

Invesco Global Targeted Returns

Quarterly Investment Option Update

31 December 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/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	13.0
US	18.0
Europe	13.1
Japan	7.2
UK	6.3
Mexico	5.4
Asia	4.9
Taiwan	4.6
China Offshore	4.4
Norway	4.2
Australia	4.1
Hungary	3.3
Hong Kong	3.1
Poland	2.8
Germany	2.8
Russia	2.7

Top Holdings – Independent Risk	%
Interest Rates - Yield Compression	9.3
Inflation - Short UK	6.9
Equity - Japan	6.1
Equity - China	5.6
Currency - Japanese Yen vs US Dollar	5.3
Equity - US vs EU Industrials	4.5
Currency - Norwegian Krone vs UK Pound	4.5
Equity - Diversified Alpha	4.2
Equity - Taiwan Carry	4.1
Equity - Australia	4.0

Portfolio Summary

- The fund had a positive quarter with positive ideas spread across asset types, but equity ideas stood out for positive performance.
- The portfolio went through a simplification process during the quarter, and the team added six new ideas to the portfolio, removed eleven ideas and made significant changes to the implementation of five ideas
- The 'Currency – US Dollar vs Asia' idea struggled as Asian economies had relative success in fighting the coronavirus, while the US dollar faced headwinds.

Investment Option Commentary

Performance was positive over the quarter with a majority of ideas contributing from many asset types. A number of equity ideas performed well over the quarter. The 'Equity – Japan', 'Equity – Australia' and their 'Credit – Selective Credit' ideas all performed well, while 'Currency – US Dollar vs Asia' struggled as Asian economies had relative success in fighting the coronavirus, while the US dollar faced headwinds.

The portfolio went through a simplification process during the quarter, and the team added six new ideas to the portfolio, removed eleven ideas and made significant changes to the implementation of five ideas. The Manager added 'Currency – Mexican Peso vs US Dollar', as the Mexican peso screens favourably versus the US dollar. They also implemented the 'Equity – China' idea, an idea that is long Chinese small-mid caps. They also added 'Equity – European Mid-Caps vs Large Caps' and an 'Equity – Taiwan Carry' idea. 'Equity – US vs EU Industrials' was also added. They believe US industrials will outperform European industrials given more attractive valuations and a stronger economic outlook post the vaccine rollout. Finally, they added the 'Interest Rates – UK vs Germany' idea.

Market Commentary

The ongoing battle against the COVID-19 pandemic and US elections were among the main themes in the quarter. As epidemiologists predicted, cooler and dryer temperatures in the northern hemisphere continue to fuel a viscous wave in cases and deaths across Europe and the Americas. Countries were forced to enact renewed lockdowns and restrictions to bridge the gap until approved vaccines are widely distributed. For the US elections, Democratic candidate Joe Biden was declared winner after several days of counting, while control over the senate remained to be seen until the Georgia senate runoffs in early January. A Biden presidency lifted markets, even as Trump and other Republican officials continued to sow doubt over the legitimacy of the election.

Key terms of the Brexit trade deal were finally reached on the 24th of December, putting an end to the complex and bitter negotiations seen throughout the year, at least for the time being. The European Central Bank (ECB) expanded its Pandemic Emergency Purchase Programme (PEPP) by another €500 billion and extended it to at least the end of March 2022 at its December monetary policy meeting. Also, in December, the US House of Representatives agreed on an additional stimulus of approximately \$900 billion in aid to jobless Americans, ailing businesses and other critical needs. The US Federal Reserve (Fed) reiterated its commitment to using its full range of tools to support the US economy and provide plenty of notice before any asset purchases are curtailed. Elsewhere, Chinese policy makers indicated their plans to scale back liquidity moderately and carefully in 2021, in order to avoid derailing a recovery.

Outlook

Invesco's central economic thesis outlines their thoughts about the global economy over the next two-to-three years. While they do not use it as a source of ideas for their portfolio, they must believe that each of the ideas that they hold is able to contribute a positive return against this backdrop. They believe a robust recovery from the pandemic is in sight but stretched balance sheets and valuation remain a long-term concern. The vaccine roll-out is acting as a stimulus for growth and policy remains supportive, however they see high debt returning as a constraint on private sector demand once profits peak.

Inflation should not be a longer-term issue in most economies, as inflation expectations elevated by recovering spending, fiscal largesse and loose monetary policy subside. They believe that beyond a cyclical bounce, spare capacity will continue to suppress medium-term inflation. They see a new policy paradigm of fiscal economic management with support from central banks where central banks are likely to look through any cyclical recovery in inflation. Globally, the credit impulse is no longer providing significant impetus and policy effectiveness is hampered by complex challenges creating economic divergence.

They believe there are select directional opportunities in some areas that have lagged the recovery. The vaccine is triggering a rotation towards some sectors hurt most by the pandemic and structural shifts in patterns of demand continue to support areas such as technology and some consumer sectors. US dollar weakness is a tailwind for emerging markets, but they expect increasing divergence 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. Additionally, increasing reliance on policy support should ultimately produce equity volatility, as well.

Availability

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

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