Asset Classes to Consider for Building and Protecting Portfolio Income

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Summer 2011
As the first wave of the baby boomer generation reaches retirement age, their investment objective is changing from capital appreciation to portfolio income. To pay living expenses during retirement, they need to replace their paycheck with income from interest, dividends, capital gains and annuities, along with Social Security and pensions.

But at the same time, the economic landscape has changed. In general, boomers began investing in earnest during the 1982 to 1999 equity bull market, when they experienced consistently high stock returns, low volatility and a declining interest rate environment. In the 2000s, with many investors nearing retirement, boomers were introduced to significant market losses.

For Generations X and Y, their financial needs are becoming more complicated as they buy homes, save for their children's education and pay off student loans and other debt — in addition to saving for retirement. They've seen how stock market volatility has affected baby boomers' portfolios, and are questioning how to plan for their own financial goals.
For investors, *The Times They Are a-Changin’* – in more ways than one.

**The risks of playing it safe**

Changing portfolio requirements, changing economic conditions and changing market expectations have led to fear, confusion and a grasp for safety. Investors – of all ages – have been pouring money into bond funds at a feverish pace for the past several years. As a percentage of investors’ financial assets, bond holdings now sit at historical highs.

While bonds can play an important role in an income-oriented investment portfolio, many investors fled to bonds not as part of an intentional strategy, but because they were seeking shelter from one kind of risk – equity market volatility. But constructing a long-term, income-oriented portfolio requires a diversified strategy that seeks to balance the multiple risks that face investors, including:

- **Longevity risk: Will your money last a lifetime?**
  At age 65, average life expectancy is 17 years for American men and 20 years for women. Furthermore, 30% of women and almost 20% of men age 65 can expect to reach age 90. But most people don’t plan for a life that long. A study by the Society of Actuaries found that current retirees have a median financial planning horizon of just five years, and pre-retirees have a median planning horizon of 10 years. An intentional strategy – not just a grasp for safety – is needed to construct a portfolio to provide income over two plus decades.

- **Interest rate risk: What if rates rise?**
  As interest rates fall, bond prices rise, and vice versa. With interest rates at historical lows, we believe it’s inevitable that rates will rise sometime in the future – indicating that bond prices would fall. This would present a large risk for investors with bond-heavy portfolios.

- **Inflation risk: Will your income keep up with higher prices?**
  Interest payments on bonds are generally fixed and don’t grow with inflation. In an economic recovery, inflation rises as demand recovers and pricing power is restored. To maintain the same value in real terms, a bond’s interest payment would have to grow in order to offset the increase in inflation.

**The benefits of a diversified approach to portfolio income**

In the following pages, we share the insights of five Invesco portfolio managers who specialize in asset classes that can be used as part of a diversified income-oriented investment strategy. They discuss the benefits of their asset class to income-seeking investors, as well as the associated risks and how they manage them. Together, investors and advisors can decide what role these – and other – asset classes should play in an intentional strategy to generate portfolio income.

**Equities**

Stocks may provide capital appreciation, which can help protect against longevity risk. Through dividends and other interest, stocks can also provide cash flow to fund spending needs and reduce portfolio volatility.

Meggan Walsh and Thomas Bastian, senior equity portfolio managers at Invesco, maintain that in today’s environment – more than two years from the stock market bottom of March 2009 – active management is key to fulfilling those roles.

**Fixed income**

Coupon payments from fixed income securities can supply cash flow. These securities may also provide capital appreciation.

With interest rate risk looming, bond investors should consider diversifying their fixed income allocation away from long-duration securities, say Greg Stoeckle, Invesco’s head of senior secured bank loans, and Peter Ehret, Invesco’s head of high-yield investments.

**Real estate**

The real estate asset class – with its mix of fixed income and equity opportunities – can help supply cash flow and capital appreciation, and may also provide some measure of protection against inflation risk through rising rent and lease income at the individual property level.

