



## Investment Philosophy and Process: Separately Managed Accounts **Invesco Diversified Dividend SMA**

### Objective

Long-term growth of capital and, secondarily, current income

### Universe

US dividend-paying stocks with sound balance sheets, strong cash flows and profit sustainability

### Team

- Lead portfolio manager in place since the team's inception in 2002
- 18 average years of industry experience
- Cyclical & non-cyclical industry coverage to each analyst to broaden research expertise
- Impaired positions review helps provide a second opinion and removes emotion from the process
- Strive to improve investor experience with dividend value investing

### Philosophy

We believe attractively valued companies that pay dividends sustained by strong capital structures may outperform over the long term.

We focus on dividend-paying stocks using our total return strategy, emphasizing:

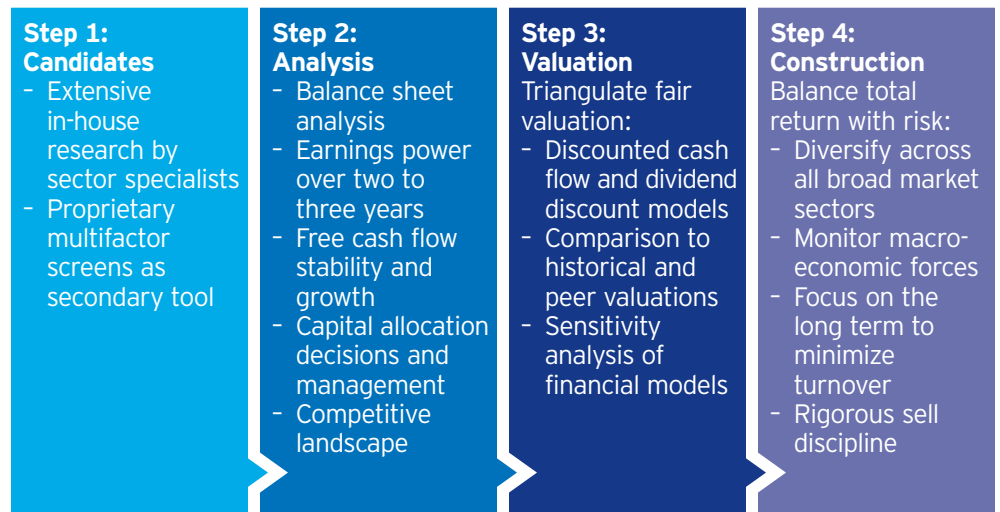
**Appreciation**  
**Income**  
**Preservation**

We emphasize the sustainability and growth of a company's dividend in our fundamental research. Here we differentiate between strong, undervalued companies returning capital to shareholders and ailing companies offering higher, yet more volatile, yields. Our goal is to add value with less risk over a full market cycle.

### Process

Our disciplined investment process focuses on identifying potential candidates, company analysis, valuation and portfolio construction.

### Investment process overview



---

## Step 1

### Candidates

Our process starts by identifying strong companies that return capital to shareholders, focusing on companies in the market capitalization range of the Russell 1000 Value Index. We screen the equity universe for dividend-paying stocks with sound balance sheets, strong cash flows and profit sustainability.

We take a dual approach to idea generation:

- Extensive in-house research by sector specialists
- Proprietary multifactor screens as a secondary tool

---

## Step 2

### Analysis

After the initial screening process, we take an in-depth look at each company focusing on:

- Earnings power over two to three years based on our view of the company's prospects.
- Free cash flow stability and growth.
- Historical capital allocation decisions and the potential for future increases in returns on capital.
- Competitive landscape and the company's positioning versus peers.
- Quality of company management and track record.
- Balance sheet analysis.

---

## Step 3

### Valuation

The goal of our valuation analysis is to validate the opportunity, and identify if it has an attractive total return profile, offering a minimum of 35% upside potential over a two to three year time period. We triangulate fair value using multiple techniques:

- Discounted cash flow and dividend discount model analysis that are based on our view of normalized returns for the business.
- Historical company valuation comparisons across full economic cycles.
- Peer valuation comparisons.

In addition, we evaluate a company's risk/return profile by estimating the possible downside risk relative to our estimated potential return.

Finally, we examine the sensitivity of the most important earnings drivers across scenarios to measure the impact to total return.

---

## Step 4

### Construction

Portfolio construction balances total return with risk management. We consider a stock's potential total return from price appreciation and dividends, as well as its expected volatility relative to peers.

The result is a well-diversified portfolio of 60 to 80 stocks with exposure to all market sectors.

We use a variety of techniques to manage risk, which are designed to address permanent loss of capital and excessive volatility:

- Diversify across all broad market sectors.
- Identify financially sound companies through extensive financial research.
- Perform valuation and scenario analysis to determine potential downside risk.
- Monitor macroeconomic sensitivity and cross-correlations across holdings using a customized factor-based framework.
- Focus on a long-term investment horizon to decrease turnover and reduce volatility.
- Review all holdings to ensure each position continues to fit our selection criteria and investment thesis.

### At a glance

Construction and risk management:

- Our goal: Diversification with lower volatility
- Diversified across all broad market sectors
- Screen for sound financial sound companies
- Determine potential downside risk
- Monitor macroeconomic sensitivity
- Focus on the long term with low turnover
- Manage volatility
- Formal review of all holdings

---

## Sell

Our sell discipline is dynamic. We review both quantitative and qualitative factors, including but not limited to:

- Current share price exceeds target price and/or business becomes overvalued.
- Fundamental change occurs in the underlying business that lowers the potential total return profile.
- Deterioration in capital structure and/or earnings that jeopardizes the dividend.
- More compelling investment opportunity exists.

Finally, our “impaired position review” process challenges existing investment ideas that have underperformed for an extended period of time. Here, we reassign the stock to another analyst for independent review. The responsibility of the new analyst is to evaluate the crucial elements for our original theses, and present an assessment to the entire team for discussion.

---

## FOR PUBLIC USE

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment-making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

**Invesco Advisers, Inc. is an investment adviser; it provides investment advisory services to individual and institutional clients and does not sell securities. It is an indirect, wholly owned subsidiary of Invesco Ltd.**

The Investment Advisers Act of 1940 requires investment advisory firms, such as Invesco Advisers, Inc., to file and keep current with the Securities and Exchange Commission a registration statement of Form ADV. Part II of Form ADV contains information about the background and business practices of Invesco Advisers, Inc. Under the Commission's rules, we are required to offer to make available annually Part II of Form ADV to our clients along with our privacy policy. Accordingly, if you would like to receive a copy of this material, please write to Invesco Advisers, Inc., Managed Accounts Operations Department, 11 Greenway Plaza, Suite 1000, Houston, Texas 77046.

Invesco Advisers, Inc. ■ 11 Greenway Plaza, Suite 1000 ■ Houston, Texas 77046 ■ 713 626 1919