amLeague & Invesco – Juillet 2020 par Martin Kolrep et Manuela von Ditfurth, Gérants de portefeuille Senior, Invesco Quantitative Strategies

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Invesco Global Low Carbon (portefeuille notionnel*

Invesco has extensive experience in managing Low Volatility equity strategies, in fact we were one of the pioneers in low volatility equity strategies when we started our first client portfolios on European and Global equities back in 2004. In the meantime, this has been extended to other regions also including ESG considerations and a Low carbon profile like in the Invesco Global Low Carbon notional portfolio.

In 2020, the notional portfolio is behind benchmark, posting a return of -7.52% between 31 December 2019 and 30 June 2020, while the MSCI World Index has returned -5,82% over the same period. To get a feeling for what happened in the portfolio, let us have a look at the approach we are following to manage this portfolio.

Standardised rolling 12 month performance**

Rolling 12-month net returns*** in EUR (%)	12/15/2015 (inception date) to 06/30/2020	12/15/2015 (inception date) to 06/30/2016	06/30/2016 to 06/30/2017	06/30/2017 to 06/30/2018	06/30/2018 to 06/30/2019	06/30/2019 to 06/30/2020
Invesco Global Low Carbon Notional Portfolio	24,38%	14,61%	13,62%	8,39%	0,79%	-0,67%
MSCI World Index	41,99%	15,10%	15,13%	8,52%	9,02%	4,28%

Past performance is not a guide to future returns.
**Source : amLeague, 30 June 2020. The portfolio manager manages the notional portfolio and re-balance regularly its allocation. ***Returns are net of brokerage fees

First and foremost, we are factor investors, meaning that according to our view, certain criteria of stocks are beneficial over the longer term. We mean for example Momentum, Quality and Value. We also favour stocks with a lower volatility and by that an approach which can be further away from the MSCI World Index than a traditional index-oriented strategy.

Our process fully integrates ESG, meaning that how a company behaves in terms a set of environmental, social and governance issues has an impact on the probability to be selected within the multi-factor framework where we look at Momentum, Quality and Value. The risk mitigation effect of the implementation of ESG-criteria on the corporate level however typically works only over the longer term. It is therefore relevant to still incorporate a tight risk management over the short term, which is based on the classical evaluation of volatilities and correlations of the stocks involved. For amLeague in addition, we also look at the so-called carbon footprint of our portfolio and try to significantly reduce it when comparing our portfolio to the MSCI World Index.

When building the portfolio there are sometimes conflicting targets that we are looking to achieve, for example a portfolio with lower volatility currently is usually more expensive than the market. Reducing volatility has a price. That is why we are not targeting the Minimum-Variance portfolio but a portfolio that is more in middle between the Minimum-Variance portfolio and the MSCI World index. We call that a Low Volatility portfolio. And we are trying to build it while not becoming more expensive than the market. That is because we like Value as a factor. Second, we are looking for a well-diversified portfolio, holding currently around 170 single names. By this we typically have a bias towards a higher exposure in mid-cap companies, underweighting mega caps.
These two biases, Value and smaller Size, were detrimental in 2020 and they were astonishingly detrimental in the period after the sharp equity market selloff, the period where our portfolio underperformed most this year. This is

unusual because typically, in a market rally, one would expect Value and Small Size to rally with the market. This year, there was a Value rally for a couple of days in May, but so far not enough.

Our Low Volatility approach per se has worked, because out of all managers since the start of the amLeague Global Low Carbon competition in 2015 we are the one with the lowest volatility of only 15.27% (between 15 December 2015 to 30 June 2020, source amLeague) but in terms of risk-adjusted returns we are not at the top of the league mainly because of our preference amongst others for Value and Lower Size.

Some positive things however we can conclude: ESG and especially a lower carbon footprint in 2020 had a slightly positive effect on performance during the crisis. We believe the tendency is there to establish a strong trend for these preferences going forward. Companies that have already developed in that direction are likely to be among the winners going forward, according to our view. When looking at ESG and decarbonisation, we believe history is not a good guidance for the future.

In addition, we also favour factors like Momentum and Quality, so for example a strong earnings trend and price momentum as well as a strong balance sheet. These factors were quite positive during the crisis and have helped our performance for almost all the period since beginning of this year.

But where do we go from here? We believe time is approaching for Value to have a better return going forward. We also favour the view that markets will continue their upward movement, but more modestly than has been the case in the second quarter. We believe a second virus wave is likely, but it will not have the same negative impact on markets as the first one. There is a huge opportunity for stock selectors right now from our perspective, because the dispersion for example on Value has rarely been so wide. The possibility to innovate however will likely be key. The crisis has modified the way how companies are doing business and therefore we believe there is lot of opportunity going forward for those who are able to adapt quickly.

*Notional portfolios are 'Real Life Like' portfolios: all operations are performed as on real accounts

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