

# Invesco Investment Grade Credit SMA Third quarter

Fact Sheet: Separately Managed Accounts  
Sept. 30, 2019



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## Portfolio management team

### 23-member team

Average of 16 years

Experience spread throughout global financial centers

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The main objective of the strategy is to provide current income with potential capital appreciation for total return, while seeking to outperform the Bloomberg Barclays U.S. Credit Index by 35 basis points over a complete market cycle.

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## Current portfolio positioning

US credit returns continued to generate strong nominal results for the quarter, as rates fell precipitously amid a decelerating global economy and persistent trade disputes between the US and China. Global risks remained a headwind to growth, especially in Europe with the uncertainties of Brexit, auto tariffs, and Italy still in crisis. Chinese growth also continued to slump, even as policy makers were actively easing monetary policy. Nevertheless, credit investors were generally rewarded over the period, despite the heightened volatility and escalating recession fears. US-based yield strategies remained competitive from a global perspective as negative yields increased across regions. The Federal Reserve cut the fund rate twice during the period by 25 basis points (bps) each time, which lowered the overnight yield target range to 1.75% - 2.00%. These accommodative policy actions were well received by the market, but US market yields still finished the quarter pricing in further rate cuts by the Fed.

The US investment grade credit sector generated 8 basis points (bps) of excess return for the quarter. Financials (14 bps) and utilities (14 bps) were marginally outperforming sectors, led by credits within the finance companies, REITs, brokerage, and natural gas sub-sectors. Industrials (-3 bps) lagged over the period with energy (-90 bps), transportation (-80 bps), and basic (-43 bps) sub-sectors driving the negative outcome. Despite the market weakness, capital goods (32 bps), technology (28 bps), and consumer non-cyclical (25 bps) were the outperformers within industrials. Lower investment grade bonds continued to outperform higher rated credits, but the differential across ratings was marginal.

US investment grade credit had robust supply of roughly \$386 billion over the period, with \$190 billion just in September. Investors' appetites for yield aptly absorbed the supply glut, even as market expectations for slower growth were escalating. Demand for US credit continued from overseas investors, with hedging costs less of an impediment with declining rates and policy makers taking accommodative actions. Market bias remained on lower-rated investment grade (BBB/Baa) and high yield credits, despite the economic headwinds. While corporate leverage remained at high levels, free cash flow and interest coverage ratios continued as positive highlights. Deleveraging remained a central theme for many corporate issuers across investable sectors, so security selectivity was essential to relative results amid the late cycle market activity.

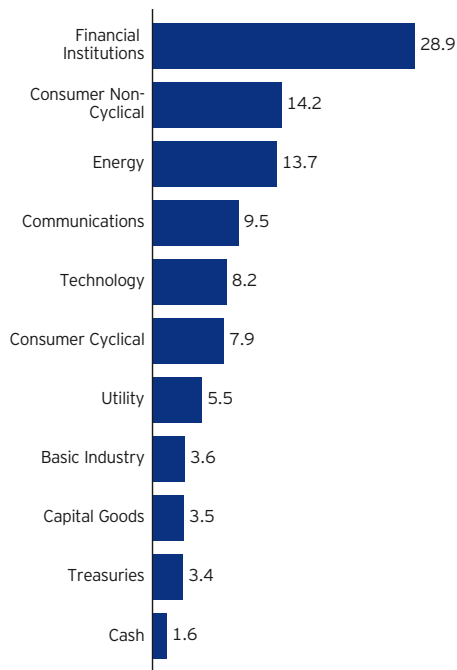
The Invesco Investment Grade Credit SMA outperformed the benchmark for the quarter, driven by the overweight risk posture to A and BBB rated investment grade securities. Security selections within the banking, energy, transportation, and technology sub-sectors were also positive drivers of relative return. The modest overweight to duration also benefited results. However, the overweight to the transportation and energy sub-sectors amid the volatility with oil did detract from returns.

