Invesco Global Equity Portfolio

Investment philosophy
We believe we can add value by focusing on global stock selection driven by precise financial, valuation and global sector-based research. We are committed to a long-term investment horizon based on low portfolio turnover. Risk management is employed at the stock and portfolio level to seek predictable and consistent returns relative to the benchmark over time.

Universe definition
We begin with a universe of about 3,000 companies from more than 30 countries around the world. All companies are required to have a minimum market capitalization of $1 billion and a minimum of five years of publicly reported financial statements.

Stock selection
We take a bottom-up approach toward selection of global equities based on a broad universe of U.S. companies and non-U.S. companies from both developed and emerging markets.

Stock selection is further refined by:

- Conducting research domestically and abroad, incorporating a global sector-based perspective.
- Taking measures to attempt to reduce risk at the security level with a strong bias toward companies with proven financial strength.

Our global equity strategy employs an investment management process that focuses on three areas that include a financial and valuation assessment, primary research driven by direct company contact and team-based portfolio decisions.

Quantitative analysis
We recognize that the various accounting standards and conventions worldwide may significantly affect a company's reported financial data. Therefore, to equally and consistently evaluate and compare companies against each other, we make extensive accounting and inflation-related adjustments to the financial data of each company.

Major elements we consider are goodwill associated with acquisitions, discretionary reserves, depreciation schedules for plants and equipment, and inflation. After putting each company on a level playing field for comparison, our proprietary model ranks the relative attractiveness of each company in the universe. Our valuation analysis screens for:

- Internal rate of return
- Price-to-book ratio
- Price-earnings ratio

Qualitative analysis
We take a global sector-based approach to research. It is our view that sector and industry trends are more important drivers of long-term share performance than where the company is headquartered.

Our research efforts are based on primary company contact and a long time horizon, consistent with a four- to five-year holding period for typical investments in the portfolio.

A key element of our research is to evaluate the sustainability of company profitability. We focus on the embedded characteristics that determine a company's long-term growth prospects.

Investment Process

Universe Definition

About 3,000 stocks from more than 30 countries with market caps of $1 billion or more and a minimum of five years of publicly reported financial statements

Quantitative Analysis and Valuation Assessment

- Financial statements adjusted for discretionary reserves, goodwill, depreciation and inflation
- Three valuation factors: implied return analysis, price-to-book multiple (P/B), price-earnings ratio (P/E)
- Bias in favor of companies with proven financial strength: earnings stability and below-average debt

Company Research

- Global sector-based approach
- Research focus: peer group positioning, sustainability of profitability, key financial characteristics
- Long-term perspective

Portfolio Design (60–85 stocks)

- Model portfolio approach: assess stock's contribution to return and diversification of portfolio, ensure consistency of portfolio holdings
- Stock selection drives country and sector weights

Our global sector-based approach to fundamental research enables us to effectively evaluate companies relative to their key global competitors. We typically favor companies well-positioned to maintain or improve upon their competitive positioning over the long term.

The ultimate goal is to identify stocks with above-average return potential driven by the sustainable growth of the company and the valuation-based multiple expansion.

Sell discipline

Our sell discipline is a mirror image of our three-step investment (buy) process and is based on the following:

- **Relative valuation ranking.** We review a stock for possible sale when its share price increases and its ranking deteriorates relative to other companies. In addition, we may look to reduce positions in stocks that are becoming increasingly expensive when more attractive purchase candidates are identified.
- **Fundamental analysis.** We closely monitor the fundamentals of companies held in our portfolios on an ongoing basis. An existing holding is sold if the long-term prospects for the company have deteriorated in an unanticipated and dramatic fashion.
- **Portfolio design and risk management.** Funding requirements related to new purchases may lead to sales activity as an ongoing part of the portfolio design process. In addition, if a portfolio's estimated tracking error or R-squared relative to the benchmark falls outside acceptable boundaries due to price action within the portfolio, rebalancing trades are implemented to reduce portfolio concentration.

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

R-squared expresses the proportion of variation in the return of one portfolio explained by the return of a benchmark.

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

Price-to-book (P/B) is the market price of a stock divided by the book value per share.

Price-earnings (P/E) ratio, the most common measure of how expensive a stock is, is equal to a stock's market capitalization divided by its after-tax earnings over a 12-month period.

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