Strategy
Insights

Potential benefits of an equal-weighted investment approach

Invesco Quantitative Strategies

The S&P 500 Index® is an unmanaged index widely quoted as a barometer of the US equity market. This index includes a broad array of leading American companies such as Apple, ExxonMobil, General Electric, and Johnson & Johnson.[1] When constructing the index, the weight of each stock is based on the prevailing market value of its total common stock available to the public (its free-float market capitalization). Therefore, the largest companies have a significantly greater representation in the index than the smaller ones. This also means that a $628 billion behemoth like Apple has a disproportionately larger influence on the returns of this index than a $3.0 billion[2] company like Urban Outfitters.

Partly to address this issue of uneven impacts to Index performance, Standard & Poor's also publishes the S&P 500 Equal Weight Index® (S&P EWI). Rather than establish stock weights according to their market capitalization, the S&P 500 Equal Weight Index — as the name implies — sets the same weight for each and every stock. With 500 securities in the Index, this means each stock has a weight of 0.20% at each quarterly rebalance. By setting the same weight for each stock, Apple and Gamestop Corp. now have the same opportunity to influence the returns of the Index.

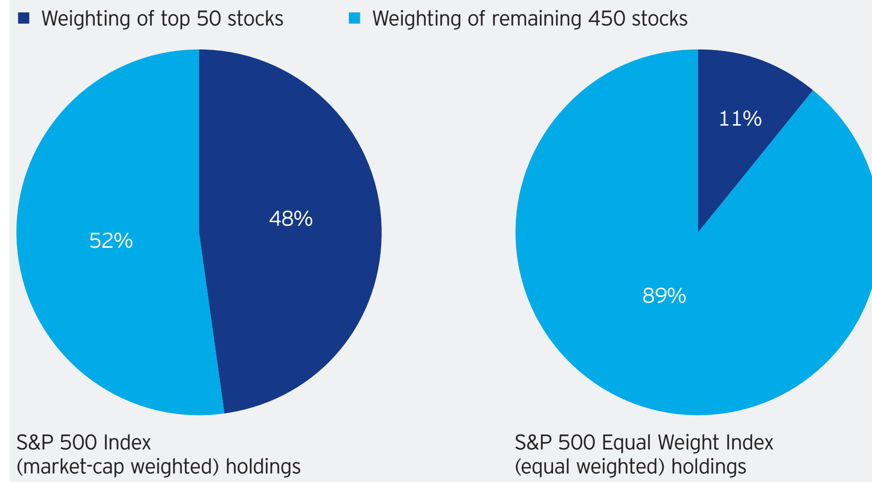
The Invesco Equally-Weighted S&P 500 Fund is a simple way to gain access to the features of the S&P EWI. The fund fully replicates the holdings and weights of the S&P EWI, its underlying benchmark index. This means that it adds, removes, and rebalances its constituent stocks in line with the S&P EWI. Pursuing an equal weighting approach provides a few potential benefits relative to capitalization weighting.

1 As of Dec. 31, 2016 the Invesco Equally-Weighted S&P 500 Fund held each of these securities (fund weight in parentheses): Apple (0.20%), ExxonMobil (0.20%), General Electric (0.20%), Johnson & Johnson (0.21%) and Urban Outfitters (0.17%). These securities are for illustrative purposes only and are not buy/sell recommendations.
2 Source: Standard & Poor's.

Greater diversification potential

Due to market-cap weighting, performance of the S&P 500 Index can be dominated by a small number of stocks. The 50 largest securities in the index represent nearly 50% of its weight, leaving the next 450 stocks to account for the remaining 50%. The top 50 stocks in the S&P EWI, on the other hand, comprise just 11% of that index. Equal weighting means every stock has the same potential influence on the returns of the S&P EWI, whereas in the S&P 500 Index, a stock with a weight of 2% has 10 times the influence of one with a weight of just 0.2%.

Market-cap weighting results in a top-heavy portfolio
As of Dec. 31, 2016

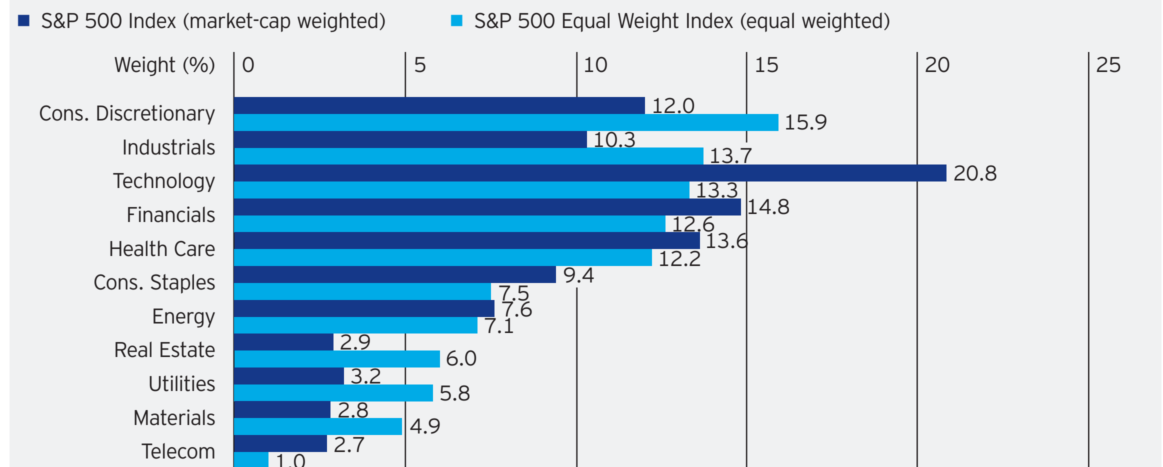


Source: Standard & Poor's. For illustrative purposes only. Data as of Dec. 31, 2016. Diversification does not guarantee a profit or eliminate the risk of loss.