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### Sector weightings (%)

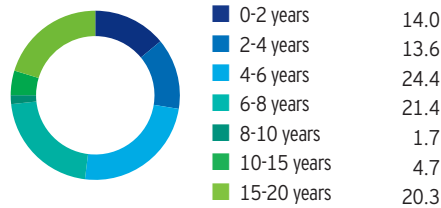


### Portfolio characteristics

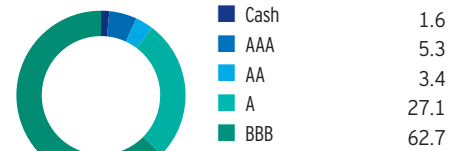
Portfolio characteristics	Portfolio
Number of Holdings	62
Yield-to-Worst (YTW)	3.17
Weighted Average Maturity (Years)	11.51
Modified Duration (Years)	7.18
Effective Duration (Years)	7.22

Portfolio characteristics are subject to change.

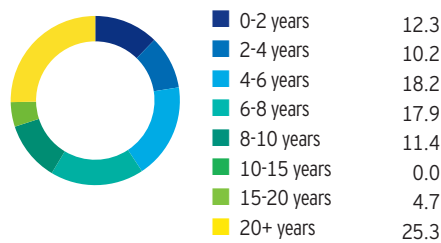
### Effective duration (%)



### Credit quality (%)



### Maturity (%)



Figures may not add up to 100% due to rounding. Cash and equivalents is deemed to have a 0% Maturity and Duration.

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All data as of Sept. 30, 2019

Source: Invesco ■ Ratings source: Standard & Poor's, Moody's or Fitch, as applicable. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated, and should not be interpreted as indicating low quality. For more information on rating methodologies, please visit the following NRSRO website: [www.standardandpoors.com](http://www.standardandpoors.com) and select 'Understanding Ratings' under Rating Resources on the homepage; [www.moodys.com](http://www.moodys.com) and select 'Ratings Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](http://www.fitchratings.com) and select 'Ratings Definitions' on the homepage. ■ Weighted average maturity is a measure, as estimated by the portfolio managers, of the length of time the average security in a bond will mature or be redeemed by the issuer. It takes into account mortgage payments, puts, adjustable coupons and potential call dates. ■ Modified duration is a duration calculated which incorporates the expected duration-shortening effect of an issuer's embedded call provision. ■ Option adjusted duration is a measure, as estimated by the portfolio managers, of a bond portfolio's price sensitivity to changes in interest rates. It takes into account mortgage prepayments, puts, adjustable coupons and potential call dates.

**Sample portfolio**
**Top 10 holdings**

Security	Coupon	Maturity	Weight
1. Citigroup Inc.	4.650	7/30/2045	1.98
2. Anheuser-Busch InBev Finance Inc.	4.900	2/1/2046	1.97
3. Commonwealth Edison Co.	4.350	11/15/2045	1.96
4. Berkshire Hathaway Energy Co.	4.500	2/1/2045	1.95
5. Comcast Corp.	4.400	8/15/2035	1.92
6. Microsoft Corp.	3.700	8/8/2046	1.88
7. American International Group Inc.	4.700	7/10/2035	1.86
8. Home Depot Inc.	3.900	12/6/2028	1.84
9. Sherwin-Williams Co.	4.500	6/1/2047	1.84
10. Zoetis Inc.	4.500	11/13/2025	1.82

**Other sample holdings**

AbbVie Inc.	4.450	5/14/2046
Air Lease Corp	2.130	1/15/2020
Altria Group Inc.	5.800	2/14/2039
Altria Group Inc.	4.800	2/14/2029
Apple Inc.	2.850	2/23/2023
AT&T Inc.	3.950	1/15/2025
Bank of America Corp.	3.880	8/1/2025
Bank of America Corp.	3.590	7/21/2028
Bank of New York Mellon Corp.	4.630	
Becton Dickinson and Co.	2.680	12/15/2019
Capital One Financial Corp.	3.800	1/31/2028
Citigroup Inc.	4.450	9/29/2027
Comcast Corp.	3.950	10/15/2025
Concho Resources Inc.	3.750	10/1/2027
CVS Health Corp.	2.800	7/20/2020
CVS Health Corp.	4.300	3/25/2028
Discovery Communications LLC	2.950	3/20/2023
Enbridge Inc.	3.700	7/15/2027
Energy Transfer LP	4.200	4/15/2027
Enterprise Products Operating LLC	3.700	2/15/2026

