



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
- Strives to provide solid upside participation with better downside protection
- Utilizes a valuation driven discipline
- 15 experienced investment professionals
- Research responsibilities divided by geographic and industry assignment

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 upside potential versus downside risk (3:1).
- 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

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.

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.

Analysis provides 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.

Insight on the key drivers of a company and industry challenges help us evaluate the sustainability of competitive advantages. The financial and business analyses serve as a basis to construct the valuation models.

Step 3

Valuation

We estimate a company's value using a combination of methods:

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

The combination of these efforts results in the fundamental aspects of our risk management framework.

We target companies with upside potential of 50% over 3 years and 3:1 upside versus downside risk.

At a glance

Construction and risk management:

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

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 and geographic relative considerations to help ensure the majority of portfolio returns come from stock selection.

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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