The flexibility to deliver
Invesco Global Total Return (EUR) Bond Fund

August 2020

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For investors looking to add bond exposure, the current environment is challenging with yields across core government markets at record lows.

One approach for this low yield environment investors have found is in flexible and unconstrained bond strategies. At Invesco, we have been successfully managing one such product called the Invesco Global Total Return (EUR) Bond Fund since 2010. This note gives an overview of the fund and illustrates how the fund's flexibility has been key to achieving its objective.

A proven approach

Unconstrained by a benchmark, the Invesco Global Total Return (EUR) Bond Fund can invest in a wide range of government and corporate bond markets. Within this remit it takes advantage of opportunities on both a short term tactical and longer-term strategic basis. By adopting this flexible approach, the fund seeks to deliver performance in a range of different market conditions.

The flexible approach of the fund embodies the investment team's philosophy of only investing when the compensation for doing so is sufficient. The fund invests in government bonds, corporate bonds, high yield bonds and emerging market bonds and can shift its exposures according to fund manager views. Moreover, the fund does not have to remain invested as the fund can hold up to 100% in cash and near cash instruments.

The proof of any investment strategy is ultimately its performance. As at 30 June 2020 the fund is top quartile over 1, 3 and 5 years and since launch. Indeed, since inception the fund is ranked 3/25.

Seeking out the best markets to deliver returns – historical positioning

The flexibility of the Invesco Global Total Return (EUR) Bond Fund's mandate, and the fund managers' willingness to use it, can be seen in the historical asset allocation and duration positioning.

Duration

One of the biggest drivers of bond returns over the past 10 years has been duration. As figure 1 illustrates, duration is actively managed in the fund and has ranged from a low of 1.75 in 2012 to a high of 8.5 in 2013.

During the first few years of the fund, duration was biased toward the European market. As the eurozone sovereign debt crisis intensified this was increased to include peripheral European sovereigns along with core holdings in the German Bund market. In more recent years, Treasuries have offered more yield than European counterparts and duration exposure has become more US focused.

Figure 2 shows that since launch, the fund has had four distinct periods of asset allocation. The following section provides an overview of each of these periods.

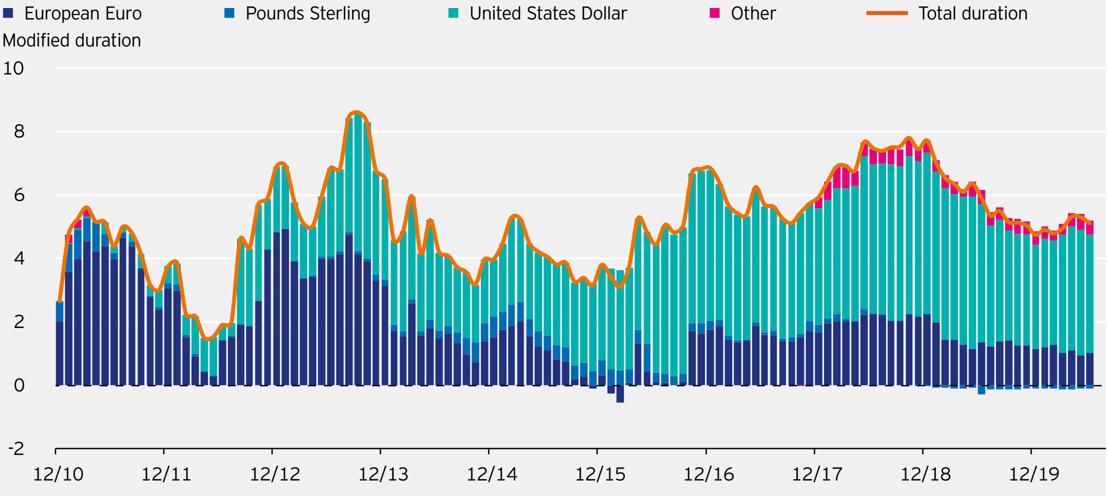
2010 to 2012

Following the launch of the strategy in September 2010, a high allocation was held in cash. The eurozone sovereign debt crisis erupted in 2011 and against this backdrop, credit spreads widened significantly. This provided the opportunity to build exposure and lock in attractive yields. One area of particular interest was subordinated financials. Credit risk remained the dominant allocation until late 2012. This allocation benefitted from the strong central bank support, in particular, ECB President Mario Draghi's now famous proclamation "to do whatever it takes" to save the euro.

2012 to 2014

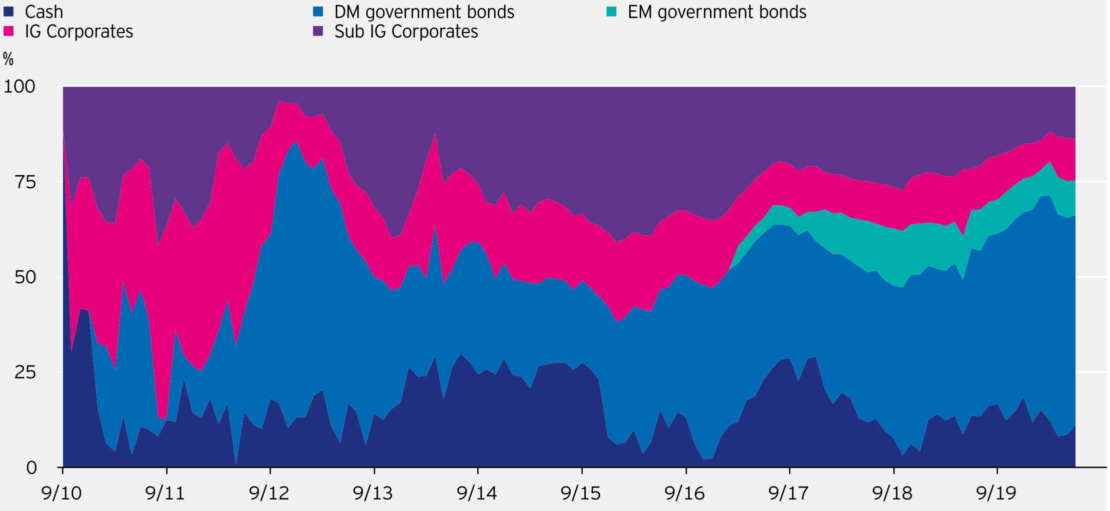
As credit spreads tightened the fund managers took profits on the credit exposure and positioned the fund more defensively. 2013 was the year of the 'taper tantrum' in which US Treasury yields rose in response to more hawkish rhetoric from the US Treasury. In response, the fund managers increased both US and German bund duration. Government bond yields subsequently fell back again, and the fund managers took profits and held the proceeds

