

# Invesco True Balance Fund – Class A

## Monthly Factsheet

31 December 2022

<b>Fund Managers</b>
<b>Invesco Global Asset Allocation team</b> Atlanta, GA, USA
<b>Fund facts at a glance<sup>1</sup></b>
The Invesco True Balance Fund changed investment strategy on 31 October 2022.
<b>Asset class</b> Multi asset
<b>Objective<sup>2</sup></b> To achieve a positive total return over a market cycle with a low to moderate correlation to traditional financial market indices, targeting a gross return of 6% p.a. above the Bloomberg Ausbond Bank Bill Index with 8% p.a. target portfolio volatility.
<b>Management style</b> Top down, fully systematic long only strategy that invests in liquid equity, bond and commodity markets through the use of derivatives.
<b>Benchmark</b> Bloomberg AusBond Bank Bill Index
<b>Risk profile</b> High
<b>Time horizon</b> 5-7 years
<b>Distribution frequency</b> Annually, as at 30 June
<b>Inception date</b> 28/02/15
<b>Minimum investment</b> \$20,000
<b>MER/ICR<sup>3</sup></b> 0.0% until 31/01/23 then 0.55%
<b>Buy/Sell Spread</b> 0.15%/0.15%
<b>APIR code</b> GTU0109AU
<b>Performance fee<sup>4</sup></b> 10% above hurdle

### Fund performance analysis (periods to 31 December 2022)

Net performance			
Periods	Fund %	Benchmark %	Value added %
1 month	-2.61	0.25	-2.86
3 months	2.51	0.74	1.77
6 months	5.94	1.17	4.77
1 year	-2.37	1.25	-3.62
2 years p.a.	-1.32	0.64	-1.96
3 years p.a.	-1.22	0.55	-1.77
5 years p.a.	-0.33	1.01	-1.34
7 years p.a.	0.79	1.27	-0.48
Calendar year to date	-2.37	1.25	-3.62
Financial year to date	5.94	1.17	4.77
Since inception p.a.	0.91	1.37	-0.46

The Fund returns are shown after ongoing fees and assumes reinvestment of income. Past returns are not a reliable indicator of future returns. Future returns may be affected by a range of factors including economic and market influences.

Assets under management		A\$m
Fund AUM:		115.85
Strategy AUM:		23,226.45

### Fund analysis (as at 31 December 2022)

The data below is based on the underlying portfolio into which the Australian Fund invests.

Total notional weights by asset class		Fund %
Equities		42.47
Options		16.69
Bonds		53.28
Commodities		29.94
<b>Total</b>		<b>142.38</b>

Total portfolio asset weight greater than 100% is achieved through derivatives and other instruments that create leverage.

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## Monthly commentary

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### Market review

The last month of the year proved volatile across asset classes. Equity markets finished lower across the board as did fixed income markets. Commodity markets were mixed with agriculture prices rising in aggregate and precious metals prices rebounding while energy and industrial metals prices fell. The common link between the assets that struggled was fears of a recession taking hold in response to the aggressive actions of central banks.

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### Contributors to performance

The strategy underperformed benchmark for the period.

Strategic exposure to the growth macro factor detracted from results for the period as all six markets in which the strategy invests saw index levels decline. US small caps were the primary detractor to results due to its higher beta profile and sector exposure which overweights higher duration equity segments relative to other markets. Japan equities struggled as the Bank of Japan (BOJ) announced that it was going to widen the band in which the 10 year yield could move. This set off concerns that the BOJ was likely to embark on a tightening cycle. US large caps fell in the period alongside US small caps as the Federal Reserve (Fed) raised rates 50 basis points in its December meeting. European stocks detracted a similar amount as the European Central Bank (ECB) also tightened by 50 basis points. Emerging market ate into results, but to a lesser extent than other markets as the scrapping of zero-Covid policy by China was seen as a positive development. UK equities were the best relative performer despite a 50 basis point hike by the Bank of England (BOE) during its December meeting. Given the tough environment for equity markets, our defensive put structure was able to mitigate some of the declines.

