Invesco Mutual Fund

Fixed Income
Investment Philosophy & Process

December 2018

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Investment Philosophy

Invesco Mutual Fund

The philosophy for managing fixed income portfolios revolves around optimizing risk adjusted returns for the investor by investing in high credit quality assets, managing interest rate risk and minimizing liquidity risk.

Investment process

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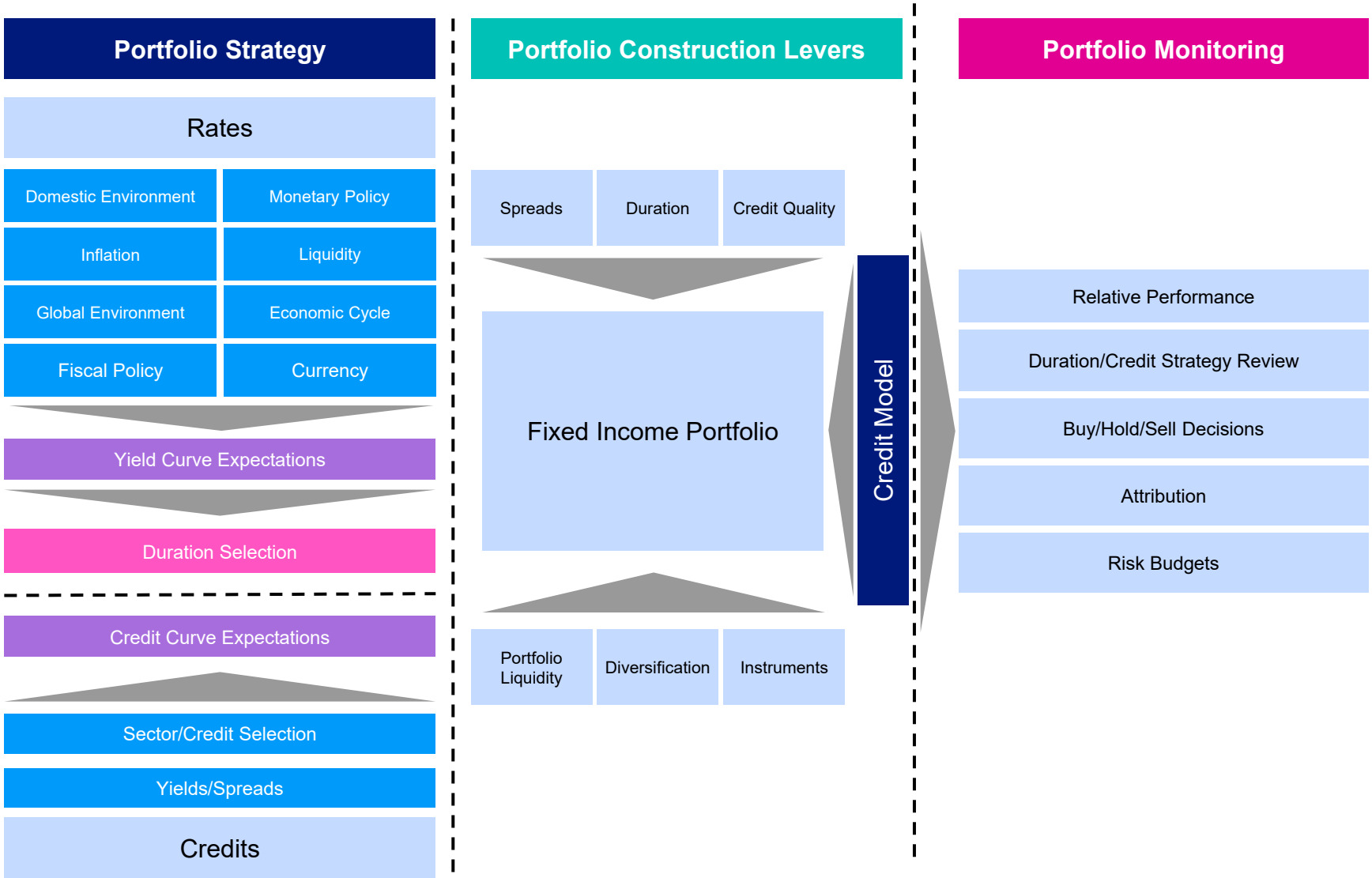

View on interest rates

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Parameters	Domestic Environment	Economic Cycle	Fiscal Policy	Monetary Policy	Inflation	Liquidity	Global Environment	Currency
A								
B								
C								
D								
E								

Scale represents: - A: Positive, B: Moderately Positive, C: Neutral, D: Moderately Negative and E: Negative.
Note: Views as at 8th January 2019. The above chart on the interest rate view is based on the few select parameters which may have a bearing on the movement of interest rates and does not include all the parameters which normally have a bearing on the movement of interest rates. View on the interest rate movement is based on current scenario and is subject to change from time to time based on market conditions and parameters. The views mentioned above are for the purpose of explaining few select parameters which might impact interest rate movement and should not be construed as an investment advice. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy.

