Aberdeen Standard Global Absolute Return Strategies Fund

Aberdeen Standard Investments

31 May 2021

Market review

Overall, riskier assets like corporate bonds and equities gained over May. Robust economic data, the ongoing vaccination programmes and central bank policy continued to support sentiment. Regionally, European assets performed well, due to relatively positive economic data and the increased pace of the vaccine rollout across the region.

The performance of developed market sovereign bonds was relatively flat over the period. German government bonds performed worse than their US and Australian counterparts. Inflation expectations rose in Europe and the UK, while remaining unchanged in the US. In foreign-currency markets, the US dollar declined for a second consecutive month. By contrast, most emerging market (EM) currencies strengthened against the weaker US dollar.

Central banks generally remained supportive over the month, which helped riskier assets. However, central banks are increasingly focusing on when to remove supportive policy measures. For example, the minutes from recent Federal Reserve (Fed) meetings suggests that policymakers are considering a reduction in monetary support. Meanwhile, Dr Gertjan Vlieghe, a member of the Bank of England's Monetary Policy Committee, referenced an improved economic outlook. The Reserve Bank of New Zealand also stated that it may raise interest rates as soon as the second half of 2022. Elsewhere, the Bank of Canada reduced the pace of its bond purchases. However, the European Central Bank continued to restate the importance of not unwinding government and monetary support too early.

Portfolio review

The Global Absolute Return Strategies Fund returned 0.15% during the month (net of fees). The benchmark Bloomberg AusBond Bank Bill Index returned 0.0% during this period.

Our thematic equity strategies all advanced over the month. The commodity position also contributed, as commodity prices continued to rise over May.

Our corporate bond strategies performed well too, particularly our high-yield (HY) bond position. We increased our allocation to HY bonds in the middle of the month when interest rates moved in our favour. Elsewhere, the Fund's US versus German interest rate strategy made a positive contribution. However, this was offset by the poor performance of the short US real interest rate strategy. We expect this strategy to perform well if central banks remove policy support too early. Elsewhere, the Fund's overall inflation positions were relatively flat.

Within our EM-related exposures, the EM income positions performed well. However, the EM foreign-currency relative-value position delivered a negative return. We reduced this position as our view on EMs has become more favourable.

The Fund is positioned for an economic recovery. Central bank policies remain supportive, while the pace of vaccine rollouts points to a global economic rebound as lockdown measures ease. Against this backdrop, the Fund's main allocation is to equities. These are skewed towards thematic strategies, but with reduced exposure to cyclicality and momentum factors since the beginning of the year.

The Fund also has income-generating exposure to corporate bonds, EM debt, commodities and interest rates. We retained some relative-value positions such as the US versus German interest rate strategy and foreign-currency and inflation strategies. These are designed to enhance the Fund's defensive properties, should riskier assets fall. This reflects the uncertainty around the impact of Covid-19, vaccine challenges and continuing geopolitical risks.

We increased our exposure to equities and corporate bonds during May. This reflected more attractive valuations during the month (HY bonds and global equity industrial automation) and a desire to increase exposure to more stable strategies

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 6 Month EURIBOR 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 6 month EURIBOR (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

in an environment of economic uncertainty (global equity stable quality). We also added to the Fund's income-generating return by increasing our exposure to the US interest rates volatility strategy.

Outlook

Our central case is one of 'moderation', with economic growth remaining strong and inflation rising above central banks' targets. We expect positive returns from riskier assets like corporate bonds and equities, with nominal and real interest rates remaining fairly stable. However, we are mindful of different market scenarios. In particular, if the Fed tolerates higher-than-expected inflation, this will push real interest rates lower. As a result, riskier assets that benefit from a strong economy should do well. Alternatively, central banks, particularly the Fed, could start removing support earlier than expected, which might have a negative impact on riskier assets.

Fund performance is available on the relevant factsheet.

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

Contact us
Telephone:
1800 636 888 or +61 2 9950 2853 if calling from outside Australia
Email: client.service.aust@aberdeenstandard.com

aberdeenstandard.com.au