Strategic exposure to the defense macro factor was the lead detractor from results for the month. All six bond markets in which the strategy invests saw yields rise over the period. The rise was tied to the continued tightening stance taken by central banks. As previously mentioned, the Fed, ECB and BOE all raised rates in the period. There were joined by the Bank of Canada (BOC) which raised by 50 basis points and the Reserve Bank of Australia (RBA) which raised 25 basis points. In addition to the rate increases, the post announcement language from the respective central bank heads was uniformly hawkish noting the persistently high levels of inflation. These comments came even as evidence for looming recessions continue to mount. While the BOJ has yet to join its counterparts in raising rates, its announcement regarding widening the allowable yield bands for its 10 year government bond produced an outsized loss relative to what investors have come to expect over an extended period of time. Our exposure to defensive factor premia produced a minor offset to the losses in fixed income as the factors generated returns marginally higher than their respective base indexes.

Strategic exposure to the real return macro factor also hindered results for the month with mixed performance across the four commodity complexes. Energy was the primary detractor as five of the six exposures declined. Natural gas was the worst performing commodity in the complex delivering a loss of 33% as prices declined on both warmer current weather across North America as well as forecasts for warmer temperatures to begin 2023. High inventory levels of natural gas in Europe have also eased fears of an LNG supply deficit, at least through this winter season. Industrial metals were a minor detractor as aluminum prices declined as COVID cases increased in China just as forecasts indicated higher 2023 supply. Copper managed a gain in the period. Precious metals were the top contributor as silver outperformed gold. After languishing during the second and third quarters, precious metals rallied as the Federal Reserve indicated it will reduce the level of rate hikes. This has led to a softer US dollar as the pressure on interest rates has eased. Silver has benefitted due to its higher beta profile relative to gold. Soymeal and soybeans helped agriculture deliver a positive result. Drought conditions in Argentina sparked a year-end rally as the country is the world's largest exporter of soymeal and soybean oil. While COVID cases rose in China, soybeans reacted favorably to the country's general easing of COVID restrictions given it is the world's largest soybean importer.

Tactical allocation diluted results as positioning across commodities and equities offset gains from positioning in fixed income.

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### Market outlook and portfolio strategy

On an examination of the evidence, it looks increasing likely that a global recession is in the offing. The recent decline in the US Institute for Supply Management (ISM) reading to 48.4 shows further weakening of the US economy while the forward-looking new orders index declined to 45.2, a reading generally witnessed leading up to or concurrent with recession. At the same time, the Job Openings and Labor Turnover (JOLTS) index shows labor market conditions remain tight which may give the Fed cover to continue its hiking campaign. With this backdrop, a reasonable question is whether earnings estimates are too high entering the new year. With investors already nervous about recession probabilities, earnings disappointments could be unwelcome fuel for the fire.

Tactical positioning for the month in equities overweight non-US developed markets, underweight US markets and neutral emerging markets. In fixed income, the strategy is underweight all exposures. Within commodities, agriculture positions have minor overweights, energy is mixed with gasoil, Brent, heating oil and unleaded gas carrying overweights while natural gas and WTI are underweight. Across metals, gold, silver and aluminum are underweight while copper is overweight.

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**Notes**

- <sup>1</sup> The Fund changed strategy on 31 October 2022.
- <sup>2</sup> Invesco does not guarantee that the Fund will achieve its objective.
- <sup>3</sup> Management Fees and Costs are 0.55% p.a. of net asset value of the Fund. A reduced rate of 0% of the net asset value of the Fund will be applied from 31 October 2022 to 31 January 2023. Please refer to PDS for further information.
- <sup>4</sup> The performance related fee will apply to performance achieved in excess of Bloomberg Ausbond Bank Bill Index + 1.5% p.a. (net of base management fee). The performance fees are 10% of the excess over the Hurdle. For the period to 30 June 2024, the total fee payable (base fee plus performance related fee) will be capped at 0.95% (i.e., a performance fee cap 0.40%). Please refer to PDS for further information.

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**Important information**

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