



2020 Long-Term Capital Market Assumptions

Q1 update

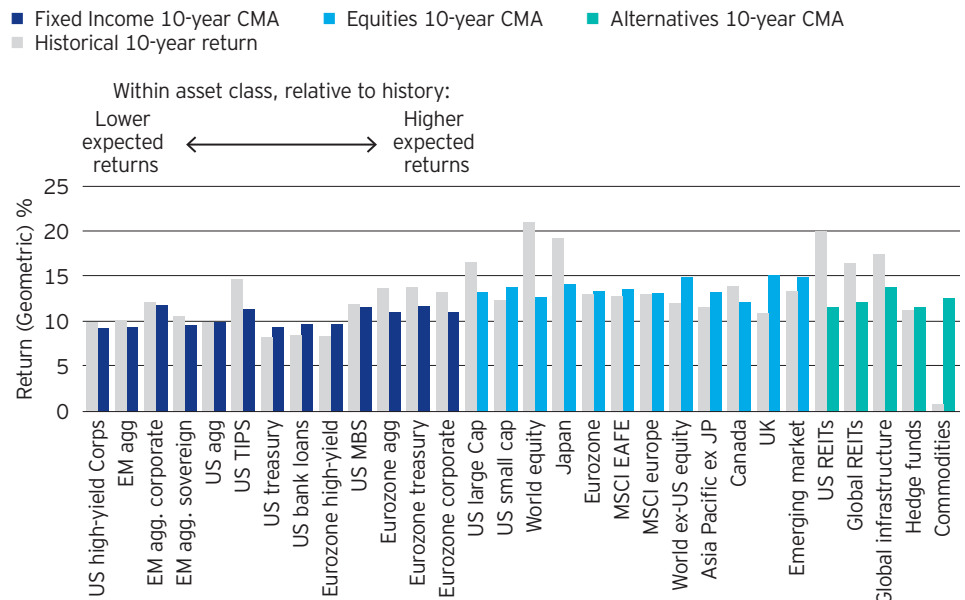
Invesco Investment Solutions | South African Rand (ZAR)

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Executive Summary

- + **The Strategic Perspective.** The year ended on a high note, with most assets posting positive returns during the last quarter of the decade. Risk-on sentiment crept through the trade-tension headlines as a phase one agreement came to be, calming market fears. US large cap equities were up significantly in the fourth quarter, bringing calendar-year 2019 returns to the largest one-year gain since 2013! Even Developed non-US equities, a laggard in the expansion, participated in the quarter's rally. One might think all is rosy in markets, but as strategic investors, we must position ourselves for a less optimistic path. Looking forward, we are constructing portfolios to weather the ups and downs, which is why diversification is central to our investment thesis. Absolute returns will be hard to come by, and for those concerned with risk-adjusted figures, the next 10 years could be challenging. A US or Global 60/40¹ may not be enough for those seeking nominal returns above 5%. Non-US equities, albeit with more risk, and alternatives, like hedge funds and commodities, are the most attractive long-term CMAs relative to their historical returns (**Figure 1**). Direct investments in Private Equity and Debt could provide diversification against US overvaluation, expected increases in volatility, and declining yields.
- + **The Tactical View.** Over the next few months we expect our leading economic indicators to deteriorate, especially for China and emerging markets due to the coronavirus, "catching-up" with the information currently discounted by asset prices. The impact to Developed markets leading indicators will likely be more modest, but negative nonetheless. Following these developments, we have rotated a portion of our equity exposure from Emerging markets (EM) into Developed markets (DM), resulting in an underweight position to emerging equities versus an overweight to DM both US and non-US. The recent deterioration in the macro environment has also led to a meaningful outperformance in defensive equity factors such as quality and low volatility, which we expect to continue in an environment of increasing risk aversion and downward revisions to growth.
- + **Regional Outlook.** South Africa's (SA) weak growth - due to country-specific challenges as well as global challenges - has encouraged the ZAR-based investors to diversify away from the domestic economy, as well as discouraging inward investment. SA does stand to benefit, however, from episodic easing in global financial conditions, which has recently resumed with a significant shift to easing by the Fed, ECB and many other central banks including within EM. Given weak growth performance and return expectations at home, we expect ZAR based investors to continue to seek diversification opportunities in the rest of the world, via a combination of relative havens in developed markets, as well as higher growth in non-commodity based, higher growth EMs, particularly in Asia.

Figure 1: Expectations relative to historical average (ZAR)



Source: Invesco, estimates as of Dec. 31, 2019. Proxies listed in **Figure 12**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 13 for information about our CMA methodology. Please see our methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here.

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1 US 60/40 represented by 60% S&P 500 Index and 40% BBG BARC US Aggregate Bond Index.
 Global 60/40 represented by 60% MSCI ACWI Index and 40% BBG BARC Global Aggregate Bond Index.

Global Macroeconomic Outlook



Duy Nguyen
CIO, Invesco Investment Solutions

The strategic perspective

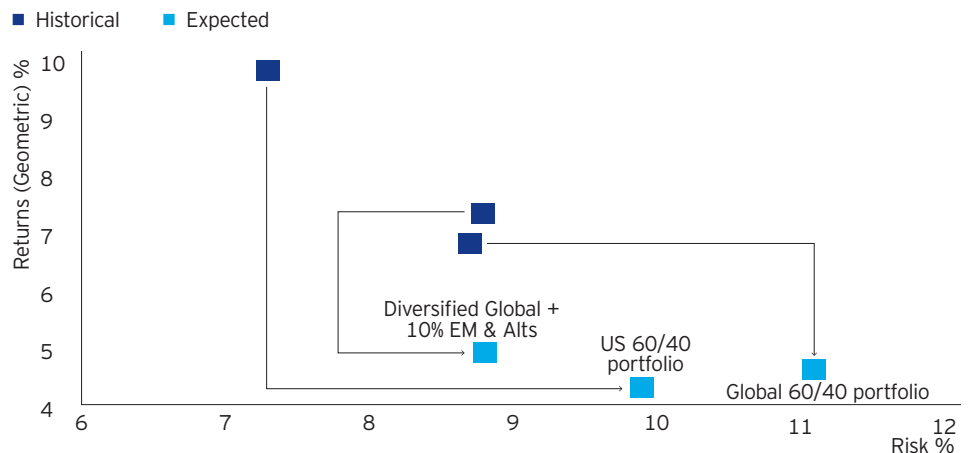
Providing our clients with a smooth investment experience is one of our core objectives. Our goal is to construct portfolios that will partake in the upswings with a risk-aware approach to minimizing drawdowns in downturns and we are fortunate to have robust analytic tools and risk diagnostics at our fingertips. Understanding the headwinds investors could face over the coming cycle, we are focused on diversifying assets to mitigate risk, enhance returns and navigate the uncertainty ahead.

