Dispatches

News from the portfolio management team
As at October 6, 2009

Invesco Global Real Estate Fund

The following are comments from client portfolio manager Walt Stabell

The Invesco Real Estate team

- We are one of the largest real estate investors in the world. We manage over $25 billion in real estate investments around the globe through two distinct teams. The direct real estate team, which manages approximately $20 billion, and the securities team based in Dallas, which manages the remaining $5 billion. We have 13 major offices around the globe, five in the U.S., five in Europe and three in Asia
- The securities team employs 15 investment professionals. On the direct side, there are over 200 real estate professionals scattered in our offices worldwide. The direct side of our business invests in the buildings and properties themselves, some call it the "bricks and mortar". Additionally, they feed our databases in Dallas with just about every real estate metric, including where buildings are being bought/sold, rent levels, occupancy and absorption statistics and provide "on-the-ground" intelligence of local markets around the world
- Regarding the securities team, we don't have any direct investments in real estate. We invest strictly in REIT securities, which are publicly traded and very liquid
- The six-member portfolio management team is a very experienced team with an average 20 years of experience. More importantly, they've been managing money together as a team for at least nine years now. Lead manager Joe Rodriguez and Jim Trowbridge have been together for about 20 years. The portfolio managers are supported by nine analysts that have a minimum of 10 years' experience
- Unique to our team is that we are all housed together in Dallas, with the exception of James Cowen and Shabab Qadar, who are based in London and cover the U.K. and European markets. Unlike many of our competitors who went out and bought real estate teams in Asia and Europe when global real estate gained in popularity, our team has been brought up under the same investment philosophy and process; Joe Rodriguez hired all of us himself, and we've all been trained under the same philosophy and process

Portfolio construction

- The global real estate market is made up of about 925 companies totaling approximately $475 billion in market capitalization. The universe is very much a small- to mid-cap universe, and thus greater inefficiencies exist making active management very important in this space
- To enhance the liquidity of the portfolio, we initially scan the global REIT universe for two criteria. Our minimum market capitalization for

Walt Stabell

Client portfolio manager

Mr. Stabell has more than 23 years of industry experience, including 17 years as a portfolio manager. Currently, he serves as a senior client portfolio manager with Invesco Aim's Product Strategy and Investment Services Group. Mr. Stabell earned a Bachelor of Business Administration degree in accounting from Texas A&M University.

On the portfolio

"…our process is very much geared towards identifying quality real estate. We've found that if you have quality real estate companies on a fundamental basis, the performance takes care of itself"

"We stay closely weighted to the index on both a geographic or country mix basis, and also on a property-mix basis. We've found that we get about two-thirds of our alpha or outperformance from our stock selection. Hence we'd much rather allocate our risk budget doing what we do best, and that is picking stocks. We are not currency traders, so we don't hedge currencies"

"Our portfolio tends to have similar risk as the market, with better and more consistent earnings growth and lower leverage"

Portfolio management team

Joe Rodriguez, Jr.
Joe began his career in the investment industry in 1983. He joined Invesco in 1990 as the Director of Research and was later named to head up the real estate securities team in 1995.

James W. Trowbridge
James began his investment career in 1977. He joined Invesco Real Estate in 1989 as a senior real estate acquisition officer and was promoted to portfolio manager in 1993.

Mark Blackburn
Mark began his investment career in 1987. He joined Invesco Real Estate in 1998 as a senior analyst before becoming a portfolio manager in 2000.

Ping-Ying Wang
Ping-Ying Wang began her investment career in 1998 when she joined Invesco Real Estate as an analyst. She was later promoted to portfolio manager in 2006.

Paul Curbo
Paul began his investment career in 1994. He joined the company in 1998 as a senior research analyst before becoming a portfolio manager.

James Cowan
James's investment experience began in 2004 as a securities analyst on the Invesco Real Estate team before being promoted to a portfolio manager for Invesco Global Real Estate Fund in 2008.

inclusion in the portfolio is $100 million and our minimum daily trading volume required is $100,000 per day

- The main point I want to highlight about our research is that our process is very much geared towards identifying quality real estate. We've found that, if you have quality real estate companies on a fundamental basis, the performance takes care of itself
- Two of the components to our process that our direct side provides are what we call our market strength ratings and property evaluations, which look at various locational and physical attributes of a property
- The property evaluation and market strength analysis combined account for 60% of a security's fundamental ranking. So, most of our initial work is done on evaluating properties as opposed to where a stock is trading from a valuation standpoint
- The first time we consider valuations of securities occurs after we've assigned the fundamental rank. In our securities analysis phase, we look at things such as cash flow quality, valuation, dividend policy and trends/liquidity
- Lastly, we employ a portfolio optimizer which enables us to statistically measure, set and monitor portfolio risk and return parameters

Portfolio positioning

- Our portfolio tends to have similar risk as the market, with better and more consistent earnings growth and lower leverage. For example, as at June 30, 2009, the Fund had a beta of approximately 1, and leverage of 40% versus 43% for its benchmark, the FTSE/EPRA NAREIT Developed Real Estate Index. Also, the Fund's average market capitalization is over twice that of the index; a very liquid portfolio
- We stay closely weighted to the index on both a geographic or country mix basis, and also on a property-mix basis. We've found that we get about two-thirds of our alpha or outperformance from our stock selection. Hence we'd much rather allocate our risk budget doing what we do best, and that is picking stocks. We are not currency traders, so we don't hedge currencies
- Obviously we do over and underweight countries and sectors. For example, for most of the past 12 to 18 months we were overweight in the residential, health care and self-storage sectors of the REIT market
- The residential exposure in the Fund is comprised largely of apartment REITs; we don't invest in mortgage insurers, mortgage finance companies or mortgage REITs. With what's taken place in the housing market not just in the U.S. but across the globe, many families have lost their homes, and we saw a large migration into apartments and the need for self-storage facilities as people moved into much smaller homes. We've since reduced our exposure to these securities as the sectors rallied
- We're overweight in health care since it is less susceptible to changes in GDP. Conversely, we're underweight in many of the sectors that you would expect us to be underweight, the

economically sensitive sectors; that is, retail, office space and lodging

Fund performance and outlook

- The beta rally or "dash to trash" that took place in the second quarter was good for high-beta funds. Quite frankly, we just weren't set up for that. We were and remain defensive in the Fund. We didn't want to emphasize REITs with higher leverage, onerous near-term debt maturities or those that were smaller in market capitalization
- As a result, we underperformed the market in the second quarter of 2009. However, over the longer term, our performance is stronger. Over the year, we're 325 basis points (bps) better than the Fund's benchmark, and since the Fund's inception, we're about 165 bps ahead (all figures in $C)
- Looking forward, U.S. REITs are trading at about a 20% premium to NAV (the underlying value of the properties themselves less the debt associated with those properties, divided by the number of shares outstanding)
- Over the past 20 years, U.S. REITs have traded at about a 3% premium, so the U.S. market looks a bit overvalued. Keep in mind that equity markets are forward-looking, anywhere from six to 12 months out and thus, current stock prices suggest the market expects property values to rise over the near term. Other markets that are at a premium to NAV as of August 31st. 2009 include Canada, the U.K. and Australia
- As the whole, the global REIT market is trading at a slight premium of about 5% to NAV. Hong Kong and Continental Europe in particular are trading at significant discounts to NAV
- So to summarize, there is better value currently in Hong Kong, Japan and Europe while the U.K., United States and Canada are fair to slightly overvalued