Invesco Wholesale Diversified Growth Fund - Class A

Quarterly report

31 December 2016

Net performance

Periods	Fund %	Benchmark %	Value added %
1 month	3.87	3.08	0.79
3 months	5.36	3.61	1.75
6 months	9.80	6.61	3.19
1 year	10.20	7.85	2.35
2 years p.a.	8.19	6.32	1.87
3 years p.a.	8.03	7.47	0.56
5 years p.a.	11.92	11.18	0.74
10 years p.a.	4.39	5.27	-0.88
Calendar year to date	10.20	7.85	2.35
Financial year to date	9.80	6.61	3.19
Since inception p.a.	8.08	9.06	-0.98

The Fund returns are shown after ongoing fees and assumes reinvestment of income. Past returns are not a reliable indicator of future returns. Future returns may be affected by a range of factors including economic and market influences.

Net distribution growth splits

Periods	Distribution %	Growth %	Total %
3 months	0.00	5.36	5.36
6 months	5.75	4.05	9.80
1 year	7.82	2.38	10.20
2 years p.a.	9.93	-1.74	8.19
3 years p.a.	6.84	1.19	8.03
5 years p.a.	6.50	5.42	11.92
10 years p.a.	6.78	-2.39	4.39

Fund analysis (as at 31 December 2016)

Asset Allocation

	Fund %
Australian Shares	38.68
Global Shares	26.39
Australian Listed Property	0.00
Global Listed Property	7.63
Australian Fixed Interest	0.00
Global Fixed Interest	22.84
Commodities	0.00
Cash	4.46
Total Portfolio	**100.00**

Fund facts at a glance

Asset class
Balanced

Management style
Active

Objective[1]
Invests in a range of asset classes to provide long term capital growth, with some income

Benchmark[2]
38% Australian shares, 26% global shares, 23% global fixed income, 8% global property securities, 5% cash

Risk profile
high

Time horizon
5 years

Distribution frequency
Half-yearly

Inception date
31/12/90

Minimum investment
$20,000

MER/ICR
1.09%

APIR code
CNA0806AU

1 Invesco does not guarantee that the Fund will achieve its objective.
2 The Fund's new benchmark allocation came into effect on 14 August 2014.

Monthly commentary

Market review

Australian equities (IQS Australian equities core strategy)
The Australian share market (S&P/ASX 300) gained 4.93% over the fourth quarter 2016 and by 11.79% over the calendar year. The domestic share market recovered later in the quarter on the back of the 'Trump rally' despite the US Fed rate hike during the month, a lower than expected Australian GDP result, and a higher US dollar. During December the market touched its highest level since mid-2015. Sector performance was mixed with Financials, Utilities and Metals & Mining the best quarterly sector performers while Health Care, Telecoms, and Information Technology underperformed.

Global income (senior secured income strategy)
The senior secured loan market performed positively over the quarter with the US loan market (Credit Suisse Leveraged Loan Index in USD) returning 2.25%. Over the year the market returned 9.88%. Favourable credit fundamentals and surging demand for the asset class have driven steady loan price appreciation throughout much of the year, including the fourth quarter. In an environment of rising interest rates, senior secured loans continued to broadly outperform longer duration fixed income instruments such as the 10 year Treasury bond, high grade bonds, and high yield bonds. As was the case through most of the year, higher quality BB and B ratings categories performed well but lagged CCC and D. The average price in the loan market was US$98.49 at quarter-end with 68% of the market trading at or above par and a small percentage of stressed and distressed outliers weighing on the broader average. At the current average price, senior secured loans are providing a 5.91% yield.

Global listed property (GREIT strategy)
Weakness in bond yields impacted stable income-focused investments and equity sectors, including many listed real estate companies. Sectors and property types often used by some investors as bond proxies, including US healthcare and triple net, Australian REITs and German residential companies performed poorly in the period. Sectors and property types with more economically sensitive business models, including US office and lodging and Japanese developers showed quite strong performance. Trends in underlying real estate markets reflect greater maturity in the global real estate cycle. Capital value growth is moderating, albeit investment demand appears to remain high. Trends in tenant demand are still positive but prospect for further rental growth has moderated in some markets where new supply has risen. However, REIT earnings growth is being maintained and being passed through into dividend rises, reflecting confidence in earnings sustainability. After several years of economic recovery, the ability for landlords to capture releasing gains is increasingly positive. A large portion of the global REIT universe is currently being priced at a discount to net asset value, despite the sector's good yield and earnings growth visibility in 2017.

Contributors to performance
The Fund outperformed its benchmark for the quarter. The global equity, senior secured income and listed property components added value for the fund over the quarter, while the Australian share component of the portfolio underperformed.

Market outlook and portfolio strategy

In aggregate terms, global equities still appear to have reasonable valuation support. Despite more recent geopolitical events that have impacted global markets, global indices are broadly in line with their long-run average, suggesting equities are neither cheap nor expensive in an historical context. However, we feel the risk-reward continues to favour the more cyclically exposed parts of the equity market. Since July 2016, we have witnessed a stock market rotation, with the more economically sensitive and cyclical parts of the equity market outperforming. We believe the Global Opportunities portfolio is well positioned to the characteristics of good, long-term investment performance, i.e. companies that are attractively valued, generate strong cash flow, are predicted to grow earnings ahead of the market and generate a higher return on equity (ROE) than the market.

In terms of senior secured loans, we expect interest rate risk to be a primary focus in capital markets during 2017 as less credit-sensitive asset classes have significant exposure to rates. For loans, however, credit/default risk is always at the forefront. Credit fundamentals remain stable heading into 2017 as US economic growth accelerated in the back half of 2016 and given issuers' lowered interest costs and extended maturities. For an event of default to occur, a company either must be unable to service its debt or be unable to refinance its debt at maturity. Following a wave of refinancings in 2016, which both lowered interest costs and extended near term maturities, those risks have been broadly reduced. We believe issuers are currently operating with a significant earnings cushion and have the ability to absorb either higher interest expense or short-lived weakness in earnings, with earnings before interest significantly exceeding the interest expense.

In terms of listed property, real estate securities valuations appear fair by longer-term standards given a relatively attractive yield and fundamentally-driven earnings growth prospects. Companies are generally maintaining financial discipline, combining new equity and debt where accretive acquisitions can be made and recycling capital from lower returning assets into any higher returning development opportunities. Moderate levels of development activity are being undertaken by many well capitalised and appropriately skilled management teams that have exposure to under-supplied real estate markets. Our listed property portfolio seeks to capture the value creation from listed companies that are actively supplying new assets into markets where there is clear tenant demand. While recognising the need to maintain attractive yield characteristics in an income-starved world, our overall portfolio maintains a bias to companies with higher quality assets, supply-constrained real estate market exposure, generally lower leveraged balance sheets, and opportunities to deliver above average earnings growth prospects.

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Important Information

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