying fund may invest in shares, equity related securities, debt securities, real estate investment trusts (REITs), ETFs and other funds, cash and cash equivalents, money market instruments, and any other eligible instrument that could include indirect exposure to commodities. This exposure to the major asset classes can be taken via long and short positions in the underlying fund, both directly and indirectly. The underlying fund's use of derivatives will create economic leverage (not financial leverage) which under normal market circumstances is typically expected to range between 100% to 350%. The underlying fund's use of derivatives may include exchange traded or OTC derivatives on currencies, interest rates, credit, commodity indices, other eligible indices or equities.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Alternatives
Suggested Investment timeframe	3-5 years
Relative risk rating	6 / High
Investment style	Global Macro
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Multi-Assets	100	100

Regional Allocation	%
Other	37.99%
United States	9.83%
Europe	7.18%
United Kingdom	7.06%
Japan	5.58%
India	5.37%
Australia	5.02%
Hong Kong	4.31%
Sweden	3.73%
Asia	3.50%
France	2.49%
Cayman Islands	2.30%
Canada	2.24%
Germany	1.62%
Chile	1.27%
Switzerland	0.78%
Norway	0.72%
China	0.61%
Ireland	0.32%
Russia	0.21%
Singapore	0.18%

Top Holdings	%
Equity - Selective Asia Exposure	7.41%
Currency - Japanese Yen vs Korean Won	6.74%
Commodity - Commodity Short	5.61%
Interest Rates - Leveraged DM	5.43%
Equity - Japan	5.03%
Interest Rates - Selective EM Debt	4.90%
Currency - US Dollar vs Euro	4.53%

Portfolio Summary

The strategy was positive over the quarter - with contributions coming from a broad range of ideas.

The team added six new ideas to the portfolio over the quarter and removed one. Three of these new ideas were currency related; 'Currency – Japanese Yen vs Europe', 'Currency – Polish Zloty vs Euro' and 'Currency – Russian Ruble vs Chilean Peso'. The remaining three new ideas were; 'Interest Rates – Canada vs US', 'Interest Rates – US Swap Spreads' and 'Equity – Short European Insurers vs Market'. The idea that was removed was 'Interest Rates – Leveraged DM'.

On the downside, our global equity idea performed poorly. This was mainly driven by equity volatility and the idea's exposure to global energy stocks.

Investment Option Commentary

During the quarter, the team added six new ideas to the portfolio, removed one idea and made significant changes in implementation of eight ideas.

Invesco added three new currency ideas to the portfolio. The first being 'Currency – Japanese Yen vs Europe', which combines a long Japanese position against short positions in the euro and Swiss franc. Invesco believe the Japanese economy is now in a better position to cope with a stronger yen, whereas the euro area remains vulnerable from a structural perspective.

Elsewhere, Invesco made a number of other changes to ideas. These included: removing Russian Ruble exposure from our short Canadian dollar idea and removing our Spain vs France position from our European divergence equity idea.

Finally, Invesco removed our 'Interest Rates – Leveraged DM' idea. Given the well documented fall in interest rates globally, Invesco believe there is now limited upside in the idea.

Market Commentary

The third quarter of the year saw several ups and downs as a number of factors took their toll on the markets. Bouts of volatility stemming from political uncertainty, trade concerns and an unclear direction in the global economy ultimately saw global equities end the quarter relatively flat.

The US dollar continued to strengthen over the quarter, outperforming all G10 peers aside from the yen and most emerging market currencies. The yen lived true to its 'safe haven' status, as it performed exceptionally well over the volatile quarter.

For the fixed income markets, sovereign bonds rallied (yields fell). This was primarily driven by global central bank easing, ongoing trade concerns and renewed fears of economic slowdowns. Credit spreads moved roughly in line with equity markets.

Elsewhere, oil saw a sharp decline as geopolitical tensions and concerns over the demand outlook grew. Prices spiked in September following a drone attack on Saudi Arabia that disrupted global oil supply, however, this was short lived as the nation was able to restore output by the end of the quarter.

Outlook

Invesco can see symptoms of a downturn worsening and widening across corporate profits, capex and the property sector. There are heightened risks from anti-globalisation rhetoric and re-shoring and bilateral trade agreements look to change the shape of economic growth.

Invesco believe volatility is likely to reset at higher average levels. While investor behaviour (such as the search for yield) has suppressed volatility, they believe political uncertainty and financial system stresses are likely to drive volatility higher. Given the currently low pricing of volatility across several asset types, they think this scenario provides opportunities in rates, currency and equity volatility.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP2049AU
AMP Flexible Super - Retirement account	AMP2051AU
AMP Flexible Super - Super account	AMP2052AU
CustomSuper	AMP2049AU
Flexible Lifetime - Allocated Pension	AMP2050AU
SignatureSuper	AMP4727AU
SignatureSuper Allocated Pension	AMP7122AU

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