View on credit spreads

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Maturity \ Credit Ratings	A1+	A1	AAA	AA+	AA	AA-	A+	A/A-
0 – 3 Months								
3 – 6 Months								
6 months – 1 years								
1 – 3 years								
3 – 5 years								
5 – 10 years								

Spread Contraction	High	Medium	Low
Constant Spread			
Spread Widening			
Not Applicable			

Note: The above spreads denote the spread between Government securities and corporate bonds and based on the data for 8th January 2019.

Fixed income funds – Duration#/ Maturity based

Invesco Mutual Fund

Low ⟷ High

Liquid Fund (up to 91 days)	Ultra Short Duration Fund (3 – 6 months#)	Low Duration Fund (6–12 months#)	Money Market Fund (up to 1 year maturity)	Short Duration (1–3 years#)
Invesco India Liquid Fund	Invesco India Ultra Short Term Fund	Invesco India Treasury Advantage Fund	Invesco India Money Market Fund	Invesco India Short Term Fund

Note: # Macaulay Duration ;
Macaulay duration of a bond is the number of years taken to recover the initial investment of a bond. It is calculated as the weighted average number of years to receive the cash flow wherein the present value of respective cash flows is multiplied with the time to that respective cash flows. The total of such values is divided by the price of the security to arrive at the duration.

Fixed income funds – Credit Rating / Theme based

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Credit Rating		Theme Based	
80% Minimum exposure to AAA/AA+ rated corporate bonds	**65%** Minimum exposure to AA and below rated corporate bonds	**80%** Minimum exposure to debt instruments of Banks, PSU, PFI, Municipal bonds	**80%** Minimum exposure to Government securities
Corporate Bond Fund Invesco India Corporate Bond Fund	**Credit Risk Fund** Invesco India Credit Risk Fund	**Banking and PSU Fund** Invesco India Banking & PSU Debt Fund	**Gilt Fund** Invesco India Gilt Fund

PSU: Public Sector Undertaking, PFI: Public Financial Institutions.

Fixed income fund range

Invesco Mutual Fund

SEBI Category	Old Fund Name	New Fund Name	Guideline/ Macaulay Duration/ Credit Rating	Underlying Investment Universe	Min	Max	BM
Liquid Fund	Invesco India Liquid Fund	Invesco India Liquid Fund	Up to 91 days maturity	MM / Debt Instruments	0	100	CRISIL Liquid Fund Index
Ultra Short Duration Fund	Invesco India Medium Term Bond Fund	Invesco India Ultra Short Term Fund	3M–6M #	MM / Debt Instruments(incl Gsecs)	0	100	CRISIL Liquid Fund Index
Low Duration Fund	Invesco India Ultra Short Term Fund	Invesco India Treasury Advantage Fund	6M–12M #	MM / Debt Instruments(incl Gsecs)	0	100	CRISIL Ultra Short Term Debt Index
Money Market Fund	Invesco India Credit Opportunities Fund	Invesco India Money Market Fund	Up to 1 year maturity	MM Instruments	0	100	CRISIL Liquid Fund Index
Short Duration Fund	Invesco India Short Term Fund	Invesco India Short Term Fund	1Y–3Y #	MM / Debt Instruments(incl Gsecs)	0	100	CRISIL Short Term Bond Fund Index
Corporate Bond Fund	Invesco India Active Income Fund	Invesco India Corporate Bond Fund	AAA / AA+	Corporate Debt (AAA/ AA+)	80	100	CRISIL AAA Short Term Bond Index
				Debt (incl Gsecs) & MM	0	20	
Credit Risk Fund	Invesco India Corporate Bond Opportunities Fund	Invesco India Credit Risk Fund	AA & below	Corporate Debt (AA & below)	65	100	CRISIL Composite AA Short Term Bond Index
				Debt (incl Gsecs) & MM	0	35	
Banking & PSU Fund	Invesco India Bank Debt Fund	Invesco India Banking & PSU Debt Fund		Debt & money market instruments of Banks / PFI / PSU / Municipal Bonds;	80	100	CRISIL Short Term Bond Fund Index
				MM / Debt Instruments(incl Gsecs) issued by other than banks, PFIs & Municipal Bonds	0	20	
Gilt Fund	Invesco India Gilt Fund	Invesco India Gilt Fund		G- secs (incl T Bills)	80	100	CRISIL 10 Year Gilt Index
				Debt & MM	0	20	
Conservative Hybrid Fund	Invesco India MIP Plus Fund	Invesco India Regular Savings Fund		Debt (incl Gsecs)& MM	75	90	CRISIL Short Term Debt Hybrid 75+25 Fund Index
				Equity & Equity Related	10	25	

