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QDIA Validation

Invesco Equity and Income Fund

July 13, 2013

DALBAR, Inc.
Audit & Due Diligence Division



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QDIA Validation - Status as of July 13, 2013

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DALBAR APPROVED

VALIDATED for QDIA

DALBAR has evaluated the **Invesco Equity and Income Fund** offered by **Invesco Advisers, Inc** to determine if it complies with the requirements to be used as a qualified default investment alternative (QDIA) as defined by the Employee Retirement Income Security Act of 1974, as amended [ERISA] Section 404(c)(5) and associated regulations.

The *Invesco Equity and Income Fund (Investment)*, an open end regulated investment company managed by *Invesco Advisers, Inc (Manager)* was examined in relation to requirements for use as a Qualified Default Investment Alternative under ERISA Section 404(c)(5). Findings are:

Validation Grid

The following table summarizes the ways in which the *Invesco Equity and Income Fund* qualifies as a QDIA.

In each case the *Investment* being validated may be applicable as the only one used (stand-alone) or may be used in conjunction with other investments (sleeve) in a model portfolio managed by an investment adviser that qualifies under ERISA section 3(38). The QDIA validation determines which QDIA alternative(s) apply and whether the *Investment* may be used stand-alone and/or as a sleeve in a portfolio.

| INVESCO EQUITY AND INCOME FUND | | | |
|--------------------------------|-----------------|-------------|---------------------|
| QDIA Alternative | | Stand Alone | Sleeve of portfolio |
| 1 | Age Based | No | Yes |
| 2 | Risk Based | Yes | Yes |
| 3 | Managed Account | No | Yes |
| 4 | Short Term | No | No |
| 5 | Grandfathered | No | No |

NOTEWORTHY OBSERVATIONS:

- The balanced or moderate allocation style of the *Invesco Equity and Income Fund* is consistent with plan participants who are inexperienced or unsure of investment preferences.
 - ➔ **We consider the *Invesco Equity and Income Fund* to be well suited for use as a QDIA to serve the needs of a majority of plan participants.**

- The portfolio construction process used for the *Invesco Equity and Income Fund* controls the targeted level of risk and is adaptive to market opportunities. The fixed income portion is governed by a proprietary tool that sets and changes investment parameters.
 - ➔ **We consider the flexible portfolio construction process used for the *Invesco Equity and Income Fund* to be superior to the rigid asset allocation method used by most balanced funds.**

Introduction

This report contains DALBAR's independent analysis of the *Invesco Equity and Income Fund* and *Invesco Advisers, Inc.* and is intended to supplement the duty of fiduciaries to prudently select investments for use as a qualified default investment alternative. Since this is a supplement, the content of this report is intended as a guideline and is not a substitute for the evaluation required by regulations.

As an independent expert, DALBAR has no affiliation with the *Invesco Equity and Income Fund* or *Invesco Advisers, Inc.* and has the training, experience and proficiency to conduct this analysis. DALBAR has a 30-year history recognized by industry and government as an independent third-party expert in the business of providing evaluations, ratings and due diligence. DALBAR certifications are recognized as marks of excellence in adviser services, communications, electronic and telephone services. DALBAR is the only ratings firm with an SEC no-action letter exempting certain of its evaluations from the testimonial rule.

This analysis consists of three separate evaluations that are designed to validate if the *Invesco Equity and Income Fund* and *Invesco Advisers, Inc.* meet the requirements of ERISA section 404(c)(5) and related regulations. These evaluations are:

- A. A determination of which class or classes of QDIA are appropriate uses of the *Invesco Equity and Income Fund*.
- B. An evaluation of the qualifications of *Invesco Advisers, Inc.* to meet the regulatory requirements for a QDIA manager.
- C. An assessment of whether *Invesco Equity and Income Fund* meets the DALBAR standard of reasonableness.

