

# Standard Life Global Absolute Return Strategies Fund



31 March 2022

## Activity

The first quarter of 2022 ended in a volatile manner, with most asset markets losing ground amid geopolitical uncertainty and resultant trade restrictions and materials shortages.

During the quarter, we significantly reduced the Fund's diversified risk in response to the changing environment.

Following the Russian invasion of Ukraine, we significantly reduced exposure to emerging markets. Supply shocks challenged our investment rationale, stoking commodity prices and leaving economies vulnerable to further inflationary pressures. We closed our emerging markets income, Mexican interest rates, South African government bonds, favoured FX carry, global FX behavioural relative value and Australian dollar versus New Zealand dollar positions. We retained our US dollar versus Chinese renminbi position, which is expected to benefit from the divergence in monetary policy between the two regions as the US raises interest rates while China reduces. In addition, we added exposure to commodities during the period, both directly through a diversified basket of commodities and via currencies where we are long commodity exporters and short importers.

Because of the more uncertain outlook for economic growth and corporate profitability, we further reduced corporate risk exposure by lowering our high yield bond allocation and adding a more defensive stance to our equity positions by increasing the world equity quality versus world equity relative value strategy. In addition, we closed the global equity value position and added a global equity sustainable staples basket, which is focused on sustainable food producers. We expect this basket to perform well in the near term due to elevated food prices and over the longer term as the importance of strong environmental and social credentials continues to rise.

Early in the quarter we closed our inflation positions in the US, Europe and a short UK inflation position. Lastly, we closed our German versus Italian interest rates strategy as recent rhetoric from the European Central Bank suggests significant divergence will not be tolerated.

## Portfolio positioning and outlook

Russia's invasion of Ukraine and the resultant turbulence in geopolitics and commodity markets – the only outperforming asset class during the first quarter – overshadowed Covid-19 worries but also brought inflation challenges.

Global equities fell in aggregate over the first quarter of 2022. Investors sold shares, concerned about the Russian invasion of

Ukraine, as well as the impact of rising interest rates and accelerating inflation. Geopolitical tensions between Ukraine and Russia weighed initially on markets in January, but the biggest falls came on 24 February when Russian troops invaded Ukraine and launched attacks. While the incursion continued throughout March, investor confidence recovered from the initial shock, and global markets generally rebounded. US equities were particularly strong in March but fell overall for the quarter, amid poor performance for technology stocks in the first two months. European equities were hardest hit by the conflict, whereas the UK market posted a positive return overall, boosted by its exposure to energy and commodities companies. Japanese indices fell but by less than other developed peers.

Central banks continued to withdraw market support over the quarter, signalling higher interest rates to come in 2022, amid rising inflation rates. The Bank of England raised rates twice over the period to reach 0.75%, while the US Federal Reserve (Fed) increased the US federal funds rate by 0.25 percentage points. The European Central Bank announced a quicker tapering of its asset-purchase programme, even as the region faces threats from the Ukrainian invasion. In response to the hawkish moves, investors continued to sell government and corporate bonds, pushing yields higher. At one point, the US yield curve briefly inverted, as the two-year yield rose above 10-year bond yields, which analysts interpret as a sign of a coming recession.

The Russia-Ukraine conflict is likely to dominate news flow in the short term, with the conflict adding to the challenging macroeconomic backdrop, as well as putting more pressure on energy and commodities. Markets will remain volatile, with the Omicron variant, rising inflation, higher rates 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.

Within fixed income, investor attention will likely focus on how effective central-bank measures to control inflation will be, especially with the Russia-Ukraine conflict exacerbating rising consumer prices in the short term. Further hawkish comments, as well as the first interest-rate hike, from the US Fed have now led to expectations of seven rate hikes in 2022. Meanwhile, the conflict in Ukraine has left investors uncertain about the timeline of rate hikes in Europe, although the European Central Bank has not ruled out rate hikes in 2022.

## Risk factors you should consider before investing:

- The value of an investment can fall as well as rise and is not guaranteed. An investor may get back less than they put in. The fund makes extensive use of derivatives for investment purposes. Past Performance is not a guide to future performance.
- The fund invests in securities which are subject to the risk that the issuer may default on interest or capital payments.
- The fund price can go up or down daily for a variety of reasons including changes in interest rates, inflation expectations or the perceived credit quality of individual countries or securities.
- The fund invests in equities and equity related securities. These are sensitive to variations in the stock markets which can be volatile and change substantially in short periods of time.
- The fund may invest in emerging market equities and / or bonds. Investing in emerging markets involves a greater risk of loss than investing in more developed markets due to, among other factors, greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The use of derivatives carries the risk of reduced liquidity, substantial loss and increased volatility in adverse market conditions, such as a failure amongst market participants. The use of derivatives will result in the fund being leveraged (where market exposure and thus the potential for loss by the fund exceeds the amount it has invested) and in these market conditions the effect of leverage will be to magnify losses. The fund makes extensive use of derivatives.
- The fund invests in high yielding bonds which carry a greater risk of default than those with lower yields.



**Cumulative and Annualised performance as at 31/03/2022**

	3 Months %	1 Year %	3 Years (p.a.) %	5 Years (p.a.) %
Standard Life Global Absolute Return Strategies Fund	-5.4	-5.9	1.1	0.7
ESTR from 1/1/22, prior 6 Month EURIBOR	-0.1	-0.5	-0.4	-0.4

**Discrete annual performance year to 31/03**

	2022	2021	2020	2019	2018
Standard Life Global Absolute Return Strategies Fund	-5.9	8.5	1.3	-0.7	1.1
ESTR from 1/1/22, prior 6 Month EURIBOR + 5% p.a.	-0.5	-0.4	-0.3	-0.3	-0.3

Fund performance has been calculated net of Annual Management Charge.

Source: abrdn

Past performance is not a guide to future results. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. This investment may be affected by changes in currency exchange rates.

**Performance**

Russia's invasion of Ukraine and the resultant turbulence in geopolitics and commodity markets – the only outperforming asset class during the first quarter – overshadowed Covid-19 worries but also brought inflation challenges.

Our European inflation and European yield-curve steepener positions delivered positive returns before we closed them early in the quarter. Other interest rates and inflation positions later detracted from performance.

Amid the challenging environment, both corporate bond and equity exposures detracted from performance except for US equities.

Our commodity trade performed well. Our global equity volatility risk premia strategy ended the

quarter in positive territory. However, other volatility trades underperformed.

Our standalone foreign exchange (FX) pairs underperformed but were offset by more favourable currency basket trades.

**Investment involves risk. The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results. This investment may be affected by changes in currency exchange rates.**

The information contained in this marketing document should not be considered as an offer, investment recommendation or solicitation, to deal in the shares of any securities or financial instruments. It is not intended for distribution or use by any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication or use would be prohibited. No information, opinions or data in this document constitute investment, legal, tax or other advice and are not to be relied upon in making an investment or other decision.

Standard Life Global Absolute Return Strategies Fund is an Irish Unit Linked Fund. The fund is invested in the Global Absolute Return Strategies Fund, managed by abrdn. Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Standard Life Aberdeen\*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Standard Life Aberdeen\* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

\*abrdn means the relevant member of Standard Life Aberdeen group, being abrdn plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

Issued by Aberdeen Standard Investments Luxembourg S.A. 35a, Avenue J.F. Kennedy, L-1855 Luxembourg. No.B120637. Authorised in Luxembourg and regulated by CSSF www.abrdn.com © 2022 abrdn plc.