Macaulay Duration ; MM – Money Market

Factors influencing fund positioning

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Funds \ Factors	Domestic Environment	Economic Cycle	Fiscal Policy	Monetary Policy	Inflation	Liquidity	Global Environment	Currency
Liquid Fund				√		√		
Ultra Short Term Fund	√	√			√	√		
Treasury Advantage Fund	√	√		√	√	√		
Money Market Fund	√	√		√	√	√		
Short Term Fund	√		√	√	√	√		√
Corporate Bond Fund	√	√				√		√
Credit Risk Fund	√	√		√	√	√		
Banking & PSU Debt Fund	√	√	√	√	√	√	√	
Gilt Fund		√	√	√	√	√	√	√
Regular Savings Fund	√	√	√	√	√	√		

Note: The factors mentioned above include some of the factors which the Fund Manager may consider for deciding fund positioning and is not comprehensive listing of various factors/ parameters which could have bearing on the fund positioning. The Fund Manager may or may not consider all such factors for deciding fund positioning and may change fund positioning from time to time based on prevailing market conditions/other factors. The factors mentioned above for influencing fund positioning are merely indicative in nature and should not be construed as an investment advice or recommendation to any party to invest in various schemes of Invesco Mutual Fund or to adopt any investment strategy.

Credit Appraisal Process

Objective

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An analytical approach to generate a view/recommendation on the credit strength of an issuer

- By applying our proprietary credit model, we determine & monitor the credit worthiness of an issuer, and assess the credit exposure limit
- Risk management tool for portfolio construction – The internal credit rating helps in selecting issuers based on their suitability vis-à-vis the credit strategy of individual funds

Credit appraisal: Proprietary model

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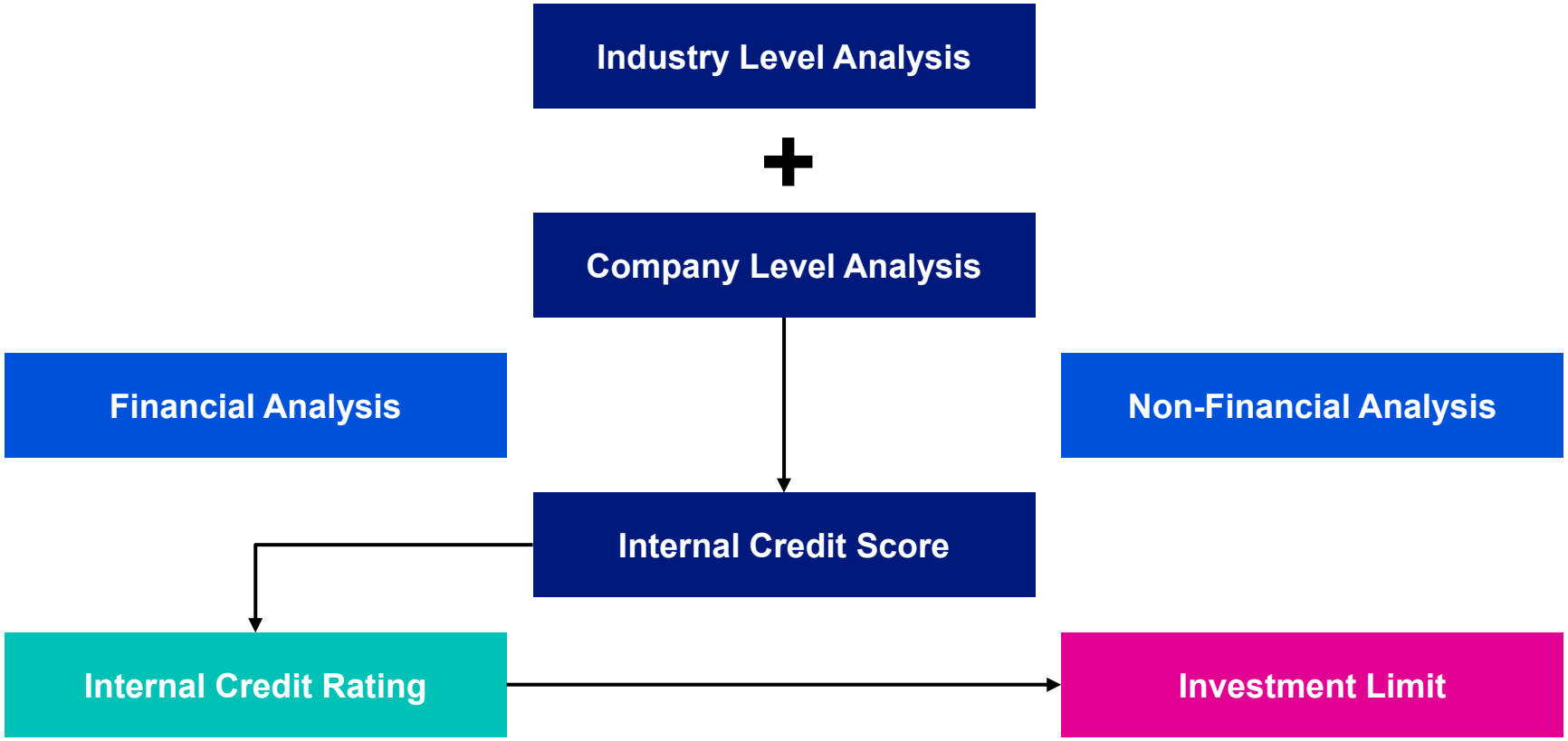

