

Invesco Global Targeted Returns

Quarterly Investment Option Update

31 March 2020

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		
Germany	13.91%	
United States	8.66%	
Canada	6.85%	
Mexico	5.60%	
France	5.22%	
Asia	5.09%	
United Kingdom	4.96%	
Europe	4.51%	
Japan	4.35%	
China Offshore	4.29%	
Australia	3.93%	
Russia	3.50%	
Brazil	3.37%	
Sweden	3.24%	
Chile	3.20%	
Other	19.31%	

Top Holdings – Independent Risk	%
Currency – Japanese Yen vs Korea Won	7.7%
Currency – Russian Ruble vs Chilean Peso	5.4%
Interest Rates – Selective EM Debt	4.9%
Equity – Selective Asia Exposure	4.9%
Interest Rates – Yield Compression	4.6%
Equity – European Divergence	4.1%
Commodity – Commodity Short	4.1%
Equity - Global	4.0%
Inflation – Short UK	3.8%
Equity - Japan	3.7%

Portfolio Summary

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

Investment Option Commentary

- The sharp narrowing in the spread between US and French interest rates caused the 'Interest Rates – Yield Compression' idea to be the top performer.
- The broad-based fall in commodities as global demand prospects waned, coupled with an oil price war between Saudi Arabia and Russia made for a strong quarterly performance for the 'Commodity – Commodity Short' idea.
- The sharp fall in the New Zealand dollar as the world shed emerging market currencies rushed to safe havens boosted the short NZD idea. 'Volatility – Global FX Volatility' and 'Volatility – Asian Equities vs US Equities' ideas perform strongly with record-setting volatility across most asset classes

On the other side,

- 'Equity – Global' idea was top detractor over the period. This is somewhat unsurprising, given the market environment and the idea's exposure to broad equities, and more specifically global energy stocks.
- The Japan and UK equity ideas also detracted.
- The 'Credit – US High Yield' idea was also a major detractor, as worries of a US recession due to large parts of the economy shuttering during the virus outbreak drove a fight to safety. The selective credit idea also detracted from performance over the quarter.

Over the quarter the investment manager added the following investment ideas to the strategy: 'Currency – Short New Zealand Dollar'; 'Japanese yen vs US dollar' idea, as Invesco believe the Japanese economy is in a position to cope with a stronger yen; 'Equity – Short India' idea; 'Short gold miners equity' idea; and added a net short European equity index position in the European divergence idea over the quarter.

Invesco removed three ideas from the portfolio over the quarter. 'Interest Rates - Canada vs US' and 'Interest Rates - Canada vs Australia' ideas were removed and instead opted to implement their views on Canada via the newly added 'Interest Rates – Long Canada' idea. Additionally, the global equity volatility idea was removed at the beginning of the year.

Market Commentary

The first quarter was record breaking for all the wrong reasons as the COVID-19 pandemic spread westward, bringing with it unparalleled levels of volatility. Lockdowns for many countries led risk-off sentiment to intensify as investors grappled with the seemingly impossible task of calculating the pandemic's impact on global growth. Global policy makers frantically worked to enact measures to soften the economic impacts, enacting many unparalleled policies both in terms of size and the speed at which they were implemented. Globally, rates were cut sixty-five separate times over the course of the quarter and roughly US\$12 trillion in total stimulus (US\$7 trillion monetary and US\$5 trillion fiscal) was deployed.

Outlook

Invesco sees a devastating economic blow from coronavirus and the recovery from the collapse in economic activity is likely be subdued. Structurally high unemployment may persist for many years as economies adjust. They believe vaccine and policy support will take time to work, slowing the speed of recovery. They see disinflationary forces intensifying and expect demand weakness to overshadow supply disruption. They believe inflation will continue to fall, helped by a sharp drop in commodity prices. They believe policy frameworks will get radically overhauled. Fiscal policy will be aimed at keeping the private sector on life support during lockdown, while central banks propose to finance governments and provide liquidity. Additionally, the nationalisation of some industries may be necessary. There may, however, be investment opportunities in economies with greater policy scope. Within emerging markets, countries with low foreign exchange debt appear relatively attractive. They also see diversified alpha as an additional source of value. Finally, they believe volatility will remain at higher levels. The scope for policy to dampen volatility varies depending on countries' circumstances. However, they see interest rates volatility being the exception and expect this to move lower.

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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