Figure 1
Historical duration breakdown



Source: Invesco. Data as at 30 June 2020.

Figure 2
Historical asset allocation



Source: Invesco. Data as at 30 June 2020.

in cash. This high cash allocation helped to offset the fund's rising allocation to sub investment grade bonds. The financial sector remained an important allocation, in particular Additional Tier 1 bank capital.

2014 to 2016

The fund's bias in this period was toward credit risk. A relatively large allocation was maintained in government bonds; however, this was held alongside cash as a counter-balance to the fund's higher yielding credit allocations. Derivatives were used to reduce duration risk.

2016 to 2020

As yields in developed market credit fell to ever lower levels, the fund managers added exposure to emerging market issuers. Positions were, and continue to be, held in both hard and local currency sovereigns with a small allocation to corporate high yield issuers. In 2018, US government bond yields were once again rising, and credit spreads were widening. The fund gradually increased both duration and credit risk which led to strong returns in 2019 and another phase of profit taking.

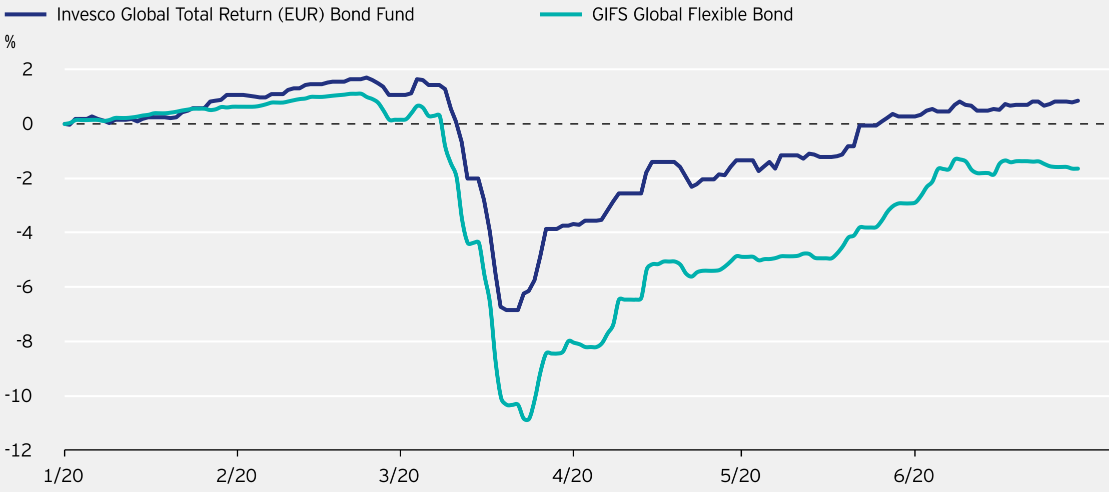
The market dislocation that occurred in March 2020 as a result of concerns over the economic impact of Covid-19 provided the opportunity to build exposure. This included adding investment grade corporate bonds as well as local currency Mexican and South African bonds. These purchases enabled the fund to benefit from the subsequent strong bounce back in financial markets.

Performance during the Covid-19 outbreak

The Invesco Global Total Return (EUR) Bond Fund performed well in its peer group during the Covid-19 led market sell-off, it having only modest amounts of credit risk and sufficient duration. As illustrated in figure 3, the fund's drawdown was much shallower than many of its peers and much of the loss has now been recovered with year to date returns to the end of June positive for the fund.

At the start of the period, two-thirds of the fund was allocated to cash, core government bonds and bonds maturing within 1-year). 28% was held in credit risk with the two largest exposures, subordinated financials and emerging market bonds. Currency exposure included some emerging markets as well as oil producers such as Norway.

Figure 3
Invesco Global Total Return (EUR) Bond drawdown and recovery



Past performance is not a guide to future returns. Source: Lipper. Data period: 1 January 2020 to 30 June 2020.

Table 1
Standardised rolling 12 month performance figures (%)

	30/06/15 30/06/16	30/06/16 30/06/17	30/06/17 30/06/18	30/06/18 30/06/19	30/06/19 30/06/20
Invesco Global Total Return (EUR) Bond Fund	-0.71	4.15	-1.63	4.98	2.52
GIFS Global Flexible Bond	-0.20	3.34	-1.99	2.68	-0.33

Past performance is not a guide to future returns. Data as at 30 June 2020. Fund performance figures are shown in euros, inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis. Source: Invesco, © Morningstar 2020. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results. The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time.

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Data as at 30 June 2020, unless otherwise stated.

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[EMEA5409/2020]