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# Invesco Australian Equities

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## Strategy Profile

as at 30 September 2023

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Invesco Australian Equities specialise in extracting persistent factor premia using quantitative investment techniques. The global Invesco Quantitative Strategies team, as a whole, has over 50 investment professionals located in Frankfurt, Boston, New York, Melbourne and Tokyo. The research team drives the investment process forward and provides the daily assessment of stock attractiveness and risk, while the portfolio management team is responsible for portfolio construction and implementation.

The team has been active since 1983, and Invesco Quantitative Strategies' Chief Investment Officer, Bernhard Langer, has led for most of this time.

The team believe that certain factors are rewarded by superior risk-adjusted returns. This builds on academic and industry understanding of market structure, which has evolved over the last century from a pure stock picking view of the world, to an appreciation of the role of factors in investment returns.

### Evolution of Alpha and Beta(s)

Over time, the understanding of the drivers of returns has evolved to appreciating the role that investment factors play in addition to market factors and pure alpha.

Time



### Factor investing specialists



#### Globally integrated

More global than our local competitors;  
More local than our global competitors



#### Local expertise

Experienced local portfolio management and research team with a model of proprietary signals and factors tailored to domestic market conditions



#### Deep research

Dedicated global research team with connectivity to the latest academic insights and a proven 30+ year track record



#### ESG

ESG integrated into the investment process, stewardship, and customised strategies



#### Versatility

Committed to knowledge sharing and customising strategies that meet client needs

**50+ team members located primarily in the US, Germany and Australia, including 18 CFA charter holders; 12 PhDs, across the following:**

- 20+ member Research Team
- 20 member Portfolio Management Team
- 7 member Global Portfolio Analytics Team

## Globally Integrated with Local Expertise

Invesco manages USD \$23 billion in systematic and factor investing. Regional teams, including the Australian Equities team, leverage the Global IQS team for research, implementation techniques, technology maintenance and development, risk and return attribution, and portfolio analysis.

Invesco Australian Equities have decades of experience in quantitative Australian equity market investing. They calibrate the factor-driven portfolio to the local market to optimise the return premia capture. In addition, local market knowledge is essential in identifying stock specific risk.

### Global Management Team:

Investment process governance, accountability and business management



**Bernhard Langer**  
Chief Investment Officer



**Andrew Gardner**  
Chief Administration Officer



**Tarun Gupta**  
Global Head of Research & Investment Technology



**Jerry Sun**  
Senior Researcher



**Carsten Rother**  
Senior Researcher



**Alex Tavernaro**  
Senior Portfolio Manager



**Erhard Radatz**  
Senior Portfolio Manager

### Invesco Australian Equities:

5 member team responsible for local portfolio management and research with an average 25 years experience

#### Business, Strategy & ESG



**Andre Roberts**  
Senior Portfolio Manager  
30 years experience

#### Research & Risk



**Neil Lahy**  
Senior Portfolio Manager  
34 years experience

#### Investment Technology



**Richard CJ Tsai**  
Portfolio Manager  
23 years experience

#### Portfolio Management



**Ritchard Longmire**  
Senior Portfolio Manager  
24 years experience



**Nicole Schnuderl**  
Senior Portfolio Manager  
17 years experience

## Investment Philosophy

### Systematic harvesting of factor premia to deliver long term excess returns

The team identify factors that are rewarded by superior risk-adjusted returns. These superior risk-adjusted returns are founded on persistent features in the nature of markets.

