



# Invesco Core Canadian Fixed Income Pool

Quarterly Report for the Period Ending June 30, 2010



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The views expressed herein are based on current market conditions and are subject to change without notice; they are not intended to convey specific investment advice. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations.

This publication is not intended to provide legal, accounting, tax or specific investment advice. If such advice is required, the services of a competent professional should be sought before any action is taken. The information presented was obtained from sources believed to be reliable; however, Invesco cannot represent that it is accurate or complete.



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## Portfolio Summary

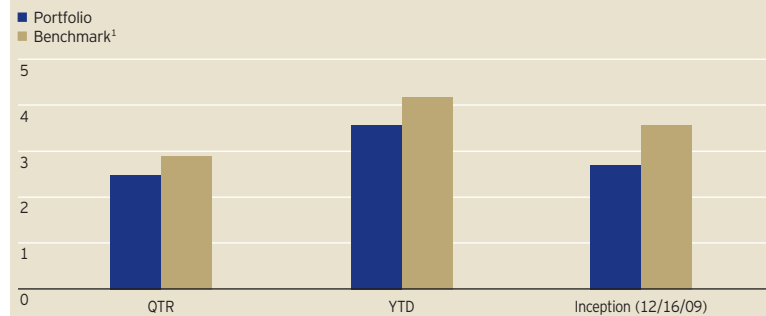
- Account and performance summary
- Major points and conclusions this period

## Highlights

The Canadian economy avoided the sort of excesses that brought about the financial crisis, and the Canadian financial system's relative stability made it likely the Bank of Canada (the "BoC") would be among the first G7 nations to raise rates. Indeed, the BoC delivered a 0.25% rate hike on the heels of strengthening job growth and stronger than expected inflation.

A central bank tightening cycle often presents an opportunity to profitably position for a flatter yield curve as shorter-term interest rates rise more quickly than longer-term rates. Invesco Fixed Income Pool (the "Pool") benefited from such positioning during the quarter as the yield curve did in fact flatten by roughly 0.15%. As sovereign debt concerns came to a full boil in Europe, nations with their fiscal houses in relatively tidier order saw sovereign debt yields fall.

## Performance Chart



## Performance Table

Period	Portfolio (%)	Benchmark <sup>1</sup> (%)
QTR	2.49	2.93
YTD	3.61	4.22
Since Inception of the Pool <sup>2</sup>	2.71	3.59

<sup>1</sup>DEX Universe Bond Index

<sup>2</sup>Inception of the pool: December 16, 2009

All data as of June 30, 2010

Source: Invesco and PC Bond

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## Investment Philosophy and Process

### - Disciplined Philosophy, Consistently Applied

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#### How our approach is different

- We believe increasingly dynamic and complex fixed income markets create opportunities for investors that are best captured by independent specialist decision makers interconnected as a global team.
- We use a distributed approach to decision making which engages a broader set of our investment professionals to the appropriate mandate.
- We use a highly engineered approach to portfolio construction that targets to achieve the performance objective with the least risk.

We believe our approach to decision making truly sets us apart from other fixed-income managers.

- Delivers our collective expertise to every client
- Engages specialists closest to the information
- Evaluates continuously
- Shares information instantly to allow for timely implementation
- Records and evaluates choices to enhance decision quality

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#### Roles and Objectives

- Products are designed to capture value across the permissible sources of alpha allowed by guidelines, with the preference that no one decision dominates returns over the long-term.
- Market volatility and realistic success rates of distributed decision makers present opportunities to achieve performance objective.

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#### Investment Objective

- To achieve a combination of current income and capital growth over the long-term by investing primarily in high-quality Canadian government and corporate debt securities.