Credit appraisal: Credit score methodology

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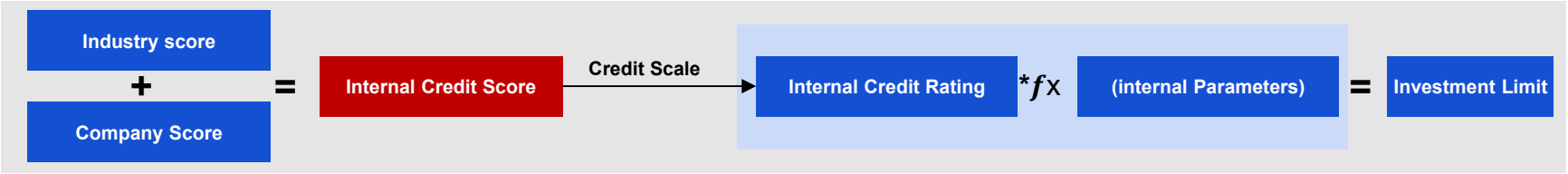

Components of the Internal Credit Score

Industry Level Score

A score is derived based on an Industry level business and economic analysis

+

Company Level Score

A score is derived based on a company level analysis of the following parameters

Bank & NBFC

Business Environment
Parent Support
Management Quality
Net Worth
ALM Profile
Capital Adequacy
Asset Quality
Profitability
Liquidity
Leverage

Manufacturing & Services

Business Environment
Parent Support
Management Quality
Net Worth
Brand and Product Strength
Operating Efficiency
Profitability
Liquidity
Leverage