IQS believe factor premia arise persistently from the fundamental drivers of company performance. To establish factor existence, we believe it should satisfy the following criteria:



#### Economic intuition and theory

Plausible economic rationale with strong academic and industry underpinnings



#### Robust return (and risk) evidence

Compelling risk-adjusted performance over the long term



#### Cross-asset (and regional) validation

Must be subject to and survive academic and in-house falsification and validation attempts across various regions and asset classes



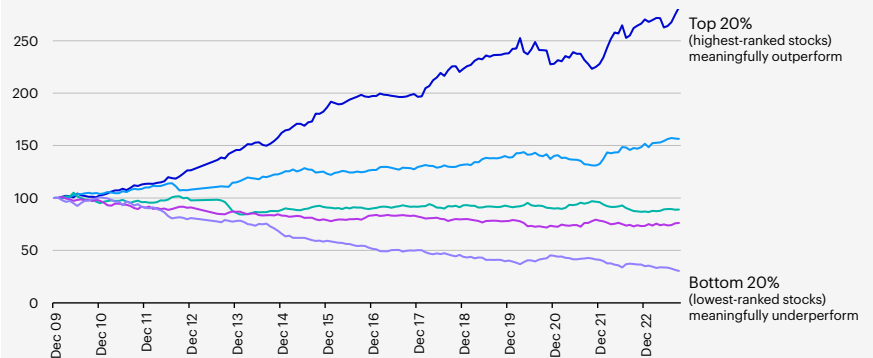
#### Implementability

Must survive after transactions costs and other market frictions

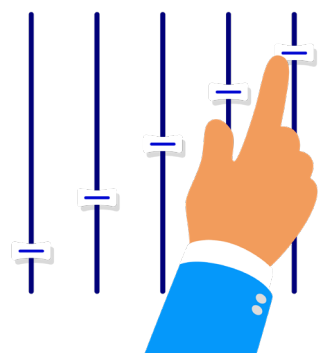
- Ongoing **research** is essential to gain new insights in evolving markets
- Integrated **risk management** aligns factor exposures with desired goals
- Implementation of factors can be **customised** to meet client objectives

IQS research demonstrates the effectiveness of this philosophy in the Australian market.

### Australia - stock performance by forecast quintile

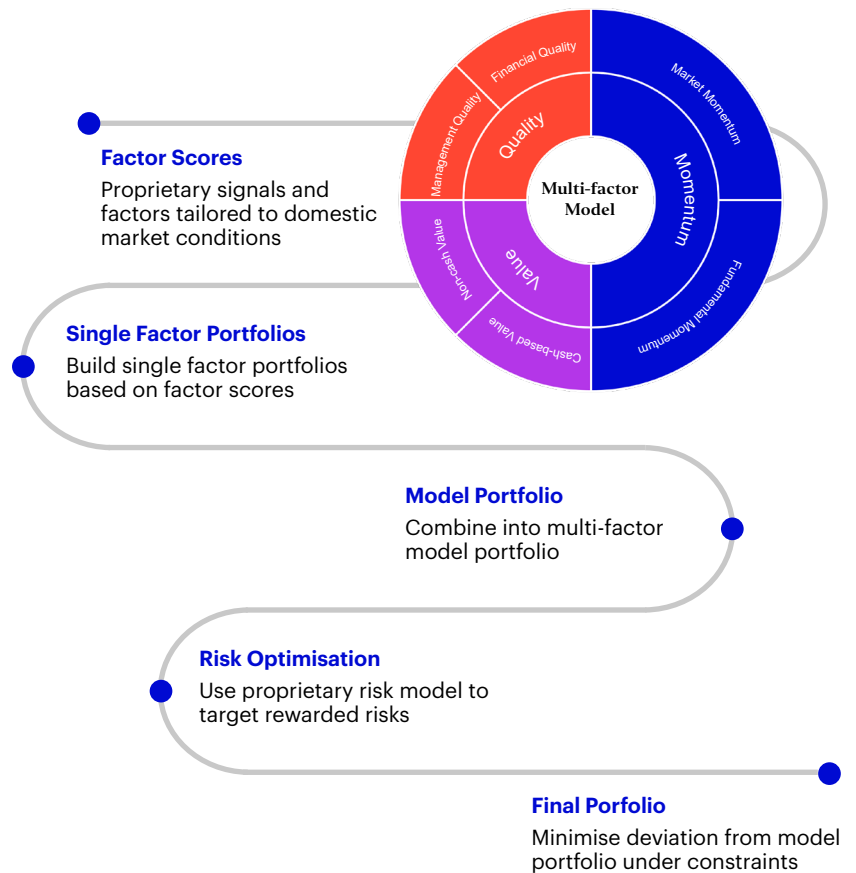


Source: Invesco as of 30 September 2023. Cumulative factor returns from multivariate cross-sectional regression of factor exposures against stock returns for Australian stocks. Factors are composite exposures based on several underlying measures for each factor. Performance of our best (Quintile 1) and worst (Quintile 5) rated stocks, relative to IQS Australian Research Investment Universe.



