

Invesco Distribution (UK) Z Inc

November 2021
Investment Research



Overview

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
●		●	

Square Mile Expected Outcome

We believe delivering a sustainable yield of 3% - 5% p.a. along with some capital growth over rolling five year periods, net of fees, is a reasonable expectation for this fund.

Active/Passive: Active	IA Sector: IA Mixed Investment 20-60% Shares
Launch Date: 26/01/2004	Fund Size (as at 30 Sep 2021): £1870.5m
Yield: 4.24%	Distribution Pay Date: Monthly
Fund Manager: Ciaran Mallon, Edward Craven, Paul Causer	Ongoing Charge Figure: 0.82%
Domicile: United Kingdom	Transaction Cost ex Ante: 0.10%
Multi-Manager: No	



Fund Opinion

In June 2021, Invesco's Co-Heads of Fixed Interest Paul Read and Paul Causer, who have managed the fund since its launch in 1994, announced that they will be retiring from Invesco at the end of 2021. As of January 2022, the fixed income side of the portfolio will be managed by Edward Craven, while Ciaran Mallon will continue to take responsibility for the equity component which he has managed since October 2013. In response to these changes we decided to suspend the fund's rating in June 2021 pending review meetings with the newly announced management teams.

The team's careful process, and in particular their emphasis on risk, identifies suitable value opportunities which have generated good long-term performance for the fund, although investors should note that these can take some time to play out and in the short to medium term the fund's performance may differ substantially from that of the wider market.

The fund also benefits from the highly skilled, and well resourced wider fixed income and equity teams at Invesco. Indeed, we see the experience, expertise and skills of the broader team on which they draw, as one of the key benefits of this strategy.

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

In June 2021, Invesco's Co-Heads of Fixed Interest Paul Read and Paul Causer, who have managed the fund since its launch in 1994, announced that they will be retiring from Invesco at the end of 2021. As of January 2022, the fixed income side of the portfolio will be managed by Edward Craven, a senior credit analyst who joined Invesco in 2011 and became co-manager on the fund in August 2020. The promotion reflects his contribution to the team and process over the years. Ciaran Mallon will continue to take responsibility for the equity component, which he has managed since October 2013. Mr Mallon has been a member of the UK Equity team since he joined Invesco in 2005 and is a seasoned UK equity investor. In response to these changes we decided to suspend the fund's rating in June 2021 pending review meetings with the newly announced management teams.

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. Most non sterling issues will be hedged to sterling. Fixed income holdings include a significant allocation to corporate bonds including high yield corporate bonds. Up to 40% of the portfolio can be held in global equities but the manager retains a bias to the UK. The investment styles of the teams' managing the fixed income and equity allocations have tended to complement each other, with the fixed income team's valuation focus dovetailing well with the higher-quality approach taken within the equity strategy. The team will 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.

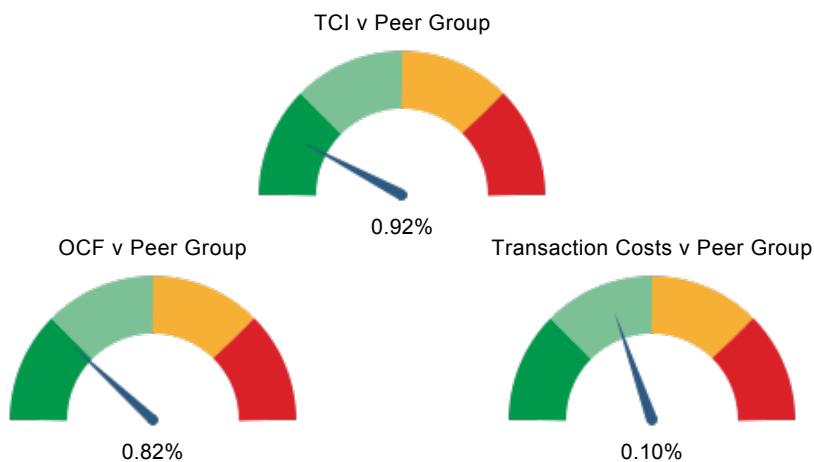
The equity component of the fund is primarily managed by Mr Mallon. He has managed this portion of the portfolio since 2013. This portfolio will comprise 30-35 of the manager's best ideas, but with a consideration of income and the conservative nature of the investor base. Mr Mallon's approach looks to ensure 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 and sound business models. More recently the equity portfolio has broadened out and now has a small allocation to international equities.

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, 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 fund will also carry a meaningful exposure to equities. Equity share prices can move quickly, especially over the short term or in times of severe market dislocations, and therefore this also poses a major risk for the fund. 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

The ongoing charge figure (OCF) of this fund is below its peer group median. When one considers the total cost of investment (TCI) the fund also appears compelling within its peer group. However the prevalence of multi manager funds within the peer group, which carry a dual layer of charges, means the average cost is likely to be elevated. Nevertheless we believe this fund represents good value for money given the strong resources and the investment process which support it.



