



Invesco Diversified Dividend Fund

Investment Process

Investment Universe¹

US dividend-paying stocks with sound balance sheets, strong cash flows and profit sustainability

Potential Candidates

A dual approach to idea generation:

- Primarily the result of extensive in-house research conducted by sector specialists
- Proprietary multifactor screens are used as a secondary tool

Company Analysis

Fundamental research focused on:

- Earnings power over two- to three-year investment horizon
- Free cash flow stability and growth
- Capital allocation decisions
- Competitive landscape
- Company management
- Balance sheet analysis

Valuation

Triangulate fair valuation:

- Discounted cash flow and dividend discount models
- Comparison to historical and peer valuations
- Sensitivity analysis of financial models

Portfolio Construction

Balance total return with risk management:

- Diversify across all broad market sectors
- Monitor macroeconomic sensitivity and correlations across holdings
- Focus on a long-term investment horizon to minimize turnover
- Maintain a rigorous sell discipline

Final Portfolio

About 70-85 stocks

Investment objective

The fund's investment objective is long-term growth of capital and, secondarily, current income. We seek to meet this objective by employing a total return strategy, emphasizing capital appreciation, current income and capital preservation. The fund is managed to serve as a foundation to an equity portfolio.

Investment philosophy

We believe a portfolio of attractively valued companies that pay dividends sustained by strong capital structures may outperform over the long term.

We focus on dividend-paying stocks using our total return strategy, emphasizing capital appreciation, current income and capital preservation. We emphasize the sustainability and growth of a company's dividend in our fundamental research. Our research enables us to differentiate between strong, undervalued companies returning capital to shareholders and ailing companies offering higher, yet more volatile, yields. Our goal is to add value with less risk over a full market cycle.

Investment Universe¹

Our process starts with identifying strong companies that return capital to shareholders, generally focusing on companies within the market capitalization range of the Russell 1000 Value Index. We screen the equity universe for dividend-paying stocks with sound balance sheets, strong cash flows and profit sustainability.

Security selection

Company analysis: Following our initial screening process, we then subject remaining stocks to in-depth company analysis, which focuses on:

- Earnings power over a two- to three-year investment horizon based on our view of the company's prospects
- Free cash flow stability and growth
- Historical capital allocation decisions and the potential for future increases in returns on capital
- Competitive landscape and the company's positioning versus peers
- Quality of company management and track record
- Balance sheet analysis

Valuation triangulation: The goal of our valuation analysis is to validate that the opportunity has an attractive total return profile, offering a minimum 35% upside potential over a two to three year time period. We triangulate fair value using multiple techniques:

- Discounted cash flow and dividend discount model analysis that are based on our view of normalized returns for the business
- Historical company valuation comparisons across full economic cycles
- Peer valuation comparisons

In addition, we evaluate a company's risk/reward profile by estimating the possible downside risk relative to our estimated potential return. We also examine the sensitivity of the most important earnings drivers across scenarios to measure the impact to total return.

¹ By prospectus, the fund is also able to invest in securities of foreign issuers and in investment-grade debt securities of US issuers.

Portfolio construction and risk management

Our portfolio construction process balances total return with risk management. We consider a stock's potential total return from price appreciation and dividends, as well as its expected volatility relative to peers. The result is a well-diversified portfolio of 70 to 85 stocks with exposure to all market sectors.

We use a variety of techniques to manage risk exposure within the portfolio. These procedures are designed to address the risk of permanent loss of capital and excessive volatility:

- Diversify across all broad market sectors
- Identify financially sound companies through extensive financial research
- Perform valuation and scenario analysis to determine downside risk
- Monitor macroeconomic sensitivity and cross-correlations across holdings using a customized factor-based framework
- Focus on long-term investment horizon to lower turnover and reduce volatility
- Formally review all holdings to ensure each position continues to fit our selection criteria and investment thesis

Sell discipline

Our sell discipline is dynamic, and we look at both quantitative and qualitative factors, including but not limited to the following:

- Current share price exceeds target price and/or becomes overvalued
- Fundamental change occurs in the underlying business that lowers the potential total return profile
- Deterioration in capital structure and/or earnings that jeopardizes the dividend
- More compelling investment opportunity exists

We also employ an “impaired position review” process that challenges existing investment ideas that have underperformed for an extended period of time. In this process, we reassign the stock to another analyst for independent review. The responsibility of the new analyst is to evaluate the crucial elements of our original thesis and present an assessment to the entire team for discussion.

Explore High-Conviction Investing with Invesco

About risk

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

A value style of investing is subject to the risk that the valuations never improve or that the returns will trail other styles of investing or the overall stock markets.

The fund is subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the fund.

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NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their advisors for a prospectus/summary prospectus or visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus).

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

Diversification does not guarantee a profit or eliminate the risk of loss.

The Russell 1000[®] Value Index is an unmanaged index considered representative of large-cap value stocks. The Russell 1000 Value Index is a trademark/service mark of the Frank Russell Co. Russell[®] is a trademark of the Frank Russell Co. Unmanaged index returns do not reflect any fees, expenses, or sales charges. An investment cannot be made directly in an index.