

SHINING A LIGHT ON..... INVESCO GLOBAL TARGETED RETURNS FUND

At a glance

When it comes to fixed interest / bond investment, it is a general view that we live in uncertain times. Fixed interest / bond investments have enjoyed strong returns in recent years, however the view across the board is that this is coming to an end. Certain asset classes may continue to do well but investors will have to accept a greater degree of risk with potentially lower returns.

Fund managers (or marketing teams!) are very good at coming up with strategies which respond to different environments. This time is no different and we are seeing new fund launches all the time. Some of these look to drive positive returns from the fixed interest / bond markets and others look to focus on reducing volatility to match bond type volatility, but drive returns closely related to equities.

One of the most recognisable funds which adopts a strategy of reduced volatility with equity type returns is the Standard Life Global Absolute Return Strategies Fund (GARS). In 2013 some senior members of the team left and set up a similar fund at Invesco. At the time one of our concerns was whether a smaller team could deliver a similar strategy in an effective way.

12 months on, and it appears the answer is yes. In this update with the product director (who works alongside the team) we look to understand more about the process and how the fund is positioned.

Who are the team behind the fund?

The key members of the team are David Millar who is Head of Multi Asset, Dave Jubb and Richard Batty. All three worked together at Standard Life and were involved with the Standard Life GARS Fund.

David's career goes back to 1989 before joining Standard Life in 2008 where he was one of the then four portfolio managers on its absolute return strategies and chaired its Bond Investment Group. Dave's career goes back to 1982, joining the multi asset team at Standard Life in 2006 where he was a portfolio manager on its absolute strategies. Richard's career goes back to 1995 and joined the multi-asset team at Standard Life in 2003.

All three have a detailed working of the strategy developed at Standard Life and have proven the ability to take this into a supportive new environment.

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Fund highlights?

Unsurprisingly the fund is an almost carbon copy of the Standard Life GARS Fund.

It targets a return of 3 month sterling libor plus 5% gross on a rolling three year basis. But similar to the Standard Life Fund it is looking to do this with volatility of at least half of global equities. At present volatility is a third of global equities, so well within the target.

These types of funds are starting to offer an alternative option to bonds (where returns are being squeezed and volatility is increasing). For investors they need to 'reverse view' this fund, it starts at a basic level by looking at ideas. The managers then take the best of those ideas and blends them together. The make-up of the fund is centred around 20 to 30 investment ideas.

The asset classes and asset types are the tools to gain access to those ideas. So for example, an idea might be currency exposure within emerging markets. An example given in the discussion was the Indian rupee versus the Chinese renminbi. With political changes in India the team believe the confidence flowing into India will boost economic growth and further increase investment. This will benefit the currency which looks cheap, whereas China looks expensive.

Each idea has a two to three year timeframe – the aim is that all the ideas will play out over this timeframe but over the short term it won't necessarily happen.

When we discussed the process Georgina explained that although the economic outlook forms part of the process it is not the point from which they start. If the ideas come out of one view of the world it would not help to achieve its targets over all market conditions. And although some ideas make look good from a return potential it is also about how they fit within the portfolio as a whole.

The diversification of ideas is really important to the fund because it is this that drives down the risk on the fund. So some of the ideas the fund uses include UK vs Swiss Equities, UK vs French Interest Rates, US vs European Currency, Short UK Inflation etc. So effectively it is this blend of ideas which will drive returns.

Although there is a 2 to 3 year time horizon, the fund is actively managed – so for example if an idea plays out sooner than expected or perhaps there remains no value in the original idea these will be replaced.

At the end of 2014 two thirds of the ideas were contributing positively to the performance and this has delivered the strong performance since launch. Georgina stressed that the no single idea is highly exposed so the spread keeps the risk in check.

From an asset point of view the types of holdings will include credit exposure, currency, equity, as well as inflation, interest rate and volatility instruments.

In conclusion the underlying assets used to deliver returns may be seen as complex however from a top down look, the fund is focused on driving positive returns and to do this it is a blend of diversified ideas to keep risk under control and deliver positive returns. To date it has succeeded in achieving this but the fund has only been operational since 2013 and some investors interested in the fund might want a longer track record.

Potential investors have to accept this is not a bond fund and includes a blend of different assets. It will target bond like volatility but this is the only similarity. Although it targets positive returns it can

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also deliver negative returns. Additionally the complexity of the strategies used may not appeal to all investors.

Fund performance

The fund was launched on the 9th September 2013 and therefore performance data is limited. Since launch up to the 28 February the fund has returned 10.38% p.a.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

The team learnt their trade at Standard Life and have used this to replicate the strategy at Invesco. It only has a limited performance track record but to date has delivered on its aims.

The source of information in this note has been provided by Invesco and is correct as at March 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.