Investors in US equities and broadly in fixed income, are likely to face a very different return experience going forward. The standard US 60/40 equity/fixed income portfolio is expected to return 4.3% in US dollars, on average, through 2030, less than half the return provided over the most recent decade with about a quarter higher risk (9.9%) (**Figure 2**). A similar but less dramatic experience is expected for global equities, given more attractive valuations and higher yields. Emerging markets and Non-US developed markets appear more likely positioned to provide higher returns over the next decade, albeit with slightly higher levels of volatility. Alternatives present opportunities for both higher returns and risk reduction, particularly in direct investments such as private equity and private debt.

Meeting with our global base of clients, we hear a common concern of where to allocate capital when valuations are full, growth is low, and uncertainty is high. Fixed income returns look rather bleak, due to low or negative yields. Investors are turning to equities to fill this income void, a partial reason why many defensive sectors were bid up to lofty valuations in 2019. As long-term investors, we are focused on ensuring our asset classes are serving their intended purposes, as to not get confused by the short-term noise. We expect equities to provide price appreciation first and income secondarily. If investors follow this mantra of “make your fixed income work smarter, and equities work harder,” we can begin to add diversification beyond these traditional assets in the form of alternative risk premia.

The unique backdrop whereby investors have been penalized for diversification is a theme we plan to capitalize on over the next decade. If volatility does increase as we expect, alternative strategies should provide investors with risk-mitigation through diversification. Selectivity will be important for investing late in the business cycle. From a risk-adjusted perspective, we believe US large caps are more attractive than their smaller counterparts, but in absolute terms, we favor small caps. Equities in the UK and Asia Pacific have attractive return prospects but are expected to have above-average volatility. Within fixed income assets, we prefer shorter duration and high-quality credit risk. Due to how flat, negative or inverted yield curves are around the world, long-term fixed income prospects are less attractive. Overall, we believe the next decade will be notably different from the last. Our strategic view is that investors should maintain a focus on diversification in the face of the unique challenges of lower yields, lower returns on capital, increased volatility, and higher correlations.

Figure 2: 60/40 Portfolios, less return and more risk over the next 10 years (USD)



Source: Invesco Investment Solutions proprietary research, Dec. 31, 2019. US 60/40 represented by 60% S&P 500 Index and 40% BBG BARC US Aggregate Bond Index. Global 60/40 represented by 60% MSCI ACWI Index and 40% BBG BARC Global Aggregate Bond Index. “Diversified Global + 10% EM & Alts” represented by 11% S&P 500 Index, 10% Russell 2000 Index, 5% Russell 1000 Value Index, 17.5% MSCI ACWI Index, 10% MSCI EM Index, 14% BBG BARC US Aggregate Index, 7% BBG BARC US Treasury Index, 7.5% CSFB Leverage Loan Index, 8% BBG BARC Global Aggregate Index, 2% FTSE NAREIT Equity Index, 6% HFRI HF Index, 2% Dow Jones Brookfield Global Infrastructure Composite Index. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see Page 13 for information about our CMA methodology. Please see the CMA methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here. **Performance, whether actual or simulated, does not guarantee future results.**

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Alessio de Longis
Senior Portfolio Manager,
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The tactical view²

The coronavirus presents a sudden exogenous shock to the global growth cycle, at a time when the world economy was on the cusp of a new synchronized cyclical upswing. Within our macro regime framework, this negative shock has led to a noticeable decline in our market sentiment indicator, foreshadowing downward revisions to future growth expectations, particularly for China and the rest of emerging Asia (**Figure 3**). In our last update, we had indicated how this region was likely to lead the impending global cyclical upturn based on information from our leading economic indicators; however, the regional concentration of the coronavirus shock directly challenges this thesis, at least for now. In light of this new information, our framework places the global economy in a **contraction regime** for the near-term, i.e. growth below-trend and expected to decelerate. The duration of this regime is likely to depend on two things: 1) the duration of the virus outbreak and 2) its impact on the economy.

Duration of the virus outbreak: likely over by the spring

From this perspective, the virus outbreak per se is unlikely to derail the global growth outlook for 2020, as it is reasonable to assume the outbreak will follow the typical path of any seasonal flu, which hits most of the northern hemisphere this time of year, and largely runs its course within 2-3 months, i.e. by the spring. Indeed, this is also what we experienced with SARS in 2003, which provided a similar near term hit to markets and growth and ran its course by mid-April. Therefore, by itself the outbreak can be considered a temporary economic event.

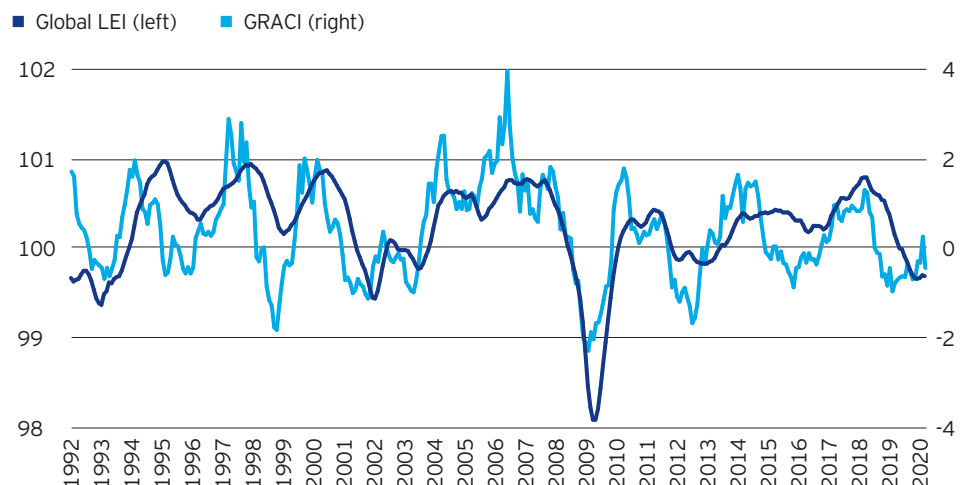
Impact on the economy: temporary and longer-lasting shocks