For more information concerning this report, please contact DALBAR at:



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Applicability as QDIA Alternative


There are five types of investments that are named as possible QDIA alternatives. In each case the *Investment* being validated may be applicable as the only one used (stand alone) or may be used in conjunction with other investments (sleeve). The alternatives are:

1. Age Based
2. Risk Based
3. Managed Account
4. Short Term (not applicable here)
5. Grandfathered (not applicable here)


The Applicability phase of the QDIA validation examines the *Investment* to determine which alternatives apply and whether it may be used stand-alone and/or as a sleeve.

| A. APPLICABILITY AS QDIA ALTERNATIVE | | | |
|---|-------------|--------|--|
| REQUIREMENT FOR QDIA ALTERNATIVE | STAND ALONE | SLEEVE | COMMENTS |
| 1. Age Based - An investment fund product or model portfolio that: | | | |
| a) ...applies generally accepted investment theories, | N/A | Yes | The investment approach used is consistent with well established principles and theories. The <i>Invesco Equity and Income Fund</i> adheres to a balanced or moderate allocation style, using stocks and bonds. The bonds are investment-grade corporate bonds, convertible securities and government-issued. The stocks consist of large, quality companies that are undervalued, but have a positive catalyst to increase shareholder value. |
| b) ...is diversified so as to minimize the risk of large losses, | N/A | Yes | <i>Investment</i> is diversified among asset classes, industries and geographic regions. |
| c) ...is designed to provide varying degrees of long-term appreciation and capital preservation | N/A | N/A | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of cash or other low volatility components. |
| d) ...through a mix of equity and fixed income exposures | N/A | Yes | <i>Investment</i> contains both equities and fixed income securities. |

| A. APPLICABILITY AS QDIA ALTERNATIVE | | | |
|---|-------------|--------|---|
| REQUIREMENT FOR QDIA ALTERNATIVE | STAND ALONE | SLEEVE | COMMENTS |
| e) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy. | N/A | N/A | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan selects the degree of capital appreciation and capital preservation based on the participants' age. |
| f) Such products and portfolios change their asset allocations and associated risk levels over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age. | N/A | N/A | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan changes the risk levels over time with the objective of becoming more conservative. |
| <p>➔ SUMMARY: The Invesco Equity and Income Fund qualifies to be used as part of a qualified model portfolio in conjunction with other investments but may not be used as an AGE-BASED QDIA.</p> | | | |

| A. APPLICABILITY AS QDIA ALTERNATIVE | | | |
|--|-------------|--------|---|
| REQUIREMENT FOR QDIA ALTERNATIVE | STAND ALONE | SLEEVE | COMMENTS |
| 2. Risk Based - An investment fund product or model portfolio that: | | | |
| a) ...applies generally accepted investment theories | Yes | Yes | The investment approach used is consistent with well established principles and theories. The <i>Invesco Equity and Income Fund</i> adheres to a balanced or moderate allocation style, using stocks and bonds. The bonds are investment-grade corporate bonds, convertible securities and government-issued. The stocks consist of large, quality companies that are undervalued, but have a positive catalyst to increase shareholder value. |
| b) ...is diversified so as to minimize the risk of large losses | Yes | Yes | <i>Investment</i> is diversified among asset classes, industries and geographic regions. |
| c) ...is designed to provide long-term appreciation and capital preservation | Yes | Yes | <i>Investment</i> is designed to manage the risk of capital loss and produce appreciation that is consistent with capital preservation. |
| d) ...through a mix of equity and fixed income exposures | Yes | Yes | <i>Investment</i> contains both equities and fixed income securities. |
| e) ...consistent with a target level of risk appropriate for participants of the plan as a whole. | Yes | Yes | The portfolio construction process controls the targeted level of risk and is adaptive to market opportunities. The fixed income portion is governed by a proprietary tool that sets and changes investment parameters. When used as a sleeve of a larger investment, cash may be added when lower levels of risk are desired. |
|  SUMMARY: The Invesco Equity and Income Fund qualifies as a RISK-BASED QDIA either as a standalone investment or when used as part of a qualified model portfolio in conjunction with other investments. | | | |