Internal Credit Score

Issuer limit assessment

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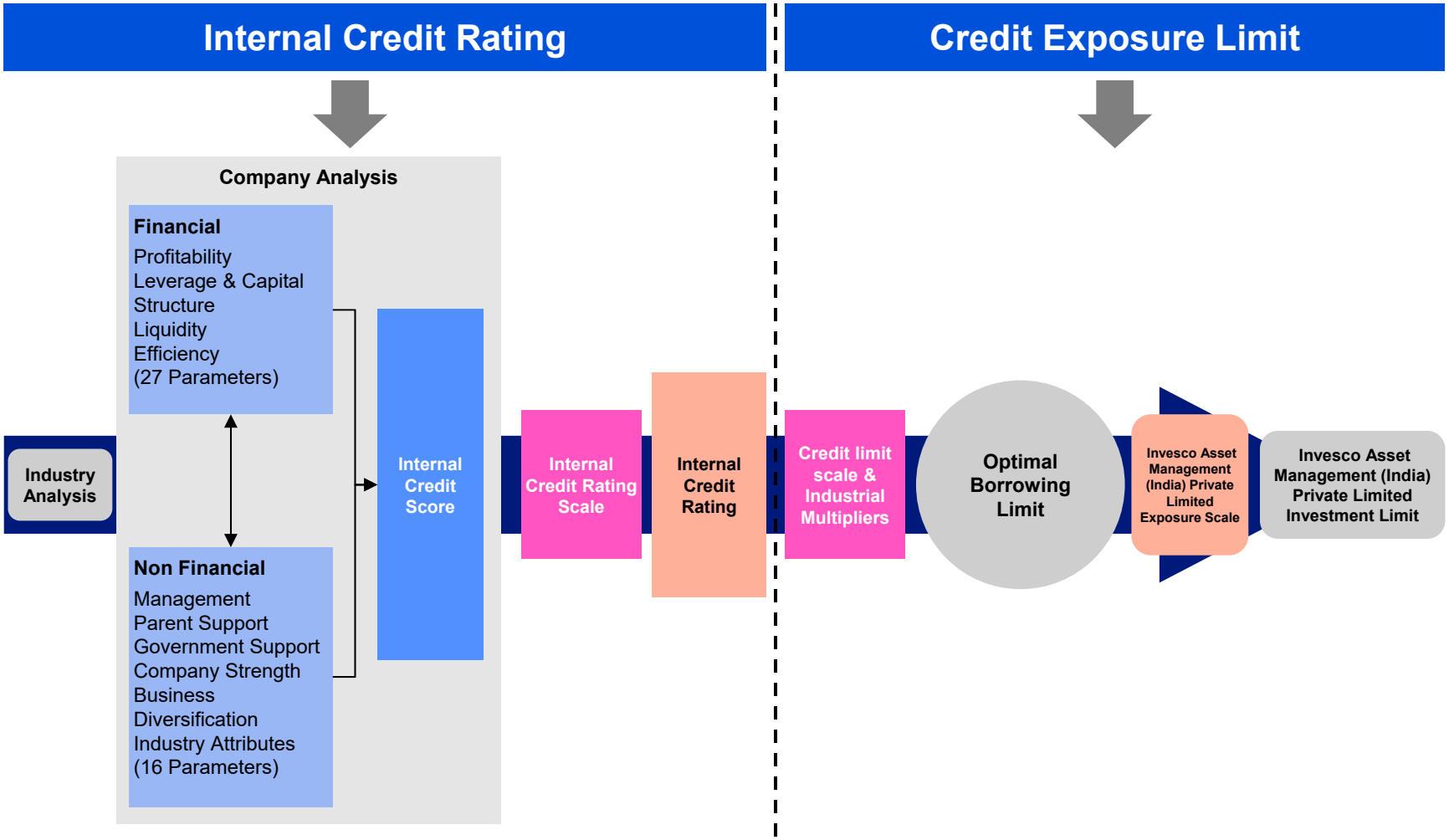

Coverage universe

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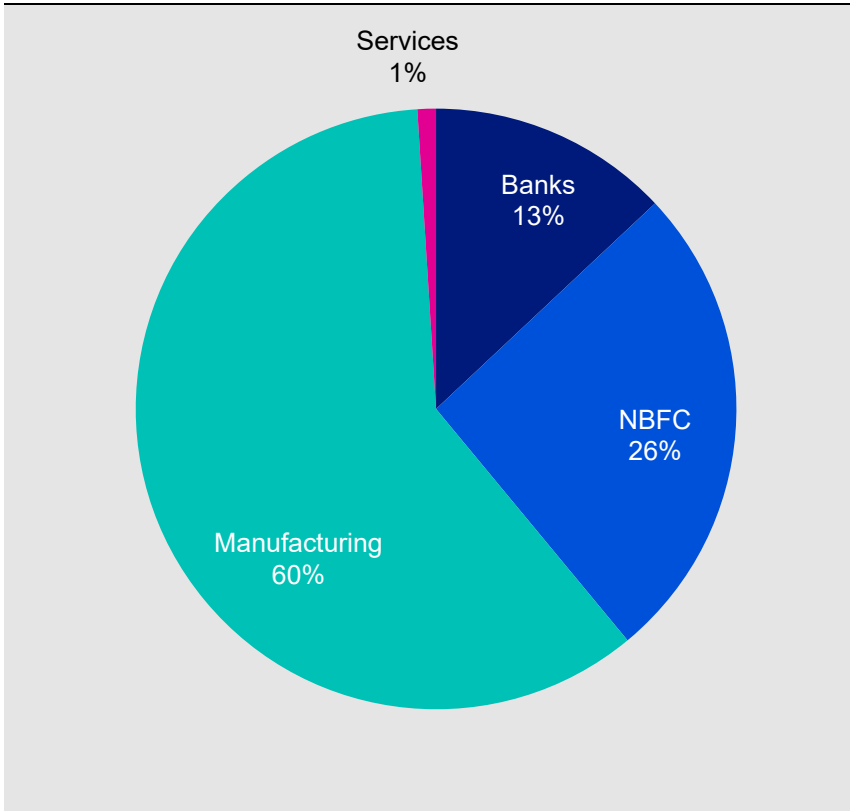
Covering 300 issuers*

- Banks
- Non-banking Financial Institutions
- Manufacturing
- Services

These are further classified as per public/private banks, asset/non-asset backed NBFCs, industry type and leverage levels for manufacturing companies.



