

Morningstar Insights: INVESCO



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Before we start

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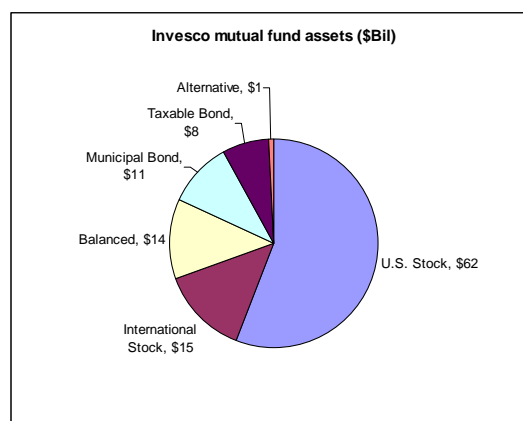
Overview


- ▶ Overview of Invesco
- ▶ Morningstar's fund coverage
- ▶ Recent events at Invesco
- ▶ Stewardship update
- ▶ Our favorite Invesco funds
- ▶ Conclusion




Overview of Invesco

- ▶ Global, independent investment management company
 - ▶ S&P 500 company;
 - ▶ \$10 billion market cap;
 - ▶ 5,500 employees
- ▶ Approximately 700 investment professionals
- ▶ \$560 billion in AUM globally
 - ▶ \$111 billion in AUM in U.S. open-end funds
- ▶ 137 U.S. open-end funds



Shift in Style	1999		
	\$4.8b	\$31b	\$30.4b
	2008		
	\$16.2b	\$9b	\$11.5b
	2010		
	\$18.4b	\$10.3b	\$9.5b
Morningstar Large Cap Style Boxes			
			

Morningstar's Fund Coverage--INVESCO	
▶ U.S fund analysts cover 35 Invesco open-end funds	<ul style="list-style-type: none"> ▶ Invesco's 25 largest funds ▶ Over 70% of U.S. open-end fund assets
▶ Three fund analysts visited Invesco's Houston office in August 2010	<ul style="list-style-type: none"> ▶ Completed Stewardship update in December 2010
▶ Over 100 in-person or teleconference interviews with Invesco portfolio managers or product personnel in 2010	
▶ Recently initiated coverage of Invesco's target-date and asset allocation risk-parity based strategies	
	

Recent Events

- ▶ Invesco recently purchased Morgan Stanley's Van Kampen business
 - ▶ VK strong/big where Invesco was weak
 - U.S. value funds and muni bond funds
 - ▶ Invesco's Value CIO was replaced by VK manager
 - Jim Gilligan has strong record of performance
 - Gilligan brought entire team over from VK
 - ▶ 57 fund mergers and multiple liquidations
 - ▶ Invesco and VK pay reward strong long-term performance
 - ▶ 4 of 5 largest funds are former VK funds
 - ▶ Some of Invesco's best-performing funds are former VK funds



Stewardship Update

- ▶ Focus on Five Factors:
 - ▶ Corporate culture
 - ▶ Board quality
 - ▶ Manager Incentives
 - ▶ Fees
 - ▶ Regulatory Issues
- ▶ Latest stewardship review focused on culture/VK integration issues:
 - ▶ Upgraded Corporate Culture from "C" to "B"
 - VK merger makes sense and will benefit shareholders
 - Invesco has made progress hiring and retaining top talent



Stewardship Update cont.

- ▶ Four Invesco funds receive an overall Stewardship Grade “A”
 - ▶ First “A” grades in Invesco’s history
 - All have low fees and high manager ownership
- ▶ Funds receiving “A” grade:
 - ▶ Dynamics (IDYAX)
 - ▶ US Mid Cap Value (MMCAV)
 - ▶ Van Kampen Equity and Income (ACEIX)
 - ▶ Van Kampen Growth and Income (ACGIX)
- ▶ Morningstar fund analysts currently recommend all but Dynamics



Our Favorite Funds

- ▶ Van Kampen Growth and Income (ACGIX)
 - ▶ Long tenured team
 - ▶ Excellent long-term, risk-adjusted record
- ▶ Invesco Charter (CHTRX)
 - ▶ Run by Invesco’s Core CIO
 - ▶ Absolute value oriented large cap fund
 - Will hold 10%+ cash when manager can’t find values
- ▶ Invesco Diversified Dividend (LCEAX)
 - ▶ Manager Meggan Walsh in one of Invesco’s rising stars
 - ▶ Former Morningstar Conference speaker
- ▶ Invesco International Growth (AIEX)



Conclusion

- ▶ Invesco is a different firm than it was five or ten years ago
 - ▶ U.S. value funds are now top notch
- ▶ But...
 - ▶ Strengths not evenly distributed throughout firm
 - ▶ Fees on some funds still average or above-average
 - ▶ New asset allocation/target-date strategy is untested
 - ▶ Another acquisition might be in the cards to upgrade talent
- ▶ Advisors should be choosy
 - ▶ Favor Invesco's best funds with tenured managers, low fees, high manager co-investment, and strong long-term records.



