

# Invesco Distribution (UK) Z Inc

January 2019

## Outcome

The managers invest with a total return mind-set aiming to deliver income with the potential for future growth in income and capital. While the managers are conscious that investors hold the fund for income, they will not chase yield to the detriment of capital stability and growth. The level of income may fluctuate over time, and will depend on the yields available in the wider market, and on the managers' perception of value in markets.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●		●	

## Performance Objective

The aim of the fund is to deliver a combination of income and capital growth over the medium to long term.

<b>Active/Passive:</b> Active	<b>IA Sector:</b> IA Mixed Investment 20-60% Shares
<b>Launch Date:</b> 26/01/2004	<b>Fund Size (as at 30 Nov 2018):</b> £2455.9m
<b>Yield (as at 11 Jan 2019):</b> 4.8%	<b>Distribution Pay Date:</b> Monthly
<b>Fund Manager:</b> Ciaran Mallon, Paul Causer, Paul Read	<b>Ongoing Charge Figure:</b> 0.82%
<b>Domicile:</b> United Kingdom	<b>Transaction Cost ex Ante:</b> 0.09%
<b>Multi-Manager:</b> No	



## Fund Opinion

Managers Paul Read and Paul Causer are experienced investors who have established a strong track record managing this mixed asset mandate across a number of market cycles. More recently they have been joined by Ciaran Mallon, who brings a wealth of knowledge and UK equity expertise to the fund. In our opinion, the long-standing managers have established a comprehensive and thoughtful process that has a strong awareness of macroeconomic factors and valuations. They are pragmatic investors who are readily prepared to orientate the portfolio towards the most attractive opportunities, whilst remaining within the bounds of the mandate. We think the fund could have appeal for investors seeking an actively managed, diversified fund of primarily bonds and equities.

The managers' focus on value may lead the fund to have a slightly more volatile return profile than similar funds, although this may be partially moderated by the bias to fixed income compared to many peers, and will depend on the factors driving markets at any given point in time.

The fund is likely to be suitable for investors who wish to access a relatively high income stream, with the potential for some possible capital upside, and who are prepared to hold the fund over medium to long term timeframes (at least three years). The attractions of this fund include the highly experienced management team and the high conviction, but risk aware, manner in which it is run. We believe it is a solid option for relatively cautious multi-asset investors who require an income stream.

## Fund Description

Invesco's Co-Heads of Fixed Interest, Paul Read and Paul Causer have managed the fund since its launch in 1994. Since October 2013 the equity component has been managed by Ciaran Mallon. Mr Read and Mr Causer are experienced managers, each having more than 20 years of experience in fixed interest markets. Mr Mallon has been a member of the UK Equity team since he joined Invesco in 2005 and is a seasoned UK equity investor. Based in Henley-upon-Thames, Invesco is one of the largest investment management groups in the UK. It forms part of the Invesco Ltd Group, a leading global investment manager listed on the New York Stock Exchange.

The fund will hold a range global fixed income securities, although there is likely to be a bias to sterling and euro issues, and non sterling issues will be hedged to sterling. In addition the fund will hold UK equities, although this holding will be small. The fixed income and equity holdings are managed largely in isolation by the respective teams, with the premise of creating a single portfolio of best ideas. In practice, the investment styles of the teams have tended to complement each other, with the fixed income team's valuation focus dovetailing nicely with the higher quality approach taken within the equity strategy. Mr Read and Mr Causer determine the fund's asset allocation, however at least 60% of the fund will be held in bonds, with the weighting to equities typically ranging between 35% and 38%. Asset allocation is determined by the managers' assessment of the current macroeconomic and technical environment combined with their views on market valuations.

The fixed income approach comprises three elements; macroeconomic analysis, credit analysis and value assessment. It begins with top-down economic analysis, seeking to understand the macroeconomic environment and to make informed forecasts of future conditions. This work focuses on the path of interest rates and trends in the pricing of risk. The managers then turn their attention to bottom-up stock selection, assessing whether or not a company can meet its obligations in terms of interest on and repayment of debt. Various measures are examined, including the extent of a company's gearing, its earnings and its financing costs, with an emphasis on how these measures are changing. This should result in a thorough understanding of risk, enabling the managers to create a portfolio where they look to maximise returns from acceptable and well understood risk exposures. The final step in the process is to assess value, and to judge whether the potential returns of a security sufficiently justify the risks, both on an absolute basis and relative to cash, government bonds, corporate bonds and equities.