The growth impact is likely to be most pronounced in China and the rest of Asia, particularly for Q1 2020, driven by the disruption to economic activity caused by quarantines, factories shutdowns and canceled transportation services. Revenues from consumer spending, travel and tourism services are likely to suffer the most given the Lunar New Year holidays. However, this should represent only a one-off, temporary drag to growth. On the contrary, the industrial side is likely to experience both a near-term shock and a more uncertain long-term drag. The loss of Chinese output in Q1 will likely lead to a sharp drawdown in inventories, followed by a similarly sharp rebound in production in Q2 and Q3, depending on the disruption to global supply chains and global demand outside the region. Given the much larger share of global GDP coming from China today (~18% compared to 5% in 2003), the impact to global growth is likely to be larger than during the SARS episode. On the positive side, the meaningful decline in industrial commodity and energy prices (~10% year-to-date) should provide some support to industrial and consumer demand going forward

In summary, over the next few months we expect our leading economic indicators to deteriorate, especially for China and emerging markets, “catching-up” with the information currently discounted by asset prices. The impact to developed markets leading indicators will likely be more modest, but negative nonetheless. More importantly, we will continue to monitor trends in global risk appetite to gauge whether economic data will surprise positively or negatively versus financial markets expectations.

Figure 3: Duration of the virus outbreak: likely over by the spring

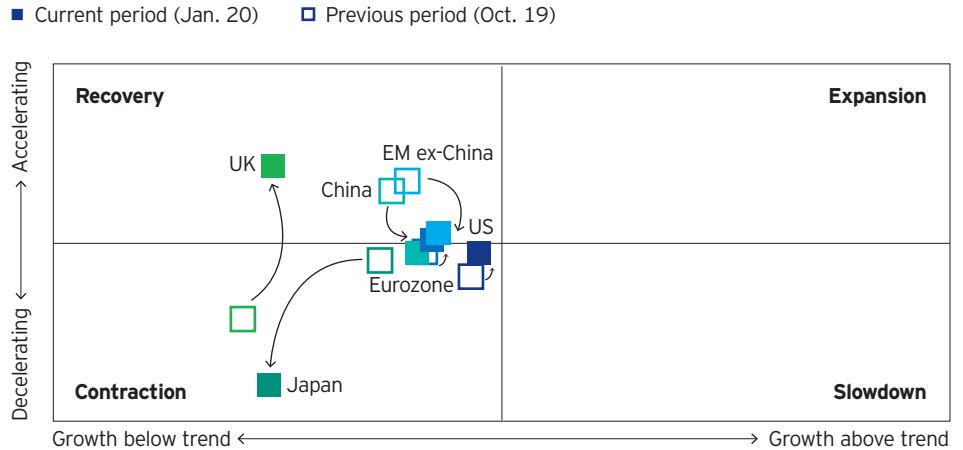
Coronavirus shock to market sentiment challenges the nascent growth recovery, increasing near-term downside risks in a below-trend growth environment.



Sources: Federal Reserve, BEA, Moody's, Jan. 31, 2020. GRACI is an acronym for IIS' proprietary Global Risk Appetite Cycle Indicator.

Figure 4: Impact on the economy: temporary and longer-lasting shocks

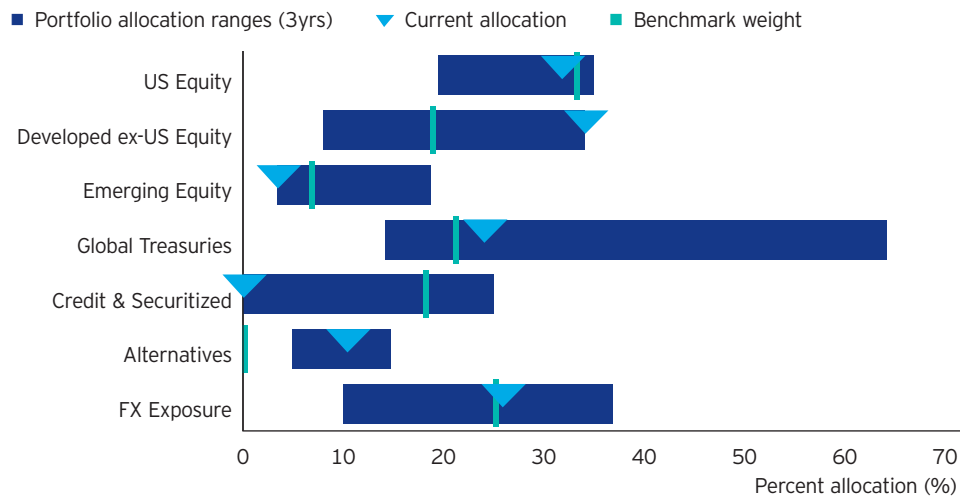
Leading Indicators likely to dip back into contraction, especially for China and emerging markets.



Sources: Invesco Investment Solutions proprietary research, Jan. 31, 2020.

Following these developments, we have rotated a portion of our equity exposure from emerging into developed markets, resulting in an underweight position to emerging equities versus an overweight to developed markets both domestic and international (Figure 5). The recent deterioration in the macro environment has also led to a meaningful outperformance in defensive equity factors such as quality and low volatility, which we expect to continue in an environment of increasing risk aversion and downward revisions to growth. Finally, barring renewed easing rhetoric by global central banks, the decline in bond yields over the past month appears appropriate, flattening yield curves once again and largely reflecting the increased risk aversion.

Figure 5: Tactical Moderate Portfolio vs. Global Benchmark



Source: Invesco, Jan. 31, 2020. This chart depicts the application of Invesco Investment Solutions tactical views relative to a static, Global 60/40 benchmark, represented by 60% MSCI ACWI Index and 40% BBG BARC Global Aggregate Bond Index. Hypothetical portfolio allocations are displayed in terms of notional value and may exceed 100% due to leverage.

Regional Market Outlook



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South African Rand

The global economic cycle has been given a new lease on life by improvements in key geopolitical and geo-economic uncertainties which were weighing on both growth and inflation worldwide for much of 2019. The US-China "Phase I" trade deal should stabilize bilateral relations, even though tariffs remain elevated and complex US concerns, such as China's industrial policies and subsidies, and intellectual property protection, remain. Thus, global confidence concerns may continue to constrain major investment and big-ticket consumption decisions that the improvement will prove to be a temporary, election-year reprieve for the Trump administration or a palliative for China. Even so, the Phase I deal represents a confidence-boosting confirmation that governments share strong interests in negotiating unresolved differences.

