Invesco Global Targeted Returns

Quarterly Investment Option Update

30 September 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:
www.amp.com.au/performance

Investment Option Overview

Investment Category	Alternatives
Suggested Investment timeframe	3-5 years
Relative risk rating	4 / Medium
Investment style	Global Macro
Manager style	Single Manager

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

Regional Allocation	%
Other	8.90
United States	11.83
Europe	8.15
Hong Kong	6.76
Asia	6.37
Japan	6.12
Brazil	5.91
Australia	5.61
Mexico	5.61
United Kingdom	4.53
Poland	3.91
Russia	3.42
Singapore	3.27
Chile	2.94
Canada	2.71
Norway	2.69

Top Holdings – Independent Risk	%
Equity - Japan	5.69
Currency - Mexican Peso v Brazilian Real	5.02
Credit - Selective Credit	4.56
Interest Rates - Yield Compression	4.25
Equity - Short India	4.14
Equity - Selective Asia	3.93
Inflation - Short UK	3.90
Credit - US High Yield	3.89
Equity - Short European Insurers vs Market	3.83
Equity - Australia	3.63

Portfolio Summary

- Both positive and negative contributions to the portfolio were spread across a wide range of ideas, with no specific idea dominating.

- Large Cap equity stocks outperformed in the US, and Japanese stocks benefited as COVID-19 seems to have been tamed in that country.

- A weak dollar supported commodity prices in the quarter, which disfavoured Their Short Commodity idea along with ideas favouring the US dollar.

Investment Option Commentary

A number of equity ideas performed well over the quarter. Their 'Equity – US Large Cap vs Small Cap' idea boosted performance, as larger companies were generally more resilient during the recovery and outperformed in the September sell off. Signs that COVID-19 had potentially peaked in Japan, and no indication of a second wave of infections on the horizon, helped Their Japanese equity idea over the quarter. The newly added equity optionality idea also contributed, as the idea's upside exposure to the S&P 500 Index worked in Their favour. Their US high yield credit idea was another strong performer over the quarter, along with Their 'Credit – Selective Credit' idea which also benefitted from the accommodative of central bank policies. Elsewhere, Their idea preferring the Mexican peso to the Brazilian real was positive, and Their commodity carry idea was another notable contributor over the quarter.

On the downside, the 'Currency - Russian Ruble vs Chilean Peso' was hurt by its commodity sensitivity to oil versus copper. Several of Their currency ideas favouring the US dollar also detracted from performance, given their "risk-off" stance. Their 'Commodity – Commodity Short' idea also lost ground, driven by a number of factors over the quarter. As Asian demand rose some metals appreciated, while oil was relatively stable. A weaker dollar also supported commodity prices.

Market Commentary

The COVID-19 pandemic remained in the spotlight throughout the third quarter. The US saw a second wave of infections from mid-June to early-August, setting fresh records for daily cases and hospitalizations. As the US' second wave began to fall in September, focus switched back to Europe, as rising cases drew fears over a second wave sprouting there. Asia was the bright spot, with new cases remaining low over the quarter.
Even with these differences in containing COVID-19, economic surprises were generally positive throughout the world, and consensus expectations for global growth in 2020 rose over the quarter. US, Asia and emerging markets (EM) mostly beat or met expectations over the quarter, however there was an increasing amount of negative surprises as the quarter drew to a close.

Equities picked up where they left off in Q2, continuing their march higher through the first two months of the quarter. US stocks continued to outperform, as retail investors piled into the market with evidently little concern over valuations or the ongoing impact of COVID-19. The frenzy finally cooled off in September, as Brexit concerns, stalling stimulus negotiations, a renewed rise in virus cases in Europe and the looming US election weighed on global markets. EM equities posted a strong quarter; benefitting from strong performances in Asian equities, as the region continued to reopen with minimal new COVID-19 infections.

Outlook

Global economies are emerging from the pandemic shock, but the investment manager believes the pace of the recovery will be modest. High debt remains a constraint on private sector demand and there may be upside risk to growth from an extraordinary fiscal impulse. They also see accelerated structural change broadening inequality occurring across countries and regions.

The investment manager believes inflation is not an immediate issue, as monetary financed fiscal expansion is filling a shortfall left by private sector caution. Additionally, significant slack in economies will keep monetary policy loose for an extended period, and high unemployment likely to suppress wage growth. They see traditional monetary policy exhausted, and an emphasis on fiscal measures with central bank support continuing, as emergency measures are starting to be scaled back. Policy effectiveness looks to be hampered by complex challenges creating economic divergence, and they question whether policy effectiveness may be hampered by complex challenges creating economic divergence.

The believe dispersion is creating greater relative value and select directional opportunities. Companies with strong balance sheets and access to credit are in a position to outperform and shifting patterns of demand look to continue to support technology and some consumer sectors. Additionally, they see increasing divergence in emerging market performance depending on credit worthiness.

Finally, they believe volatility will remain elevated. They see higher currency volatility occurring partly as a result of suppressed interest rate volatility. Increasing reliance on policy support should ultimately produce equity volatility as well.

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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