The equity component of the fund has been managed by Mr Mallon since 2013. The portfolio will comprise 30-35 of the manager's best ideas, but with a consideration of income and the conservative nature of the investor base. Mr Mallon's disciplined approach requires that every holding in the portfolio will pay a dividend, however the portfolio will consist of both high and lower yielding stocks. Mr Mallon's approach is long-term in nature and his preference is for high-quality businesses, which have strong balance sheets, sound business models and management teams who have demonstrated a successful ability to allocate capital.

## Risk Summary

The fund is a diversified portfolio of primarily bonds, equities and cash. It is therefore exposed to a number of risks. As the fund invests in fixed interest instruments, the major risks are likely to be interest rate risk and credit risk. The managers attempt to mitigate these risks through active asset allocation, interest rate management and credit analysis. However, investors should be aware that they are always likely to be significant.

Despite the team's careful analysis of the bonds in the fund, all corporate bonds carry a risk of default and investors should be aware that it is possible that a bond in the fund could default on its obligations. This fund is well diversified and the impact of any one bond defaulting should thus be small.

The equity shares in the portfolio can move quickly in price, especially over the short term or in times of severe market dislocations. This can increase the overall level of volatility in the fund, perhaps substantially. However, this risk may be lessened by diversification across asset classes.

Perhaps the biggest risk to an income-focused fund is that of not delivering income. Whilst the managers have done an excellent job of generating a steady, secure and relatively high level of income over time, investors should be aware that the income on this fund is not guaranteed and could fall.

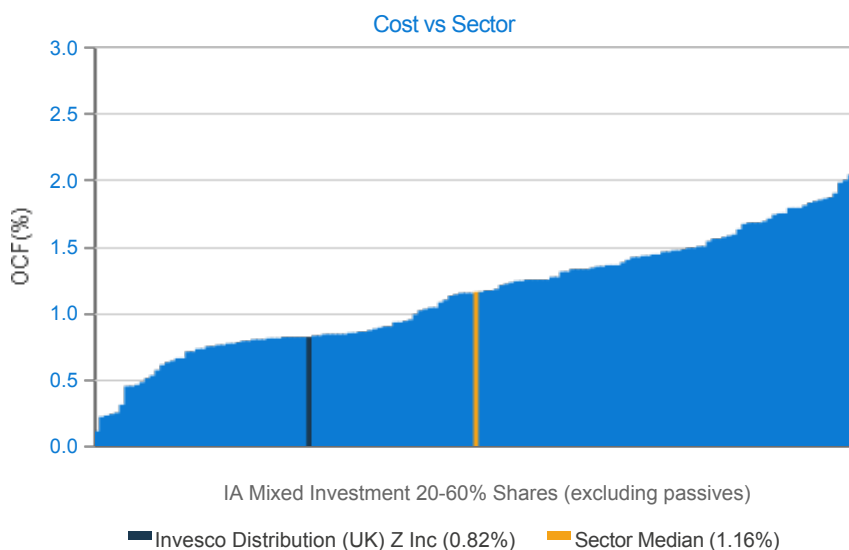
Ultimately we believe that the risks in this fund are well-managed, but risks will always be present.

## Value for Money

(Calculation as at 15 Jan 2019)

The ongoing charge figure (OCF) of this fund is towards the lower end of the range for the sector. However the prevalence of multi manager funds within the sector, which carry a dual layer of charges, means the average cost is likely to be elevated. Nevertheless we believe this charge offers investors fair value for money given the extremely strong management team and the investment process which is both well thought-out and closely adhered to.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Invesco will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

## Socially Responsible Investing

The managers do not currently use any responsible investing factors as explicit inputs to the fund. This said, both the managers and analysts, in the course of meeting companies and conducting research into the underlying securities in the fund, will assess any environmental, social and governance (ESG) factors which they believe could have an impact on a security's valuation or where they believe it is in the best interests of clients to explore such factors. ESG is only used as one of many inputs into the decision of whether to buy or sell a bond or equity investment and is unlikely, except in extreme circumstances, to be overriding.