The combination of monetary policy easing started by the Fed and followed by most major developed and emerging market (DM and EM) central banks, together with improvements in the global trade policy outlook should help release pent up demand for discretionary investment and consumption, that had previously been held back by trade and other geopolitical tensions. But it is unlikely to unleash a sustained new wave of strategic new, big-ticket decisions, so the economic outlook is likely to look up, yet consumption, investment and inflation to remain subdued, given concerns about the longer-term outlook for US-China, US-EU and UK-EU relations. On balance, current and leading indicators suggest that these global policy shifts are already producing cyclical stabilization and perhaps even a bit of an uplift to global manufacturing industry and trade.

We believe the associated easing in geopolitical tensions and global financial conditions is already being complemented by other improvements in the global environment. Perhaps most important among these, the decisive Conservative Party majority in the December 2019 UK election means Brexit will proceed. The specifics of the EU-UK future relationship remain uncertain, but it seems likely that divergence from EU rules would be accompanied by growth-enhancing economic liberalization and efforts to boost investment, instead of growth-depressing concerns about renationalization and redistribution had Labour won. We expect political stabilization together with the recent weak data to push the Bank of England to catch up to the global monetary easing. This, together with the prospect for Brexit progress should support UK, Eurozone (EZ) and global growth to some extent.

Other downside risks remain front of mind, however. The outbreak of novel coronavirus in Mainland China during the lunar new-year holiday travel season represents both a tragic threat to public health as well as to cyclical growth performance. At the time of writing, China has imposed domestic travel restrictions and international restrictions are starting to be used as well. Tourism, associated services and consumption, which had held up well during the trade tensions, may well suffer headwinds, in Asia and globally. The global growth impact may exceed the impact of the SARS pandemic given the significant increase in China's economic weight in the world through various direct and indirect channels. Other differences from the SARs episode are also worth noting: A global recovery was gathering steam during 2003 - the Fed began slowly raising rates the next year - and globalization was progressing rapidly. Now, much of the world economy has been growing amid mid-cycle ups and downs for almost a decade; the Fed and other major central banks have shifted back to easing.

Global economic effects are likely to come through domestic and outbound tourism; industrial production and consumption; and demand for commodities and other inputs. Knock-on effects are also likely via financial conditions, as risk assets have suffered major corrections and "safe-haven" government bonds and currencies have rallied. These effects are likely to lead to significantly weaker than expected first quarter GDP growth and possibly beyond Q1, especially in Asia. All that said, if and when the tragic spread of the virus is contained, there is likely to be a significant bounceback in activity, and in risk asset valuations.

Elsewhere, other geopolitical or economic growth concerns point to the continuation of easy monetary policies. Further flare-ups of tensions in the Mid-East cannot be ruled out. Positive but weak global growth is likely to keep oil prices from collapsing or spiking, absent an actual supply disruption. Significantly higher oil prices could be significantly more challenging for the global economy and capital markets than the range-bound trading we expect to continue through 2020, because a surge would probably spill over into demand destruction, given the already relatively soft growth of global consumption. However, the persistence of growth-supportive monetary policies; high expectations that the Fed would ease further if needed; and continued, even if weak, global growth suggest that temporary supply hits are unlikely to produce a stagflationary oil shock that would limit monetary easing; actual supply restrictions would probably be needed.

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This outlook for weak growth and inflation in turn is likely to keep central banks biased towards holding policy easy; to be biased to ease even further in the event of further downside shocks to growth or inflation. Conversely, we would expect most major central banks to remain on hold in the face of any upside surprises, given the sustained, widespread underperformance of inflation. The monetary policy reviews now underway at several major central banks seem likely to support expectations of continued easy monetary policy, given the weak inflation outlook. Significant concerns about financial stability due to increasing yield-seeking, duration and liquidity mismatches among financial intermediaries and investors is likely to be addressed by so-called "macro-prudential" restraints. Such efforts in our view would be desirable to prevent financial instability, but are themselves likely to keep growth and inflation quiescent, policy easy and thereby support the valuations of risk assets.

The global backdrop of weak growth, low inflation but easy monetary and financial conditions in combination with South Africa's relatively weak growth, moderately high inflation and high currency volatility argues for ZAR based investors to continue to reduce home bias. In the special case of South Africa, reducing home bias would be worthwhile for traditional diversification purposes, but also for outright exposure to higher returns from stronger, more reliable growth prospects in many other parts of the world, for arguably lower risks. South Africa's export prospects are suffering from the weakness of global demand for metals and mineral. Oil import prices are also relatively low, so the terms of trade are a mixed bag. But even with the easing of geopolitical and geo-economic tensions and the ensuing recovery in financial risk appetite, the lift off in commodity prices and global trade volumes has been modest.

Thus, global support for South Africa may not be enough by itself to warrant maintaining high domestic exposure for ZAR based investors. A compelling reform program that raises potential growth, reduces stratospheric unemployment and convincingly stabilizes inflation and still variable inflation expectations would make a major difference. But these are major domestic challenges that the ANC and Ramaphosa government may require the better part of a decade to advance sufficiently to change the economic and financial dynamics. The end of the commodity supercycle along with the Fourth Industrial Revolution of technology (which undermines the traditional EM catch-up growth model of export-oriented industrialization and ascension up along the value-added chain) may also restrict South Africa's ability to generate faster growth, at least without profound reforms and investment in human capital. For all these reasons, we expect ZAR-based investors to seek diversification, perceived safety and return elsewhere.