* As on December 31, 2018.

Credit Scoring Model

Credit model

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Industry Analysis	Involves analyzing industry conditions by reviewing the key economic, regulatory and market factors.
Non Financial Analysis	Assessment of key intangibles such as management quality, market strength, support etc.
Financial Analysis	Involves assessment of key financial parameters.

- Usage of quantitative and qualitative scoring to derive a composite weighted average credit score

Credit model – Industry analysis
(X% of composite credit score*)

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Assessment of the current performance and future outlook of the industry based on following parameters:

- Extent of Government regulation
- Effect of economic slowdown on “pricing power”
- Competitive intensity & market potential
- News flow on the sector
- Barriers to entry

Frequency of Review: Semi Annual

* Please refer slide on Credit Score methodology.

Credit model – Non financial analysis
(Y% of composite credit score*)

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Assessment of intangibles to measure the ability of an organization to sustain as a going concern.

Includes assessment of 16 parameters covering:

- Management Quality
- External (Parent/Government/Market) Support
- Company strength & Market position
- Business diversification
- Industry specific attributes

Frequency of Review: Semi Annual

* Includes X% of score based on industry analysis. Also refer slide on Credit Score methodology.

Credit model – Financial analysis
(Z% of composite credit score*)

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Evaluation and industry comparison of the issuer's financial statements to determine quality of earnings and business execution capability.

Includes assessment of 27 financial ratios covering:

- Profitability
- Leverage & Capital Structure
- Liquidity
- Efficiency
- Asset Quality

Frequency of Review:

- Banks – Quarterly
- NBFCs – Semi Annual
- Others – Annual

* Please refer slide on Credit Score methodology.

Credit model – scoring assessment

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Information sources

1. Published financials
2. Management meetings
3. Sell side analyst research
4. Invesco Asset Management (India) Private Limited – Equity team
5. Perception amongst stakeholders

Weightages of financial parameters differ across type of issuer

Examples:

- *Profitability* is assigned a higher weightage for NBFCs as compared to banks and Manufacturing
- Weightage of *leverage ratio* is different across manufacturing, asset backed and non-backed NBFCs while not applicable for bank analysis

Credit rating scale

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Issuer credit score is mapped to an internal credit rating:

	Internal Rating	Credit Quality	Credit Risk
Investment Grade	A1	Superior	Negligible
	A2	Very High	Extremely Low
	B1	High	Very Low
	B2	Moderate	Low
	C1	Satisfactory	Moderate to Low
	C2	Fair	Moderate
Non Investment Grade	D1	Possible servicing delay	High
	D2	Likely servicing delay	High
	E1	Possible default	High
	E2	Likely default	High

Internal credit ratings

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Rating	Banks	NBFCs	Manufacturing	Services	Total
A1	1	1	4	-	6
A2	-	7	29	2	38
B1	5	25	64	1	95
B2	6	23	39	-	68
C1	12	14	33	-	59
C2	9	5	7	-	21
D1	6	1	4	1	12
D2	-	1	-	-	1
E1	-	-	-	-	

As on December 31, 2018.

Credit exposure limit

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Credit exposure limit is a function of the following parameters

f {
Internal Credit rating
Net Worth
Optimum Borrowing Limit vs. Outstanding Debt
Internal Industry multipliers
Government/Parent support
Internal Exposure scale
}

Specific credit exposure limit may be for short term period only

Credit monitoring

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Monitoring the financial/non-financial health of issuers is carried out on a concurrent basis via:

- Management interactions
- Financial results
- Invesco Asset Management (India) Private Limited – Equity team
- Sell side analyst research
- Market information

Based on the Model score, credit rating is updated

Credit monitoring (CONTINUED)

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Each issuer within the rated universe could be under additional monitoring under watch/negative categories.