Questions?



Morningstar Insights: Putnam

▶ **Rob Wherry, Mutual Fund Analyst**

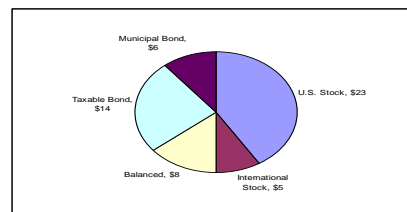
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Overview

- ▶ Putnam has \$56 billion in retail assets
- ▶ Lineup includes 80 retail funds, backed up by deep analyst ranks
- ▶ Morningstar covers 39 funds, in addition to the target date series
- ▶ Currently, there are no Analyst Pick funds in the lineup
- ▶ Key launch: Absolute Return funds



Highlights of our Putnam Research

- ▶ The firm is heading into the third year of its turnaround plan
 - ▶ Our thoughts on new management, the exit of the head of fixed income, and the new research process
 - ▶ Performance has started to improve across the fund family
 - ▶ For the first time in a decade Putnam could see net inflows
 - ▶ A brief look at the Absolute Return strategies
 - ▶ Key takeaways



Crucial Year in Putnam's Turnaround Plan

- ▶ In June, Bob Reynolds will pass the three-year mark as CEO
 - ▶ Phase 1: Reynolds shook up management ranks
 - + Key hire: Walter Donovan as CIO; other Fidelity execs
 - + Faces to watch: Nick Thakore & Bob Ewing
 - + New international team
 - + Reynolds has full confidence of the parent company
 - ▶ Several key managers and new products will cross the three-year mark in 2011
 - + Several equity managers
 - + The Absolute Return funds



Crucial Year in Putnam's Turnaround

- ▶ Phase 2: Reynolds instituted an overhaul of the research process
 - ▶ The previous quant/active management model was scraped
 - ▶ New process overseen by Nick Thakore and Bob Ewing
 - ▶ Stronger focus on bottom up research, both portfolio and stock risk and valuation. Manager accountability
- ▶ New compliance guidelines should help prevent past scandals
 - ▶ 52 person team
 - ▶ Organized into groups that focus on trading, marketing, prospectus guidelines, institutional and international
 - ▶ Litigation is down to one lawyer



Crucial Year in Putnam's Turnaround

- ▶ Change to fixed income team raises key question mark
 - ▶ In February, Rob Bloemker, head of fixed income, announced he was leaving
 - ▶ He was a key member of the team overseeing funds like Diversified Income and Absolute Return 100 & 300
 - ▶ In his place is a three-member leadership team, all of whom worked closely with Bloemker for a decade. Funds will remain team managed.
- ▶ New international team will be in place by June
 - ▶ Two ex-Fidelity executives will help oversee foreign stock research, fund management
 - ▶ International fund lineup has been so-so



Putnam's Performance has been Improving

- ▶ Three-year numbers are starting to turn positive after a dismal run the last decade
- ▶ Only two of the 10 largest Putnam funds aren't in the top 40% of their category over the trailing 36-month period

Name	Morningstar Category	Fund Size Base (In Millions)	Total Ret	Total Ret	Total Ret	Total Ret
			% Rank Cat 1 Yr	% Rank Cat 3 Yr	% Rank Cat 5 Yr	% Rank Cat 10 Yr
Putnam Diversified Income A	Multisector Bond	5,381,447,426	13	50	76	68
Putnam Fund for Growth & Income A	Large Value	5,360,894,831	46	26	82	92
Putnam Voyager A	Large Growth	5,134,262,819	42	1	5	34
Putnam Multi-Cap Growth A	Large Growth	3,859,189,343	15	27	67	72
Putnam Equity Income A	Large Value	3,501,256,621	34	7	8	16
Putnam Asset Allocation: Growth A	Aggressive Allocation	1,840,101,803	33	37	53	38
Putnam Investors A	Large Blend	1,575,831,982	41	18	90	90
Putnam US Government Income A	Intermediate Government	1,552,963,899	46	1	1	4
Putnam CA Tax Exempt Income A	Muni California Long	1,528,276,988	31	41	41	42
Putnam High Yield A	High Yield Bond	1,521,020,537	46	34	28	22



