Invesco Global Core Equity Portfolio

Investment process

Universe definition

Companies generally in the market-cap range of the MSCI World Index

Financial analysis

- Return on invested capital
- Management action
- Capital allocation
- Free cash flow

Business analysis

- Competitive advantages
- Industry challenges
- Business risks
- Scenario analysis

Valuation

- Discounted cash flow
- Traditional multiples
- Net asset value

Growth/value candidate

Portfolio construction/risk management

- Approximately 60-80 stocks
- Consider downside
- Balance risk and reward

Investment philosophy

We believe a portfolio of attractively valued companies managed by good stewards of capital may outperform the market over the long term. We seek to invest in good businesses with high or increasing returns on capital that have strong future growth prospects and are temporarily mispriced.

Universe definition

We begin with the universe of stocks generally defined by the MSCI World Index. We apply a variety of screens to the universe to help uncover investment ideas that warrant further research. Our screens are customized by sector/industry and focus on valuation, price movement, return on invested capital (ROIC) and growth. We then identify companies trading at favorable valuations on both a current and historical basis relative to several measures, including return on invested capital (ROIC), free cash flow, growth potential and operating margin. This defines our universe of potentially undervalued businesses and helps focus our fundamental research efforts.

Stock selection

Through fundamental research, we attempt to gain a thorough understanding of the prospects for each business, its appreciation potential and the degree to which it may sustain or grow ROIC. The overall investment process can be separated into three phases of analysis:

- Financial
- Business
- Valuation

Financial analysis provides vital insight into historical and potential ROIC, which we believe is an indicator of the quality of the business and the responsibility of its management. We also consider the sources of capital and the capital intensity of the firm to determine its financial flexibility.

The business analysis allows us to understand the key drivers of the company, appreciate the industry challenges and evaluate the sustainability of competitive advantages. The financial and business analyses serve as a basis to construct the valuation models.

We estimate a company's value using a combination of methods.
The three primary techniques are:

- Discounted cash flow
- Traditional valuation multiples (price-earnings ratio (P/E), enterprise value/ROIC, etc.)
- Net asset value (sum of the parts)

The combination of these efforts results in the fundamental aspects of our risk management framework. In addition, we diversify across sectors, geography and thematic exposures, and generally limit positions to less than 5% of the portfolio.

Portfolio construction

Our portfolio construction process is designed to manage volatility and preserve and grow capital. We analyze the risk-reward profile of all investment candidates and incorporate sector-relative considerations to help ensure the majority of portfolio returns come from stock selection.

We generally invest in stocks that we expect will capture their anticipated upside to our price target within 18 to 36 months. Their position in the portfolio is based on the teams conviction and portfolio positioning.

The final portfolio is a well-diversified, large-cap core portfolio of 60 to 80 stocks.

Sell discipline

We will consider a stock for sale for any of the following reasons:

- Price target is exceeded.
- Eighteen- to 36-month time horizon is surpassed without demonstrable improvements in fundamentals.
- Fundamentals deteriorate.
- More compelling investment opportunities exist.

Explore Intentional Investing with Invesco®

The MSCI World Index is an unmanaged index considered representative of stocks of developed countries. The index is computed using the net return, which withholds applicable taxes for non-resident investors.

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