

Invesco UK Enhanced Index

UK All Companies

Introduction

The Invesco UK Enhanced Index fund aims to provide investors with index-like exposure while seeking to outperform the index, after fees, over a full market cycle. This type of fund is positioned to be between index tracker funds and actively managed, unconstrained funds.



[Click here to read the Invesco approach to ESG investing.](#)

Why RSMR Rate this Fund

- Managed by the very experienced Invesco Quantitative Strategies (IQS) team.
- Fund built using a systemic and structured process.
- This strategy is positioned to be somewhere between a passive and traditional active strategy.
- They seek to replicate the index risk characteristics in terms of sectors and industries and produce a beta of around 1, but also to create active factor positions around the benchmark.

Fund Process

The philosophy underlying the process is based on translating the fundamental and behavioural finance insights of Invesco's research team into the fund through a systemic and structured process that combines these insights with risk controls.

The fund is predicated on the expectation that cheap stocks will outperform expensive stocks (value), trends will persist for a while (momentum), and high quality companies will beat low quality stocks (quality).

The team will build a portfolio of around 60-80 'cheap' UK stocks to diversify away idiosyncratic risk. They are not stock picking, just producing a portfolio that is cheaper in aggregate and this should produce small incremental excess returns. Value means that the team buy stocks that others are selling or take a contrarian approach. In the managers view, momentum means that they buy what others are also buying, which is why stocks are performing well. In the long term both of these factors outperform so it's easy to assume that they will diversify each other and will smooth returns. The team defines Value, Momentum and Quality using proprietary metrics and generates three distinct scores and ranks the universe according to these scores. For Value, cash flow yield is the most important and most prominent signal, and they therefore allocate 50% weighting to that factor, with the other factors equally weighted. They split momentum into two areas - the price momentum and earnings momentum.

The team build a 1 for 1 linear model for each factor, so creating a value model, a momentum model and a quality model. The next step brings these three models together with a systematic weighting scheme, the equal risk contribution weighting scheme. They want value, momentum, and quality to contribute the same to active portfolio risk.

The 'Real World' portfolio is adjusted for investment constraints. The team want a 'Beta One' portfolio, and they want low tracking error, but they also want to make sure they are broadly diversified. The 'real' portfolio aims to be as close as possible to it the combination of the three model portfolios and this is done by optimising the resulting portfolio to minimise the expected tracking error to the model portfolio.

Evaluation

The managers of the fund aim for an index like return but also incrementally better performance over a three-year period. They achieve this with similar volatility characteristics to both the index and a passive investment by optimising the portfolio for three factors which they believe will produce better returns characteristics.

Application

This fund is suitable as part of a UK equity allocation for an investor seeking an all-weather approach to investing in UK companies.

Our Opinion

This Invesco UK Enhanced Index fund is a systematic factor based investment strategy which combines Value, Quality and Momentum factors into an index type fund which aims to replicate the risk of the underlying benchmark (beta 1) but with an incrementally better performance.

The team is experienced and employs an analyst team to hone and refine the factors involved in building the fund.

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