



Investment Philosophy and Process

Invesco 4% Risk Core 1000 Portfolio

Investment Process

Universe Definition

A large-cap universe that includes Russell 1000 Index benchmark holdings and liquid investments outside the benchmark



Stock Selection

- Earnings momentum
- Management action
- Price trend
- Relative value

Forecast Return



Risk Assessment

(by risk factor model)

Risks captured:

- Sector
- Interest rates
- Oil prices
- Currency
- Company size
- Other risk factors

Risks not captured:

- Litigation
- Regulatory investigations
- Subindustry risk
- Liquidity risk

Stock Risk Forecast



Portfolio Construction

Construct portfolio to meet desired return-risk characteristics



Trading

Preserve value added through cost-effective trading



Portfolio Holdings

60-140 stocks

Investment philosophy

We believe we can add value for our clients through the systematic application of fundamental and behavioral insights. To apply this philosophy to our quantitative stock selection model, each factor employed must have a sustainable investment rationale and be quantifiable, predictive and complementary. We seek to achieve a consistent and competitive long-term return relative to an appropriate benchmark, but at lower levels of index-relative volatility (risk).

Our strategy combines an active, research-based stock selection process with rigorous risk management. The strategy uses a proprietary model designed to consistently capture alpha through the systematic application of:

- **Key financial indicators.** Improving earnings, long-term price strength, cash flow yield, etc.
- **Behavioral concepts.** We attempt to take advantage of investor over/underreaction to market news – models remove human sentiment from the equation.
- **Active risk management.** The degree of acceptable risk is predetermined; models help allocate risk to stock selection and guide buy/sell decisions.
- **Low transaction costs.** A specialized trading process helps minimize costs so portfolio alpha can be maximized.

The portfolio is structured to capitalize on stock selection while minimizing exposure to other residual risks, such as beta, sector/industry exposures and style (growth, value and size). Disciplined portfolio construction and cost-effective trading are integral to our investment process, helping us maintain the value added from stock selection and reduce the probability of significant underperformance.

Universe definition

Portfolio managers focus on a large-cap universe that includes Russell 1000 Index benchmark holdings and liquid investments outside the benchmark.

Stock selection

Our stock selection model is based on four concepts, which are supported by several factors. Each concept is weighted based on its forecasting reliability. Each of the stocks in the universe is evaluated based on these indications. The result is a forecast of the expected one-year return potential in excess of the benchmark for each stock.

Favorable stock factors include:

- Improving earnings that suggest further upside potential.
- Expectations reflected in higher stock price.
- Management action that supports shareholder value.
- Reasonable stock price relative to earnings and cash-generating ability.

Portfolio construction

We input the return, risk and transaction cost forecasts into an optimizer, with the goal of maximizing expected return, while minimizing expected risk and cost, given a target tracking error. The portfolio construction and trading team and the research team review the output to ensure the optimization is reasonable. After each team approves the optimization, we aggregate the generated transactions and trade the portfolio.

Structured portfolio process: inputs and targets

Alpha and tracking error targets are inputs in the structured products' portfolio construction process. While actual alpha and tracking error for the portfolio may be greater or less than the targets listed, over the long term, managers aim for the targets defined below.

		Targets	
	Benchmark Index	Alpha	Tracking Error
Invesco 4% Risk Core 1000 Portfolio	Russell 1000 Index	3.0%	4.0%

Sell discipline

Sell decisions are also driven by our stock selection model. A stock will be sold when more highly rated stocks are available, taking into account the trade-off between alpha pick-up and trading costs. We will also sell a stock for risk management purposes or if a corporate action such as a takeover bid has occurred and the stock will no longer respond to the model.

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Tracking error measures the difference between returns of a portfolio and its benchmark index.

Alpha is a measure of performance on a risk-adjusted basis.

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