ESG Integration

Company Assessment	0	1+	2	3
The company has made ESG factors available to the investment teams as an input to their analysis, but they are not compelled to consider that as a factor when making investment decisions.				
UN PRI Strategy & Governance Rating	A+			
Fund Assessment	0	1	2	3
ESG factors may be considered by the fund's manager as an input into their analysis but are not a formal part of the investment process.				

Responsible Investing Approach

Exclusion	Responsible Practices	Sustainability	Impact
☐	☐	☐	☐

Additional Information

Annualised Return	7.42%
Annualised Volatility	9.91%
Max Drawdown	-19.92%
Max Gain	6.61%
Max Loss	-19.92%
Sharpe Ratio	0.69
Sortino Ratio	0.53

(3 years data to last month end unless otherwise stated)

Currency of Share Class

GBP

Fund Price (as at 12 Nov 2021)

233.6 pence

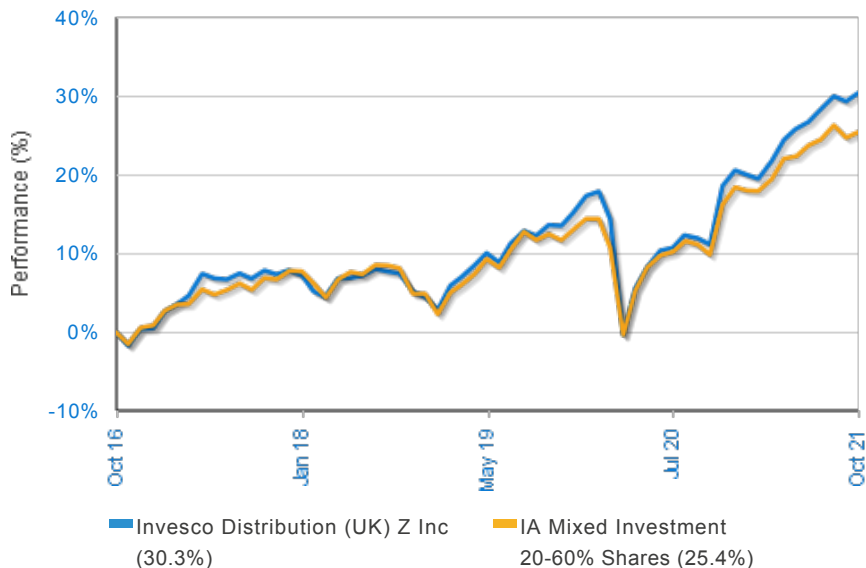
Benchmark

IA Mixed Investment 20%-60% Shares

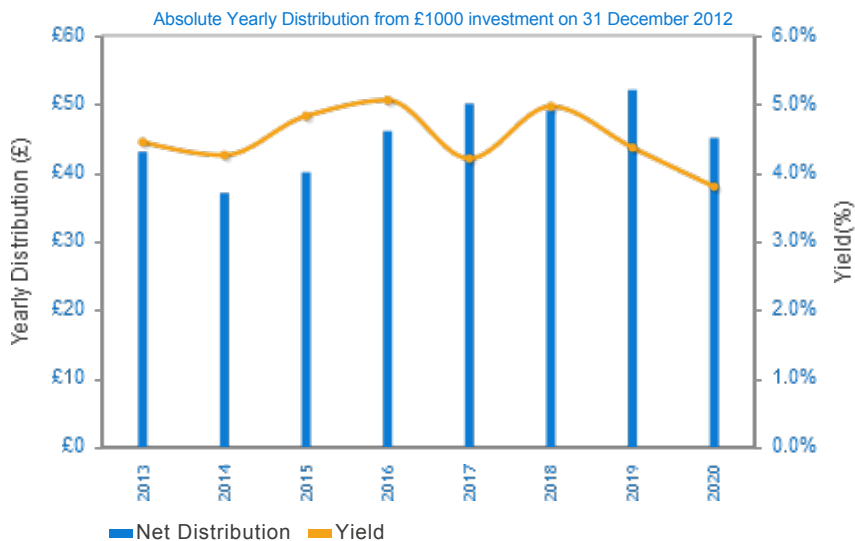
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	15.5	12.2	1
12-24m	-1.5	-1.2	3
24-36m	5.7	4.0	1
36-48m	0.6	2.6	4
48-60m	6.9	6.2	2

