Invesco Global Targeted Returns

Quarterly Investment Option Update

30 June 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	%
Other	10.53
US	15.59
Europe	9.33
Asia	5.81
Brazil	5.61
Mexico	5.40
Australia	5.00
Russia	4.69
Hong Kong	4.61
UK	3.79
Chile	3.71
Poland	3.65
Japan	3.50
South Korea	3.02
Taiwan	2.78
New Zealand	2.53

Top Holdings	%
Equity - Selective Asia Exposure	6.03
Commodity - Commodity Short	5.75
Currency - Russian Ruble vs Chilean Peso	5.50
Interest Rates - Yield Compression	5.24
Currency - Japanese Yen vs Korean Won	4.18
Credit - Selective Credit	3.95
Equity - Japan	3.84
Equity - Brazil	3.81
Equity - US Staples vs Discretionary	3.60
Equity - Global	3.58

Portfolio Summary

- Both positive and negative contributions to the portfolio were spread across a wide range of ideas, with no particular theme or asset type dominating.
- Stocks in the major developed markets moved sideways in June, even with significant positive economic surprises, as concerns over a renewed wave of infections came back into the spotlight.
- Core interest rates experienced a volatile quarter, but ended relatively flat, as central banks kept yields low in the midst of the pandemic.

Investment Option Commentary

Both positive and negative contributions were spread across a wide range of ideas, with no particular theme or asset type dominating. The Fund Manager's 'Credit – Selective Credit' and 'Credit – US High Yield' ideas were among their top performers, as corporate bonds participated in the recovery, largely due to the accommodation of central bank policies. 'Interest Rates – Selective EM Debt' was also a notable strong performer over the quarter, as risk-on sentiment pushed emerging markets higher supporting our exposure to Mexico.

On the downside, the spread between US Treasuries versus French government bonds widened which worked against the 'Interest Rates – Yield Compression' idea. Their short commodities idea weighed on the fund, as commodity prices staged a recovery after selling off aggressively in the first quarter. Similarly, their selective short equity positions dragged on performance as general equities rose.

Market Commentary

The Covid-19 pandemic remained in the spotlight throughout the second quarter, as markets weighed both the spread of the virus and the degree of lasting impact it will cause. Despite infection rates decreasing throughout much of Europe, emerging markets were heavily hit as hotspots shifted. Cases in the US remained a central focus, as a renewed wave of infections rose in states that were among the first to ease lockdowns.

Global equities posted a strong second quarter, with many indices recovering the majority of their Q1 losses. Equities rallied in April and May and speculation of a V-shaped economic recovery grew as countries reopened and potential advances in Covid-19 therapeutics emerged. Stocks in the major developed markets moved sideways in June, even with significant positive economic surprises, as concerns over a renewed wave of infections came back into the spotlight. Cyclicals outperformed defensives over the quarter, and there was a brief rotation from growth to value in early June that waned as the month drew on. In the US, all major sectors ended positive for Q2, with information technology leading the way.

Core interest rates experienced a volatile quarter, but ended relatively flat, as central banks kept yields low in the midst of the pandemic. Fed officials maintained there is no immediate plan to take rates negative but did outline their plan to keep rates at current levels for at least the next year. Bank of England (BoE) members did start openly speaking about the possibility of negative rates, in addition to their guidance of also keeping rates lower for the foreseeable future.

In fixed income, credit spreads followed moves in other risky assets over the quarter. US dollar-denominated credit outperformed, in part driven by the Fed's announcement to buy high yield ETFs and individual corporate bonds. Investors emboldened by the Fed's apparent support, jumped back into credit as yields fell to record lows and issuance rose to record highs. Euro credit rallied to a lesser extent, but had a positive quarter, nonetheless.

Outlook

Economies are re-opening quickly, but the Fund Manager believes a full recovery will take a long time. The initial surge in spending and output will likely flatten over the longer term, and structurally high unemployment may persist for many years as economies adjust. In addition, the pandemic has increased areas of vulnerability such as corporate debt. They see disinflationary forces remaining and uncertainty about future income will lead to consumer and business caution. A relatively quick resumption of output may ease supply constraints and, at the same time, the reversal of globalisation could halt the long-term disinflationary trend.

The Fund Manager believe policy frameworks will explicitly target rates and credit, with support for equities being less certain, and fiscal policy shifting from life support to managing transition to new normal. Additionally, we see central banks proposing to finance governments and provide liquidity. This policy support should mitigate defaults but won't prevent a drop in earnings.

They believe volatility will remain at higher levels, as persistent economic uncertainty argues against a return to low volatility. There may be scope for policy to dampen volatility but US dollar 'safe haven' characteristics are slipping. 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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