Investment Philosophy and Process: Separately Managed Accounts

Invesco US Real Estate Securities SMA

Objective
Total return through growth of capital and current income

Universe
US-domiciled real estate equities with at least $100 million in market cap

Team
- 20 years average portfolio manager experience
- Six portfolio managers, two associate portfolio managers and 14 analysts
- Ability to leverage market, property and company knowledge available through the direct real estate investment side of its business

Philosophy
Our philosophy is based on two fundamental principles:

Maximize predictability and consistency of investment returns
Minimize risk through strict attention to portfolio design

These two principles form the cornerstone of our investment process, which utilizes a systematic approach incorporating fundamental real estate research and securities analysis. Our research allows us to focus on a real estate security's long-term value, and we believe that long-term performance may be determined by property market cycles, real estate asset quality and, for company investments, management expertise.

Process
Our disciplined investment process identifies our qualified investment universe, incorporates fundamental real estate analysis and securities analysis, and results in portfolio construction that aims to create an optimal risk and return.

Investment process overview

Step 1: Qualified universe
- At least $100 million in market capitalization
- Equity REIT focus
- Sufficient trading volume to provide liquidity

Step 2: Real estate analysis
- Fundamental analysis of properties, property market cycles, management teams and corporate structure
- Evaluate properties on the basis of location and physical attributes
- Eliminate weaker or higher-risk companies

Step 3: Securities analysis
- Evaluate and rate stocks according to relative value
- Identify occasions when investors over-react to short-term events
- Use multiple valuation criteria

Step 4: Portfolio construction
- Statistically measure, set and monitor risk and return
- Well-diversified with exposure to all major sectors of the market
- Seek optimum risk/return

Step 1 **Qualified universe**

We begin with an investable universe of US-domiciled real estate equities, then filter for companies that meet our target liquidity, risk and diversification profiles:

- At least $100 million in market capitalization
- Equity REIT focus
- Sufficient daily trading volume to provide liquidity equity REIT focus

Step 2 **Real estate analysis**

We narrow the field by identifying companies we believe may benefit from long-term sector trends by:

- Relying on fundamental research when evaluating potential portfolio holdings, including property market cycle analysis, property evaluation, and management and structure review.
- Conducting hands-on research, including interviews with property management teams, visits to property locations and market intelligence data from our field offices involved with direct real estate investment for institutions.
- Identifying real estate securities operating in the most attractive markets that we believe represent quality underlying properties, strong management teams with the ability to effectively manage capital structure decisions. This also helps us avoid weaker or higher-risk companies.

Step 3 **Securities analysis**

We use a proprietary relative value model when evaluating stocks. This allows us to assess valuations relative to one another and relative to our assessment of their underlying asset value.

Three key objectives drive our security analysis:

- Systematically evaluate and rank stocks according to relative value.
- Efficiently survey the entire investment universe and identify occasions when investors may be overreacting to short-term market or industry events.
- Thoroughly analyze return potential by testing and using multiple valuation criteria.

Step 4 **Portfolio construction**

We consider each security's relative value and its contribution to the portfolio's overall risk profile.

We actively manage risk by:

- Performing fundamental research to mitigate firm-specific and metropolitan market-level risk, and using earnings models to identify possible downward earnings revisions.
- Employing a comprehensive model to assess relative stock values, using multiple valuation metrics.
- Using an optimizer to help assess risk characteristics. We target market risk consistent with the portfolio's index and maintain property type and geographic diversification.
- Limiting exposure to individual companies.

At a glance

Construction and risk management:

- Fundamental research to help mitigate risk
- Assess relative stock values using multiple valuation metrics
- Limit exposure to individual companies
- Create optimal risk/return relationship

Sell

We consider selling a holding when:

- Relative valuation falls below the desired portfolio level.
- The risk/return relationship changes significantly.
- Company fundamentals change (e.g., property type, geography or management changes).
- A more attractive investment opportunity is identified.

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Invesco Advisers, Inc. ■ 11 Greenway Plaza, Suite 1000 ■ Houston, Texas 77046 ■ 713 626 1919

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