Joe Rodriguez, Invesco’s head of global real estate securities, offers his view on the potential diversification benefits of this asset class, and describes his total return approach.

1. Source: 2009 Society of Actuaries’ Key findings: The Impact of Retirement Risk on Women
Equities:

Navigating the Markets Through Active Management

Equities can play multiple roles in an income-oriented portfolio – providing growth to help protect against longevity risk and generating dividends to supply current income. In today’s environment – more than two years from the stock market bottom of March 2009 – active management is key to fulfilling those roles, say Meggan Walsh and Thomas Bastian, senior portfolio managers at Invesco.

**A recovery in transition**

Walsh points to the performance of dividend-paying companies as evidence that we’ve entered a more mature phase of the recovery – one that values the quality and stability of earnings that many dividend payers have. She believes the market leadership we have seen in the first two years of the bull market will not be the same as the next two. “We are entering a more mature phase of the market cycle – one that values the quality and stability of earnings often associated with dividend-payers. Our investment team had a more pro-cyclical bias two years ago but we are now finding attractive opportunities in more mid-to-late cycle businesses. Changing market leadership is a natural development as the cycle matures, this benefits dividend-payers who typically outperform nonpayers in the latter two-thirds of a bull market.”

Bastian notes that this shift is bringing about a stock-picker’s type of market – where a manager’s philosophy and process are central to identifying opportunities for growth. “In the earlier days of the recovery, there was not a lot of differentiation being made in regard to valuation and fundamentals – and instead the equity market became more directional in nature,” he said. “We believe that as time passes, the equity markets will transition, and valuation and fundamentals will come back to the fore.”
High Yield Doesn’t Always Lead to High Total Return
Comparing historical average dividend yields and annualized total returns by sector reveals that a high dividend yield doesn’t necessarily translate to a high total return. Despite delivering the highest dividend yield from January 1984 to March 2011, the annualized total return for the utilities sector was lower than that of the S&P 500 Index® and most other sectors.

Source: Invesco; Compustat as data provider within FactSet. These sector histories are based on proprietary reconstruction of historical sector classifications and are subject to revision; they do not reflect official numbers published by Standard & Poor’s or Morgan Stanley Capital International.

Past performance cannot guarantee comparable future results.

Avoiding the yield trap
Active management is also vital when navigating the world of dividend-paying stocks, to help avoid the “yield trap,” Walsh said. A yield trap occurs when an investor is lured to a stock by its attractive yield, but fails to consider the stock’s overall investment value, including the potential capital appreciation and downside risks.

For example, the utilities sector historically has been the highest-ranked sector in terms of yield versus the other nine S&P sectors, but on a total return basis it ranks sixth. Myopically grasping for the highest yields can lead to accidental sector concentrations, unintended portfolio volatility and higher correlations among stocks in a portfolio.

Bastian believes in seeking out companies that are attractively valued, unloved and underearning - and that are facing a catalyst that offers the opportunity for improved earnings. Catalysts could include events such as a change in management or an improvement in operational efficiency. He finds that this type of perspective is necessary in a market that’s transitioning from broad-based recovery to an environment of select opportunities.

### High Yield Doesn’t Always Lead to High Total Return
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**High Yield**

**Total Return**

**Dividend Yield**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Total Return</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>12</td>
<td>4%</td>
</tr>
<tr>
<td>Health Care</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Energy</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Industrials</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Materials</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Financials</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Information Technology</td>
<td>6%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: Invesco; Compustat as data provider within FactSet. These sector histories are based on proprietary reconstruction of historical sector classifications and are subject to revision; they do not reflect official numbers published by Standard & Poor’s or Morgan Stanley Capital International. Past performance cannot guarantee comparable future results.
Active managers seek to determine whether a high dividend yield is a positive or negative signal. On the positive side, a high yield could indicate a high-return business — the company is able to reinvest sufficient amounts of capital to gain market share and still return a significant amount of capital to shareholders. On the other hand, a high yield could be a sign of underinvestment in the company, which may ultimately result in a loss of competitiveness for the firm.