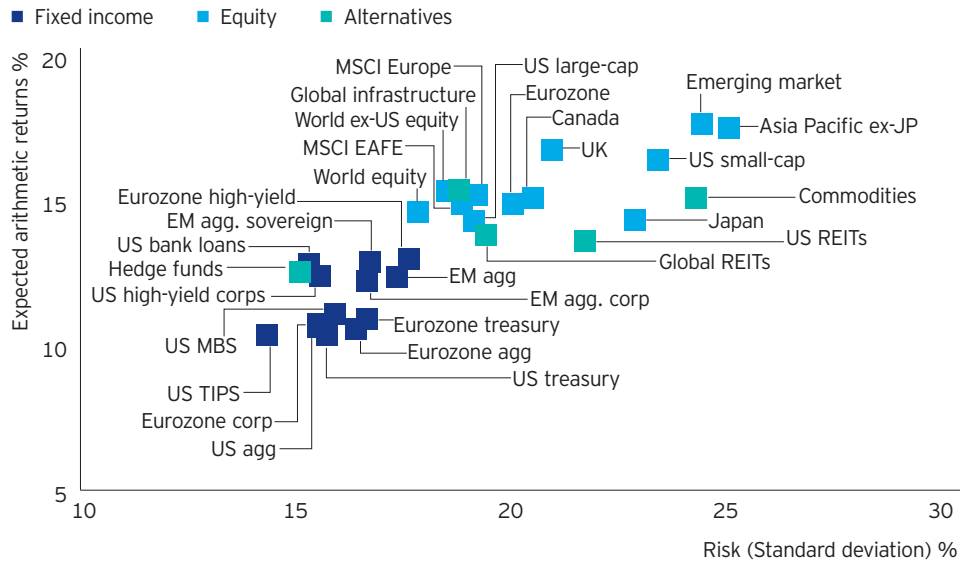
The bunching of the trade-off between risk and return in our ZAR-based CMAs is unusual and in our sample of CMAs continues to be unique. It suggests that ZAR investors can achieve very high returns in ZAR terms - albeit with high, concentrated risk driven mainly by ZAR volatility. ZAR is a relatively liquid, fully convertible commodity / EM currency. The currency therefore serves both as a proxy for EM as a whole as well as South Africa's mechanism to adjust to shifts in the terms of trade, in global financial conditions - important for a country with twin deficits in its budget and external current account - as well as South Africa's sovereign risk.

The bunching also represents an opportunity, for the risk-return trade-off suggests that ZAR-based investors do not necessarily have to accept illiquidity in order to reach for yield and return. The bunching also points to higher expected returns in US than European assets, for example, which corroborates the idea that ZAR volatility helps explain higher returns with no meaningful increment to historical volatility. Dollar-rand is of course the main ZAR currency cross rate, considerably more actively traded than euro-rand.

We note that several equity and alternative asset classes are also bunched up in a higher volatility / risk and return range than global fixed income asset classes. These different concentrations of risk/return buckets of course do not resemble a traditional efficient frontier with a "normal" profile for diversification based strategic portfolio asset allocation. Even so, we believe these risk concentrations are worth shouldering for ZAR investors since they reflect the behavior of South Africa risk as reflected mainly in dollar-rand, rather than a shortcoming of the opportunity set. We see confirmation of this in the consistently low return, varied risk and efficient-frontier type distribution of risk-adjusted return expectations across other major base currencies. We believe this ZAR factor in the risk return trade-off only augments an imperative for diversification.

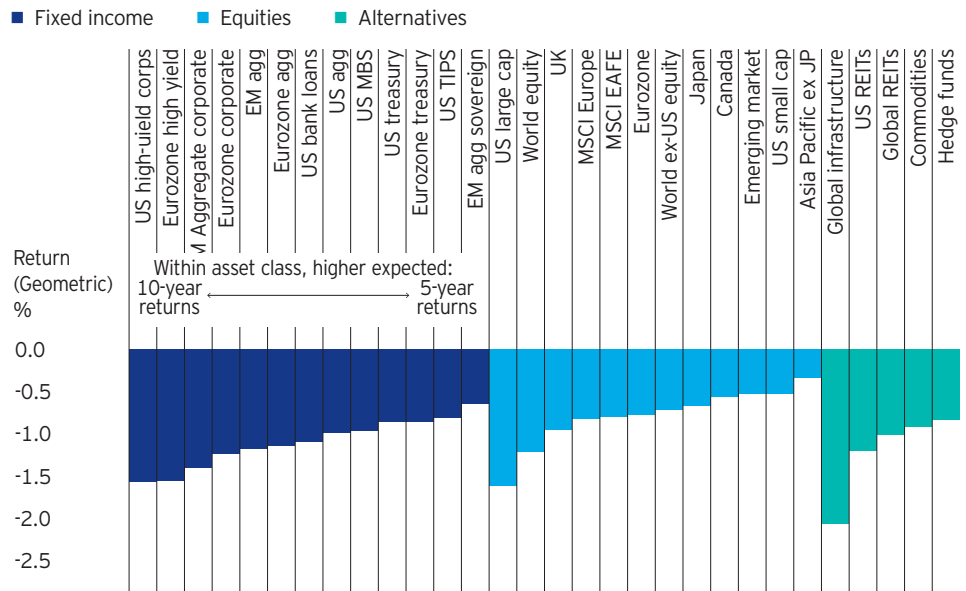
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Figure 6: 10-year asset class expectations (ZAR)



Source: Invesco, estimates as of Dec. 31, 2019. Proxies listed in **Figure 12**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see Page 13 for information about our CMA methodology. Please see our methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here. **Performance, whether actual or simulated, does not guarantee future results.**

Figure 7: CMA difference: 5-year minus 10-year assumptions (ZAR)



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Figure 8: Equity quarter-over-quarter change (ZAR)

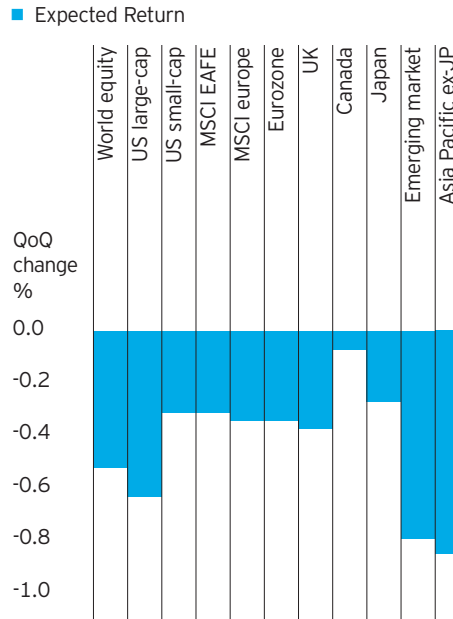
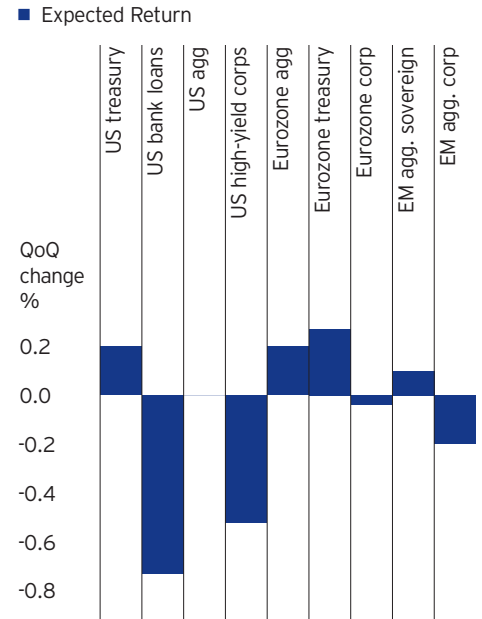