Capital Growth

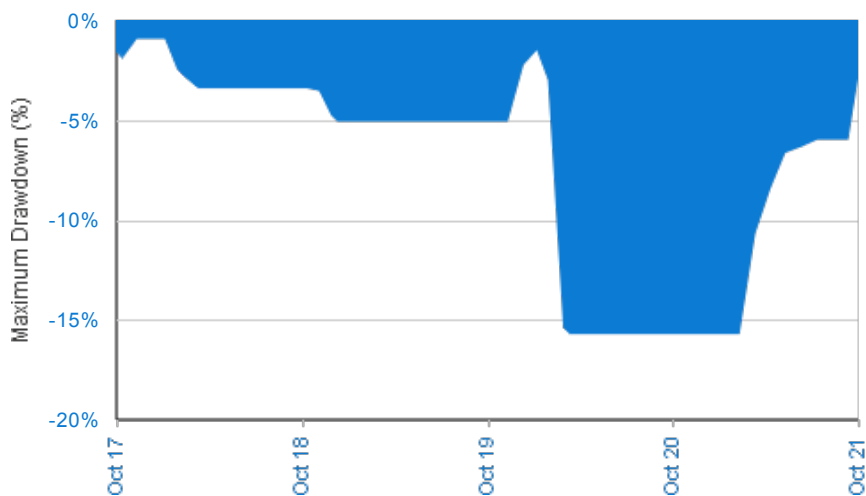


Income



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	27.6
UK Fixed Interest	23.1
US Fixed Interest	17.6
Global Fixed Interest	6.0
Italian Fixed Interest	5.8
US Equities	4.6
French Fixed Interest	4.1
Others	11.2

(Data as at 30 Sep 2021)

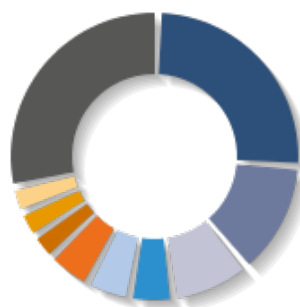
Top Ten Holdings

(Data as at 30 Sep 2021)

Company Name	%
UNITED STATES OF AMER TREAS BILLS 0.25% TB 15/07/29 USD100	3.6
NATIONWIDE BUILDING SOCIETY	2.9
RELX PLC	2.1
CRODA INTERNATIONAL PLC	2.0
EXPERIAN PLC	1.9
UNICREDIT SPA 8% UNDATED BDS USD200000REG S	1.8
LLOYDS BANKING GROUP PLC 2.707% DTD SUB RST NT 03/12/35 GBP100000	1.7
UNITED STATES OF AMER TREAS BILLS 2.875% TB 30/09/23 USD100	1.7
FERGUSON PLC	1.6
UNITED STATES OF AMER TREAS BILLS 0.75% TB 31/05/26 USD100	1.6

Sector Breakdown

(Data as at 30 Sep 2021)



- Banks (26%)
- Government Bonds (13%)
- Industrials (9%)
- Utilities (5%)
- Financials (5%)
- Consumer Discretionary (5%)
- Health Care (3%)
- Foods (3%)
- Insurance (3%)
- Other (29.2%)

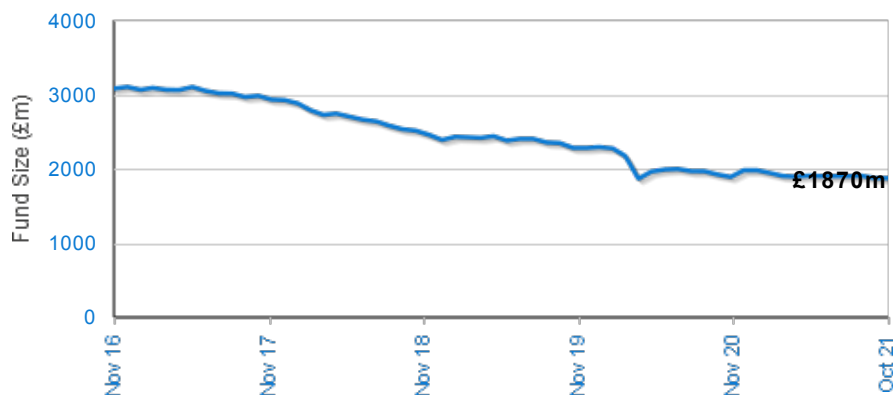
Geographic Breakdown

(Data as at 30 Sep 2021)



- UK (51%)
- USA (22%)
- Others (6%)
- Italy (6%)
- France (4%)
- Germany (4%)
- Mexico (2%)
- Switzerland (1%)
- Spain (1%)
- Other (2.4%)

Assets Under Management



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 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 but there may be some foreign currency exposure

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 but an allocation to emerging markets is allowed within the mandate and the fund will have exposure at times.

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

FE Risk Rating: 49.00

SRRI: 4

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