



Press Release

For Immediate Release

Invesco Study Finds:

Conviction in Fixed Income Factor Investing on the Rise

New global survey of 241 factor investors finds long-term interest in dynamic factor allocations, with increased attention to defensive factors

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ATLANTA – October 21, 2019 – Invesco, a leading asset manager with over 35 years of expertise in factor investing¹, today released findings from its fourth annual [Global Factor Investing Study](#), the largest of its kind. This year's study focuses on the key questions facing investors of varying levels of factor adoption, including challenges and preferences.

"The Invesco Global Factor Study demonstrates that there is wider, more dynamic adoption of factor investing, suggesting growing maturity and sophistication in the factor market," said Mo Haghbin, COO, Invesco Investment Solutions. "Factor investing has shifted from academic theory to an actionable strategy for global investors and the study allows us to understand what issues are key to their investment decisions."

This year, the study found that respondents have continued to increase factor allocations overall; both in the number of factors they target and their usage of multi-factor strategies. Nearly half (45%) of the investors surveyed globally increased factor allocations in the last year, and 65% of investors in North America intend to increase their factor allocations over the next three years. Also, in 2019 over 66% of respondents have also reported that their factor investing performance met or exceeded expectations the performance of their traditional active or market-weighted allocations. Investors are also maintaining their conviction in factor investing with 77% of respondents in North America waiting at least three years before judging performance.

Invesco also reveals that investors, in aggregate, are 1) more widely interested in factor fixed income strategies and have opinions on which factors should work best, 2) moving to a more dynamic approach for implementation of factors by a three-to-one majority, 3) taking more defensive, long-term factor positions.

Factor Fixed Income Ready for Prime Time

Since last year's Global Factor Study, there has been a notable increase in the proportion of North American respondents who believe factor investing can be extended to fixed income. Invesco found that 61% of institutional investors and 76% of wealth managers now view the approach as being applicable. The growing belief is tied to widespread recognition that the returns of all fixed-income portfolios, whether they are built utilizing a factor-based approach or not, will be implicitly driven by exposure to factors. (Figure 1)

"With interest rates now at record lows and around a quarter of bonds globally trading with negative yields, attention has turned to alternative ways of accessing the asset class," continued Haghbin. "Respondents see factor investing as a solution that could target sources of returns transparently and cost effectively, even in a challenging yield environment."

Of the potential factors identifiable within fixed income, belief in a yield/carry factor is the most prevalent, with 64% of respondents identifying it as the top factor, which may explain the increase to such strategies over the past 12 months. Additional factors to be explored in fixed income, yield/carry was followed by liquidity, value and quality (54%, 46% and 42% respectively). (Figure 2)

Bond market inefficiencies, coupled with a near four-decade bull-market run, have helped to support the case for active management within fixed income. Factor investing in fixed income includes many of the benefits that have driven the strong performance of active fixed-income strategies, while also offering transparency and a potentially attractive cost.

This year's results suggest that as investors move along the experience curve, demand for fixed income factor strategies will likely increase further.

Active Implementation is on the Rise

The Invesco Global Factor Study addresses implementation and finds that investors increasingly believe that capturing the benefits of factor investing is partially dependent on adopting a dynamic approach. Most factor investors now choose an active implementation as opposed to a passive approach – with active strategies executed through segregated mandates, co-mingled mutual funds, customized investment solutions and exchange traded funds (ETFs). The assortment of investment vehicles being utilized ensures factor accessibility for a wide range of investors.

For active implementation, the study found, there is a preference for segregated mandates among larger institutional investors and wealth managers, while mid-sized and small investors are more likely to opt for co-mingled mutual funds. Notably the use of ETFs is not limited to one type of investor and is used in the implementation of both active and passive factor strategies. ETFs are utilized for dynamic factor investing by nearly 60% of large institutional investors (AUM>\$50BN), usually in combination with other investment vehicles. (Figure 3)

Where investors still implement strategies passively, mid-sized (71% institutional and 77% retail) and small investors (68% institutional and 84% retail) are primarily using ETFs, while large institutional investors prefer a custom approach to index design.

"The increase in dynamic factor investing is a key sign of how comfortable investors are becoming in implementing factor strategies," continued Haghbin. "We continue to rely on the insight provided by the Global Factor Study to enhance our products and services in order to provide investors with the factor solutions that best fit their needs."

Migration to Defensive Factors

As investors continue to adopt a more dynamic approach to factor investing, with an eye on a longer time-horizon, allocations across factors have increased. The rigorous internal research processes that Invesco surveyed being implemented in 2018 seem to be reflected in the 2019 rise of low volatility, quality and momentum. At the same time as investors are moving to multi-factor, they are taking more active decisions about which factors to include or exclude. (Figure 4)

Despite some decline in exposure to the value factor, which was used by eight of ten respondents in 2018, value remains the most widely allocated factor. Invesco found that some of the sophisticated investors sampled had increased allocations to value over the past 12 months. Among these respondents, this year's study noted that the underperformance of value raises questions how the value factor should be defined and captured in the prevailing economic environment, rather than raising serious questions about its viability as a factor.