Classifications	Watch*	Negative
Banks	22	1
NBFCs	12	0
Manufacturing	33	3
Services	–	–
Total	**67**	**4**

* Includes "Watchlist Neutral" & "Watchlist Freeze".
As on December 31, 2018.

Rating migration

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- Credit rating change ratio (Number of companies upgraded to downgraded) has been less than for the quarter ended December 2018. The ratio was the highest for CRISIL at 0.81X, followed by CARE at 0.46X and ICRA at 0.33X
- Upgrades and downgrades during the quarter were across sectors
- Between October-18 to December-18, there were 26 upgrades and 25 downgrades in ratings from the internal credit model
- Upgrade to Downgrade Ratio:
  - All : 0.74
  - NBFC : 1.00
  - Manufacturing : 1.00
  - Services : NA
  - Banks : 1.00

As on December 31, 2018.

India Fixed Income Team

Invesco Mutual Fund

Sujoy Das, Head – Fixed Income

Sujoy has over 21 years experience in the Fixed Income market. In his last assignment, Sujoy was Head – Fixed Income with Bharti AXA Mutual Fund. Prior to Bharti AXA, he was with DSP Merrill Lynch Mutual Fund as Fund Manager, managing several fixed income funds. Sujoy has also worked with Bank of Punjab as a trader and traded in government securities, corporate bonds etc. and was a senior member of their treasury function. In May 2005 & April 2012, he was featured amongst the top debt fund managers in the country, in the "Top Fund Managers of India" survey conducted by Business Today and Mutualfundsindia.com. Sujoy graduated as a Bachelor in Science (Economics) from University of Calcutta. He also holds a Post Graduate Diploma in Business Administration with specialization in Finance & International Business from Hindu Institute of Management.

Krishna Cheemalapati, Fund Manager

Krishna has over 19 years experience in the Fixed Income market. In his last assignment, Krishna was associated with Reliance General Insurance as Chief Investment Officer for around 2 years. He has also worked with ICAP India Pvt. Ltd. for almost 8 years as a fixed income dealer. Krishna is a BE from Andhra University, PGDBA from ICFAI business school & CFA from ICFAI.

Nitish Sikand, Fund Manager

Nitish has over 17 years experience in fixed income and product development. In his last assignment, Nitish was working with ICICI Bank Limited, in their International Private Banking Division, as Product Manager. Prior to ICICI Bank, he was working with JM Financial Asset Management as a Fixed Income Analyst. Nitish has also worked with Citicorp Maruti Finance Limited as a Relationship Manager – Treasury. Nitish holds a Commerce degree and is an MBA with a specialization in Finance.

Abhishek U Bandiwdekar, Fund Manager & Senior Dealer

Abhishek has over 11 years' of work experience in Fixed Income markets. In his last assignment, Abhishek was working with IDBI Asset Management as Senior Manager – Fixed Income responsible for dealing in the fixed income markets. Prior to IDBI, he was working with STCI Primary Dealer Ltd. as Fixed Income Manager. Abhishek has also worked with A. K. Capital Services Ltd and Taurus Corporate Advisory Services Ltd. Abhishek is a Commerce graduate and also holds PGDFM in Finance from I.E.S Management College of Commerce & Economics, Mumbai.

Experience data of the India Fixed Income Team is on March 31, 2018.

India Fixed Income Team (CONTINUED)

Invesco Mutual Fund

Vardhman Kochar, Performance & Risk Analyst

Vardhman has over 10 years of experience in risk evaluation and risk management. In his last assignment with Polaris Financial Technology, he was acting as a consultant for Market Risk Management and Regulatory Compliance. Prior to Polaris, he was working with Crisil Irevna Ltd. as a Lead Analyst where he worked on Risk and P&L system design and implementation for a derivatives trading desk at a global bank in London. Vardhman has also worked with Genpact as a Business Analyst. Vardhman is a B.E in Computer Science from University of Rajasthan and holds a MBA degree from IIT Kanpur.

Prateek Jain, Dealer

Prateek has around 6 years of experience in Fixed Income markets. In his previous stint, Prateek was working with Principal Pnb Asset Management Pvt. Ltd. as a Fixed Income Dealer. Prior to that, he was working with Taurus Corporate Advisory Services Ltd. as a Debt Dealer of wholesale debt markets. Prateek has also worked with Edelweiss Web Services Ltd. as a junior associate. Prateek holds a degree in Bachelor of Management Studies and is a Post Graduate in commerce.

