Invesco Wholesale Diversified Growth Fund - Class A

Quarterly report

31 March 2017

Net performance

Periods	Fund %	Benchmark %	Value added %
1 month	0.98	1.69	(0.71)
3 months	2.31	2.40	(0.09)
6 months	7.79	6.09	1.70
1 year	14.42	12.58	1.84
2 years p.a.	5.45	3.95	1.51
3 years p.a.	8.33	7.80	0.53
4 years p.a.	10.09	8.98	1.10
5 years p.a.	10.60	10.05	0.55
10 years p.a.	4.33	5.14	(0.81)
Calendar year to date	2.31	2.40	(0.09)
Financial year to date	12.34	9.17	3.17
Since inception p.a.	8.10	9.07	(0.97)

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	3.30	(0.99)	2.31
1 year	9.50	4.92	14.42
3 years p.a.	7.96	0.37	8.33
5 years p.a.	6.93	3.67	10.60

Fund analysis (as at 31 March 2017)

Asset Allocation

	Fund %
Australian Shares	40.00
Global Shares	26.79
Global Listed Property	7.34
Global Fixed Interest	22.81
Cash	3.06
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

Australian equities (IQS Australian equities core strategy)
The Australian share market (S&P/ASX 300) gained 4.71% over the first quarter 2017 and by 20.24% over 12 months. The local equity market rose in line with key offshore equity markets on investor optimism that the US administration is likely to boost corporate profitability, though the market turned more cautious by quarter-end amid President Trump's healthcare policy setbacks. In local market news, the reporting season was largely positive on results. Contractors had a strong comeback while Materials and Telcos lagged. In economic news, the RBA cash rate remained at 1.5%, while fourth quarter CPI came weaker than expected at 0.5% versus 0.7% in the previous quarter. The unemployment rate increased from 5.7% to 5.9% in February. Sector-wise, the best performers were Health Care, Utilities and Consumer Staples, while Telecoms, Real Estate and Materials ex Metals & Mining were the worst performers.

Global equities (Global Opportunities strategy)
Global equity markets enjoyed another positive quarter, with the MSCI AC World index gaining 5.78% (total return, sterling) over the period. Sector leadership reversed its recent trend with a shift towards more 'defensive' areas of the equity market at the expense of energy, financials and cyclical sectors. This, we believe, has been driven by a reassessment of President Donald Trump's ability to push through key legislative reform. The oil price was weak during the quarter as concerns grew that US onshore production growth looks set to unsettle the nascent rebalancing of the oil market. The Invesco Perpetual Global Opportunities Fund rose 6.32% in Q1 (Z Accumulation share class; total return, sterling).

Global income (senior secured income strategy)
Despite market volatility, senior secured loans ended the quarter relatively flat. The softer tone for loans versus recent months was contagion from a pullback in high yield where oil price volatility and significant high yield outflows drove declines. In a quarter characterized by a re-appearance of volatility, loans outperformed its peer asset classes. The modest retreat in loan prices brought the percentage of loans trading above par down to 66.6% at quarter-end. Declines in high yield served as the catalyst as oil price volatility and concerns about increasing interest rates contributed to the largest high yield outflows in March since December 2015. Positive for loans, the Fed increased interest rates by 25 basis points at its meeting in mid-March as expected, and it did not alter its forward guidance of two additional hikes this year. The average price in the loan market was US$98.30 at quarter-end. At the current average price, senior secured loans are providing a 6.10% yield.

Global listed property (GREIT strategy)
Overall, US REIT performance was negative during the period, impacted by the weak performance of the mall and retail-focused companies. In Europe, REITs tended to underperform general equities, with real estate performance led by smaller cap companies. In Asia, Japanese developers were weak as the yen strengthened. By contrast, the improving Chinese economy bred risk appetite in Hong Kong and Singapore, where listed real estate returns were strong. Retail-focused REITs showed weaker stock performance during the period reflecting ongoing concern over the impact of ecommerce and in response to headlines of store closures by major retailers in the US. While weaker retail centres are struggling to maintain occupancy and rents, prime quality malls continue to see footfall and sales growth. Prime malls REIT earnings growth profiles show above average prospects. At the end of the period, JREITs and European REITs maintained their premium to net asset value. US REITs are trading at a small discount, while the UK, Hong Kong and Japanese developers maintain more significant discounts. Earnings growth prospects for listed real estate in 2017 are forecast to average around 5%.

Contributors to performance

The Fund slightly outperformed its benchmark for the quarter. The global equity and senior secured income components outperformed, while the Australian share and global listed property components slightly underperformed over the quarter.

Market outlook and portfolio strategy

In aggregate terms, 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 started to witness a stock market rotation, with the more economically sensitive and cyclical parts of the equity market outperforming. However, 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. This appeared not to endanger Trump's policy ambitions but it did highlight 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 which 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, the March quarter was the latest demonstration of how loans provide investors with both solid coupon income and a muted volatility profile due to their defensive positioning within the capital structure. As other investable credit products were whipsawed by commodities as well as shifting expectations around interest rates and the prospect for fiscal expansion, loans experienced only modest price declines, which were more than offset by current income. Although high yield bonds pulled back during the quarter, the yield differential between loans and unsecured bonds remains historically narrow, making loans attractive on a relative value basis. While the latest Fed meeting was interpreted as dovish by the broader market, interest rates are expected to continue rising through 2017, a direct benefit to loan investors as the vast majority of loans already exceed their LIBOR floors.

In terms of listed property, listed real estate companies are generally maintaining financial discipline. They are combining new equity and debt where accretive acquisitions can be made and recycling capital from lower returning assets into any higher returning development opportunities or reducing leverage where investment cycles are maturing. Moderate levels of development activity are being undertaken by appropriately skilled management teams that have exposure to under-supplied real estate markets. The portfolio continues to seek to capture the value creation being achieved by listed companies that are actively supplying new assets into markets where there is clear tenant demand. While recognizing the need to maintain attractive yield characteristics in an income starved world, the portfolio maintains a bias toward 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.

Within the broader investment context, the cash flow security, fundamentally-driven earnings growth opportunity and tangible asset nature of real estate appears to offer relative attraction to a diversified investor. On this basis, we view listed real estate as offering fair investment return opportunities by long term standards.

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Important Information

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