

Aberdeen Standard Global Absolute Return Strategies Fund



28 February 2022

Market review

February was another challenging month for financial markets broadly split into two halves. Earlier in the month, jitters around central bank actions dominated markets. Investors fretted that in the face of heightened inflationary pressures, policymakers could be forced to hike interest rates much more aggressively than previously anticipated. Later in the month, however, the main driver was heightened rhetoric surrounding tensions on the Russia-Ukraine border and Russia's subsequent invasion of Ukraine. A wide range of sanctions implemented by the EU, US, UK, Japan and other countries in response to the invasion severely affected multiple asset classes.

Rising uncertainty around the potential economic impact of international sanctions on Russia, a significant producer of commodities, heightened risk aversion. Global equities were one of the worst performers. Oil and gas prices bucked the trend and rallied strongly during the month.

Developed market sovereign bond prices were volatile and ended the month slightly lower. After initially falling sharply at the beginning of the period amid the less supportive stance of central banks, bond prices recovered partially later in the month as elevated geopolitical tensions weighed on sentiment.

In currency markets, the US dollar continued to strengthen. The Russian ruble was the worst-performing currency.

Portfolio review

The Aberdeen Standard Global Absolute Return Strategies Fund returned -1.75% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.01% during this period.

The Fund positioning has been based on the expectation that growth and inflation will remain strong during the first half of 2022, allowing central banks to tighten policy. In this environment, we have been focused on owning higher-yielding assets across equity, bond, currency and volatility strategies.

We added a commodity strategy to diversify exposure and benefit from rising geopolitical tensions.

This strategy did well during the period, as did our US equity volatility and China A-Share positions. However, these were not enough to offset negative performance from our risk-facing asset exposures, such as our equity and high yield-related positions, which struggled during the month. Among the biggest detractors were our emerging markets income, contingent capital bond and Japanese equity positions.

Elsewhere, our favoured cyclical foreign exchange (FX) position contributed positively.

We adjusted overall portfolio risk in February as our views on the global outlook evolved. Earlier in the period, we added cyclical exposure to the portfolio via our favoured cyclical FX position on the premise that global growth remains positive but is slowing from high levels. We also shifted some of our global equity exposures into a commodity position, which provides attractive protection against inflation and is less sensitive to valuation de-ratings. We closed our commodity carry strategy given elevated geopolitical risk and the potential for pressure on short-term supply dynamics.

Later in the period, we enhanced the portfolio's defensiveness. We converted our US yield-curve flattener position into a US interest rates strategy. Moreover, we added a German versus Italian interest rates pair. This aims to exploit the fact that European inflation continues to come in above estimates at the same time as Italian debt dynamics remain weak and investors underestimate political risks underpinned by the re-election of President Sergio Mattarella.

Elsewhere, we opened a US dollar versus Chinese renminbi position to exploit the relative policy setting between the US and China. The latter is anticipated to loosen policy to achieve its growth target

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

while the former begins hiking rates and subsequently removing support from markets. Additionally, we closed our Australian dollar versus New Zealand dollar pair after it reached its target, as well as exiting the global FX behavioural relative value strategy.

Outlook

The Fund is risk facing on the basis that fears over monetary policy tightening are well priced into markets. Some of this risk is currently deployed in commodities, which are driven by geopolitical uncertainty as well as growth. However, the Russia-Ukraine conflict is likely to dominate news flow in the short term, with the conflict adding to the challenging macroeconomic backdrop for risk assets. Markets will remain volatile, with the Omicron variant, rising inflation and the slowdown in China also weighing on sentiment. That said, many of the risk factors throughout 2021 have moderated, with global vaccination rates rising and the direction of Chinese policy becoming clearer.

The portfolio is also positioned for regional differentiation with expectations of ongoing easing in China driving the view to hold Chinese equities and Asian credit, while being short the currency. The Fund also holds selective interest rate exposures in Mexico and South Africa.

Fund performance is available on the relevant factsheet.

Contact us

Telephone:

1800 636 888 or +61 2 9950 2853 if
calling from outside Australia

Email: client.service.aust@abrdn.com

abrdn.com.au

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