



Investment Philosophy and Process: Separately Managed Accounts **Invesco Strategic Balanced SMAs**

Objective

Seeks total return

Universe

Equity and fixed income smart beta
Exchange Traded Funds (ETFs)

Team

- Deep experience in quantitative and fundamental skill sets
- Independent experts focused on evaluating capabilities across investment centers
- Dedicated team with more than a decade of industry experience on average

Philosophy

The investment team seeks to build long-term strategic portfolios that target pre-defined levels of risk exposure and provide access across a wide array of asset classes through smart beta exposure.

Our disciplined investment process

Step 1: Strategic asset class allocation

Reflecting the three levels of risk across equities and fixed income:

- Conservative Growth 40%/60%
- Moderate Growth 60%/40%
- Growth 80%/20%

Step 2: Security selection

Select fundamentally weighted and low volatility ETFs:

- US fixed income
- US large cap equity
- US small cap equity
- Developed markets equity
- Emerging markets equity

Step 3: Construction

Active risk parity:

- Tracking error penalty
- Credit score deviation penalty
- Emerging market and Small cap limit

Step 1

Strategic asset class allocation

Within the three strategic portfolios, allocations between equity and fixed income are pre-set and weighted in proportion to the appropriate level of risk:

- Conservative Growth 40% equity/60% fixed income
- Moderate Growth 60% equity/40% fixed income
- Growth 80% equity/20% fixed income

The relevant ETFs are identified to provide the appropriate asset class exposure.

Step 2

Security selection

In seeking to express the strategic asset class allocations, we narrow the field of smart beta portfolios to two specific underlying factors, which have historically had low correlation:

- Fundamentally weighted ETFs, which have tended to perform well in up markets
- Low volatility ETFs, which have tended to perform well in down markets

We identify ETFs that express these factors across the following asset classes:

- US fixed income
- US large cap equity
- US small cap equity
- Developed markets equity
- Emerging markets equity

Step 3

Construction

Our portfolio construction process is optimized to balance the active risk of each ETF relative to its benchmark, such that the active risk contribution from each ETF should be equal. Each of the portfolios has a custom benchmark, comprised of the MSCI AC World Index (ACWI) and Barclays US Aggregate Bond Index (Barclays US Agg Index), reflecting the composition of equity and fixed income:

Strategic SMAs custom benchmark

- Conservative Growth 40% MSCI ACWI/60% Barclays US Agg Index
- Moderate Growth 60% MSCI ACWI/40% Barclays US Agg Index
- Growth 80% MSCI ACWI/20% Barclays US Agg Index

ETFs with higher tracking error relative to their benchmark are penalized, and their weight is reduced.

Within equities, the size of the emerging markets and US small cap allocations (across fundamental and low volatility ETFs) are limited to 10% of total net assets.

Within fixed income, we target a credit exposure that is similar to that of the Barclays US Aggregate Bond Index.

Sell discipline

We will consider selling a holding when:

- The risk-return relationship changes significantly
- A more attractive investment opportunity is identified

On June 30, 2016 the Invesco Strategic Balanced SMAs changed names. Invesco Aggressive Strategic Balanced SMA was renamed Invesco Growth Strategic Balanced SMA. Invesco Growth Strategic Balanced SMA was renamed Invesco Moderate Growth Strategic Balanced SMA. Invesco Conservative Strategic Balanced SMA was renamed Invesco Conservative Growth Strategic Balanced SMA.

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