“It’s important to differentiate between an ailing company that is simply paying a higher yield with an at-risk dividend, and a quality, dividend-paying company with a solid capital structure, earnings power and the ability to return capital to shareholders,” Walsh said.

Walsh’s team focuses on a firm’s free cash flow stability and growth, as well as its normalized earnings power. They seek to balance total return with risk management to ensure diversification, limit volatility and minimize downside risk. “A holistic total return approach that seeks to balance capital appreciation, current income and capital preservation can help maximize the potential of dividend-paying stocks while avoiding the yield trap,” she said.

**Equity market outlook**

Today, there are many positive indicators for equities, and, in particular, dividend-paying stocks, Bastian and Walsh say.

**Yield curve.** In recent quarters, the yield curve for Treasuries was quite steep, which has historically signaled a positive economic backdrop, Bastian notes. When the spread is wide between yields for short-maturity and longer-maturity debt, that means banks can borrow at low short-term rates and lend at higher long-term rates. This scenario has historically led to increased economic activity.

**A Sign of Recovery?**

Steep yield curves — like those seen in recent quarters — have historically been a sign of a positive economic backdrop.

<table>
<thead>
<tr>
<th>Time to Maturity</th>
<th>3 Month</th>
<th>6 Month</th>
<th>2 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>10 Year</th>
<th>30 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield (%)</td>
<td>0.5</td>
<td>1.0</td>
<td>1.5</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Lipper Inc. A yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates (definition from investopedia.com). Past performance cannot guarantee comparable future results.

Prices of equity securities change in response to many factors, including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

There can be no guarantee or assurance that companies will declare dividends in the future or that if declared, they will remain at current levels or increase over time.
**Equity yields.** Today, the yield for the S&P 500 Index is competitive with the five-year Treasury yield – 1.97% and 1.98%, respectively, as of April 29, 2011. In comparison, over the past 15 years, Treasury yields have outpaced S&P 500 yields by an average of 2.28%.¹

**Efficiencies.** Walsh believes many companies did an excellent job of managing their businesses through the downturn. By cutting costs and growing productivity, they’ve positioned themselves to produce attractive returns, even with less revenue growth. So, while she expects the economy to improve slowly – with growth of 2% to 3% – she believes equities can still generate attractive returns in line with historical averages.

**Corporate balance sheets.** At the end of 2010, U.S. companies’ cash holdings hit $1.9 trillion.² According to the U.S. Federal Reserve, cash and other liquid assets made up 7% of the total assets of nonfarm, nonfinancial corporations.² That’s the highest level since late 1963.²

As companies gain confidence in the sustainability of the economic recovery, Walsh and Bastian expect this cash could be used for dividends, share buybacks, or reinvestment and capital expenditures, which could help stimulate the economy.

**Dividend activity.** After a record level of dividend cuts in 2009, signs of life are emerging. In the first quarter of 2011, Standard & Poor’s tallied 510 dividend increases, versus 399 increases during the first quarter of 2010.³ Of the approximately 7,000 companies that report dividend information to S&P, only 30 decreased their dividend payment in the first quarter of 2011, versus 48 companies in the first quarter of 2010.³

“We believe we are still in the early stage of this dividend cycle, and payouts still have room to grow,” Walsh said. “The dividend payout ratio⁴ is near historical lows at 27.9%, and the average over the past 85 years is 58.4%. Therefore, a normalization of payout ratios combined with a deployment of cash balances could continue to drive the dividend cycle for some time to come.”

“A holistic total return approach that seeks to balance capital appreciation, current income and capital preservation can help maximize the potential of dividend-paying stocks while avoiding the yield trap.”

