



## Investment Philosophy and Process: Separately Managed Accounts **Invesco Charter SMA**

### **Objective**

Seeks long-term growth of capital

### **Universe**

Companies generally in the market-cap range of the Russell 1000 Index

### **Team**

- Focuses on companies with above-average growth prospects, managed by good stewards of capital and trading at attractive valuations
- Strives to provide solid upside participation with better downside protection
- Utilizes a valuation driven discipline

### **Philosophy**

We believe attractively valued companies managed by good stewards of capital may outperform the market over the long term. We seek to achieve our core investment goals by identifying growth-value anomalies. We seek good businesses with high or increasing returns on capital that have strong future growth prospects and are temporarily mispriced.

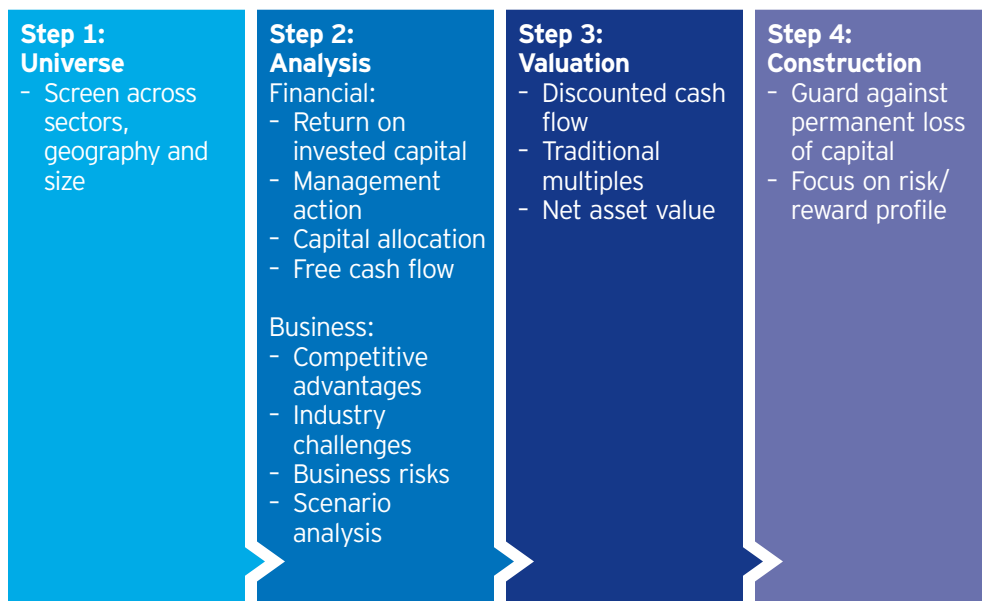
### **Process**

Our research-driven process seeks to achieve our core investment goals by identifying “growth-value anomalies” – companies with strong prospects to grow shareholder value that are managed by good stewards of capital and trade at attractive valuations.

The team seeks:

- To maintain a long-term, full-market-cycle perspective.
- To emphasize companies with attractive returns on invested capital and free cash flow generation.
- To utilize a valuation driven discipline.
- A disciplined approach to risk management.

### **Investment process overview**



## At a glance

### Process:

- We screen to uncover ideas that warrant further review
- We strive to gain a thorough understanding of the prospects of each business

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## Step 1

### Universe

We begin with a universe of domestic stocks generally defined by the Russell 1000 Index. We also consider non-US stocks as part of our industry research that meet our capitalization and liquidity requirements.

We apply screens to help uncover ideas that warrant further review. Our screens are customized by sector/industry and focus on:

- Valuation
- Price movement
- Return on invested capital (ROIC)
- Growth

We seek companies trading at favorable valuations on both a current and historical basis relative to several measures, including ROIC, free cash flow, growth potential and operating margin. This defines our universe of potentially undervalued businesses, and guides our research efforts.

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## Step 2

### Analysis

Through fundamental research, we strive 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.

Business analysis provides insight on the key drivers of a company, industry challenges and helps us evaluate the sustainability of competitive advantages. The financial and business analyses serve as a basis to construct the valuation models.

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## Step 3

### Valuation

We estimate a company's value using a combination of methods by applying three primary techniques:

- 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 industry and thematic exposures, and generally limit positions to less than 5% of the portfolio.

## At a glance

Construction and risk management:

- Manage volatility and grow capital
- Approximately 50-70 stocks
- Consider downside
- Balance risk and reward

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## Step 4

### 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.

We may also maintain a cash position to help limit volatility in narrow markets. The final portfolio is a well-diversified, large-cap core portfolio of 50 to 70 stocks.

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### Sell

We consider selling a stock if:

- Valuation exceeds target price.
- Assumptions used in determining fair value change or fail to materialize.
- Capital structure or earnings deteriorate.
- More compelling investment opportunities exist.

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