Invesco Global Targeted Returns

Quarterly Investment Option Update

30 June 2019

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	6 / High
Investment style	Global Macro
Manager style	Singe manager

Top Holdings – Independent Risk	%
Equity - Global	7.4%
Currency - Japanese Yen vs Korean Won	6.4%
Equity - Japan	5.7%
Interest Rates - Selective EM Debt	4.9%
Equity - European Divergence	4.2%
Interest Rates - Leveraged Dev Mkts	4.0%
Equity - US Staples vs Discretionary	3.9%
Equity - Selective Asia Exposure	3.8%
Commodity - Short	3.8%
Equity - Global	7.4%

Regional Allocation	%
United States	13.11%
Europe	9.05%
Spain	7.01%
United Kingdom	6.11%
Mexico	5.47%
Japan	5.18%
Hong Kong	5.04%
South Korea	4.38%
Taiwan	3.96%
India	3.91%
Brazil	3.50%
China Offshore	3.17%
Norway	2.90%
New Zealand	2.66%
Canada	2.57%
Other	21.97%

Portfolio Summary

- The strategy was marginally positive on a gross basis over the quarter - with contributions coming from a broad range of ideas.
- Invesco's interest rates ideas performed well during the quarter, including Equity ideas linked to expectations of lower US interest rates.
- Invesco remains cautious in our economic outlook as they believe the slowing economic growth narrative is beginning to play out. This weaker growth combined with low inflation has combined to reset the policy landscape

Investment Option Commentary

Given the significant fall in yields globally, it is perhaps unsurprising that Invesco's Interest Rates – Selective EM Debt' and 'Interest Rates – Leveraged DM' ideas performed well. Specifically, exposure to emerging market government bonds in Mexico, Poland and South Africa and developed market government bonds, especially in Europe, contributed positively.

Invesco's 'Equity – US Large Cap vs Small Cap' idea was also among the top performers for the quarter. This idea has a number of components but our preference for homebuilding stocks over small caps was particularly beneficial. Homebuilders have been a major beneficiary of a US Federal Reserve indicating lower rates going forward, which has driven mortgage rates lower. The environment of lower rate expectations also boosted our 'Credit – Selective Credit' idea over the period.

On the downside, their European and UK equity ideas were held back by stock selection. However, their preference for Spanish stocks over French and German stocks also weighed on the European idea as Spain's main stock index underperformed over the quarter. Their optimism on the outlook for Spain was reflected well in the rates market but this didn't transpose to the equity implementation.

Market Commentary

The second quarter of the year was all about the pivot, or in other words, global central banks telegraphing their intentions to keep interest rates lower for even longer. While the US Federal Reserve (Fed) had been ahead of the curve in its cycle of raising interest rates it also led the way back down and, by quarter end, markets had begun to price in a number of rate cuts in the US.

In addition, there were clear indications from other major central banks, the European Central Bank in particular, that they were prepared to take measures to support the global economy should the economic backdrop remain lacklustre.

Expectations that central banks would cut interest rates pushed government bond yields lower (and prices higher), led by the US and Italy. The ten-year Bund yield hit another record low during July, well into negative territory and both the ten-year US Treasury and Gilt yields hit their lowest levels since late 2016. Corporate bond markets also performed well, outperforming government bonds.

Outlook

Invesco's central economic thesis outlines their thoughts about the global economy over the next two-to-three years. While they do not use it as a source of ideas for their portfolio, they must believe that each of the ideas that they hold is able to contribute a positive return against this backdrop.

Invesco remain cautious in our outlook as they believe the slowing economic growth narrative is beginning to play out. They can see symptoms of a downturn emerging across corporate profits, capex and also the property sector. As a key component of the global growth story, they are watching China closely and policy makers there appear to be focused on managing transition rather than fuelling a growth surge. They also expect regionalisation (in its various forms) to hamper economic growth.

Given this backdrop and current valuations, Invesco believes risk assets appear vulnerable and require a selective approach. They believe relative value opportunities exist in emerging markets and that the focus on thematic and idiosyncratic drivers such as politics, trade and balance sheets is now an important factor. For these reasons, access to diversified alpha through their colleagues' equity and credit strategies is a useful source of potential additional value.

Finally, they believe volatility is likely to reset at higher average levels. While investor behaviour (such as the search for yield) has managed to suppress volatility, they believe political uncertainty and financial system stresses are likely to drive volatility higher. Given the currently low pricing of volatility across a number of asset types, they think this scenario provides opportunities in rates, currency and equity volatility.

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

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