Figure 9: Fixed income quarter-over-quarter change (ZAR)



Source: Invesco, estimates as of Dec. 31, 2019. Proxies listed in **Figure 12**. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see Page 13 for information about our CMA methodology. Please see our methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here. **Performance, whether actual or simulated, does not guarantee future results.**

Figure 10: Equity quarter-over-quarter change attribution (ZAR)

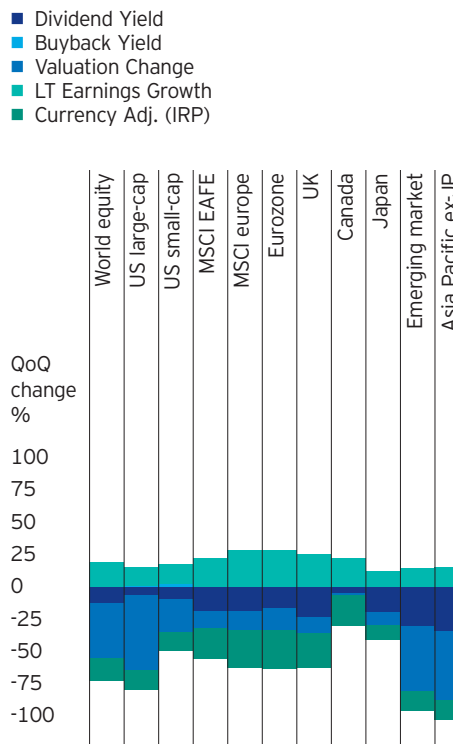
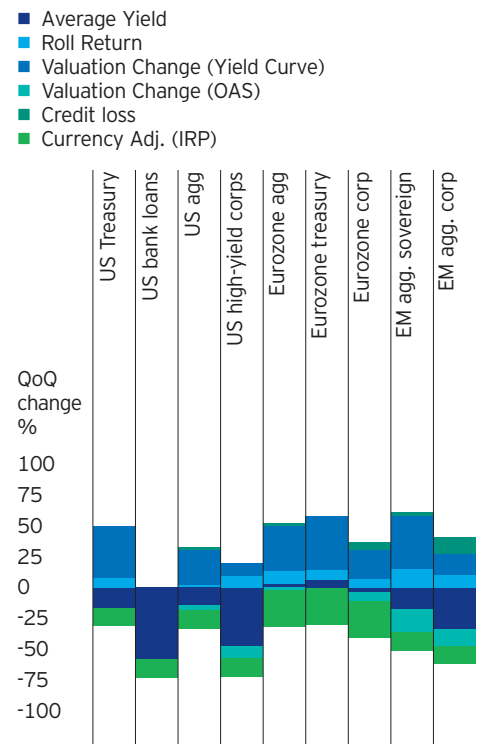


Figure 11: Fixed income quarter-over-quarter change attribution (ZAR)



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Figure 12: 10-year asset class expected returns, risk, and return-to-risk (ZAR)

	Asset class	Index	Expected geometric return %	Expected arithmetic return %	Expected risk %	Arithmetic return to risk ratio	
Fixed income	US Treasury (short)	BBG BARC US Treasury Short	9.0	9.9	14.2	0.70	
	US Treasury (intermediate)	BBG BARC US Treasury Intermediate	9.1	10.1	15.3	0.66	
	US Treasury (long)	BBG BARC US Treasury Long	9.1	10.7	18.9	0.57	
	US TIPS	BBG BARC US TIPS	9.4	10.3	14.3	0.72	
	US bank loans	CSFB Leverage Loan	11.8	12.8	15.3	0.84	
	US aggregate	BBG BARC US Aggregate	9.6	10.6	15.5	0.69	
	US IG corporates	BBG BARC US Investment Grade	9.6	10.6	15.6	0.68	
	US MBS	BBG BARC US MBS	10.0	11.1	15.9	0.70	
	US preferred stocks	BOA ML Fixed Rate Pref Securities	10.9	12.4	18.4	0.67	
	US HY corporates	BBG BARC US High Yield	11.3	12.4	15.6	0.80	
	UK linker	BofA ML UK Inflation-Linked Gilt	8.0	8.9	14.3	0.62	
	UK gilts	BBG BARC Sterling Aggregate Gilts	9.0	10.0	14.5	0.69	
	UK corp	BBG BARC Sterling Aggregate Non-Gilts - Corporate	9.8	10.6	13.5	0.78	
	Global aggregate	BBG BARC Global Aggregate	9.6	10.7	15.4	0.69	
	Global aggregate ex-US	BBG BARC Global Aggregate ex-US	9.6	10.7	15.6	0.68	
	Global treasury	BBG BARC Global Treasuries	9.5	10.7	16.0	0.67	
	Global sovereign	BBG BARC Global Sovereign	9.1	10.1	15.1	0.67	
	Global corporate	BBG BARC Global Corporate	9.7	10.6	14.4	0.74	
	Global IG	BBG BARC Global Corporate Inv Grd	9.7	10.6	14.7	0.73	
	Eurozone corporate	BBG BARC Euro Aggregate Credit Corporate	9.7	10.7	15.5	0.69	
	Eurozone treasury	BBG BARC Euro Aggregate Government Treasury	9.7	10.9	16.6	0.66	
	Asian dollar IG	BOA Merrill Lynch ACIG	10.1	11.5	18.1	0.63	
	EM aggregate	BBG BARC EM Aggregate	11.0	12.3	17.4	0.71	
	EM aggregate sovereign	BBG BARC EM Sovereign	11.7	12.9	16.7	0.77	
	EM aggregate corporate	BBG BARC EM Corporate	11.0	12.2	16.7	0.73	
	EM aggregate IG	BBG BARC EM USD Aggregate IG	9.8	11.2	17.8	0.63	
	Equities	World equity	MSCI ACWI	13.2	14.6	17.8	0.82
		World ex-US equity	MSCI ACWI ex-US	13.9	15.3	18.5	0.83
		US broad market	Russell 3000	12.8	14.4	19.6	0.74
US large-cap		S&P 500	12.7	14.3	19.2	0.75	
US mid-cap		Russell Midcap	13.3	15.1	20.6	0.73	
US small-cap		Russell 2000	14.1	16.4	23.4	0.70	
MSCI EAFE		MSCI EAFE	13.4	14.9	18.9	0.79	
MSCI Europe		MSCI Europe	13.6	15.2	19.2	0.79	
Eurozone		MSCI Euro X UK	13.2	14.9	20.1	0.74	
UK large-cap		FTSE 100	14.5	16.3	20.7	0.79	
UK small-cap		FTSE Small Cap UK	15.6	18.4	26.0	0.71	
Canada		S&P TSX	13.3	15.1	20.5	0.73	
Japan		MSCI JP	12.1	14.3	22.9	0.63	
Emerging market		MSCI EM	15.2	17.7	24.5	0.72	
Asia Pacific ex-Japan		MSCI APXJ	14.9	17.5	25.1	0.70	
Pacific ex-Japan		MSCI Pacific X JP	14.5	17.2	25.2	0.68	
US REITs		FTSE NAREIT Equity	11.6	13.6	21.7	0.63	
Alternatives		Global REITs	FTSE EPRA/NAREIT Developed	12.2	13.8	19.4	0.71
		Global infrastructure	Dow Jones Brookfield Global Infrastructure Composite	13.9	15.4	18.8	0.82
	Hedge funds	HFRI HF	11.5	12.5	15.1	0.83	
	Commodities	S&P GSCI	12.6	15.1	24.3	0.62	
	Agriculture	S&P GSCI Agriculture	7.9	10.2	23.2	0.44	
	Energy	S&P GSCI Energy	15.0	20.2	36.4	0.55	
Industrial metals	S&P GSCI Industrial Metals	12.1	14.5	23.8	0.61		
Precious metals	S&P GSCI Precious Metals	10.3	12.0	19.8	0.61		

