

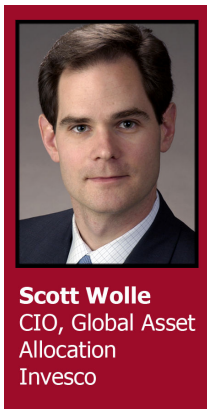
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Invesco Launches Balanced-Risk Strategy

by Scott Johnson

Invesco says it is gaining quick traction in a new asset allocation strategy that targets equity-like returns with bond-like volatility. The product bears many of the markings of an alternative investment vehicle, but the firm thinks its low fees, high liquidity and ample transparency could make it palatable for conservative institutions.

The new product draws its name – Premia Plus – from the excess return associated with risky assets and uses futures to invest long-only across equities, government bonds and commodities, with a target return of cash plus 6%. The approach paid off in the fourth quarter, when the product was down just 3% while the broader equity markets were down more than 20%.



“We funded the strategy at the end of the third quarter, and during October we were a little regretful that that was the case,” says Scott Wolle, Invesco’s CIO for global asset allocation. “However, that period really provided a good stress-test for the product. It has been the proof that some investors wanted to see to get comfortable with.”

The product uses a quantitative process to manage risk and shift allocations. That high level of manager discretion puts the strategy in the neighborhood of global tactical asset allocation (GTAA). But Premia Plus is a bit more constrained than similar strategies, with a constant risk profile that targets volatility of 8% – about half the volatility associated with the S&P 500. That amounts to a higher degree of risk management than might be found in a traditional asset allocation mix of 60% equities and 40% fixed income.

Invesco began developing the strategy for an institutional client in early 2008 and has since raised about \$350 million in assets across at least three institutions. Each client has taken a distinct approach to the product. “While this is useful to think about as a balanced fund, investors have thought about this as another way to get hedge fund exposure, as well,” says Wolle.

Although allocations may fluctuate, the new Invesco product is built so that each asset category – equity, fixed income and commodities – contributes to about 33% of a portfolio’s risk. The result is an average volatility of 5%, which rises to 8% with leverage. That’s similar to an approach recommended by Merrill Lynch’s equity derivatives research team in mid-2008. As reported, that firm produced a Multi-Asset Strategy (MAST) index that boosted returns and cut risk by allocating among a range of uncorrelated asset classes.

Asset allocation and balanced strategies have traditionally been popular in Europe, but they appear to be catching on in the United States. Last year saw two U.K.-based managers, Schroder Investment Management and Standard Life Investments, import GTAA-like strategies to the U.S. market. Meanwhile, U.S. institutions have shown an increasing willingness to hand over more discretion to managers. A few public pensions doled out “partnership” mandates in 2008, allocating large asset totals to global firms with loosened investment guidelines.

Small institutions are also outsourcing more of the decision-making process to their managers, and last year’s market volatility may have helped that trend along. Both SEI and Russell Investments recently reported strong asset inflows in business lines that combine asset allocation services with the traditional manager of managers approach.

Invesco appears to be capitalizing on a few additional trends with its new product. Many investors have been burned by hedge fund returns and lockups, but institutions still seek the diversification advantage of alternative investments, says Wolle. “We’ve had a lot of investors who are a bit frustrated with the fact that most hedge fund indices were down 18% to 20% last year,” he says. “And even if they wanted their money back, they couldn’t get it back.”

The protection from downside risk puts Premia Plus in the territory carved out years ago by defensive hedge funds. But the strategy’s futures component allows the bulk of a client’s assets to be invested in cash, which gives the product daily liquidity.

The product is also priced at Invesco’s traditional asset management fee schedule, with asset-based fees ranging from 40 basis points to 60 basis points. Wolle believes investors have paid too much for weak hedge fund returns. “Effectively, investors have been paying very high fees, which are appropriate for skill, when really what they’re getting is exposure to beta,” he says. “That’s not true in all cases, but on average that’s true.”

Wolle attributes 15% to 20% of the returns of Premia Plus to active management, which accounted for 400 basis points of outperformance in the fourth quarter alone. The rest of the product’s performance comes from beta exposure to risk premia.

Industry-wide, GTAA and global balanced strategies largely outperformed equities in 2008. But that doesn’t say much in a year when the S&P 500 was down more than 38%. Of 52 similar strategies reported to the eVestment Alliance database, 41 were down more than 10% for the one-year period, and 15 were down more than 30%.

Still, an Invesco GTAA product with more than \$4.8 billion in assets scored in the top 10, returning -0.9% for the year, according to eVestment. Only a diverse range of strategies from five managers – Aspect Capital, Deutsche Asset Management, Credit Suisse, New Path Capital Advisors and First Quadrant– performed better. Invesco is also competitive in a three-year performance period, with returns of -0.3%.

Invesco manages \$354.1 billion in assets, including \$92 billion in money market funds, as of Jan. 31.

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