## Investment Process and Portfolio Construction

- High transfer coefficient from proprietary factor portfolios
- Broad diversification, minimising idiosyncratic effects
- Strategy specific factor portfolios for customisation
- Efficient use of market liquidity



Model portfolio is tracked subject to constraints such as mandate guidelines, stock and industry active position limits and ESG criteria



Signals have been refined beyond simplistic implementations to extract the desired premia from the market

### Proprietary Australian risk model

Combines our factors and common Axioma factors, balanced with stock-specific considerations.

Proprietary IQS Factors	Axioma Factors	Stock-specific considerations
<ul style="list-style-type: none"> <li>• Momentum</li> <li>• Quality</li> <li>• Value</li> </ul>	<ul style="list-style-type: none"> <li>• Liquidity</li> <li>• Size</li> <li>• Leverage</li> <li>• Volatility</li> <li>• Sector/ Industry</li> </ul>	<ul style="list-style-type: none"> <li>• ESG</li> <li>• Leadership succession</li> <li>• Litigation</li> <li>• M&amp;A activity</li> <li>• Reputational risk</li> <li>• Supply chain management</li> </ul>



At any time, dozens of research projects are underway on factor ideas, or on risk, or on general portfolio modelling ideas

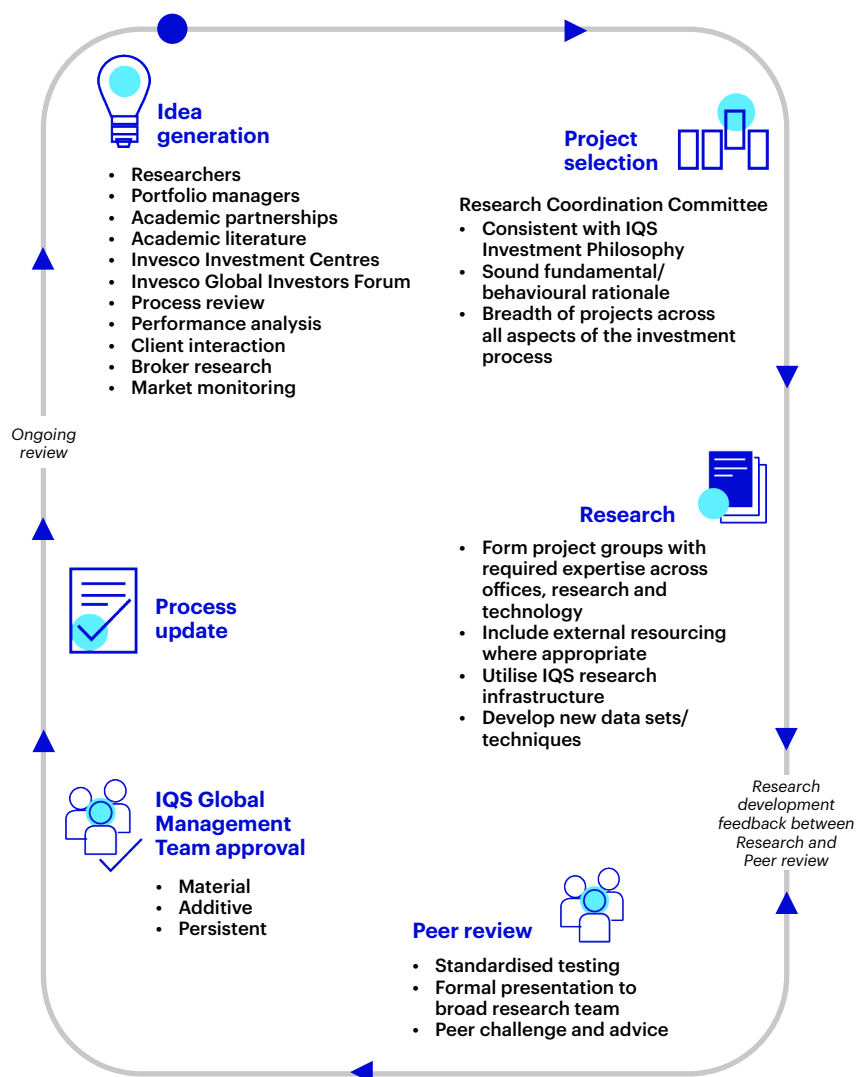
## Research drives continuous improvement

