

# Aberdeen Standard Global Absolute Return Strategies Fund



31 December 2021

## Market review

Two main themes drove financial markets during December - the highly infectious Omicron variant of Covid-19 and the shift to less-supportive policy from several central banks. Despite jitters around the economic growth outlook, developed equity markets rallied over the period. European and UK markets performed particularly well as investor risk sentiment improved on the back of initial data suggesting that Omicron causes less severe illness than earlier versions of the virus and robust earnings growth data. Other risk assets, such as high-yield bonds and emerging market debt also advanced against this backdrop. Within emerging market equities, however, the performance was mixed as anxiety around weaker future growth, expectations for higher developed market interest rates and tensions surrounding the Ukrainian/Russian border weighed on the asset class.

Developed market government bonds underperformed amid rising inflation and the withdrawal of monetary policy support. Higher inflation expectations and the strength of the labour market led the US Federal Reserve to plan to accelerate the tapering of its monthly asset purchases from January. At the same time, the European Central Bank said it would discontinue its asset purchase programme at the end of March. The Bank of England raised UK interest rates for the first time since 2018 in an effort to control inflation in a widely unexpected move. Consequently, sterling strengthened against the US dollar.

Elsewhere, commodities continued to rise with oil recovering some of its losses in November.

## Portfolio review

The Aberdeen Standard Global Absolute Return Strategies Fund returned 2.10% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.00% during this period.

The Fund positioning has been based on our expectation that economic growth will remain strong and inflation will start to

moderate as we move through the first half of 2022, allowing central banks to tighten policy gradually. In this environment, we have been focused on owning higher-yielding assets across equities, fixed income, foreign exchange (FX) and volatility strategies.

Our risk-facing assets exposures, such as our equity, emerging market and high-yield positions delivered positive performance as risk sentiment improved. Our overall inflation exposure also posted positive performance.

The US dollar gave back some of its November gains against most currencies. As a result, our US dollar versus euro currency pair lost ground as did some of our diversifier and defensive strategies, such as our favoured defensive FX and global FX behavioural relative value positions.

## Activity

We took steps in December to adjust the risk inherent within the Fund. Specifically, we modified our overall inflation exposure. We reduced our short UK inflation strategy and added a new US inflation position as central banks worried that Omicron could sustain inflation. Within our equity-related exposures, we increased our global and China A-share allocations. We also added a world quality equity versus world equity strategy based on the view that quality as a factor has a good long-term prospects.

Elsewhere, we increased our global FX behavioural relative value and favoured defensive FX allocations.

## Outlook

We remain guided by the conviction that economic growth continues to be strong, and inflation rises above central bank targets will prove relatively transitory. In this environment, we expect positive returns from risk assets, like equities and bonds. Gradual removal of supportive monetary policy will create opportunities to generate returns from a variety of sources. Beyond our central case, we also consider the implications of a variety of alternative scenarios. In one of the upside

## Investment strategy

The Fund will invest in the Underlying Fund and may hold up to 5% of its assets in cash.

The Underlying Fund aims to deliver a return of ESTR plus 5% per annum, before charges, over rolling three-year periods.

The investment team who actively manage the Underlying Fund have a wide investment remit to help them try to achieve this aim. The team look to exploit market inefficiencies through active allocation to a diverse range of market positions.

The Underlying Fund utilises a combination of traditional assets (such as equities, bonds, cash and money market instruments) and investment strategies based on advanced derivative techniques resulting in a highly diversified portfolio.

The Underlying Fund can take long and short positions in markets, securities and groups of securities through derivative contracts.

## Investment objective

The primary investment objective of the Fund is to deliver a positive absolute return over the medium to long term in all market conditions.

The Underlying Fund is actively managed, with a wide investment remit to target a level of return over rolling three-year periods equivalent to cash\* plus 5% per year, before charges. We would expect it to exhibit annualised volatility\*\* of between 4% and 8% in ordinary market conditions or, more broadly, between one-third and a half of the risk of global equities\*\*\*.

\*Cash returns are currently referenced to ESTR (which has been chosen as a proxy for the return on cash deposits), however the reference index may change over time. Performance of the Australian dollar hedged share class will instead be compared with the Bloomberg AusBond Bank Bill Index.

\*\* Measured over 3 years of monthly returns.

\*\*\* The investment objective is expressed before the deduction of management fees, expense recoveries and taxation

cases, the Fed could tolerate higher inflation than expected, pushing real interest rates lower and supporting cyclical stocks. In a downside scenario, central banks (the Fed in particular) could start removing stimulus earlier than expected, delivering a shock to markets and sending equities lower.

*Fund performance is available on the relevant factsheet.*

*The opinions expressed are those of abrdn as of the date of publication and are subject to change at any time due to changes in market or economic conditions.*

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