



Investment Philosophy and Process: Separately Managed Accounts **Invesco Comstock SMA**

Objective

Seeks total return through growth of capital and current income

Universe

Begin with all US denominated stocks greater than \$5 billion, including ADRs.

Focus on:

- Liquidity
- Valuation

Team

- Management team averages more than 20 years of financial industry experience
- Lead portfolio manager in place since August 1999
- Management team searches for opportunities others have overlooked
- Seeks to outperform the market by making early and patient investments

Philosophy

We believe longer-term investors can take advantage of pricing anomalies in financial markets by purchasing stocks of companies that are currently underpriced. Our goal is to exploit these market inefficiencies by investing in companies that appear undervalued relative to the market in general. We believe the market will recognize the value in these companies and will sell them as their stock price begins to reflect their intrinsic value. Although we are benchmark agnostic, we feel that stock picking, as compared to making sector bets, provides a more consistent path to success.

Process

Our disciplined investment process focuses on identifying candidates, fundamental security analysis and stock selection.

Investment process overview: Deep value

Step 1: Distilling the universe

All US denominated stocks and ADRs greater > \$5 billion

Focus on:

- Liquidity
- Valuation

Step 2: Stock selection

- Fundamentals
- Sensitivity analysis
- Investment thesis
- Risks
- Price target

Step 3: Portfolio construction

- Bottom up, stock specific
- Benchmark agnostic
- Relatively concentrated

Step 1

Distilling the universe

Our investable universe filters for liquidity, and includes all large-cap US denominated equities and ADRs with a market capitalization of \$5 billion or greater.

Companies that exhibit stable or accelerating growth rates tend to have stable earnings patterns, so we consider various price-to-earnings metrics to be most applicable.

In contrast, companies that have more cyclical earnings display volatile earnings patterns, so we rely on more stable measures of valuation assessment, such as sales, book value or dividend yields.

Companies identified through our filtering process are thoroughly analyzed to assess intrinsic value and their ability to achieve fair value.

The result is a pool of highly liquid securities that we believe are statistically inexpensive relative to the broader market.

Step 2

Stock selection

We purchase a security if we believe the potential for stock price appreciation outweighs potential downside risk.

A stock must meet the following criteria:

- The company is statistically inexpensive on the basis of its primary valuation criteria, which depends upon the cyclical or growth nature of its business.
- The company is undervalued and possesses potential financial strength and improved quality of management for future growth.

This analysis leads to the conclusion that the stock is indeed mispriced and is likely to be reappraised by the market.

Step 3

Portfolio construction

- Portfolio construction is bottom-up and stock specific, concentrating on individual company fundamental analysis and valuation.
- We monitor and remain aware of our positions relative to the benchmark, but it does not play a role in the construction of the portfolio.
- We seek to manage risk through “right sizing” upside potential with downside risk in stock selection, and with the assistance of an independent quantitative risk control group.
- We view risk management as a continuous part of the process, regularly reviewing the portfolio to ensure optimal construction on a risk/reward basis.
- We set price targets for each stock and increase or decrease positions based on a stock’s price relative to our price targets.
- We maintain a long-term investment horizon, with a holding period of closer to four to five year, which has historically resulted in low turnover.
- We avoid timing the market by staying fully invested, with a target of 3% to 10% in cash.
- We strive to help manage risk through portfolio construction resulting in a relatively concentrated portfolio holding between 40 to 60 stocks.

Sell

Our sell discipline is just as important as the buy decision, and is based on the same principles – valuation and fundamentals.

Our strict sell discipline is a key component of our strategy. While no sale is automatic, a security is typically sold if:

- We believe the target price has been realized, and we no longer consider the company undervalued. As a stock reaches fair value, we will begin to trim the position.
- We determine a better value opportunity can be found elsewhere.
- We see, through our research, that a company may have deteriorating fundamentals beyond what we feel to be a tolerable level, and the trend is likely to be a long-term issue.

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