"A concurrent increase in the use of other factors, particularly low volatility, momentum, and quality, has resulted in a 'flattening out' of factors in use, and a narrowing in the gap between the most used and least used factors," offers Vincent de Martel, Senior Invesco Investment Solutions Strategist. "Our study found that most investors, seek to capture a dynamic, long-term approach to factor implementation that includes periods of underperformance and outperformance across all factors."

About Invesco Ltd.

Invesco is a global independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. Our 13 distinctive investment teams deliver a comprehensive range of active, passive and alternative investment capabilities. With offices in 25 countries, Invesco managed \$1.18 trillion in assets on behalf of clients worldwide as of September 30, 2019. For more information, visit <http://Invesco.com>.

Sample and Methodology

The fieldwork for this study was conducted by NMG's strategy consulting practice. Invesco chose to engage a specialist independent firm to ensure high quality objective results. Key components of the methodology include:

- A focus on conducting interviews with key decision makers using experienced consultants, and offering market insights.

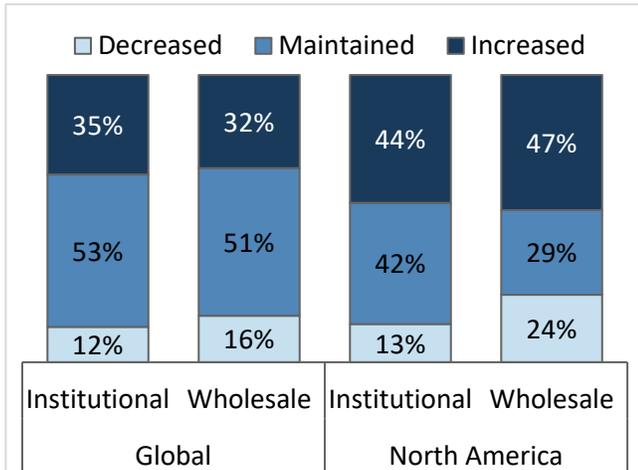
- In-depth (typically 1 hour) face-to-face interviews using a structured questionnaire to ensure quantitative, as well as qualitative, analytics were collected.
- Results interpreted by NMG’s strategy team with relevant consulting experience in the global asset management sector.

In 2019, the fourth year of the study, Invesco conducted face-to-face interviews with 241 factor investors, broken out as 132 institutional investors and 109 wholesale investors. Together these investors are responsible for managing over \$25 trillion in assets (as of March 31, 2019).

All Invesco Global Factor Study respondents were ‘factor users’, defined as any respondent investing in a factor product across their entire portfolio and/or using factors to monitor exposures. Invesco deliberately targeted a mix of investor profiles across multiple markets, with a preference for larger and more experienced factor users. The full breakdown of the 2019 interview sample by investor segment and geographic region is displayed in the report. Invesco is not affiliated with NMG Consulting.

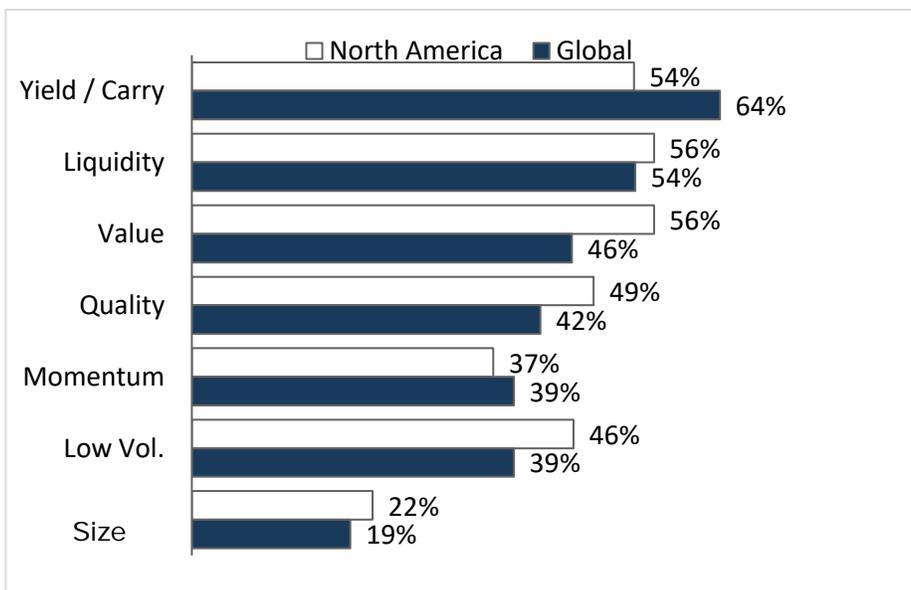
Appendix

Figure 1: Change in fixed income factor allocations over past 12 months (% Citations)