The team devotes significant resources to improving the investment process through a globally coordinated research program.

Proprietary ideas are generated by all team members, complemented by ideas from external sources, such as public domain academia, or sourced through formal and informal links with private domain academia.

Each new insight has a “projectable rationale” - an intuitive, real-world investment thesis that gives confidence that it should continue to work in the future.

### Research process cycle

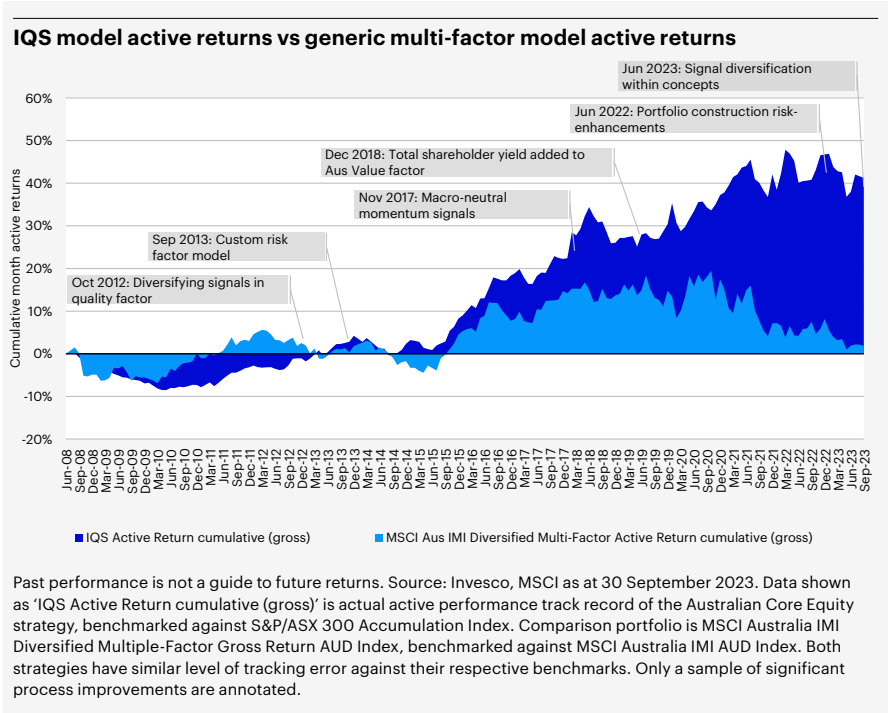




An investment in research drives improvements in the model – critical to staying ahead

The model updates have been important contributors to staying ahead.

The chart below presents the cumulative value-add of the IQS Australian Equity model in dark blue, against the value-add from a generic Australian equity multi-factor model in light-blue. Some of the important innovations to the model since its inception in 2008 are highlighted.



- There are two important takeaways from this chart.
1. A generic approach to factor investing in Australia has the ability to produce excess returns, although much of this value-add has washed away in recent years. This is what happens when you take a static approach with basic factors.
  2. The IQS model, with its research-driven evolution over time, has produced consistently growing value-add versus the ASX300 benchmark, and versus a more generic Australian multi-factor strategy. An investment in research drives improvements in the model – critical to staying ahead.