Meggan Walsh  |  Senior portfolio manager

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¹ Sources: FactSet, Invesco. Data from Nov. 30, 1995 to April 29, 2011.
³ Source: Standard & Poor’s, U.S. Companies Added $19.0 Billion to Dividend Payments in the First Quarter, April 7, 2011
⁴ The dividend payout ratio is the percentage of a company’s earnings paid to shareholders in dividends. Source: investopedia.com
With interest rates at historical lows, income-oriented investors are searching everywhere for yield. Many investors have looked to longer-maturity bonds to generate yield in today’s environment, but there’s a tradeoff: The farther away a bond’s maturity date, the higher the risk that rates will rise before then and the bond’s price will fall, endangering investors’ principal.

Bank loans (sometimes referred to as senior secured or floating rate loans) and high-yield bonds may help investors offset some of this duration risk while providing competitive yield. Greg Stoeckle, Invesco’s head of senior secured bank loans, and Peter Ehret, Invesco’s head of high-yield investments, discuss why they believe their asset classes are compelling for investors searching for portfolio income in today’s low — but potentially rising — interest rate environment.

Interest rates
Inflation and increasing interest rates represent a risk for high-yield bonds – as they do with any fixed income investment – but the high-yield asset class does have some defenses. “Higher rates and inflation may be a sign of strengthening growth, and that would likely cause spreads to tighten,” Ehret says. “In this way, spreads can act as a cushion, absorbing some of the impact of higher interest rates.” Furthermore, the high-yield asset class has a relatively short duration, approximately 4.3 years using the Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index as of March 31, 2011. A shorter duration has historically helped limit the adverse effects of a rising rate environment on principal.

Leveraged loans are extended to companies or individuals that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default and, as a result, a leveraged loan is more costly to the borrower. Defaulted leveraged loans involve the substantial risk that principal will not be repaid. Defaulted securities and any securities received in an exchange for such securities may be subject to restrictions on resale.
In the bank loans asset class, the rate paid by the loans “floats” at a predetermined spread over a reference rate, such as the U.S. dollar London Interbank Offered Rate (LIBOR). For example, the prototypical bank loan deal during the fourth quarter of 2010 was issued at LIBOR plus 4.5%.

The LIBOR component of bank loan interest payments resets every 90 days, on average. This reset mechanism not only minimizes price risk, it means that current interest income on a bank loan portfolio will increase when there’s an upward change in short-term rates. “The floating rate LIBOR component of the interest payments strips away traditional yield curve – or duration – risk, making the investment more of a pure-play credit decision,” Stoeckle says.

Credit cycle
Both bank loans and high-yield bonds are considered noninvestment-grade asset classes, and their biggest risk for investors may be credit risk— the possibility that the issuer will default on its debt. But Ehret and Stoeckle both believe that the credit picture in early 2011 looks better than it did even before the recession.

“While the risk of default remains plausible for some companies, the picture has been steadily improving for most issuers since 2009,” Ehret said. Credit-rating upgrades have outnumbered downgrades for 19 of the last 20 months through February 2011, and the 2010 default rate for the high-yield asset class was 0.79% – well below the 25-year average of 4.3%.

“Defaults that occurred in the recession helped clean out the weaker companies, leaving behind a stronger asset class,” Ehret believes. Also, the availability of capital post-recession allowed companies to refinance debt, which lowered near-term default risks.

In the bank loans asset class, 2010 ended with a lagging 12-month default rate of 1.87% – the lowest figure since the Lehman Brothers bankruptcy in September 2008 and a level below historical norms. “Underlying credit fundamentals saw steady improvement throughout 2010, and we entered 2011 against a backdrop of successive corporate earnings gains, positive gross domestic product (GDP) growth and declining default rates,” Stoeckle says.

Another potential benefit of the asset class: Bank loans are generally secured by collateral, which may help investors recover losses if an issuer does default. The historical recovery rate on defaulted bank loans is 80.3%. “Structural features, such as collateral and covenants, compensate for the noninvestment-grade risk profile of most bank loans and provide a meaningful layer of protection against credit losses,” Stoeckle says.

“While the risk of default remains plausible for some companies, the picture has been steadily improving for most issuers since 2009.”