**Other sample holdings (continued)**

EOG Resources Inc.	3.150	4/1/2025
General Motors Financial Co. Inc.	5.250	3/1/2026
Glaxosmithkline Capital Inc.	3.880	5/15/2028
Goldman Sachs Group Inc.	3.750	5/22/2025
HCP Inc.	3.500	7/15/2029
Ingersoll-Rand Luxembourg Finance SA	3.550	11/1/2024
Intercontinental Exchange Inc.	4.250	9/21/2048
International Paper Co.	4.400	8/15/2047
JPMorgan Chase & Co.	4.630	
JPMorgan Chase & Co.	3.540	5/1/2028
Kinder Morgan Energy Partners LP	3.500	3/1/2021
Lowe's Companies Inc.	4.550	4/5/2049
Marriott International Inc.	3.130	10/15/2021
Medtronic Inc.	3.500	3/15/2025
Micron Technology, Inc.	4.640	2/6/2024
Morgan Stanley	3.950	4/23/2027
MPLX LP	4.500	7/15/2023
Occidental Petroleum Corp.	2.900	8/15/2024
Oracle Corp.	2.950	5/15/2025
PayPal Holdings Inc.	2.650	10/1/2026
PepsiCo Inc.	3.100	7/17/2022
Physicians Realty LP	4.300	3/15/2027
Southern Co.	2.750	6/15/2020
Time Warner Cable LLC	4.000	9/1/2021
United States Treasury Note/Bond	3.130	5/15/2048
United States Treasury Note/Bond	2.750	11/15/2047
United States Treasury Note/Bond	3.000	2/15/2047
UnitedHealth Group Inc.	3.750	7/15/2025
Verizon Communications Inc.	2.630	8/15/2026
Visa Inc.	2.800	12/14/2022
Wabtec Corp.	4.400	3/15/2024
Wells Fargo & Co.	5.850	
Wells Fargo & Co.	2.550	12/7/2020

This table illustrates the composition of a model portfolio as of the date listed and should not be considered as a recommendation to purchase or sell a particular security; additionally, there is no assurance that the securities purchased remain in the portfolio or that securities sold have not been repurchased. Past performance does not guarantee future results. Holdings may vary depending on program sponsor restrictions or specific client guidelines. **To obtain a list of all recommendations made by Invesco Advisers, Inc. in this investment style during the last year, please contact Invesco Advisers, Inc. at 800 349 0953.**

**Quarterly returns**

Period	Bloomberg Barclays U.S. Credit Index Total Return		
	"Pure" gross return* (%)	Net return (%)	(%)
YTD	13.49	12.23	12.61
3Q19	3.17	2.78	2.98
2Q19	4.38	3.99	4.27
1Q19	5.38	5.00	4.87

Returns less than one year are not annualized.

\* "Pure" gross of fees returns do not reflect the deduction of trading costs or any other expenses, and are supplemental to net returns. See note 5 on page 4.

**Annualized compound returns**
**as of Sep. 30, 2019**

Period	Bloomberg Barclays U.S. Credit Index Total Return		
	"Pure" gross return* (%)	Net return (%)	(%)
1 Year	13.05	11.38	12.63
3 Year	4.26	2.59	4.33
Since Inception (01/01/16)	5.71	3.73	5.82

**Invesco Investment Grade Credit SMA Wrap composite**

Year	"Pure" gross return* (%)	Net return (%)	Bloomberg Barclays U.S. Credit Index total return (%)	Composite dispersion (%)	Composite 3-year annualized standard deviation (%)	Benchmark 3-year annualized standard deviation (%)	Number of accounts	Composite assets (\$ millions)	Total firm assets (\$ billions)	% wrap assets
2018	-2.74	-4.18	-2.11	N/A	3.68	3.57	<5	0.22	579	100
2017	6.09	4.53	6.18	N/A	N/A	N/A	<5	0.22	660	100
2016	5.17	2.07	5.63	N/A	N/A	N/A	<5	0.21	599	100

**Annualized compound returns as of Dec. 31, 2018**

Period	"Pure" gross return* (%)	Net return (%)	Bloomberg Barclays U.S. Credit Index Total Return (%)
1 Year	-2.74	-4.18	-2.11
3 Year	2.76	0.74	3.16
Since Inception (01/01/16)	2.76	0.74	3.16

Returns less than one year are not annualized.