Benefits of a proprietary risk model

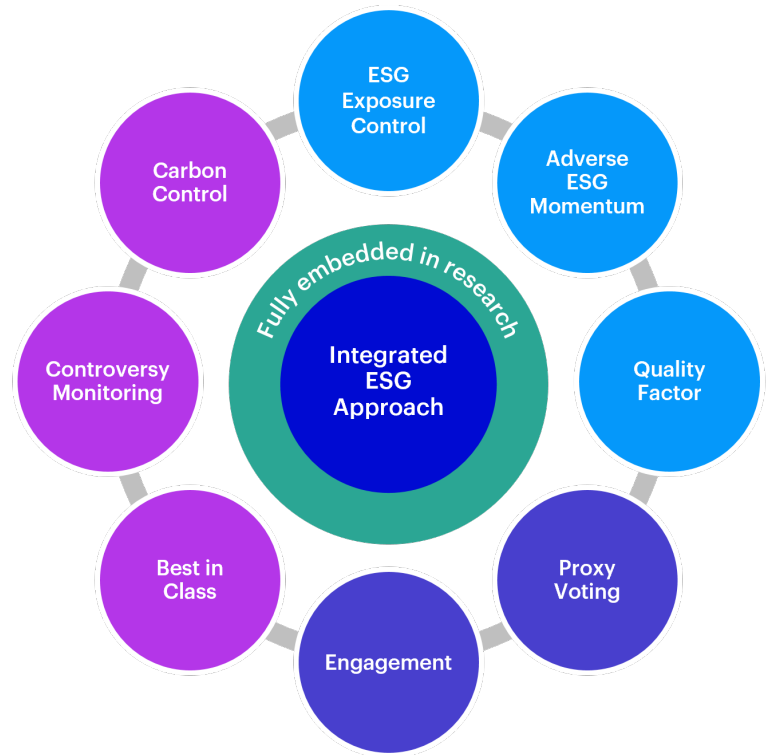
The team has developed a proprietary risk model - customised for the Australian market - that allows alignment with their return generating factors. This provides meaningful and tangible benefits to portfolio construction and management.

The benefits of this approach to risk management are shown below.

Superior portfolio construction	• targeted risk allocation to return generating factors
Avoid misalignment of return and risk factors	• effective implementation of IQS factors in portfolio holdings
Improved attribution	• accurate and granular risk and return analysis
Mitigate herding induced by widespread risk models	• avoid commonality in positions driven by users of standard risk models

**We consider ESG at several layers in our investment process:**

- Standardised explicit and implicit incorporation of ESG key aspects into our investment process
- Active dialog with companies and investor-driven proxy voting using Invesco's proprietary Proxy Voting Platform
- Offering optionality to implement additional, customised ESG criteria tailored towards the client's needs
- ESG fully embedded in research processes and analytics and documented in every research note.



Factor Investing lends itself to customisation to meet an investor's individual goals. It does this without undermining the integrated Risk / Return forecast. It also does it with no reworking of the model, other than the required calibration at the model front-end.

Offering bespoke strategies is central to the culture of IQS. Team structure and infrastructure has been designed to allow management of hundreds of customised strategies. The research team is at the ready to design and test new approaches, having listened to a client's requirements.

**Specific client need or desired outcome**

- Risk and return targets
- Turnover objective
- Income needs
- Tax efficiency
- Absolute return
- Maximum diversification
- Selected return drivers
- Tailored risk factor exposure
- Specific exclusions
- ESG

**Our toolbox**

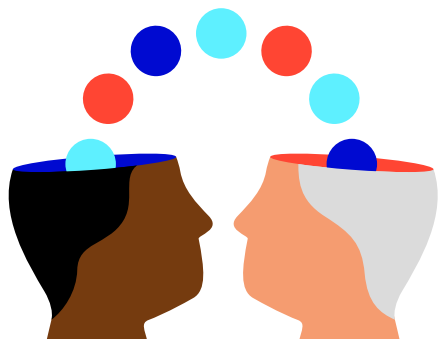
- Customised portfolio construction
- Custom risk model
- Custom climate outcome targeting
- Tax lot holdings for tax efficiency
- Partnership approach to strategy research

