Invesco Global Targeted Returns

Quarterly Investment Option Update

30 June 2022

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	n/a	100

Regional Allocation	%
Europe	20.8%
US	14.7%
Australia	8.2%
UK	7.1%
France	6.4%
Asia	5.5%
Germany	5.3%
New Zealand	4.3%
Singapore	3.9%
Mexico	3.4%
Taiwan	2.7%
South Africa	2.6%

Top Holdings – Independent Risk	%
Equity - European Banks vs Market	10.3%
Volatility - US Variance	6.6%
Interest Rates – Australia vs US	6.4%
Equity - Strong Balance Sheets vs Market	6.4%
Credit - European High Yield	4.9%
Credit - Selective Credit	4.9%
Inflation - Short UK	4.8%
Equity - US	4.7%
Currency - US Dollar vs UK Pound	4.4%
Currency - US Dollar vs Asia	4.1%

Portfolio Summary

- The second quarter of 2022 has been difficult for markets as rising inflation and the tightening of monetary policy has resulted in an increasingly risk-off environment.
- The fund's long US dollar ideas worked well as the currency was boosted by its 'safe haven' status. Volatility ideas also benefitted from diverging monetary policy expectations across regions. On the contrary, interest rate, and risk-on ideas within equities and credit more than offset the gains.
- The fund continues to maintain a well-diversified exposure to navigate what is proving to be a difficult year so far.

Investment Option Commentary

Being long the US Dollar paid off in the second quarter of the year, with the currency being buoyed by its 'safe haven' status as investors opted to take a risk-off stance. Expectations that the US Fed would be more aggressive in hiking rates versus other central banks also supported the Dollar on a relative basis. 'Currency – US Dollar vs Asia' and 'Currency – US Dollar vs UK Pound' contributed the most.

Given its defensive characteristics, 'Equity – Strong Balance Sheets vs Market' benefitted from the negative market environment as more resilient businesses with stronger balance sheets outperformed those constrained by weak cash flows, refinancing issues and debt servicing. The increased divergence in monetary policy expectations across regions has increased the level of volatility within currencies, benefitting the manager's 'Volatility – Global FX Volatility' idea. 'Equity – UK Large vs Mid Caps' also finished the quarter on a strong note. A further weakening of the UK pound and economic fundamentals in the region supported the more export-led large cap equities vs the more domestic oriented mid cap sector.

'Credit – Selective Credit' and 'Credit – US High Yield' detracted, being negatively impacted by a material widening in credit spreads and rising bond yields. Unsurprisingly, other risk-on ideas, such as 'Equity – Taiwan Carry' also suffered from the negative market sentiment. 'Interest Rates – Yield Compression' also delivered a negative outcome at portfolio level as the spread between long dated US and German yields widened whilst the strength in the US dollar, meant that 'Currency – Japanese Yen vs US Dollar 'detracted.

Market Commentary

The second quarter of 2022 has been difficult for the majority of global equity markets as rising inflation and the tightening of monetary policy has resulted in an increasingly risk-off environment. Over the course of the quarter, the US Federal Reserve accelerated their rate hike cycle in a bid to taper the quickly rising consumer prices. However, it was faced with the additional challenge of a slowing economy, thus fuelling stagflation concerns which have ultimately boiled over into recession worries. It was a similar story in Europe and the UK, with the cost of living rising and inflation levels rising far above the 2% target level. Meanwhile, China has been cutting rates in an attempt to revive their current economic growth slowdown which has been weighed on by Covid lockdowns and regulatory scrutiny.

In terms of equity markets, US and European markets saw sharp falls over the quarter. Asia Pacific, except for China, also detracted significantly, with technology-heavy markets such as Taiwan and Korea underperforming the most in light of the higher rate environment. Chinese equities were able to buck the trend and finish higher, buoyed by the government's efforts to cushion the slowdown, as well as an improving Covid situation. Emerging markets faced a turbulent period and finished the quarter lower too, with commodity-heavy Latin American indices giving back the most gains as fears of a global slowdown drove commodities lower.

In bond markets, sovereign and corporate bonds also delivered negative returns as yields rose sharply over the period. Credit spreads (the additional yield over government bonds) widened for both investment grade and high yield bonds.

Outlook

The fund continues to maintain a well-diversified exposure in order to navigate what is proving to be a difficult year so far. Within equities, the portfolio maintains a bias towards heavy industry, fiscal and capex beneficiaries given the manager's more constructive view relative to consumer facing sectors. German vs French equities and long European Infrastructure equities are prime examples, both of which complement the manager's existing exposure to European Banks.

Within this space, the manager is also continuing to look for mispriced opportunities and ideas to further bolster on the downside. The manager is therefore short Indian equities and long more resilient businesses with stronger balance sheets over those constrained by weak cash flows, refinancing issues and debt servicing in the US. Whilst some ideas are directional, since the start of the year the manager started to express some of its equity views via the use of relative value and convex option overlay structures to help reduce some degree of market directionality.

Outside of equities, the portfolio continues to maintain a long US dollar bias against selective currencies both in DM and EM, something which has worked particularly well since the start of the year.

In the most recent period, the team has increased the overall level of duration at portfolio level by going long US long-dated bonds. Whilst volatility in the fixed income space remains high, the teams has gained increased comfort from current (higher) yield levels combined with a more subdued pipeline of inflationary pressures. This exposure complements other interest rate relative value ideas.

As a team, the manager remains focused on finding opportunities in those areas of the market which are expected to benefit from the unwind of sizeable dislocations that have emerged in the last number of years due to central bank intervention and transitory supply side shocks driven by events like Brexit, Covid-19 and most recently Russia's invasion of Ukraine. Being short UK inflation, long FX volatility and long Australian vs US rates are prime examples of where the team is taking an active view.

Availability

Product name	APIR
SignatureSuper*	AMP4727AU
SignatureSuper Allocated Pension*	AMP7122AU

*Closed to new investors

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