### Additional Information

<b>Annualised Return</b>	2.85%
<b>Annualised Volatility</b>	4.86%
<b>Max Drawdown</b>	-4.80%
<b>Max Gain</b>	9.29%
<b>Max Loss</b>	-4.80%
<b>Sharpe Ratio</b>	0.00
<b>Sortino Ratio</b>	-0.20

(3 year data to last month end)

#### Currency of Share Class

GBP

#### Fund Price (as at 11 Jan 2019)

210.3 pence

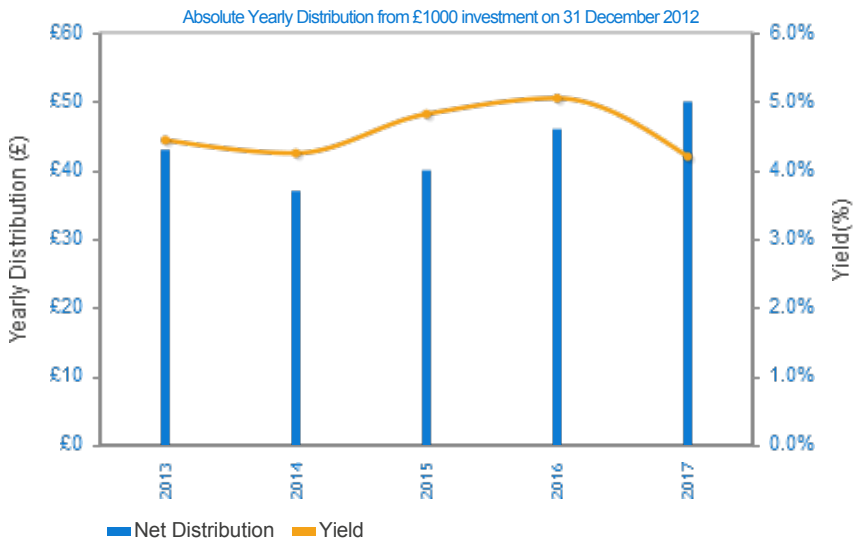
#### Benchmark

IA Mixed Investment 20%-60% Shares

### Discrete Annual Performance to Last Quarter End

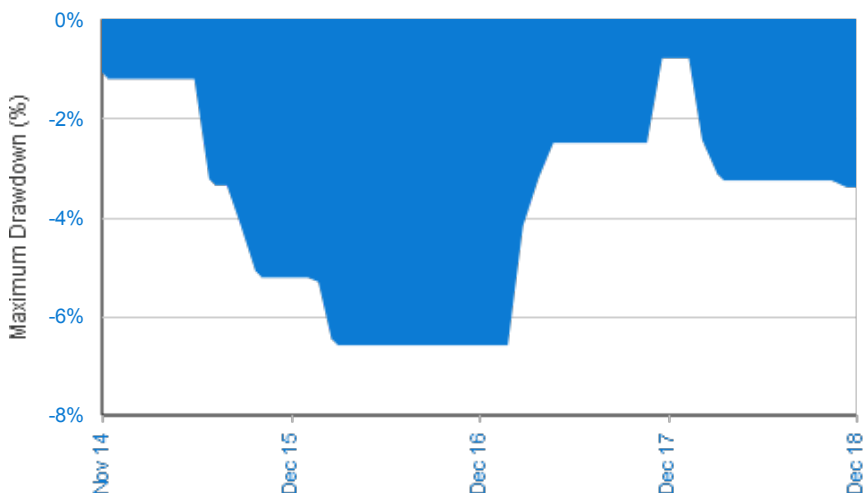
Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	-4.6	-5.1	2
12-24m	7.4	7.2	2
24-36m	5.5	10.3	4
36-48m	0.9	1.2	3
48-60m	4.5	4.9	3

### Income



This graph assumes that income is distributed to shareholders and not reinvested. Yield represents share price fluctuations.

