Invesco Global Targeted Returns

Quarterly Investment Option Update

31 December 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 to5 years
Relative risk rating	4 / Medium
Investment style	Global Macro
Manager style	Single Manager

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

Regional Allocation	%
US	21.7%
Europe	16.4%
UK	8.6%
Hong Kong	6.6%
Taiwan	5.9%
Mexico	5.5%
Asia	5.3%
Germany	4.5%
Japan	4.3%
Brazil	4.3%
China Offshore	2.8%
South Korea	2.0%
Russia	1.7%
South Africa	1.6%
Cayman Islands	1.4%

Top Holdings – Independent Risk	%
Inflation - Short UK	8.5%
Equity - European Banks vs Market	7.5%
Interest Rates - US Long Term	6.6%
Equity - Strong Balance Sheets vs Market	6.2%
Equity - Energy	5.9%
Equity - Taiwan Carry	5.8%
Interest Rates - Selective EM Debt	5.6%
Credit - Selective Credit	5.2%
Equity - Europe	5.2%
Equity - US	5.1%

Portfolio Summary

- Several competing factors impacted markets during the quarter, but global equities delivered strong gains, supported by above-trend economic growth and healthy corporate earnings.
- From an asset class perspective, Invesco's equity and currency exposures were the main contributors, more than offsetting the losses from the inflation strategies.
- Over the quarter, the hit rate (positive ideas vs negative ideas) was above 50% each month, though the skew (average size of the contributors vs average size of the detractors) ended the period in marginally negative territory.

Investment Option Commentary

From an asset class perspective, equity ideas were the strongest contributor, continuing to benefit from the generally constructive market backdrop. 'Equity - Strong Balance Sheets vs Market' performed strongly in light of central bank tapering and signals of rate rises, something that would be particularly negative for companies constrained by weak cash flows, refinancing issues and high debt service costs. 'Equity - Taiwan Carry', 'Equity – US', and 'Equity – Europe' also delivered positive performance. 'Currency - US Dollar vs Euro' also performed positively with the idea being supported by diverging policy expectations of the US Fed relative to the ECB.

With inflation concerns persisting, the fund's short inflation positions, Short US Real Yield (now closed) and Short UK Inflation, continued to challenge performance. 'Interest Rate – Policy Constrained' (now closed) was another notable detractor, coming under pressure as short-end yields in Australia and Canada dramatically rose following a more hawkish tone from the respective central banks. Equity ideas with a cyclical bias such as 'Equity – Energy' and 'Equity – European Banks vs Market' also detracted. While recovering some of the lost ground in December, the gains were not enough to offset the underperformance seen in November on the back of rising fears of the Covid variant, Omicron, in Europe.

Market Commentary

It was an eventful quarter as financial markets contended with high inflation and the persistence of COVID-19. Despite these uncertainties, global equities delivered strong gains, supported by above-trend economic growth and healthy corporate earnings. US technology stocks led the rally. The FTSE 100 also enjoyed gains to cap off its best annual performance in five years with sentiment bolstered by evidence that the Omicron variant causes less severe illness than initially feared.

The outcome in bond markets was more mixed. With the US economy nearing full employment, Fed Chair Jerome Powell said that rising amounts of policy support was not needed. Opening the door to higher borrowing costs, the Fed announced it was doubling the pace of its bond-buying taper, putting it on track to end the purchases of treasuries and mortgage-backed securities by March 2022. Short-dated government bonds fell in value while long-dated govt bonds drew support from fears over the Omicron variant.

Commodity markets were generally weak over the quarter due to fears of further lockdowns related to the Omicron variant and the impact that would have on demand. In currency markets, the dollar rallied against most currencies boosted by a combination of monetary tightening and benefitting due to its 'safe-haven' status.

Outlook

Invesco still believe this cycle has further room to run and are positive on the outlook for risk assets. Short term, Invesco expect more volatility and mixed markets as investors grapple with another COVID winter and shifting monetary policy. Invesco think three themes will drive markets in 2022: 1) the path of inflation and monetary policy 2) consumer and corporate spending 3) supply chain normalisation.

Goods price inflation should moderate in 2022. Invesco expect monetary policy, led by the US, to gradually tighten, but the path will be well signaled and very slow. Invesco think this will increase volatility, but not be a major headwind for risk assets, provided growth remains robust. High levels of government and corporate debt around the world should act as a cap, preventing bond yields from rising too much in the coming years.

Both corporations and households around the world have much larger cash balances than in 2019 and over the coming years Invesco expect balances will fall to more normal levels as people gain the confidence to spend and invest more. Assuming the COVID-19 situation improves, consumer spending will shift back toward services, but given high cash levels, Invesco think spending on goods will remain robust. After a decade of underinvestment and labour constraints, robust capital expenditures in coming years should support both cyclical sectors and markets such as Europe ex UK. Those themes augur well for strong earnings growth.

Supply chain issues caused significant upward price pressure in 2021 but Invesco see that easing as vaccinations rise and consumers spend more on services. Already, Invesco see signs that shipping costs are peaking. Easing supply chain pressures should lessen investors' worries about profit margins and inflation.

Availability

Product name	APIR
SignatureSuper*	AMP4727AU
SignatureSuper Allocated Pension*	AMP7122AU

*Closed to new investors

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