| A. APPLICABILITY AS QDIA ALTERNATIVE | | | |
|--|-------------|--------|---|
| REQUIREMENT FOR QDIA ALTERNATIVE | STAND ALONE | SLEEVE | COMMENTS |
| 3. Managed Account - An investment management service with respect to which: | | | |
| a) ...a fiduciary that is either, I. an investment manager, within the meaning of section 3(38) of ERISA; II. a trustee of the plan that meets the requirements of section 3(38)(A), (B) and (C) of ERISA; or III. the plan sponsor who is a named fiduciary, within the meaning of section 402(a)(2) of ERISA, | N/A | Yes | The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan. |
| b) ...applying generally accepted investment theories, | N/A | Yes | The investment approach used is consistent with well established principles and theories. The <i>Invesco Equity and Income Fund</i> adheres to a balanced or moderate allocation style, using stocks and bonds. The bonds are investment-grade corporate bonds, convertible securities and government-issued. The stocks consist of large, quality companies that are undervalued, but have a positive catalyst to increase shareholder value. |
| c) ...allocates the assets of a participant's individual account | N/A | Yes | The <i>Investment</i> is not appropriate by itself as a managed account but may be included in a managed account by a qualified QDIA manager of the plan. |
| d) ...to achieve varying degrees of long-term appreciation and capital preservation, | N/A | Yes | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of cash or other low volatility components. |
| e) ...through a mix of equity and fixed income exposures, | N/A | Yes | <i>Investment</i> contains both equities and fixed income securities. |
| f) ...offered through investment alternatives available under the plan, | N/A | Yes | The <i>Investment</i> is appropriate for inclusion in the plan and thus be made available to a qualified QDIA manager of the plan. |

| A. APPLICABILITY AS QDIA ALTERNATIVE | | | |
|---|-------------|--------|---|
| REQUIREMENT FOR QDIA ALTERNATIVE | STAND ALONE | SLEEVE | COMMENTS |
| g) ...based on the participant's age, target retirement date (such as normal retirement age under the plan) or life expectancy. | N/A | Yes | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation based on the participant's age, target retirement date or life expectancy. |
| h) Such portfolios are diversified so as to minimize the risk of large losses and | N/A | Yes | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of cash or other low volatility components. |
| i) ...change their asset allocations and associated risk levels for an individual account over time with the objective of becoming more conservative (i.e., decreasing risk of losses) with increasing age. | N/A | Yes | <i>Investment</i> may be used as a sleeve if the QDIA manager of the plan varies the degree of capital appreciation and capital preservation through the use of cash or other low volatility components for an individual account over time with the objective of becoming more conservative. |
|  SUMMARY: The Invesco Equity and Income Fund does not qualify to be used in a MANAGED-ACCOUNT QDIA only but may be used as part of a qualified model portfolio in conjunction with other investments. | | | |

Qualification Analysis

No violations of self-dealing prohibitions were found and *The Invesco Equity and Income Fund* was also found to meet the QDIA requirements for the alternatives shown in the table above. The analysis included the following findings:

| B. QUALIFICATION ANALYSIS | | | |
|---|--|--------|--|
| REGULATORY GUIDELINE | DALBAR EVALUATION | RESULT | COMMENTS |
| 1. SELF-DEALING PROHIBITIONS - A fiduciary with respect to a plan shall not: | | | |
| a) ...deal with the assets of the plan in his own interest or for his own account, | Does <i>Manager</i> have discretion to vary its compensation based on changing holdings within the <i>Investment</i> ? | Pass | <i>Manager's</i> compensation is unaffected by investment decisions made for the <i>Investment</i> . |
| b) ...in his individual or in any other capacity act in any transaction involving the plan on behalf of a party (or represent a party) whose interests are adverse to the interests of the plan or the interests of its participants or beneficiaries, or | Does <i>Manager</i> have interests that are adverse to those of participants? | Pass | <i>Manager's</i> interests are not adverse to participants' by virtue of the fact that <i>Manager's</i> compensation increases with growth in asset value in participants' accounts and decreases if assets decline. |
| c) ...receive any consideration for his own personal account from any party dealing with such plan in connection with a transaction involving the assets of the plan. | Does <i>Manager</i> receive compensation from another party for managing the <i>Investment</i> ? | Pass | No. |