Sunil Koppar, Head – Credit Research

Sunil has over 26 years' experience in the credit research and analysis. In his last assignment, Sunil was working with Development Bank of Singapore in the Risk Management group. Prior to Development bank of Singapore, he worked in the corporate banking group at ICICI Bank Limited, ABN AMRO Bank/Royal Bank of Scotland and Commerzbank. In addition, Sunil has also worked with Meghraj financial and CRISIL. Sunil has completed his B.Text. from VJTI and M.M.S from Sydenham Institute of Management.

Puja Kasat, Credit Research Analyst (PMS)

Puja has over 6 years of experience in credit research and analysis. In her last assignment, Puja was working as Manager with the Credit Ratings team of CRISIL (An S&P Global Company) where she was responsible for conducting end to end credit appraisal of corporates across sectors. Prior to CRISIL, she was working with Yes Bank Ltd as Senior Manager – Commercial Banking where she was managing Mid-Market clients as well as responsible for conducting credit appraisal process on an ongoing basis. Puja graduated as a Bachelor of Engineering in Electronics from Government College of Engineering, Pune. She also holds Master of Business Administration in Finance from Faculty of Management Studies, Delhi.

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India Fixed Income Team (CONTINUED)

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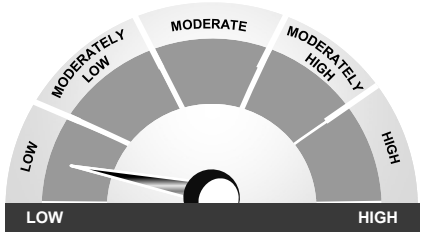
Herin Shah, Senior Research Analyst

Herin has over 13 years' experience in Fixed Income research. In his last assignment, Herin was working with Invesco UK Ltd., as Senior Analyst where he was responsible for evaluating and identifying investible opportunities. Prior to this, he was working with Goldman Sachs, UK as Executive Director – Credit Risk & Advisory handling Credit Risk Management and Corporate Rating Advisory. Herin holds a Commerce degree and is a Chartered Accountant and Company Secretary and has done Financial Risk Management from Global Association of Risk Professionals.

Product labelling
Suitable for investors who are seeking*

Invesco India Liquid Fund
(an open ended liquid scheme)
- Income over short term
- Investments predominantly in money market and debt instruments commensurate with low risk and high liquidity

RISKOMETER



Investors understand that their principal will be at low risk

Invesco India Money Market Fund
(an open ended debt scheme investing in money market instruments)
- Income over short term
- Investment in money market instruments

Invesco India Treasury Advantage Fund
(an open ended low duration debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 6 months to 12 months)
- Income over short term
- Investment in debt and money market instruments

RISKOMETER

Investors understand that their principal will be at moderately low risk

Invesco India Corporate Bond Fund
(an open ended debt scheme predominantly investing in AA+ and above rated corporate bonds)
- Income over medium to long term
- Investments in AA+ and above rated corporate bonds

Invesco India Short Term Fund
(an open ended short term debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 1 year to 3 years)
- Income over short to medium term
- Investments in short term debt and money market instruments

Invesco India Gilt Fund
(an open ended debt scheme investing in government securities across maturity)
- Credit risk free returns over medium to long-term
- Investments primarily in securities issued and guaranteed by the Central and the State Government across maturities

Invesco India Ultra Short Term Fund
(an open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration^ of the portfolio is between 3 months to 6 months)
- Income over short term
- Investments in a portfolio of short term money market and debt instruments

Invesco India Banking & PSU Debt Fund
(an open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds)
- Returns over short to medium term
- Investments primarily in debt & money market instruments issued by Banks, PFIs, PSUs and Municipal Bonds

Invesco India Credit Risk Fund
(an open ended debt scheme predominantly investing in AA and below rated corporate bonds (excluding AA+ rated corporate bonds))
- Income and Capital appreciation over medium to long term
- Investments primarily in corporate debt securities of varying maturities across the credit spectrum

RISKOMETER

Investors understand that their principal will be at moderate risk

RISKOMETER

Investors understand that their principal will be at moderately high risk

Invesco India Regular Savings Fund
(an open ended hybrid scheme investing predominantly in debt instruments)
- income and capital appreciation over medium to long term
- investments primarily in fixed income, equity and equity related instruments

* **Investors should consult their financial advisers if in doubt about whether the product is suitable for th**em.
^ Macaulay duration of a bond is the number of years taken to recover the initial investment of a bond. It is calculated as the weighted average number of years to receive the cash flow wherein the present value of respective cash flows is multiplied with the time to that respective cash flows. The total of such values is divided by the price of the security to arrive at the duration.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Get in touch

Invesco Mutual Fund

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