A Look at Net flows into the Putnam Lineup

- ▶ Over \$130 billion exited the funds over the last decade
- ▶ Outflows, though, are slowing as performance has improved

Putnam Calendar Year New Flows (In Millions)

Year	Net Flows (In Millions)	Year	Net Flows (In Millions)
1994	2,381	2003	(25,653)
1995	6,325	2004	(23,835)
1996	19,204	2005	(19,230)
1997	16,203	2006	(11,388)
1998	9,600	2007	(12,845)
1999	3,896	2008	(15,385)
2000	9,339	2009	(3,414)
2001	(2,875)	2010	(394)
2002	(15,894)	2011	137



What is Selling at Putnam

Name	Estimated Net Flows (In Millions)		Name	Estimated Net Flows (In Millions)	
	YTD	1-Yr		YTD	1-Yr
Putnam Diversified Income Trust Fund	329	1,348	Putnam Asset Allocation Funds Balanced	(4)	(152)
Putnam Absolute Return 300 Fund	155	747	Putnam Global Health Care Fund	(30)	(172)
Putnam Voyager Fund	398	539	Putnam Asset Allocation Funds: Growth	(24)	(210)
Putnam Absolute Return 500 Fund	30	313	Putnam International Capital Opp	(43)	(211)
Putnam Absolute Return 700 Fund	27	260	Putnam Equity Income Fund	(43)	(222)
Putnam Capital Spectrum Fund	72	185	George Putnam Balanced Fund	(37)	(265)
Putnam Equity Spectrum Fund	34	158	Putnam Investors Fund	(42)	(311)
Putnam Floating Rate Income Fund	66	130	Putnam International Equity Fund	(60)	(430)
Putnam Absolute Return 100 Fund	20	126	Putnam Multi-Cap Growth	(142)	(639)
Putnam U.S. Government Income Fund	(24)	113	Putnam Fund for Growth and Income Fund	(143)	(765)



Inside the Resurgence of Putnam Voyager

- ▶ Nick Thakore previously managed RiverSource Growth, Fidelity Fund and Fidelity Trend to solid track records
- ▶ Thakore kept same % of assets in top ten, but current portfolio has double total holdings (178) and double the tech exposure
- ▶ The fund invests 28% of assets in small and mid caps, seven percentage points more than the large growth category average
- ▶ Winners: Apple, the fund's top holding, has provided a significant tailwind during Thakore's tenure
- ▶ Losers: The BP spill hurt—sold Anadarko, Transocean
- ▶ Now top Large Growth fund over the trailing three-year period



The Absolute Return Funds Were a Key Launch

- ▶ This fund lineup has attracted over \$3 billion the last two years
- ▶ Strong returns in 2009 were followed by good performance last year
- ▶ Morningstar is still skeptical about whether the 500 & 700 funds can meet their underlying mandates; the 100 & 300 funds are more on track
 - ▶ Three-year anniversary in December is critical benchmark
 - ▶ Putnam has improved transparency

Name	Fund Size (In Millions)	2010 Total Return (%)	2009 Total Return (%)
Putnam Absolute Return 100 A	360,879,236	1.16	4.04
Putnam Absolute Return 300 A	1,282,319,820	3.10	8.23
Putnam Absolute Return 500 A	725,323,285	2.68	9.92
Putnam Absolute Return 700 A	623,660,089	3.54	14.42
US OE Short-Term Bond		4.11	9.30
US OE Moderate Allocation		11.83	24.13

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Key Takeaways

- ▶ The turnaround plan is in full gear
- ▶ A new research process is helping fund performance rebound
- ▶ Putnam may actually see net inflows in 2011, which would be the first time in a decade money hasn't exited the fund lineup
- ▶ The Absolute Return funds will pass a key performance benchmark in December. Morningstar is taking a wait-and-see outlook
- ▶ While no funds in this family are on the Analyst Pick list, Morningstar has become more optimistic about the fund lineup
- ▶ Questions marks around fixed income and international teams
- ▶ The fund family will receive expanded coverage in 2011

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Questions?

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