



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

Objective

Seeks total return

Universe

Exchange-traded funds (ETFs) and exchange-traded notes seeking exposure to the following asset classes:

- Equity markets, including both developed and emerging markets
- Fixed income (developed markets only)
- Commodities, focusing on energy, precious metals, industrial metals and agriculture/livestock

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 optimize the combination of strategic and tactical allocations in a single portfolio, while ensuring that the resulting portfolio remains aligned with its risk-based mandate.

Process

The team has created a family of three risk-based strategies that pursue returns and manage risk in three steps: 1) a diversified allocation to a wide array of smart beta¹ ETFs, 2) a disciplined tactical adjustment process that can bring in additional opportunities, 3) an optimization process that seeks the ideal blend of strategic and tactical investments.

Our disciplined investment process

Step 1: Strategic allocation

- Long-term strategic portfolios
- Access to a wide array of asset classes
- Implemented through Smart Beta exposure
- Targets pre-defined levels of risk

Step 2: Tactical allocation

- Select assets with relatively low correlations to one another
- Tactical signal generation
- Map signal to allocation ranges for each asset

Step 3: Construction

- Portfolios are constructed using an optimization process
- Portfolio positioning:
- strategic allocation (70%)
 - tactical allocation (30%)

Step 1

Strategic allocation

The strategic allocation, which provides the structural foundation for the optimized portfolio, consists of long-term strategic positions that seek to provide diversified access to equity and fixed income through smart beta ETFs. The allocation between asset classes is pre-set and weighted in proportion to the target level of risk. The allocation among underlying ETFs is balanced by their contribution to active risk.

¹ Smart beta represents an alternative and selection index based methodology that seeks to outperform a benchmark or reduce portfolio risk, or both in active or passive vehicles. Smart beta strategies may underperform cap-weighted benchmarks and increase portfolio risk.

Step 2

Tactical allocation

The tactical allocation employs an absolute return strategy, investing in equities, bonds and commodities, to help meet the objective of positive absolute return over a complete economic cycle. Using a quantitative approach, short-term shifts are made based on the likelihood of each asset outperforming cash using the following factor categories: valuation, economic environment and investor positioning. Valuation seeks to determine whether assets are attractively priced relative to fundamentals. The Economic Environment assessment considers the current position of the economic cycle. Lastly, Investor Positioning assesses the impact of historic price movements on likely future returns. This process is designed to take advantage of short term market opportunities and allow for greater flexibility.

Step 3

Construction

An optimization process is used to construct the final portfolios, with the goal of ensuring that we best capture our tactical positioning while remaining aligned to our strategic mandate. The resulting mix of 70% strategic allocation/30% tactical allocation provides investors with three risk-based strategies that are adaptive to the near-term environment.

- Conservative Growth Active Balanced 40% equities/
60% fixed income
- Moderate Growth Active Balanced 60% equities/
40% fixed income
- Growth Active Balanced 80% equities/
20% fixed income

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

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