Invesco Global Targeted Returns

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
Flexible Lifetime – Allocated Pension	AMP2050AU
Flexible Lifetime – Super	AMP2049AU
CustomSuper	AMP2049AU
Flexible Super – Retirement	AMP2051AU
Flexible Super – Super	AMP2052AU
SignatureSuper	AMP4727AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

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Overview

Aim & 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 equities, equity related securities, debt securities, real estate investment trusts (REITs), units of 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. All short positions will be taken via the use of derivatives.

Investment category: Alternatives

Suggested Investment Timeframe: 3-5 years

Relative Risk Rating: 6 / High

Portfolio statistics

Risk by Strategy	%
Equity	32%
Interest Rates	15%
Credit	5%
Currency	29%
Commodity	5%
Volatility	3%
Inflation	10%

Regional Exposure	%
Asia	1%
Australia	5%
Canada	2%
Cayman Islands	2%
Chile	4%
China	0%
Europe	8%
France	10%
Germany	6%
Hong Kong	6%
India	4%
Ireland	0%
Japan	4%
Norway	1%
Russia	3%
Singapore	0%
Sweden	4%
Switzerland	4%
United Kingdom	7%
United States	6%
Other	25%

Market Commentary

The final quarter of the year continued a very strong year for global equity markets as a strong earnings season was complemented by generally positive economic data. In the US, President Trump enjoyed some success in getting his proposed tax reforms through congress and the US Federal Reserve (Fed) raised interest rates in December, as expected, while upgrading its economic outlook for 2018. US equities capped off the year by hitting new all-time highs and completed a remarkable run of delivering positive returns every month of the year for the first time since 1958. While the proposed tax cuts helped equities higher, corporate earnings were also strong on a year-on-year basis.

In the UK, the Bank of England announced its first interest rate rise in a decade and a strengthening pound had a negative impact on the main stock indices, compounded by a lacklustre growth outlook compared to other developed economies. However, the positive performance of commodities helped UK indices end the year at all-time highs. Meanwhile, uncertainty reigned in the Brexit negotiations as the UK and European Union jostled for position but as events unfolded markets were increasingly optimistic that a period of transition could be successfully negotiated.

The failure of Chancellor Angela Merkel to form a new ruling coalition in Germany saw the return of political uncertainty in Europe, which weighed on equity markets. In addition, the unsettling events around the Catalonia independence referendum highlighted the fragility of certain parts of the European Union and investors also began looking forward to what could be tumultuous elections in Italy in 2018. At the same time, economic momentum accelerated and there was evidence that the recovery was not just limited to Germany as growth in France and Italy also picked up.

The European Central Bank also made its first tentative steps towards quantitative tightening, saying it would reduce its monthly bond-buying programme by half, though at the same time extending the programme.

Elsewhere, Prime Minister Shinzo Abe swept to a convincing victory in Japan’s snap election, which was interpreted as a strong endorsement of ‘Abenomics’. While this depressed the yen, equities continued their strong run and continued to be boosted by strong corporate earnings.

Asia ex-Japan ended the year as the best performing region for equities with US dollar weakness providing a further boost to valuations of Asian and other emerging market equities. Emerging market debt also benefited from the backtracking US dollar. China continued to confound the bears with growing market optimism that it could avoid a significant slowdown.

Elsewhere, there was a bigger than expected interest rate cut in Russia where policy makers cited an OPEC deal to maintain oil production cuts as helping to keep inflation in check. Diminishing inflation expectations in Brazil led the central bank to cut rates while the opposite was true in Mexico where a new central bank governor marked the beginning of his tenure with a rate rise as inflationary pressures mounted.

Despite a backdrop of reduced support from the main central banks, government bonds delivered positive returns with the Gilt market the highest returning of the core markets. This reflected policy changes that had been widely communicated in advance. The strong Gilt performance was in part a result of dovish statements that accompanied the hike and the UK government’s agreement with the European Union on the first phase of the Brexit negotiations. Bonds in the banking sector extended their recent gains with subordinated financials the best performing bank capital instrument.

Outlook

The fund manager believes that global growth is currently being dominated by a combination of cyclical factors, such as global trade, and that longer term prospects remain subdued. There are question marks over the durability of the recovery. Structural issues remain a risk, specifically as global liquidity grinds lower, which should cap the upside for credit growth in this cycle.

The fund manager believes that the current low inflation environment is likely to persist with inflation contained by a lack of pricing power and the debt overhang. While the fund manager believes politics could influence wage negotiations and push wages and inflation higher, the Fund are also convinced that the global price of labour will probably remain low relative to history.

The fund manager believes that core bond yields are ultimately capped by structurally lower nominal economic growth and that evidence of capital expenditure from corporates is necessary to support a self-sustaining recovery. The Fund is also concerned that policy conflicts are influencing decision making by central banks, especially in the UK and Europe. In terms of the US dollar, the fund manager believes its global funding role means the currency still has support.

A cyclical improvement in earnings is providing some support to riskier assets, particularly in Europe and Japan. However, the Fund can see a trade-off happening in the US between buybacks and investment. Credit markets look expensive, which makes them vulnerable to any change in policy while equity returns are dominated by income. For this reason, access to diversified alpha through equity and credit strategies is a useful source of potential additional value.

Finally, while volatility has remained stubbornly low, lingering macro uncertainties suggest that this is unsustainable and the fund manager believes volatility is likely to rise from here. Fixed income and currency volatility remain sensitive to central bank action, however, investor behaviour (such as the search for yield) is also influencing current levels of market volatility

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