### Maximum Drawdown (Rolling 12 Months)



### Asset Allocation Positioning

Name	%
UK Equities	30.6
UK Fixed Interest	26.1
US Fixed Interest	15.1
Italian Fixed Interest	6.4
Global Fixed Interest	6.1
French Fixed Interest	5.4
German Fixed Interest	3.0
Others	7.2

(Data as at 30 Nov 2018)

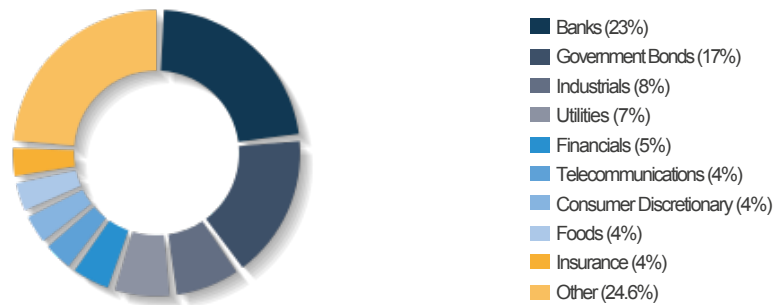
### Top Ten Holdings

(Data as at 30 Nov 2018)

Company Name	%
EXPERIAN PLC	1.8
SOUTH AFRICA(REPUBLIC OF) 8.75% BDS 28/02/48 ZAR1000000	1.8
RELX PLC	1.7
SMITH & NEPHEW	1.7
UNITED STATES OF AMER TREAS NOTES 2.625% TNT 31/08/20 USD100	1.6
NATIONWIDE BUILDING SOCIETY	1.6
UNITED STATES OF AMER TREAS BILLS 2.5% TNT 31/03/23 USD100	1.6
UNITED STATES OF AMER TREAS BILLS 1.875% TB 30/09/22 USD100	1.6
GLAXOSMITHKLINE	1.6
UNITED STATES OF AMER TREAS BONDS 2% BDS 15/08/25 USD100	1.5

### Sector Breakdown

(Data as at 30 Nov 2018)



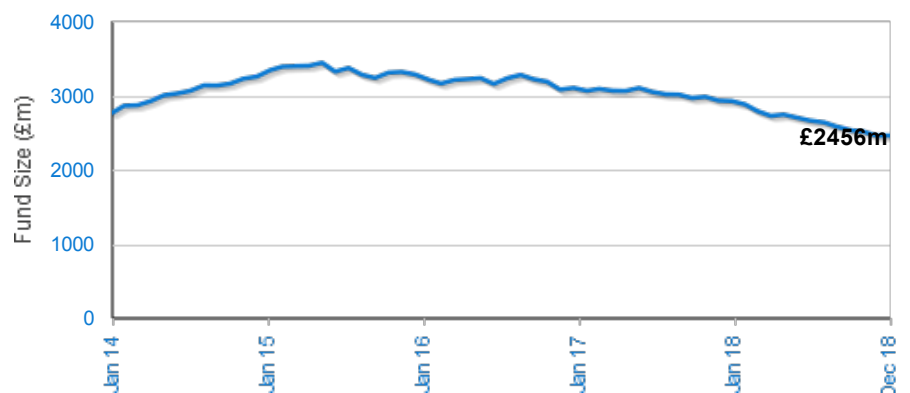
### Geographic Breakdown

(Data as at 30 Nov 2018)



### Assets Under Management

(Data as at 30 Nov 2018)



### Financial Express Crown Rating



### Financial Express Alpha Manager Rating

N

## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk		●	
Interest Rate Risk		●	
Credit Risk	●		
Exchange Rate Risk			●
Liquidity Risk		●	
Emerging Markets Risk			●
Derivative Risk		●	
Manager Risk	●		

### Equity Risk

The fund has some exposure to shares. Shares are volatile investments but diversification across asset classes may moderate these risks. At times of economic stress, volatility may rise, as might correlations between asset class returns.

### Interest Rate Risk

This is a multi-asset fund. Higher interest rates may adversely impact valuations of many financial assets.

### Credit Risk

This is a multi-asset fund with exposure to credit markets. A widening in credit spreads may impact the fund. Note that wider credit spreads often occur at times of weaker stock markets and/or weakening economies.

### Exchange Rate Risk

The fund is predominantly invested in domestic assets.

### Liquidity Risk

The fund invests in assets which could be difficult to sell at certain times. In extreme circumstances the fund may have to resort to selling assets at below fair value. The risks of this happening are most acute at times of financial distress.

### Emerging Markets Risk

The fund predominantly invests in securities issued by governments or companies in developed markets.

### Derivative Risk

The fund employs derivative strategies to mitigate and more accurately manage the risks within the fund. These are complex instruments and investors should be aware that there is a chance that they may not behave in a manner that the manager intends.

### Manager Risk

The manager is seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 39

SRRI: 3

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