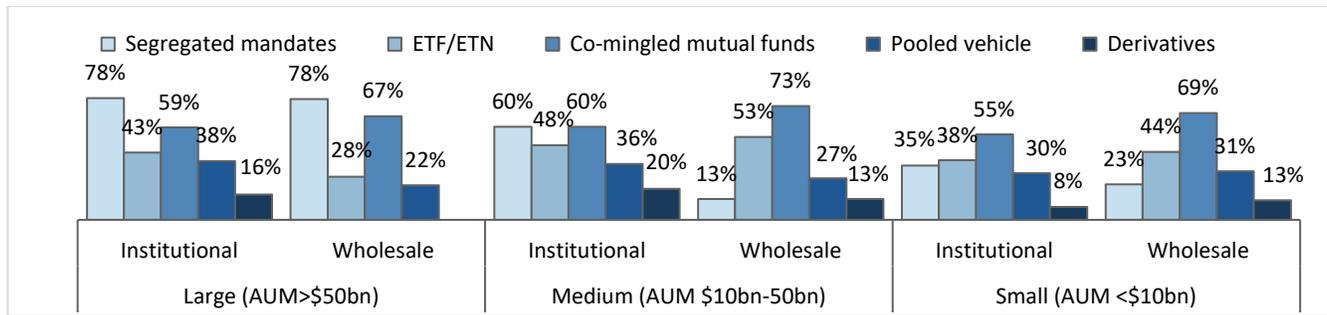
Sample size: Global, Institutional = 98, Wholesale = 74, NA, Institutional = 45, Wholesale = 17

Figure 2: Factors that could be identified in fixed income (% Citations)



Sample size: NA = 41, Global = 156

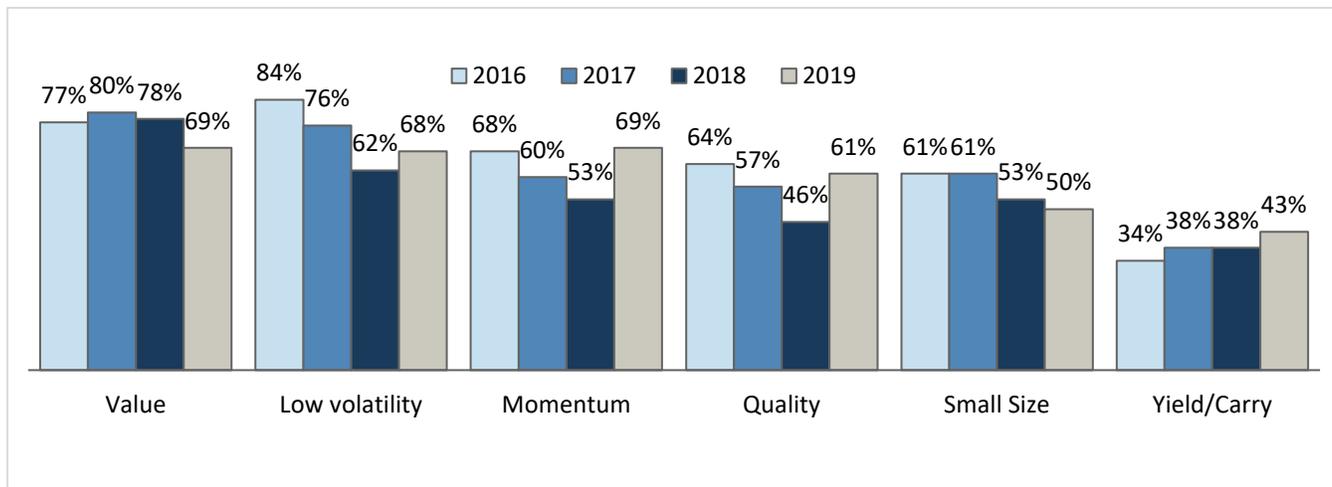
Figure 3: Method of executing factor strategies (active implementation) (% citations, by segment and assets under management)



Sample size: Large (AUM > US\$50bn), Institutional = 31, Wholesale = 12; Medium (AUM US \$50bn-US\$10bn); Institutional – 17, Wholesale = 13; Small (AUM < US\$10bn), Institutional = 38, Wholesale = 44.

Figure 4: Factors within portfolio (% Citations, by year of study)

Sample size: 2016 = 56, 2017 = 98, 2018 = 260, 2019 = 236



Important Information

1 Dating back to the founding of Invesco Quantitative Strategies in 1983, and over 15 years managing factor-based ETFs

Survey participants experience may not be representative of others, nor does it guarantee the future performance or success of any factor, strategy or product. There may be material differences in the investment goals, liquidity needs, and investment horizons of individual and institutional investors.

Factor investing (as known as smart beta or active quant) is an investment strategy in which securities are chosen based on certain characteristics and attributes that may explain differences in returns. Factor investing represents an alternative and selection index based methodology that seeks to outperform a benchmark or reduce portfolio risk, both in active or passive vehicles. There can be no assurance that performance will be enhanced or risk will be reduced for strategies that seek to provide exposure to certain factors. Exposure to such investment factors may detract from performance in some market environments, perhaps for extended periods. Factor investing may underperform cap-weighted benchmarks and increase portfolio risk. There is no assurance that the investment strategies discussed in this material will achieve their investment objectives.

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