**Bespoke strategies**

- Mandate tailored to client need
- Factor completion
- Outcome orientation e.g. Sustainable growth with income
- ESG
- Personalised tax efficiency



	Enhanced/Core	Small-cap	Low Volatility	Long-Short	Customised Segregate Accounts
<b>Universe</b>	Local/Global	Local	Local/Global	Local/Global	Client Driven
<b>Outperformance target (gross)</b>	1-3%	3%	Outperform Index	3-6%	Client Driven
<b>Market Beta target</b>	1	1	<1	0-1	Client Driven
<b>Tracking Error target</b>	1-3%	3-4%	N/A	3-6%	Client Driven
<b>Available strategies</b>	<ul style="list-style-type: none"> <li>Australia - Core</li> <li>Enhanced &amp; core strategies for Global, Australia, US, Europe &amp; UK</li> </ul>	<ul style="list-style-type: none"> <li>Australia - Small-cap</li> </ul>	<ul style="list-style-type: none"> <li>Australia - Efficient Income</li> <li>Global Structured Equity strategy</li> <li>Pan European Structured Equity strategy</li> <li>Emerging Markets Structured strategy</li> </ul>	<ul style="list-style-type: none"> <li>Australia - Efficient Income</li> <li>Global Equity Market Neutral strategy</li> <li>Global Absolute Return strategy</li> <li>Pan European Long Short Equity strategy</li> </ul>	<ul style="list-style-type: none"> <li>Australia - Low Carbon Strategies</li> <li>Australia - Tax Effective Portfolio Construction</li> <li>Australia - High capacity Small-cap</li> </ul>
<b>Key Attributes</b>	<ul style="list-style-type: none"> <li>Benchmark relative equity strategies with low to medium Tracking Error and a Market Beta of 1</li> </ul>	<ul style="list-style-type: none"> <li>Benchmark relative equity strategies with medium Tracking Error and a Market Beta of 1</li> <li>Constrained fund capacity given liquidity controls - capacity is currently available</li> </ul>	<ul style="list-style-type: none"> <li>Defensive equity allocation with asymmetric return profile</li> <li>Portfolio of our most attractive stocks with less volatility than the benchmark</li> <li>Benchmark-agnostic portfolio optimisation</li> </ul>	Using the full capability of our stock selection model. Examples: <ul style="list-style-type: none"> <li>Market Neutral</li> <li>130/30</li> <li>Absolute Return strategies including a tactical asset allocation overlay</li> </ul>	Examples: <ul style="list-style-type: none"> <li>ESG: incorporation of exclusion and/or best-in-class criteria</li> <li>Sector or country limits/- exclusion</li> <li>Consideration of individual risk and return targets</li> <li>Factor portfolios</li> <li>Capital protection through tactical asset allocation and/or risk overlay</li> </ul>



### Why Invesco Australian Equities?

#### We offer you:

A unique and powerful combination of [global](#) integration with [local](#) expertise, broad and deep [research](#) and [bespoke strategies](#).

#### You receive:

- Best ideas from insights on key fundamental and behavioural concepts by a global investment team that values [independent thinking](#).
- An [engineered discipline](#) using quantitative modelling to create excess returns within specified risk parameters.
- [Purposeful evolution](#) of investment insights and management process that is forward looking and has proven effective through time.

#### Your advantage:

A [partnership](#) with an experienced and dedicated investment team committed to your success through long-term value creation.

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**Important Information**

This document has been prepared by Invesco Australia Ltd (Invesco) ABN 48 001 693 232, Australian Financial Services Licence number 239916, who can be contacted on freecall 1800 813 500, by email to [clientservices.au@invesco.com](mailto:clientservices.au@invesco.com), or by writing to GPO Box 231, Melbourne, Victoria, 3001. You can also visit our website at [www.invesco.com/au](http://www.invesco.com/au)

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