

## SHINING A LIGHT ON..... IP Global Targeted Returns Fund

### Update....

In an environment where bond investments are being challenged investors are seeking alternative options which offer similar volatility / risk. This fund is one of those options, in the last review we highlighted that this is not a bond fund but aims to target bond like volatility.

The fund was launched in 2013 and was developed by some of the team from the Standard Life Global Absolute Return Strategies Fund. The fund since launch has attracted over £4 billion of assets and has delivered strong performance. Additionally the team has grown to ten with two new additions and they have input from across the Invesco Group (more than 750 professionals worldwide).

In this update we looked for an update on what the fund is looking to achieve and current positioning. It is worth adding that these types of funds will not appeal to all investors as the strategies are complex and although they target a positive return nothing is guaranteed.

The primary aim of the fund is to invest in ideas. So for example they may feel that Emerging Market Equities will do better than US Equities over a three year period. Taking that idea they will then consider the best way to get exposure to that and at the same time control the volatility. The fund is a blend of ideas so no one idea dominates the fund. Some ideas will also 'protect' the fund should equity markets go down. So it is this diversification of ideas and means of getting exposure to these that drive the returns.

Since its launch the volatility has been 38.25% of equities, well below the target 50%. It has also been able to deliver on its target performance although over the last quarter it was slightly down. At the moment the types of holdings / ideas include:

Volatility – UK Equities vs Rates  
Interest Rates – Select EM Debt  
Equity – Emerging Markets vs US Equities  
Currency – US Dollar vs Euro  
Credit – High Yield

We talked about some of the negative contributors to the fund in the last quarter. The three main areas were European Flattener which is about the cost of protection in the credit markets, they expected this to come down but the sell-off in risk assets impacted this holding. Two Emerging Market plays went against the fund as well. This included EM Equities vs US Equities and EM Debt. However, they believe over a three year time horizon these ideas will work for the fund.

Over the last quarter they made few changes to the fund and it is their aim to add a maximum of 3 to 4 ideas to the fund per quarter. They took out a Japanese Flattener position which had done well for the fund and added the EM Equities vs US Equities position. Just touching on this position they explained that they may have moved too early on this. However, their view over a three year time horizon is that there is a big discount between EM and US stocks and this will narrow.

The managers believe we are entering a challenging environment with low but positive global growth, low inflation and greater volatility. They believe the way the fund is designed it can respond in this environment to deliver on its target return of 5% plus cash gross.

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In summary the fund is not dissimilar to the Standard Life Fund. Since launch in 2013 the team have proved that they have the ability to repeat what they did at Standard Life and they have attracted sizeable assets. Invesco in turn have supported the strategy with the team now ten strong. The returns are not guaranteed and it will not appeal to all investors because the strategy is complex. However, it is worth considering as an alternative or blend with bond funds if investors are concerned about the future direction of this asset class.

## Fund performance

Performance over the last five years is shown below:

|   | 2013   | 2014   | 2015  | Since Launch |
|---|--------|--------|-------|--------------|
| <b>Invesco Global Targeted Returns Fund</b>       | -0.72% | 14.94% | 0.82% | 15.04%       |
| <b>SLI Global Absolute Return Strategies Fund</b> | 0.90%  | 5.69%  | 4.13% | 11.05%       |

Note this is based on the oldest asset class for the Invesco Fund which is a \$ share class (December 2013). The earliest sterling share class was launched on 23 July 2014. From this point in 2014 to the end of 2014 it returned 3.69% vs 13.20% on the US share class and 2.94% on the Standard Life Fund. In 2015 the sterling share class has returned 1.16%.

*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.*

*The source of information in this note has been provided by Invesco and is correct as at August 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.*