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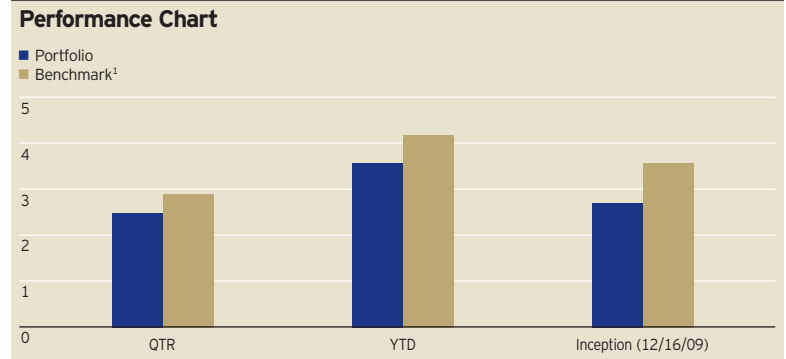
We believe fixed-income opportunities are best captured by independent, specialist decision makers interconnected as a global team.

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## Performance Analysis

The portfolio management team had anticipated higher Canadian rates as the BoC began tightening, and this positioning detracted from performance for the quarter. The Pool has been underweight Canadian government related issuers on the prospect of increasing long-term debt issuance. Provinces have been actively lengthening their maturity profiles from the more short-term issues they could sell during the financial crisis. The resulting underweight position benefited from the global flight to quality into sovereign debt.



### Performance Table

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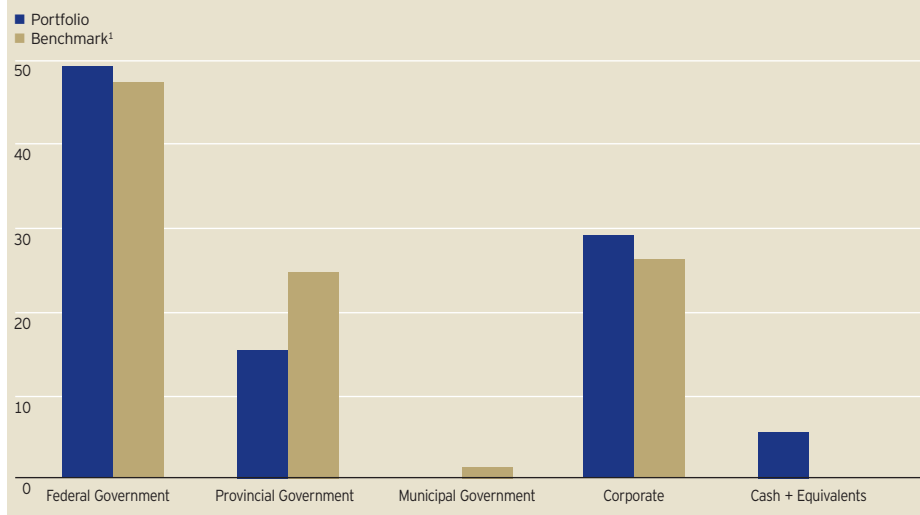
## Portfolio Structure

- Current portfolio structure

### Current Portfolio Structure

The portfolio management team maintained a more modest overweight in Canadian investment-grade credit during the quarter. This positioning hampered performance during the global flight to quality, but valuations going forward make a slightly overweight position attractive. The team has the ability to overweight U.S. interest rates and the U.S. dollar versus their Canadian counterparts. Market participants have preferred U.S. treasuries during the European unrest, and the Pool would have benefited from employing those U.S. allocations during the quarter.