| B. QUALIFICATION ANALYSIS | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|-------------------|--|-------|--------|-----------|---|------|------|---|------|------|---|------|------|---|------|------|----|------|------|----|------|------|---|------|------|
| REGULATORY GUIDELINE | DALBAR EVALUATION | RESULT | COMMENTS | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. CONDITIONS FOR QDIA FIDUCIARY RELIEF | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a) Consider investment fees and expenses in choosing a QDIA | Do expenses for this <i>Investment</i> fall within the normal range of other investments of this type? | Pass | Actual Expenses (Actual) for Invesco Equity and Income Fund are below the Benchmark for all share classes: <table border="1"> <thead> <tr> <th>Class</th> <th>Actual</th> <th>Benchmark</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>0.81</td> <td>1.32</td> </tr> <tr> <td>B</td> <td>1.56</td> <td>1.72</td> </tr> <tr> <td>C</td> <td>1.54</td> <td>2.03</td> </tr> <tr> <td>R</td> <td>1.06</td> <td>1.48</td> </tr> <tr> <td>R5</td> <td>0.44</td> <td>0.75</td> </tr> <tr> <td>R6</td> <td>0.37</td> <td>0.55</td> </tr> <tr> <td>Y</td> <td>0.56</td> <td>0.93</td> </tr> </tbody> </table> | Class | Actual | Benchmark | A | 0.81 | 1.32 | B | 1.56 | 1.72 | C | 1.54 | 2.03 | R | 1.06 | 1.48 | R5 | 0.44 | 0.75 | R6 | 0.37 | 0.55 | Y | 0.56 | 0.93 |
| Class | Actual | Benchmark | | | | | | | | | | | | | | | | | | | | | | | | | |
| A | 0.81 | 1.32 | | | | | | | | | | | | | | | | | | | | | | | | | |
| B | 1.56 | 1.72 | | | | | | | | | | | | | | | | | | | | | | | | | |
| C | 1.54 | 2.03 | | | | | | | | | | | | | | | | | | | | | | | | | |
| R | 1.06 | 1.48 | | | | | | | | | | | | | | | | | | | | | | | | | |
| R5 | 0.44 | 0.75 | | | | | | | | | | | | | | | | | | | | | | | | | |
| R6 | 0.37 | 0.55 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Y | 0.56 | 0.93 | | | | | | | | | | | | | | | | | | | | | | | | | |
| b) Material is provided to participant relating to his/her QDIA. | Is <i>Investment</i> material appropriate for plan participants? | Pass ¹ | Material will require revision before delivery to participants. | | | | | | | | | | | | | | | | | | | | | | | | |
| c) Notice must be written in a manner calculated to be understood by the average plan participant. | Is the information provided for inclusion in the required notice understandable to an average participant? <u>Note: Plan fiduciary must determine that the entire notice can be understood.</u> | Pass ¹ | Under most circumstances, the average plan participant will have difficulty gaining a sufficient understanding of the information contained in the materials to make informed decisions. | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. QDIA Requirements | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a) QDIA shall not permit employer securities except as investments within regulated investment companies or as employer match. | Does <i>Investment</i> permit use of employer securities outside of the QDIA exceptions? | Pass | <i>Investment</i> is a registered investment company and qualifies under the exemption applicable to employer securities. | | | | | | | | | | | | | | | | | | | | | | | | |

¹ This test is successful, subject to material being adapted for plan participant use. Material provided is relatively complex and will require simplification/explanation to be effective for the average plan participant. *Note that compliance with investment company plain English rules is not adequate for plan participant communications.*

| B. QUALIFICATION ANALYSIS | | | |
|---|--|--------|---|
| REGULATORY GUIDELINE | DALBAR EVALUATION | RESULT | COMMENTS |
| b) QDIA may not impose financial penalties or restrict the ability of a participant to transfer. | Are there restrictions or fees to transfer out of <u>Investment</u> which are prohibited under QDIA regulations? | Pass | No restrictions, except that <u>Manager</u> reserves the right to use restrictions in the event that market timing is discovered. |
| c) QDIA is either managed by an investment manager, as defined in section 3(38) of ERISA, or plan trustee, or plan sponsor who is a named fiduciary or is a registered investment company or a stable value fund under State or federal regulation. | Does the <u>Manager</u> meet the criteria appropriate for the type of QDIA being validated? | Pass | <u>Investments</u> are registered investment companies. |

Reasonableness as an Investment

QDIA regulations require that investments be reasonable, which DALBAR has further defined as falling within a normal range of comparable investments. The Reasonableness Analysis presented reflects this standard.

