

# Investment Philosophy and Process

Invesco International Growth ADR SMAs  
Separately Managed Accounts



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## Objective

Seeks long-term capital growth

## Universe

International equity ADRs from both developed and emerging markets with market capitalizations typically greater than \$4 billion

## Team

- 25+ years strategy longevity
- 15-member seasoned, multinational and multilingual team
- 20 years average tenure for senior portfolio managers
- 500 company management interviews annually

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## Philosophy

Our investment philosophy is built around these core principles: bottom-up stock selection, active management and a long-term investment horizon. We believe companies with strong earnings, quality and valuation (EQV) characteristics may deliver long-term success.

<b>Earnings</b>	Sustainable earnings growth over a full investment cycle is a key driver of a company's stock price
<b>Quality</b>	Companies with efficient capital allocation create long-term value
<b>Valuation</b>	Companies with underappreciated growth prospects provide relatively attractive risk/reward opportunities

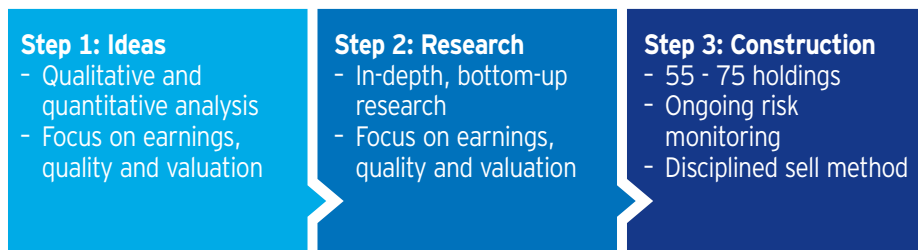
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## Process

Our disciplined investment process focuses on idea generation, fundamental research and portfolio construction.

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### Investment process overview



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### Step 1

#### Ideas

New ideas are identified and researched on an ongoing basis using numerous qualitative and quantitative sources.

**Qualitative:** The primary source of generating stock ideas. We interview over 500 company management teams annually for research purposes. We leverage global and local sell-side analysts and other third-party research to fully understand company and industry dynamics.

**Quantitative:** Quantitative screens measure and rank several key criteria that are central to our EQV investment process. These screens help identify potential new ideas and monitor existing holdings - this is a secondary source of idea generation.

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## Step 2

### Research

In-depth, fundamental research is the cornerstone of our investment process. Here we build deeper understanding of each companies' EQV profile.

**Earnings (E):** We seek to own companies with sustainable long-term growth potential through the cycle, with above average revenue growth, cost discipline, improving earnings and a strong competitive position.

We thoroughly analyze these positive trends in order to better understand the key fundamental drivers of growth (e.g. revenue growth, pricing, cost savings, operating leverage, new products and market exposure, industry growth trends and competitive positioning, etc).

**Quality (Q):** We seek to own companies with the types of quality characteristics that provide the foundation and support for sustainable growth. These characteristics include durable free cash flow (FCF), high return on invested capital, scope for margin improvement, strong balance sheets and management teams with proven records of allocating capital in prudent, efficient and profitable ways.

**Valuation (V):** We analyze numerous valuation metrics within the EQV framework in order to identify those stocks appearing to have underappreciated growth prospects. One of our preferred metrics is the FCF yield ratio. We favor FCF yield because this metric is less subject to manipulation from select accounting practices and also provides attractive downside protection.

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## Step 3

### Construction

Portfolio construction is a function of our bottom-up process of identifying underappreciated growth opportunities combined with careful risk analysis. A stock that successfully passes our rigorous EQV driven idea generation and fundamental research process is a viable candidate for inclusion in the portfolio.

The key portfolio construction objective is to establish a portfolio broadly and prudently diversified across sectors, countries and market capitalizations.

A focus on actively managed, bottom-up stock selection drives sector and country allocations and the resultant portfolio does not seek to mimic an index. Consistent with our bottom-up investment philosophy, we consider currency risk at the individual company level rather than applying a broad hedging strategy.

Individual stock position sizes reflect a combination of their perceived return potential, risk level and degree of conviction. Position sizes:

- Range from 0.75% to 3%
- Largest being <5%
- Top 10 holdings typically comprise 20% to 35% of the total portfolio
- Cash is generally <10% of assets and is not used as a method of risk control

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### Sell

We believe successful growth investing is in the sell decision. Using our EQV company profile, we consider selling a holding when:

- **Earnings (E):** Deteriorating company and/or industry fundamentals as well as weakening long-term earnings power.
- **Quality (Q):** Deteriorating cash flow and/or return on invested capital, weakening balance sheet and a reduced competitive outlook.
- **Valuation (V):** Extended valuation.

We may also sell if a more attractive opportunity is identified and/or risk considerations emerge such as position size, liquidity or accounting issues.

### At a glance

Portfolio construction:

- 55 to 75 holdings
- Position size typically 0.75% to 3%
- Maximum position size less than 5%
- Top 10 holdings typically 20% to 35%
- Emerging markets limited to less than 1.25 times the emerging markets exposure in MSCI All Country World ex US Growth Index
- Cash is generally <10% of assets

Risk management:

- Broadly diversified portfolio
- Focus on attractive quality and valuation characteristics
- Absolute risk/reward mindset
- Benchmark agnostic philosophy
- Maintain stock liquidity criteria
- Performance and risk attribution analysis

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