\* "Pure" gross of fees returns do not reflect the deduction of trading costs or any other expenses, and are supplemental to net returns. See note 5.

1. Invesco Worldwide ("The Firm") manages a broad array of investment strategies around the world. The Firm comprises U.S.-based Invesco Advisers, Inc. (excluding Unit Investment Trusts) and all wholly owned Invesco firms outside of North America (excluding Invesco India and Source Investment Management Limited). All entities within the Firm are directly or indirectly owned by Invesco Ltd. Invesco Canada Ltd. is also a GIPS-compliant firm whose assets are managed by a subsidiary of Invesco Ltd. Invesco Senior Secured Management, Inc., Invesco Private Capital, Inc., and Invesco Capital Management LLC are affiliates of the Firm. Each is an SEC-registered investment adviser and is marketed as a separate entity. Invesco Great Wall Fund Management Co. Ltd is a fund management company established under China Securities Regulatory Commission's approval, and its assets are excluded from total Firm assets. On May 24, 2019 Invesco acquired Massachusetts Mutual Life Insurance Company's asset management affiliate OppenheimerFunds. As a result of this transaction assets previously part of the OFI Global Asset Management (OFI Global) GIPS® firm will now be part of Invesco Worldwide (IWW) GIPS® firm. Firm assets under management for OFI Global as of December 31, 2018 were \$214 billion. IWW historical firm assets have not been restated to reflect the acquisition. OFI Global was independently GIPS® verified through December 31, 2018.
2. Invesco Worldwide claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Invesco Worldwide has been independently verified for the periods January 1, 2003 through December 31, 2018. The legacy firms that constitute Invesco Worldwide have been verified since 2001 or earlier. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
3. A complete list and description of Firm composites and performance results is available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. All returns are expressed in U.S. dollars and are gross of nonreclaimable withholding tax, if applicable.
4. The Invesco Investment Grade Credit SMA Wrap Composite includes all discretionary accounts styled after the Invesco Investment Grade Credit SMA Model Portfolio, which seeks to provide current income with potential capital appreciation for total return by investing primarily in corporate debt securities. For all periods, the composite was composed of 100% non-fee paying discretionary wrap accounts. The composite is managed in comparison to, not duplication of, the benchmark. The composite was created in January 2016.
5. "Pure" gross of fees returns do not reflect the deduction of trading costs or any other expenses, and are supplemental to net returns. Performance results are presented both net and gross of total wrap fees. For periods beginning January 1, 2017, the net returns reflect the deduction of the maximum total wrap fee, which is currently 1.50% per annum. On a monthly basis approximately 0.125% (based on the geometric calculation) is reduced from the "pure" gross return. A model fee is the highest wrap fee a client could pay (1.50% annually as charged by the program sponsor). Prior to January 1, 2017, the net returns reflect the deduction of the maximum total wrap fee of 3.00% per annum or 0.25% monthly, from the "pure" gross return. The total wrap fee includes all charges for trading costs, portfolio management, custody and other administrative fees. The standard wrap fee schedule currently in effect is as follows: 1.50% on total assets. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size.
6. The Bloomberg Barclays U.S. Credit Index Total Return (TR) is an unmanaged index considered representative of publicly issued, SEC-registered U.S. corporate and specified foreign debentures and secured notes. The benchmark is used for comparative purposes only and generally reflects the risk or investment style of the product. For comparison purposes the index is fully invested, which includes the reinvestment of income. The returns for the index do not include any transaction costs, management fees or other costs.
7. The dispersion of annual returns is measured by the equal-weighted standard deviation of account returns included in the composite for the full year. For periods with five or fewer accounts included for the entire year, dispersion is not presented as it is not considered meaningful.
8. The three-year annualized ex-post standard deviation measures the variability of the monthly returns of the composite and the benchmark over the preceding 36 months. The standard deviation is not presented where there is less than 36 months of performance history.

Past performance is not indicative of future results. As with any investment vehicle there is always the potential for gains as well as the possibility of losses.

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All data as of Sept. 30, 2019

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