Invesco Wholesale Diversified Growth Fund - Class A

Quarterly report

30 September 2017

Net performance

Periods	Fund %	Benchmark %	Value added %
1 month	1.54	0.84	0.70
3 months	1.64	1.25	0.39
6 months	3.71	1.94	1.77
1 year	11.79	8.15	3.64
2 years p.a.	10.12	7.90	2.22
3 years p.a.	9.48	7.12	2.36
5 years p.a.	10.84	9.61	1.23
10 years p.a.	4.35	4.83	-0.48
Calendar year to date	6.11	4.38	1.73
Financial year to date	1.64	1.25	0.39
Since inception p.a.	8.09	8.97	-0.88

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	4.67	-3.03	1.64
6 months	4.76	-1.05	3.71
1 year	8.57	3.22	11.79
2 years p.a.	8.13	1.99	10.12
3 years p.a.	9.50	-0.02	9.48
5 years p.a.	6.85	3.99	10.84
10 years p.a.	6.41	-2.06	4.35

Fund analysis (as at 30 September 2017)

Asset Allocation

	Fund %
Australian Shares	38.19
Global Shares	26.90
Australian Listed Property	0.00
Global Listed Property	7.86
Australian Fixed Interest	0.00
Global Fixed Interest	22.98
Commodities	0.00
Cash	4.07
Total Portfolio	100.00

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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

Global equities (Global Opportunities strategy)
Global equity markets were positive over the quarter with the MSCI AC World index (unhedged in AUD) gaining 2.82% over the period while the AUD-hedged index rose 4.53%. Global equity markets rose modestly in Q3 2017 with commodities and emerging markets amongst the top performers globally. In currencies, sterling performed strongly on the back of slightly more hawkish interest rate rhetoric from the Bank of England and a less hostile tone to on-going Brexit negotiations.

Australian equities (IQS Australian equities core strategy)
The Australian share market (S&P/ASX 300) gained just 0.8% over the quarter but was up 9% for the year. Sector-wise, the best performers were Metals & Mining, Energy and Consumer Staples while Telecoms, Utilities and Health Care lagged. The Australian equity market has been resilient over the last few months despite increasing geopolitical concerns. Resource stocks made good quarterly gains on the back of higher bulk and base commodity prices. In the August reporting season most earnings guidance came in as expected, although negatives slightly outweighed positives.

Global income (senior secured income strategy)
Senior secured loans ended the third quarter in positive territory, with loan prices steady. Loans are up 2.97% over the calendar year-to-date (Credit Suisse Leveraged Loan Index in USD). Risk assets have rallied on firming macroeconomic sentiment, an improving energy price environment, and rising optimism about prospects for tax relief. New issuance has picked up due to M&A and dividend financings. While retail funds have experienced a second consecutive small outflow, new CLO creation remained in line with this year's monthly average. Loans are underperforming high yield bonds but outperforming the more rate-sensitive High Grade Bond Index. Loans' lower yielding, higher quality BB (0.34%) and B (0.41%) ratings categories are lagging the performance of CCCs (0.83%). The average price in the loan market was US$97.96 at quarter-end. At the current average price, senior secured loans are providing a 5.93% yield.

Global listed property (GREIT strategy)
Declining global interest rates, healthy global GDP data and steady improvement in real estate fundamentals saw global listed real estate deliver a modestly positive performance in Q3. Europe provided the best performance as fundamentals strengthen and political risks diminish. US retailers continue to suffer weaker operating performance and store closures have continued. US Mall REITs continue to fight negative sentiment, irrespective of the quality of their asset base. US healthcare REITs were also weak during the period. In Asia, Chinese economic health has maintained and Hong Kong real estate has benefited from risk appetite. Singapore real estate appears to be moving through the trough of its cycle and has started to deliver growth. Despite more upbeat economic data in Japan, the country's listed real estate showed the weakest performance in the Asian region, led by the large cap developers.

Most global property markets continue to see favourable tenant demand versus newly constructed supply relationship. This is reflected in positive earnings growth being passed through into dividend increases and net asset values being supported in most markets by the depth of underlying investment asset demand. At the end of the third quarter, the global listed real estate sector is trading at a discount to net asset value. Earnings growth remains positive, with expectations for growth in the mid-single digit range, which is in line with long term average growth.

Contributors to performance

The Fund outperperformed its benchmark for the quarter. On a total return basis, the Australian and global share components outperformed, while the senior secured income and global listed property components underperformed.

Market outlook and portfolio strategy

Global equity 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 started to witness a stock market rotation, with the more economically sensitive and cyclical parts of the equity market outperforming. But a lack of policy progress and rising market scepticism about President Trump's ability to push through his pro-growth agenda has caused a modest pullback in equity markets, especially in the US. While this seems to have not endangered Trump's policy ambitions, it highlights the realities of Washington politics. Nonetheless, we believe the Global Opportunities portfolio is well positioned to achieve good, long-term investment performance by investing in 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.

Senior secured loan returns continue to lag the comparatively riskier high yield market as risk assets have continued to march higher. Bond yields remain at 3-year lows as prices have been driven by a buoyant stock market, healthy corporate and economic fundamentals, stabilising oil, and relatively benign interest rate movements. As high yield has rallied, the yield differential between loans and unsecured bonds continues to hover near historical lows. As a result, investors are in a position to own less volatile, more defensively positioned loans at a similar yield to unsecured bonds, while avoiding interest rate risk. The level of income received by loan investors is positioned to benefit from any further increase in interest rates, which Fed chairwoman Janet Yellen has guided is very much under consideration as soon as December.

Overall, listed real estate companies are generally maintaining financial discipline. Moderate levels of development activity are being undertaken by appropriately skilled management teams that have exposure to under-supplied real estate markets. 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 most importantly, to opportunities that can deliver above average earnings growth. Portfolios are unlikely to show material active overweight exposure to individual countries or currencies in reflection of the still unpredictable macro and geo-political environment. Instead, risk will continue to be allocated to specific stock opportunities where there is a belief that attractive relative value exists.

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Important Information

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