Peter Ehret | Head of high-yield investments

2 Source: Standard & Poor’s LCD
3 Source: Moody’s. Data from 1987 through 2010.
Investment strategies

Ehret notes that his investment approach takes credit cycles into consideration — whether credit is difficult or easy for companies to get, and where yields stand in relation to those risks. His nine-member team focuses on protecting principal as well as on finding yield, and actively avoids falling into the yield trap.

“We try to be a little bit more defensive when we think the credit risk offers fewer rewards, and we try to get a little more aggressive when we see a lot of value. We gradually move between the two as the cycle progresses,” he says. “It takes discipline to not keep reaching as the yield opportunity naturally diminishes. But without principal, there is no yield.”

Stoeckle’s bank loan team includes more than 30 investment professionals focused solely on this asset class. They employ a fundamental, credit-driven approach to manage risk. When constructing portfolios, the team seeks to balance yield and fundamental risk factors against each portfolio’s specified return objective.

Invesco High Yield

Avoiding the yield trap over credit cycles

Outlook
Stoeckle doesn't expect interest rates to rise much during the next six to 12 months. However, even if the rate environment stays low for a while, he believes bank loans are a potentially attractive addition to an income-oriented portfolio.

“One of the attractive things about bank loans today is that they continue to trade at a discount,” he says. “Furthermore, the majority of their yield profile is coming in the form of current income, which investors are finding quite compelling.”

In terms of activity levels, the bank loan team's research suggests there may be a strong new-issue calendar through the remainder of 2011 as private equity firms resume their leveraged buyout activity, and existing issuers tap the markets for refinancings, maturity extensions and recapitalizations. “On balance, this could be positive for the economics of the overall market as the new deals are expected to carry similar terms to what we saw in the first quarter of 2011 and further skew overall returns toward current income,” Stoeckle says.

In the high-yield bond space, Ehret said credit spreads are tighter now than they have been since 2007, which makes volatility even more important to watch in 2011 than it was in 2010. In this environment, his team's investment strategy calls for a lower risk profile.

“As some of our peers may be trying to go full throttle in search of yield as it gets harder to find, we are scaling back,” he says. “By limiting risk-taking when credit spreads are compressed, we believe we have a higher probability of protecting capital, and by increasing risk-taking when credit spreads are wide, we believe we have a higher probability of enhancing income and increasing capital.”

Junk bonds involve a greater risk of default or price changes due to changes in the credit quality of the issuer. The values of junk bonds fluctuate more than those of high-quality bonds in response to company, political, regulatory or economic developments. Values of junk bonds can decline significantly over short periods of time.

Fixed income products are subject to risk, including, but not limited to, the effects of changing interest rates. There is no assurance that any investment or strategy will achieve its investment objective.

A high-yield bond is a high-paying bond with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment-grade bonds.
Investing Across Equities and Fixed Income

Income, growth and inflation protection: Income-oriented investors need all three in their long-term portfolios. The real estate asset class – with its mix of fixed income and equity opportunities – can help play a role in all three while diversifying investors’ portfolios, says Joe Rodriguez, Invesco’s head of global real estate securities.

Real estate securities include:

- Common stock issued by real estate investment trusts (REITs)
- REIT preferred equity
- Commercial mortgage-backed securities (CMBS)
- REIT corporate debt

REIT equities can provide income from dividends, growth from capital appreciation and inflation protection from rising rent and lease income at the individual property level. Fixed income securities, such as CMBS and REIT corporate debt, offer both current income and capital appreciation opportunities.
Invesco Real Estate’s global securities team, led by Rodriguez, comprises 15 dedicated investment professionals with an average of 14 years’ investment team experience as of March 31, 2011. Each investment professional works within a team structure covering specific sectors and regions. In addition, the securities team benefits from on-the-ground market intelligence generated by Invesco Real Estate’s direct property group. In total, Invesco Real Estate has 306 employees in offices across the U.S., Europe, and Asia.

