Invesco Global Targeted Returns

Quarterly Investment Option Update

31 March 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	%
United States	22.4%
Europe	13.8%
Germany	10.3%
United Kingdom	8.6%
Taiwan	6.4%
France	5.9%
Hong Kong	5.9%
Asia	5.1%
Japan	3.8%
Mexico	3.2%
China Offshore	3.0%
South Korea	1.8%
South Africa	1.5%
Cayman Islands	1.3%
Bermuda	0.6%

Top Holdings – Independent Risk	%
Equity - European Banks vs Market	6.7%
Inflation - Short UK	6.5%
Interest Rates - Yield Compression	6.4%
Equity - Taiwan Carry	6.0%
Equity - Energy	5.6%
Equity - Strong Balance Sheets vs Market	5.6%
Credit - Selective Credit	4.7%
Equity - US	4.7%
Equity - UK Large vs Mid Caps	4.6%
Volatility - US Variance	4.4%

Portfolio Summary

- Russia's escalating hostilities toward Ukraine led to an extreme environment, with sanctions, severe liquidity constraints and the immediate closing of certain financial markets. This had a significant effect on financial markets.
- From an asset class perspective, equity exposures were the main contributors but unfortunately this was offset by losses in interest rate and inflation ideas.
- The portfolio maintains diversified exposure to risk assets across equities and credit, reflecting the team's modestly constructive view on the outlook for above-trend (albeit slowing) global growth.

Investment Option Commentary

From an asset class perspective, equity ideas were the strongest contributors. 'Equity – Taiwan Carry' performed positively over the quarter, largely aided by the positive impact of the underlying long US dollar FX positions. Equity ideas with a cyclical/value bias also delivered a positive outcome at portfolio level, this was in spite of the broader equity market coming under pressure in the first three months of the year. 'Equity – Energy' and 'Equity – UK Large caps vs Mid caps' were notable contributors in this regard. 'Equity – Equity Optionality' also added to overall performance as did 'Volatility – Global FX Volatility' idea which benefitted from a change in expectations of future central bank policy tightening across regions.

'Interest Rate – Selective EM Debt' detracted the most at portfolio level, largely driven by the full-write down of long exposure to Russian Government bonds (currency hedged) following the outbreak of the war in Ukraine. 'Inflation – Short UK' also challenged the fund's overall performance as the ongoing increase in commodity prices has not only driven short term expectations of inflation higher but has also impacted longer term pricing of inflation risk across markets.

'Currency - Japanese Yen vs US Dollar' was another detractor, with the Yen weakening to a six-year low vs the Dollar on the back of monetary policy divergence between the two regions combined with low growth and inflation in Japan relative to the rest of the world. The Fund also experienced a negative contribution from 'Interest rates – Yield Compression' and 'Equity – Europe' with the latter coming under pressure due to the risk-off sentiment that prevailed over the quarter.

Market Commentary

2022 started on the back foot, beleaguered by the changing tide of central bank policy and higher real yields that injected fear and volatility into markets throughout January. As February came to a close, however, Russia's escalating hostilities toward Ukraine led to an environment unlike any the manager has seen in the past, with sanctions, severe liquidity constraints and the immediate closing of certain financial markets. This had a significant effect on financial markets with investors generally opting to take risk off the table.

The Fed delivered its first interest rate increase since 2018. The policy rate was increased by 25bps from near zero with the future path of further rate hikes being reappraised following comments from the Fed Chair Jay Powell. His remarks that the "economy is very strong" and that the probability of recession is "not particularly elevated" drove market expectations that the May meeting could herald a 50bps hike - a move last seen in 2000. Pressure on the European Central Bank to raise interest rates grew following the release of inflation data which showed consumer prices, driven by higher food and energy prices, rose to a record 7.5% rate in March from a year ago, well above the ECB's 2% target.

Against this backdrop, it was a challenging quarter for bond markets with heightened volatility spurred by strong inflation numbers, the prospect of a more aggressive monetary policy tightening and changes in investor sentiment related to the war in Ukraine. Sovereign bonds sold off across the board. Similarly, it was also a negative period for corporate bonds.

Outlook

The investment manager does not think events in Ukraine will be more systemic in nature. The key consideration is the extent to which the invasion will affect global growth, the path of monetary policy and corporate earnings. While very troubling from a humanitarian standpoint, recent events do not materially change any of these variables and, therefore, do not alter the longer-term case for the fund's core exposures.

The portfolio maintains diversified exposure to risk assets across equities and credit, reflecting the team's modestly constructive view on the outlook for above-trend (albeit slowing) global growth.

Within equities, Invesco favour a bias toward more cyclical/value-oriented market segments – such as energy, UK large vs mid-cap equities and European banks vs the market – which tend to perform relatively better in an environment where monetary policy rates normalise and commodity prices inch higher. Likewise, as central bank policy begins to normalize, the manager expects higher volatility in smaller firms (Russell 2000) companies compared to large-cap (S&P 500) firms because larger firms tend to have larger cash buffers and less sensitivity to higher borrowing costs. As a result, Invesco has a preference for long positions in more resilient businesses with stronger balance sheets over those constrained by weak cash flows, refinancing issues and debt servicing.

At the same time, the fund continues to seek exposure to selective US dollar pairs, as well as to areas of the market expected to benefit from the resolution of sizeable dislocations that emerged in recent years due to central bank intervention, Brexit and COVID-19 related shocks. Being short inflation in the UK and long foreign currency volatility seem particularly attractive in this regard.

Availability

Product name	APIR
SignatureSuper*	AMP4727AU
SignatureSuper Allocated Pension*	AMP7122AU

*Closed to new investors

Contact Details

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

INSIGHTS
IDEAS
RESULTS