Source: Invesco, estimates as of Dec. 31, 2019. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 13 for information about our CMA methodology. Please see our methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here. HY = high yield; IG = Investment Grade, TIPS = treasury inflation protected securities, EM = emerging markets, and MBS = mortgage backed securities.

Figure 13: 10-year correlations (ZAR)

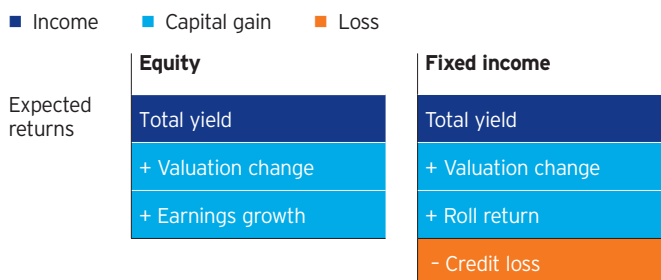
Asset class	Equities														Alternatives											
	World equity	World ex-US equity	US broad	US large-cap	US mid-cap	US small-cap	MSCI EAFE	MSCI Europe	Eurozone	UK large-cap	UK small-cap	Canada	Japan	Emerging market	Asia pac ex-Japan	Pacific ex-Japan	US REITs	Global REITs	Global infrastruc	Hedge funds	Commodities	Agriculture	Energy	Industrial metals	Precious metals	
Fixed income																										
US Treasury (short)																										
US Treasury (IM)																										
US Treasury (long)																										
US TIPS																										
US bank loans																										
US aggregate																										
US IG corporates																										
US MBS																										
US preferred stocks																										
US HY corporates																										
UK linker																										
UK gilts																										
UK corp																										
Global aggregate																										
Global agg ex-US																										
Global treasury																										
Global sovereign																										
Global corporate																										
Global IG																										
Eurozone corporate																										
Eurozone treasury																										
Asian dollar IG																										
EM aggregate																										
EM agg sovereign																										
EM agg corporate																										
EM agg IG																										
Equities	1.00																									
World ex-US equity	0.96	1.00																								
US broad market	0.97	0.87	1.00																							
US large-cap	0.97	0.87	1.00	1.00																						
US mid-cap	0.94	0.87	0.97	0.95	1.00																					
US small-cap	0.85	0.78	0.90	0.88	0.94	1.00																				
MSCI EAFE	0.96	0.99	0.88	0.88	0.87	0.77	1.00																			
MSCI Europe	0.94	0.97	0.85	0.85	0.84	0.75	0.98	1.00																		
Eurozone	0.92	0.96	0.83	0.83	0.82	0.75	0.97	0.99	1.00																	
UK large-cap	0.92	0.93	0.84	0.85	0.82	0.72	0.94	0.95	0.90	1.00																
UK small-cap	0.84	0.87	0.76	0.75	0.79	0.72	0.87	0.86	0.83	0.85	1.00															
Canada	0.83	0.83	0.78	0.77	0.81	0.75	0.78	0.77	0.74	0.78	0.74	1.00														
Japan	0.77	0.77	0.73	0.73	0.70	0.62	0.80	0.68	0.66	0.68	0.68	0.58	1.00													
Emerging market	0.80	0.87	0.68	0.67	0.71	0.64	0.79	0.77	0.77	0.72	0.74	0.77	0.56	1.00												
Asia Pacific ex-Japan	0.81	0.86	0.72	0.71	0.72	0.66	0.80	0.76	0.76	0.73	0.75	0.73	0.61	0.96	1.00											
Pacific ex-Japan	0.83	0.88	0.74	0.73	0.76	0.68	0.84	0.81	0.79	0.79	0.75	0.77	0.59	0.86	0.87	1.00										
Alternatives	0.65	0.60	0.68	0.67	0.71	0.66	0.61	0.59	0.58	0.55	0.55	0.53	0.49	0.45	0.49	0.55	1.00									
Global REITs	0.78	0.77	0.75	0.75	0.78	0.70	0.77	0.74	0.72	0.72	0.70	0.66	0.63	0.64	0.67	0.75	0.92	1.00								
Global infrastructure	0.82	0.78	0.79	0.80	0.77	0.65	0.79	0.76	0.73	0.78	0.66	0.71	0.66	0.59	0.63	0.67	0.68	0.78	1.00							
Hedge funds	0.77	0.69	0.80	0.80	0.76	0.68	0.71	0.67	0.63	0.71	0.65	0.63	0.71	0.49	0.57	0.55	0.53	0.61	0.81	1.00						
Commodities	0.55	0.56	0.51	0.50	0.52	0.46	0.54	0.53	0.48	0.59	0.53	0.66	0.44	0.46	0.43	0.48	0.28	0.38	0.55	0.56	1.00					
Agriculture	0.39	0.38	0.37	0.38	0.35	0.28	0.38	0.36	0.34	0.39	0.35	0.39	0.30	0.30	0.32	0.37	0.29	0.36	0.39	0.48	0.45	1.00				
Energy	0.47	0.49	0.43	0.42	0.45	0.41	0.47	0.46	0.42	0.52	0.46	0.59	0.38	0.40	0.36	0.40	0.20	0.29	0.47	0.44	0.97	0.27	1.00			
Industrial metals	0.58	0.58	0.54	0.53	0.54	0.47	0.55	0.53	0.49	0.57	0.55	0.63	0.41	0.54	0.55	0.58	0.38	0.49	0.47	0.54	0.56	0.38	0.44	1.00		
Precious metals	0.30	0.31	0.28	0.28	0.27	0.19	0.29	0.26	0.23	0.30	0.25	0.39	0.28	0.27	0.28	0.27	0.26	0.31	0.43	0.54	0.39	0.40	0.28	0.44	1.00	