“We consider absolute dividend yield, dividend coverage1 and dividend growth. However, this is only one aspect of the security analysis. Company cash flow quality, valuation, trends and liquidity are also considered,” Rodriguez said.

“One of the key questions we ask is, ‘Can that company grow its earnings above its peers over the next five years?’ But then you have to look at the valuation that you’re facing on that company. Are you paying too much? Has the market recognized the growth potential of this company? And that’s where we’re balancing the growth versus valuation.”

**Diversification benefits**

In addition to growth and income opportunities, real estate securities may help diversify investors’ portfolios. Historically, the asset class has had low correlations to other equity and fixed income categories.

Within the asset class, the correlation between different countries’ property markets has historically been relatively low. Global real estate securities provide exposure to different economic cycles, rates of returns and foreign currencies.

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**REITs Have Historically Low Correlations to Other Asset Classes**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Correlation to U.S. REITs</th>
<th>Correlation to Global REITs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed market stocks</td>
<td>0.53</td>
<td>0.78</td>
</tr>
<tr>
<td>U.S. stocks</td>
<td>0.54</td>
<td>0.65</td>
</tr>
<tr>
<td>Small-cap stocks</td>
<td>0.63</td>
<td>0.64</td>
</tr>
<tr>
<td>Global investment-grade bonds</td>
<td>0.23</td>
<td>0.37</td>
</tr>
<tr>
<td>Government and corporate bonds</td>
<td>0.14</td>
<td>0.18</td>
</tr>
</tbody>
</table>

Source: StyleADVISOR.

U.S. REITs are represented by the FTSE NAREIT All Equity REITs Index. Global REITs are represented by the FTSE EPRA/NAREIT Developed Real Estate Index. Developed market stocks are represented by the MSCI World IndexSM. U.S. stocks are represented by the S&P 500® Index. Small-cap stocks are represented by the Russell 2000® Index. Global investment-grade bonds are represented by the Barclays Capital Global Aggregate Bond Index. Government and corporate bonds are represented by the Merrill Lynch Corporate/Government Bond Index. An investment cannot be made directly in an index. Past performance is no guarantee of future results. Correlation indicates the degree to which two investments have historically moved in the same direction and magnitude, with 1.00 indicating exact correlation.

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Investments in real-estate-related instruments may be affected by economic, legal, cultural, environmental or technological factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small- and mid-cap companies, and their shares may be more volatile and less liquid. The value of investments in real-estate-related companies may be affected by the quality of management, the ability to repay loans, the utilization of leverage and financial covenants related thereto, whether the company carries adequate insurance and environmental factors. An investment in real estate directly involves the following additional risks: environmental liabilities; difficulty in valuing and selling the real estate; and economic or regulatory changes.

The value of foreign investments may be adversely affected by changes in the foreign country’s exchange rates; political and social instability; changes in economic or taxation policies; difficulties when enforcing obligations; decreased liquidity; and increased volatility. Foreign companies may be subject to less regulation resulting in less publicly available information about the companies.

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1 Dividend coverage is the ratio between a company’s earnings and the net dividend paid to shareholders. It’s used to measure whether earnings are sufficient to cover dividend obligations. Source: investopedia.com
Outlook

From a valuation standpoint, Rodriguez says global real estate securities currently provide the most opportunity, as U.S. REITs appear to be fairly (or in some cases, overly) valued at this point.

Invesco Real Estate estimates that U.S. REITs were trading at a 15% premium to net asset value (NAV), as of March 31, 2011.1 By contrast, global real estate securities were trading at a 1% premium to NAV overall, with certain markets looking undervalued: Hong Kong at a 24% discount to NAV, Singapore at an 11% discount, Japan at a 19% discount and Australia at a 5% discount.

Drilling deeper into the U.S. market, Rodriguez’s team has identified pockets of opportunity. In particular, multifamily housing and health care REITs look relatively attractive today.

“We’ve actually seen very good demand for rentals in the U.S.,” Rodriguez said about the multifamily market. “So, vacancy rates are coming down and rents are going up. That’s not well publicized in the media.”