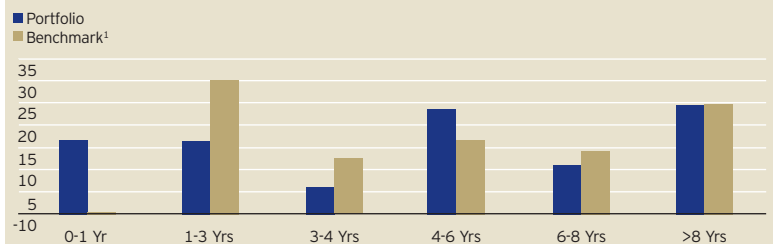
**Sector Distribution (% of Assets)**



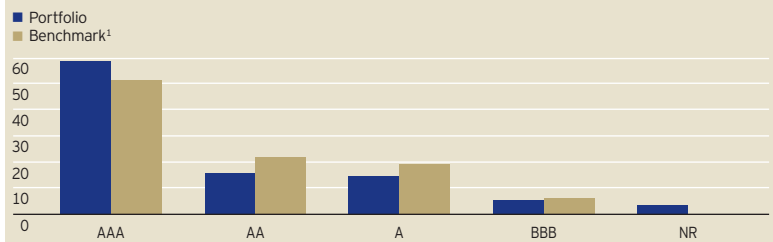
### Characteristics

Portfolio Statistics	Portfolio	Benchmark <sup>1</sup>
Total Assets	\$5,719,789	-
Duration (Yrs)	5.82	6.09
Yield to Maturity (%)	2.8	3.08
Average Quality	AA	AA
Average Life (Yrs)	8.40	8.90
Average Coupon (%)	3.74	4.71
Current Yield (%)	3.26	-
Average Price	\$105.45	-
Convexity	0.76	0.77
Number of Securities	58	1,083

**Duration Distribution (% of Assets)**



**Quality Distribution (% of Assets)**



<sup>1</sup>DEX Universe Bond Index  
All data as of June 30, 2010  
Source: Invesco and PC Bond

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## Portfolio Structure

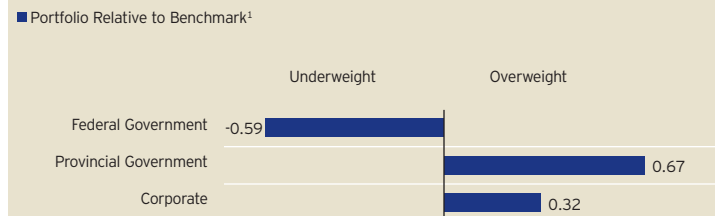
- Risk Budget/Active Allocations
- Strategy

The Pool remained predominately Canadian with 99% of the portfolio invested with Canadian issuers. The portfolio management team maintained a neutral position regarding government bond allocation with 74% of the assets invested in sovereign debt versus the benchmark at 73% government bonds. The team was most active in sovereign debt in the second quarter, where it added eight new sovereign debt positions on the federal level and sold two on the provincial level. Other notable activity this quarter was corporate bonds, as the team reduced its positions in the Royal Bank of Canada and BCE Inc. to move the Pool's corporate exposure closer to the benchmark. The average maturity of the Pool's holdings slightly dipped to 8.4 years from 8.6 years. The index's average maturity was 8.9 years at the end of the quarter. The Pool's cash position decreased to 3% from 10% over the quarter as a result of investment buying activity.

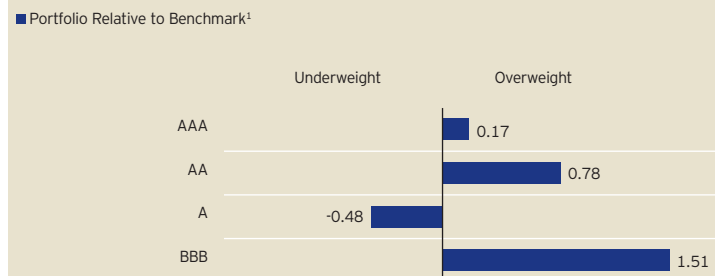
## Strategy

While an underweight position in duration and positioning for a flatter yield curve both make sense if the BoC continues raising rates, questions abound as to whether the European sovereign debt issues might weigh on global growth. The answers to those questions are not immediately obvious, and neutral positioning in these alpha sources seems prudent for the time being.