Source: Invesco, estimates as of Dec. 31, 2019. Proxies listed in Figure 12. These estimates are forward-looking, are not guarantees, and they involve risks, uncertainties, and assumptions. Please see page 13 for information about our CMA methodology. Please see our methodology paper for additional CMA information. These estimates reflect the views of Invesco Investment Solutions, the views of other investment teams at Invesco may differ from those presented here.

About our capital market assumptions methodology

We employ a fundamentally based “building block” approach to estimating asset class returns. Estimates for income and capital gain components of returns for each asset class are informed by fundamental and historical data. Components are then combined to establish estimated returns (Figure 14). Here we provide a summary of key elements of the methodology used to produce our long-term (10-year) estimates. Five-year assumptions are also available upon request. Please see Invesco’s capital market assumption methodology whitepaper for more detail.

Figure 14: Our building block approach to estimating returns



For illustrative purposes only.

Fixed income returns are composed of:

- + **Average yield:** The average of the starting (initial) yield and the expected yield for bonds.
- + **Valuation change (yield curve):** Estimated changes in valuation given changes in the Treasury yield curve.
- + **Roll return:** Reflects the impact on the price of bonds that are held over time. Given a positively sloped yield curve, a bond’s price will be positively impacted as interest payments remain fixed but time to maturity decreases.
- + **Credit adjustment:** Estimated potential impact on returns from credit rating downgrades and defaults.

Equity returns are composed of:

- + **Dividend yield:** Dividend per share divided by price per share.
- + **Buyback yield:** Percentage change in shares outstanding resulting from companies buying back or issuing shares.
- + **Valuation change:** The expected change in value given the current Price/Earnings (P/E) ratio and the assumption of reversion to the long-term average P/E ratio.
- + **Long-term (LT) earnings growth:** The estimated rate in the growth of earning based on the long-term average real GDP per capita and inflation.

Currency adjustments are based on the theory of Interest Rate Parity (IRP) which suggests a strong relationship between interest rates and the spot and forward exchange rates between two given currencies. Interest rate parity theory assumes that no arbitrage opportunities exist in foreign exchange markets. It is based on the notion that, over the long term, investors will be indifferent between varying rate of returns on deposits in different currencies because any excess return on deposits will be offset by changes in the relative value of currencies.

Volatility estimates for the different asset classes, we use rolling historical quarterly returns of various market benchmarks. Given that benchmarks have differing histories within and across asset classes, we normalise the volatility estimates of shorter-lived benchmarks to ensure that all series are measured over similar time periods.

Correlation estimates are calculated using trailing 20 years of monthly returns. Given that recent asset class correlations could have a more meaningful effect on future observations, we place greater weight on more recent observations by applying a 10-year half-life to the time series in our calculation.

Arithmetic versus geometric returns. Our building block methodology produces estimates of geometric (compound) asset class returns. However, standard mean-variance portfolio optimisation requires return inputs to be provided in arithmetic rather than in geometric terms. This is because the arithmetic mean of a weighted sum (e.g., a portfolio) is the weighted sum of the arithmetic means (of portfolio constituents). This does not hold for geometric returns. Accordingly, we translate geometric estimates into arithmetic terms. We provide both arithmetic returns and geometric returns given that the former informs the optimisation process regarding expected outcomes, while the latter informs the investor about the rate at which asset classes might be expected to grow wealth over the long run.

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Invesco Investment Solutions

Invesco Investment Solutions is an experienced multi-asset team that seeks to deliver desired client outcomes using Invesco's global capabilities, scale and infrastructure. We partner with you to fully understand your goals and harness strategies across Invesco's global spectrum of active, passive, factor and alternative investments that address your unique needs. From robust research and analysis to bespoke investment solutions, our team brings insight and innovation to your portfolio construction process. Our approach starts with a complete understanding of your needs:

- + We help support better investment outcomes by delivering insightful and thorough analytics.
- + By putting analytics into practice, we develop investment approaches specific to your needs.
- + We work as an extension of your team to engage across functions and implement solutions.

The foundation of the team's process is the development of capital market assumptions – long-term forecasts for the behavior of different asset classes. Their expectations for returns, volatility, and correlation serve as guidelines for long-term, strategic asset allocation decisions.

Assisting clients in North America, Europe and Asia, Invesco's Investment Solutions team consists of over 60 professionals, with 15+ years of experience across the leadership team. The team benefits from Invesco's on-the-ground presence in more than 20 countries worldwide, with over 150 professionals to support investment selection and ongoing monitoring.

About the Invesco Global Market Strategist office

The GMS office is comprised of investment professionals based in different regions, with different areas of expertise. It provides data and commentary on global markets, offering insights into key trends and themes and their investment implications.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Invesco Investment Solutions develops CMAs that provide long-term estimates for the behavior of major asset classes globally. The team is dedicated to designing outcome-oriented, multi-asset portfolios that meet the specific goals of investors. The assumptions, which are based on 5- and 10-year investment time horizons, are intended to guide these strategic asset class allocations. For each selected asset class, we develop assumptions for estimated return, estimated standard deviation of return (volatility), and estimated correlation with other asset classes. This information is not intended as a recommendation to invest in a specific asset class or strategy, or as a promise of future performance. Estimated returns are subject to uncertainty and error, and can be conditional on economic scenarios. In the event a particular scenario comes to pass, actual returns could be significantly higher or lower than these estimates.

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Unless otherwise stated, all information is sourced from Invesco, in ZAR and as of Dec. 31, 2019.

Further information is available using the contact details shown overleaf.

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