Many health care REITs pay attractive dividends, have good balance sheets and are acquiring assets at good values. “You can buy a company that has very stable earnings growth – generally in the 3% to 4% range per year regardless of the economic environment – and pays an attractive dividend. I think these are good companies to focus on in the current environment.”

<table>
<thead>
<tr>
<th>Asia Pacific Global Real Estate Securities Appear Undervalued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium/discount to NAV per share as of March 31, 2011</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>U.S.</td>
</tr>
<tr>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Invesco Real Estate estimates based on consensus data as of March 31, 2011.

Note: The U.S. NAV premium of 15% is based on a third-party-provided 6.7% nominal cap rate. A cap rate is a ratio used to estimate the value of income-producing properties.
- If the cap rate is 6.1%, the current U.S. valuation would be a 0% premium.
- If the cap rate is 6.1%, the current global valuation would be a 6% discount.

1 U.S. NAV premium based on 6.7% nominal cap rate provided by third-party source Green Street Advisors. NAV is estimated by subtracting the value of a firm’s liabilities from the value of its assets, and then dividing by the number of shares outstanding. The discount (or premium) is calculated by subtracting the estimated NAV from the current market trading price.

Diversification does not guarantee a profit or eliminate the risk of loss.
Investing for portfolio income over a long term isn’t as easy as loading up on investments with the highest yield. A diversified approach that balances current income, growth opportunities and inflation protection could combat the various risks that can derail a comfortable retirement – longevity risk, interest rate risk and inflation risk, for example.

In these pages, we’ve discussed how equities, bank loans, high-yield bonds and real estate can potentially benefit income-focused investors. Investors can access these strategies through a variety of investment vehicles such as mutual funds, unit investment trusts and exchange-traded funds. Together, investors and their financial advisors can determine whether these asset classes are right for a portfolio, and a tax advisor can assess which vehicle is most appropriate for an investor’s tax situation.
Explore Intentional Investing with Invesco

Intentional Investing™ is the science and art of investing with purpose, prudence and diligence. It’s the philosophy that forms the foundation of our “investors first” approach, exemplified by our:

**Commitment to investment excellence**

We believe the best investment insights come from specialized investment teams with discrete investment perspectives, operating under a disciplined philosophy and process with strong risk oversight and quality controls.

*We believe high-quality results begin with specialized insight and disciplined oversight.*

**Depth of investment capabilities**

Our long history of providing client-driven investment solutions means we offer a wide range of single-country, regional and global capabilities across major equity, fixed income and alternative asset classes.

*Our wide range of investment capabilities is designed to support a variety of financial objectives.*

**Organizational strength**

At Invesco, we believe focus brings success. That’s why investment management is all we do. We direct all of our intellectual capital, global strength and operational stability toward helping investors achieve their long-term financial objectives.

*As an independent firm, our global organization is solely focused on investment management.*

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**NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE**

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The Barclays Capital U.S. Corporate High Yield 2% Issuer Cap Index is an unmanaged index that covers U.S. corporate, fixed-rate, noninvestment-grade debt with at least one year to maturity and at least $150 million in par outstanding. Index weights for each issuer are capped at 2%.

The U.S. dollar London Interbank Offered Rate (LIBOR) is the world’s most widely used benchmark for short-term interest rates. (Source: investopedia.com)

The J.P. Morgan High Yield Index is representative of the high-yield market.

The S&P/LTSA Leveraged Loan Index is a weekly total return index that tracks the current outstanding balance and spread over LIBOR for fully funded term loans.

The S&P 500 Index is an unmanaged index considered representative of the U.S. stock market.

The FTSE NAREIT All Equity REITs Index is an unmanaged index considered representative of U.S. REITs. The FTSE EPRA/NAREIT Developed Real Estate Index is an unmanaged index considered representative of global real estate companies and REITs.

The MSCI World Index™ is an unmanaged index considered representative of stocks of developed countries.

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