

Investment Philosophy and Process

Invesco Global Core Equity SMA Separately Managed Accounts



Objective

Seeks long-term capital appreciation

Universe

Global companies generally in the MSCI World Index

Team

- + Deep team of experienced investment professionals with diverse backgrounds
- + Strong investment culture that prioritizes independent thinking, communication, and collaboration

Philosophy

We invest in value-creating companies at discounted valuations. The core principles of our philosophy are:

- Change drives stock prices. We invest when we have a differentiated view about fundamental performance and anticipate a change in investor perception.
- Patience is an advantage. We invest with a long horizon to exploit short-term, risk-averse, and herd mentalities that cause investors to undervalue growth or returns.
- Be flexible. We believe a research approach unconstrained by "style" biases enables us to consistently uncover better opportunities.

Process

Our process seeks to identify potential investment opportunities using bottom-up research of long-term earnings power and company fundamentals, industry research, and screening techniques. Potential investment ideas are evaluated for their strength with respect to our three research pillars.

We seek to construct a diversified global portfolio that reflects the research team's highest conviction ideas. Risk management, integrated with investment research and portfolio management, seeks to ensure company-specific risk is the major source of active risk within the portfolio, that unintended risks are minimized, and that portfolio risk policy guidelines are followed.

Investment Process Overview



At a glance

Process:

- + Seek to combine flexibility to invest anywhere with the discipline of a principles-based approach to research and stock selection.
- + Focus on alpha generation through stock selection, while minimizing effect of unintended sector, factor, and macro exposures on portfolio outcomes relative to the MSCI World Index.

Our investment process is sustained by our three core disciplines: research, risk management, and portfolio management. These disciplines are continuously integrated as we carry out five key investment activities.

Activity 1 Conduct Research

We systematically appraise the global equity universe and consider investments across all geographies, sectors, capitalization sizes, and investment “styles.” We wed the flexibility to invest style agnostically with discipline through our research pillars, which define what we look for in an investment idea:

- Differentiated thesis, where we anticipate long-term company fundamentals or investor perception of those fundamentals can change positively versus expectations.
- Company durability, which includes a combination of sustainable revenue growth, a defensible market position, strong financials, and proven management.
- Asymmetric payoff, where we expect three-year total return to disproportionately outweigh our estimate of potential downside risk.

Activity 2 Approve Ideas

Research activity culminates in an approved stock process. Stock recommendations are brought forward for formal peer review, in which ideas are presented by a sponsoring analyst(s) and vetted through group deliberation. The team decides, through majority rule, whether to approve recommendations. This process results in the Approved List, a diversified list of research-approved stocks with “buy” or “hold” ratings.

Activity 3 Select Holdings

Our portfolio managers select holdings from the Approved List, and only this list. Our superseding goals in stock selection are to select those Approved List stocks in which our research team has greater conviction, and to construct a diversified portfolio that complies with our risk policies and return objectives, using an ample cross-section of stocks representing different geographies, sectors, and other factor risk characteristics.

Activity 4 Calibrate Stock Weights

Our portfolio managers balance research conviction and active risk management to help calibrate our portfolio weightings. We manage active risk using modern factor risk tools (Barra Risk Model) and are guided by our core risk management objectives:

- Emphasizing idiosyncratic risk. We target at least two-thirds of active risk from stock-specific risk.
- Uncovering sources of risk. We seek to identify and understand risks in the portfolio, and to minimize the effects of unintended risks on portfolio outcomes.
- Balancing conviction and risk budget. We seek to optimize expected active risk-adjusted return while allowing our investment conviction to drive a total risk expression appropriate to our portfolio guidelines and the risks represented in our benchmark.

Activity 5 Implement Portfolio

Our portfolio managers overlay risk modeling with prudent judgment to dynamically manage actual portfolio weightings and to maintain portfolio health by making prudent follow-on decisions, including whether to increase, decrease, or maintain position sizes.

At a glance

Construction and risk management:

- + Approximately 50-80 holdings.
- + Prioritize research conviction and diversification when selecting stocks and determining portfolio weightings.
- + Target at least two-thirds of active risk from stock-specific risk sources.

Sell Discipline

We will sell (or reduce) a position when:

- We determine a company's competitive position has deteriorated and the business is no longer durable.
- Our research indicates it has misgauged a firm's long-term prospects or market expectations.
- We deem the asymmetry of a stock has become unfavorable in absolute or relative terms.
- We have identified a more attractive opportunity on the Approved List for inclusion.
- Our risk management signals a need to rebalance the portfolio.

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The **MSCI World Index** is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country.

Diversification does not guarantee a profit or eliminate the risk of loss.

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