Invesco Global Targeted Returns

Quarterly Investment Option Update

31 March 2021

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	20.7
Europe	10.6
UK	7.6
Hong Kong	6.1
Australia	5.6
Japan	4.8
Asia	4.8
Taiwan	4.2
China Offshore	4.1
Hungary	3.4
Brazil	3.4
Mexico	3.1
Norway	3.0
Poland	2.9
Germany	2.7

Top Holdings – Independent Risk	%
Inflation - Short US Real Yields	7.8
Equity - Japan	5.7
Inflation - Short UK	5.5
Interest Rates - Yield Compression	5.5
Equity - UK	5.4
Equity - US	5.1
Equity - US vs EU Industrials	4.5
Interest Rates - Australia	4.3
Equity - China	4.3
Interest Rates - Selective EM Debt	4.2

Portfolio Summary

- Performance was negative over the quarter with equity ideas accounting for much of the positive performance and no specific ideas dominating with regards to the detractors.
- The strengthening of the US dollar played a significant role in three of the fund's currency ideas over the period.
- The fund sees 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, but also it seems that the market is reaching peak monetary stimulus.

Investment Option Commentary

Performance was negative over the quarter with equity ideas accounting for much of the positive performance and no specific ideas dominating with regards to the detractors.

A number of equity ideas performed well over the quarter. The 'Equity - Taiwan Carry' and 'Equity – Japan' ideas were the top contributors over the period. Both benefitted from strong performance of their local stock indices, as both countries continue to manage COVID-19 relatively well and have avoided backtracking to stricter lockdown measures seen elsewhere. The fund's US, UK and Australia equity ideas also benefitted as their local stock indices rallied. Additionally, the fund's preference for US versus EU industrials was additive during the quarter.

The strengthening of the US dollar played a significant role in three of the fund's currency ideas over the period. Rising yields in the US coupled with increasing vaccine rates helped push the dollar higher relative to most global currencies. This dynamic was behind much of the strong performance seen in the fund's US dollar vs Australian dollar, Brazilian real and Asian currency ideas. However, in currency ideas where the fund is short the US dollar, such as the Japanese yen and Mexican peso vs US dollar ideas, this same dynamic led to underperformance.

Elsewhere in the portfolio, the 'Inflation – Short US Real Yields' idea benefited as short-dated US real yields fell relatively less versus 5-year real yields in February. This move occurred in part as investors began to question the longevity of loose monetary policies in the US in the face of strong economic and inflationary data.

On the downside, the 'Inflation - Short UK' idea detracted as the Purchasing Managers' Index (PMI), an index that aims to measure of the prevailing direction of economic trends in manufacturing, posted a large upward surprise versus expectations in March. This shifted UK inflation expectations upward during the back half of the first quarter and negatively impacted the idea. 'Interest Rates - Selective EM Debt' also detracted for the period. Here, the fund's various holdings in high-yielding emerging market debt were negatively impacted in the later part of the quarter as US Treasury yields rose sharply.

Market Commentary

Unsurprisingly, and as the fund has seen over the past year, countries' abilities to control COVID-19 remained a major factor throughout the first quarter. Vaccine rollouts and upbeat economic data, in regions like the US and UK, had to be weighed against renewed lockdowns and vaccination delays seen elsewhere across the globe. Inflation remained a key concern over the period, as investors looked for near-term price pressures in the wake of supply chain disruptions and inflationary impacts from continued fiscal stimulus measures.

The majority of developed market (DM) central banks remained committed to loose monetary policies as they begin to recover from wrath of the pandemic. The US Federal Reserve raised near-term GDP projections but signalled its commitment to maintain the fed funds rate at ultra-low levels. The European Central Bank also maintained rates at record lows and committed to increasing bond-buying purchases. In emerging markets (EM), central banks were quicker to normalize monetary policies. Countries such as Brazil, Turkey and Russia all hiked rates over the quarter.

Global equities rose over the quarter but not without bouts of volatility along the way. The year began with optimism surrounding additional US fiscal stimulus, pent-up consumer demand and a global vaccine rollout pointing to a reopening that would drive growth higher. The quarter's volatility seemed punctuated by the retail trading frenzy that took both Wall Street and Main Street by storm. The equity market rally fizzled out in late February, as rising long-term government bond yields and renewed concerns over rising COVID-19 cases cooled off equity markets. This shift in market dynamics also led to value outperforming growth and DM equities outperforming EM.

In government debt markets, most DM bonds continued to sell off (yields rose) over the quarter. The latest US stimulus package along with positive economic surprises and a strong vaccine rollout all contributed to long-term US treasury yields rising rapidly. Long-term yields across other DM's such as the UK and Germany also rose. In EM, sovereign debt remained relatively calm over the quarter.

In currencies, the US dollar strengthened throughout the quarter as the strong vaccine rollout and rising US bond yields supported the currency. Elsewhere, the euro weakened as the European Union struggled to contain a renewed wave of infections and encountered issues with vaccine approvals and supplies. Conversely, the British pound outperformed as the UK looked to be in a relatively better place for their own vaccine rollout. The Brazilian real suffered significant weakness over the quarter, as factors such as rising infection rates, fiscal risks and rising inflation in the country all worked against the currency.

Oil prices continued to march higher during the opening months of 2021, as optimism over a vaccine-driven recovery and OPEC+ signalling better cohesion boosted sentiment. However, oil began to suffer as the first quarter drew to an end, as a renewed wave of COVID-19 cases caused the market to again question just how soon the world will return to "normal".

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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