Invesco Global Targeted Returns

Quarterly Investment Option Update

30 September 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

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	16.1%
US	17.5%
Europe	14.4%
UK	6.8%
Hong Kong	5.9%
Asia	4.6%
Mexico	4.5%
Taiwan	3.9%
Germany	3.7%
Brazil	3.7%
Hungary	3.6%
Norway	3.4%
Japan	3.4%
Poland	3.0%
China	2.8%
Australia	2.6%

Top Holdings – Independent Risk	%
Inflation - Short US Real Yields	7.0%
Equity - European Banks vs Market	6.7%
Equity - European Energy vs Market	6.6%
Equity - China	6.4%
Inflation - Short UK	6.3%
Interest Rates - Yield Compression	5.0%
Equity - Real Estate Recovery	4.8%
Interest Rates - Selective EM Debt	4.1%
Equity - Taiwan Carry	4.1%
Currency - Mexican Peso v Brazilian Real	3.8%

Portfolio Summary

- The fund posted a positive return over Q3 2021, outperforming its benchmark.
- Several competing factors impacted financial markets during the quarter with most equity markets ending lower and bond yields across generally rising.
- From an asset class perspective, the fund's equity and currency exposures were the main contributors, more than offsetting the losses from the inflation strategies.
- The hit rate (positive ideas vs negative ideas) was positive over the quarter. However, the skew (average size of the contributors vs average size of the detractors) was not in the fund's favour.

Investment Option Commentary

Most equity markets declined over the quarter, despite this, the fund's equity strategies generally proved to be positive contributors. The relative value ideas – European Energy vs Market and European Banks vs Market - were both strong contributors. Most of the gains were generated in September as oil and natural gas prices rallied to fresh year-to-date highs, whilst the associated rise in bond yields benefitted exposure to European banks.

The long Chinese equity position was also a notable contributor, notwithstanding Chinese equities falling by a staggering 18% over the quarter. This is due to the embedded crash protection (via options) in the idea, which saw the fund profit from the sell-off. The now closed long Japanese equity exposure also performed well. Counteracting a portion of the gains was the Real Estate Recovery strategy, which came under pressure as bond yields charged higher over the period.

Albeit to a lesser degree, currency strategies also contributed strongly. The long US dollar positions (vs a basket of Asian currencies and Australian dollar) performed the best. Over the quarter, the US dollar index was up by +1.9%, hitting new year-to-date highs. A more hawkish Fed has helped sentiment, while increased global economic uncertainty and higher US Treasury yields also boosted the currency.

On the flipside, inflation strategies negated a portion of the gains. The short UK inflation position proved to be the main underperformer, with September being a particularly negative month. September saw the inflation curve steepen materially as the UK was embroiled in a supply chain crisis that hit oil and gas particularly hard. Albeit to a lesser degree, the short US real yield position also detracted over the period. Despite the losses, the longer-term thesis for both strategies remains in-tact.

Long Credit strategies registered more modest gains in Q3, though the underperformance of volatility strategies, most notably Global FX volatility offset advances. The interest rate strategies finished the quarter broadly flat. September was a particularly beneficial month for the Germany vs France rates position which benefitted from French yields rising proportionally more than German yields. The selective EM Debt strategy however offset the gains as exposure to Mexican and South African rates was caught in the broader market direction of yields rising (selling off).

Market Commentary

The third quarter was really a tale of two halves for equity markets. A more cautious pattern in July-August was followed by a more reflationary, but volatile, September. Several competing factors impacted financial markets during the quarter. While vaccination rates continued to rise the spread of the Delta variant saw a large increase in new Covid cases, which saw further containment measures, notably in "zero-tolerance" countries, such as China. Despite that there was a general trend towards further re-opening of economies and a return to normality.

Inflation rose sharply driven by base effects, supply chain issues and labour shortages. Concerns around US fiscal policy and the debt ceiling were increasingly in focus towards the end of the quarter. In China regulatory pressures and the fate of Evergrande, the second largest property developer, also weighed on investor sentiment. Against this backdrop it was hardly surprising that financial markets generally found it much tougher going in the third quarter.

Among government bonds, the 10-year UK Gilt rose to over 1%, its highest level since May 2019. The 10-year US Treasury also edged higher, but with some volatility, ending the quarter at 1.52%. Credit markets were mixed overall, though yields generally rose. High-yield bonds outperformed investment grade. In currency markets, the US dollar had a strong quarter with the DXY Index up +1.9%, having hit new year-to-date highs. Commodity markets also generally had a positive quarter led by energy (particularly gas) price rises.

Outlook

Although Invesco think the recovery remains on track, headwinds are intensifying. Economic growth should remain positive, but demand is shifting between goods and services, changing the overall growth dynamic. Longer term, Invesco believe high debt and ongoing policy intervention will subdue the cycle.

Invesco think the recent rise in inflation is transitory and expect some price pressures to ease as demand adjusts and supply chains are restored. Once spare capacity is exhausted, excessive stimulus would cause inflation to persist.

Developed market central banks appear close to tapering their asset purchases and, in some cases, raising interest rates, which are already rising in emerging markets. Fiscal policy is an ongoing support, but Invesco see reduced prospects for a permanently greater fiscal role. Globally, monetary stimulus has peaked.

The dollar is positioned to benefit from both US economic outperformance and growing risks to vulnerable areas amid reduced global liquidity. Equity opportunities are underpinned by structural and societal trends (e.g. real estate, Asia) and sectors (e.g. banks, energy). Structural issues are resurfacing in emerging markets given a less favourable policy environment, but Invesco see select opportunities in local market debt.

Higher currency volatility is probable, reflecting economic and policy divergence among countries, and should benefit the US dollar. Bouts of interest rate volatility are more likely as markets challenge central banks, but ultimately interest rate levels should be contained. A disrupted recovery and uncertain monetary policy responses could sustain higher volatility in equity markets.

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

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS IDEAS RESULTS