## Sector Duration Distribution



## Quality Duration Distribution



<sup>1</sup>DEX Universe Bond Index  
All data as of June 30, 2010  
Source: Invesco and PC Bond

# Invesco Institutional Highlights

## Organizational Update

### **Invesco - an independent firm solely focused on investment management**

With approximately 700 dedicated investment professionals worldwide and an operational network spanning 20 countries, Invesco has the global capability to deliver our best ideas to investors around the world. We offer a wide range of single-country, regional and global capabilities across major equity, fixed income and alternative asset classes, delivered through a diverse set of investment vehicles. Invesco Ltd. has US \$557.7 billion assets under management (AUM) as of June 30th, 2010.

## Investment Perspectives

### **Greenwood Economic Outlook**

The early months of 2010 have seen modest improvements in economic growth among the major western, developed economies as private sector spending gradually starts to revive. However, the sovereign debt crisis of the peripheral southern European economies has prompted fiscal consolidation to take the place of fiscal expansion, and will leave the onus much more on monetary policy to ensure a sustained recovery. Invesco's Chief Economist John Greenwood shares his views for Q3 2010. To read the outlook, visit our web site and click Investment Resources > Investment Perspectives.

### **Invesco Real Estate House View - Global Market Outlook**

Sentiment and pricing have shifted dramatically. As anticipated, the uneven real estate recovery holds implications for investment performance. The outlook for total returns has improved across most property sectors around the globe although the reason for the increase varies by region. To read the outlook, visit our web site and click Investment Resources > Investment Perspectives.

### **Invesco Global Investment Grade Fixed Income**

Jan Friedli, Head of Invesco Global Investment Grade Fixed Income discusses the capabilities of the Invesco Fixed Income team and the challenges and opportunities presented by the European debt crisis. He also explains how the team uses technology to support a globally managed company. To read the outlook, visit our web site and click Investment Resources > Investment Perspectives.

### **Inflation or Deflation Ahead?**

The recent global recession was much more severe - both deeper and longer - than typical post-war recessions. But why was it so different and what can be expected in the aftermath of subsequent huge fiscal deficits and massive central bank easing? John Greenwood, Invesco's Chief Economist, discusses whether there is inflation or deflation ahead. To read the outlook, visit our web site and click Investment Resources > Investment Perspectives.



## Invesco for institutional investors

The Invesco Institutional website is a great resource for news and quarterly fund updates as well as interesting and relevant articles on investment strategies for institutional investors. Find out more at: [www.institutional.invesco.ca](http://www.institutional.invesco.ca)

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The views of the management of Invesco contained in this report are as of the date they were written (June 30, 2010), and this report is not intended to provide legal, accounting, tax or specific investment advice. Portfolio holdings, allocations and performance numbers are as of June 30, 2010, unless otherwise noted. Views, portfolio holdings and allocations may have changed subsequent to these dates.

The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all dividends/distributions and do not take into account sales, redemption, distribution or optional charges, or income taxes payable by any investor that would have reduced returns. Pooled funds are not guaranteed, their values change frequently and past performance may not be repeated. Pooled funds are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer.

This report includes statements that include information concerning possible or assumed future results of the Pooled Funds' operations, earnings, liquidity and cash flows, asset levels, merger activities and the effect of completed merger transactions, regulatory developments, demand for and pricing of the Pooled Funds and general economic and securities market conditions. Such statements may be considered "forward-looking statements". When used in this report, words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "projects," and future or conditional verbs such as "will," "may," "could," "should," and "would," or any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, you should carefully consider the areas of risk described in the offering documents of the Pooled Funds. Commissions, management fees and expenses all may be associated with pooled fund investments. Please read the offering documents before investing.

This publication is not intended to provide legal, accounting, tax or specific investment advice. If such advice is required, the services of a competent professional should be sought before any action is taken. The information presented was obtained from sources believed to be reliable; however, Invesco cannot represent that it is accurate or complete.

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