Broader participation potential

In the S&P EWI, the number of firms in each sector determines that sector's weight in the index. Since each stock has a weight of 0.20%, the more stocks, the greater the sector weight. Relative to the S&P 500 Index, diversified sectors in the S&P EWI, like Consumer Discretionary, will have greater representation, whereas concentrated sectors, like Information Technology, will have less representation. Furthermore, since sector weights in the S&P EWI are directly related to the number of stocks in that sector (which have historically tended not to vary dramatically year by year), their weights may have less variability over time as compared to the capitalization-weighted S&P 500 Index.

Equally weighting results in broader sector participation
As of Dec. 31, 2016

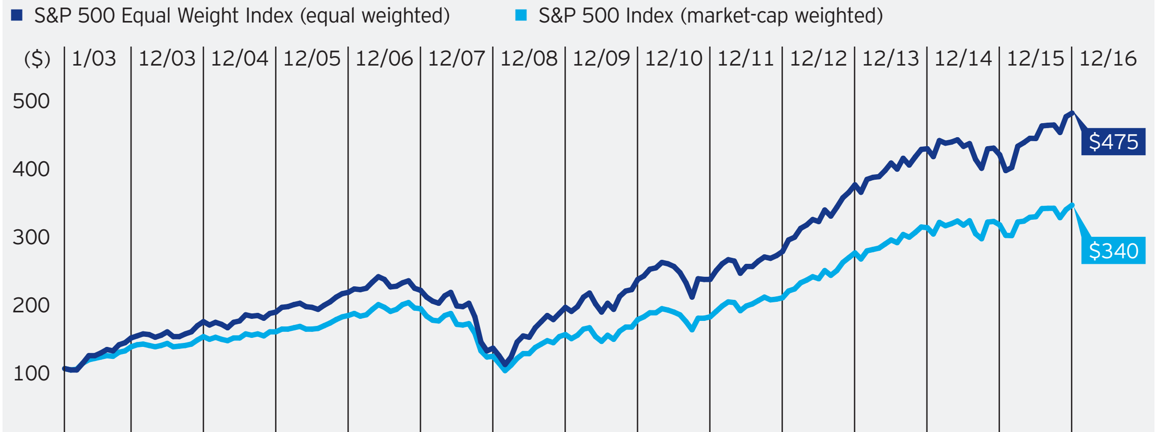


Source: Standard & Poor's, Invesco. It is not possible to invest directly in the index. This chart is for illustrative purposes only. As of Dec. 31, 2016. The holdings are organized according to the Global Industry Classification Standard, which was developed by and is the exclusive property and a service mark of MSCI Inc. and Standard & Poor's.

Higher returns historically

The S&P EWI has also outpaced the S&P 500, historically. Investments of $100 on Jan. 31, 2003 would have grown to $475 by Dec. 31, 2016 for the S&P EWI, but only $340 for the S&P 500. Greater exposure to smaller capitalization stocks with higher growth rates may help to explain this difference. Companies worth hundreds of billions of dollars, like the largest stocks in the S&P 500, may find continued above-average growth difficult since "trees don't grow to the sky." Of course, there are extended periods in which the cap-weighted S&P 500 outperformed the S&P EWI. The most notable was the global financial crisis of 2008 when the safety net of a large, strong balance sheet was paramount.

Historically, the S&P EWI has outpaced the S&P 500
Jan. 31, 2003 through Dec. 31, 2016



Source: Invesco. *Past performance is not a guarantee of future results.* Investments cannot be made directly into an Index. Index returns do not reflect any fees, expenses, or sales charges. Index returns do not represent fund returns. For current fund performance, visit invesco.com.

Invesco Equally-Weighted S&P 500 Fund

The Invesco Equally-Weighted S&P 500 Fund can provide investors with simple, direct exposure to the methodology used by S&P EWI. Relative to the S&P 500, the S&P EWI may provide the important benefits of greater diversification across holdings and broader participation in the returns of the companies that comprise the Index. Historically, the S&P EWI has also outperformed the S&P 500, leading to greater wealth creation over time.

Important information

Diversification does not guarantee profit or prevent risk of loss.

Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty and management risks. An investment in a derivative could lose more than the cash amount invested.

Because the fund operates as a passively managed index fund, adverse performance of a particular stock ordinarily will not result in its elimination from the fund's portfolio. Ordinarily, the Adviser will not sell the fund's portfolio securities except to reflect changes in the stocks that comprise the S&P 500 Index, or as may be necessary to raise cash to pay fund shareholders who sell fund shares.

The fund is subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the fund.

Explore High-Conviction Investing with Invesco

FOR US INSTITUTIONAL INVESTOR USE ONLY — NOT FOR USE WITH THE PUBLIC

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their advisors for a prospectus/summary prospectus or visit invesco.com/fundprospectus.

All information is sourced from Invesco, unless otherwise stated. All data as of Dec. 31, 2016 unless otherwise stated.

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