Plan fiduciaries are responsible for reviewing current investment information and making the determination that the *Invesco Equity and Income Fund* is a reasonable investment for the plan. Plan fiduciaries, including plan sponsors, are encouraged to seek independent expert advice in making the selection and monitoring of investments. In order to assist in the determination DALBAR provides the following observations based on information available at the time of this evaluation.

→ Asset Allocators and Portfolio Managers:

| INVESTMENT | | ROLE* | Total Years Exp. | Yrs With Fund |
|--|-----------------|----------------------|------------------|---------------|
| Invesco Equity and Income Fund | Thomas Bastian | Lead Manager | 10 | 10 |
| | Mary Jayne Maly | Portfolio Manager | 21 | 5 |
| | James Roeder | Portfolio Manager | 14 | 14 |
| | Mark Laskin | Portfolio Manager | 15 | 6 |
| | Sergio Marcheli | Portfolio Specialist | 18 | 10 |
| * Each member of the team has specific sector responsibilities and input on portfolio construction (asset allocation). | | | | |

→ Annualized Returns vs. Peer Group at 12/31/2012

| Investment | 1 Year | 3 Year | 5 Year | 10 Year | Expense |
|--|--------------|-------------|-------------|-------------|-------------|
| Invesco Equity and Income Fund –Class A (Note: Returns of other share classes are derived based on expenses and display no other differences) | 14.33 | 9.03 | 6.51 | 8.40 | 0.81 |
| Moderate Allocation Funds | 9.22 | 8.39 | 4.79 | 7.19 | 1.34 |

Note: Items in **BOLD** indicate at or better than average peer group results.

→ Ten Year Risk/Return Analysis of Invesco Equity and Income Fund

| | INVESTMENT | NUMBER OF UP YEARS | NUMBER OF DOWN YEARS | AVG. OF UP YEARS (%) | AVG. OF DOWN YEARS (%) | BEST YEAR | WORST YEAR |
|---|---|--------------------|----------------------|----------------------|------------------------|-----------|------------|
| 1 | Invesco Equity and Income Fund –Class A | 8 | 2 | 13.29 | -13.01 | 23.51% | -24.78% |

C. REASONABLENESS INVESTMENT ANALYSIS

| DALBAR INVESTMENT CRITERIA | OBSERVATIONS |
|---|--|
| 1. Minimum track record | |
| The average history for each underlying asset class investment strategy should be at least three years. | The inception date of the <i>Invesco Equity and Income Fund</i> is August 3, 1960. The current Equity and Income strategy dates back to 1990. |
| 2. Stability of the organization | |
| The average tenure of the portfolio management team for each underlying asset class investment strategy should be at least two years. | Tenure of management of each underlying asset class investment strategy exceeds the threshold. |
| 3. Assets in the product | |
| The average underlying asset class investment strategy should have at least \$75 million under management (can include assets in other funds with the same strategy). | The assets under management of the <i>Investment</i> exceed the threshold. |
| 4. Holdings consistent with style | |
| a) The allocation to equities is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile; | The equity allocation of the <i>Invesco Equity and Income Fund</i> is within the norm for moderate risk balanced funds. |
| b) The allocation to fixed income is evaluated against the peer group – highest allocation to least - the screening threshold being set at the bottom quartile. | The fixed income and convertible bond allocation of the <i>Invesco Equity and Income Fund</i> is within the norm for moderate risk balanced funds. |

| C. REASONABLENESS INVESTMENT ANALYSIS | |
|--|--|
| DALBAR INVESTMENT CRITERIA | OBSERVATIONS |
| 5. Correlation to style or peer group | |
| The number of asset classes that make up the QDIA are evaluated against the peer group - most asset classes to least - the screening threshold being set at the peer group median. | The underlying assets of <i>Invesco Equity and Income Fund</i> are primarily large cap equities and investment grade fixed income securities with some exposure to convertible bonds. These asset classes are not unusual for a balanced fund. |
| 6. Expense ratios/fees | |
| a) The wrapper expense is evaluated against the peer group – cheapest to most expensive - the screening threshold being set at the bottom quartile. | N/A Underlying investments are not mutual funds. |
| b) The average expense ratio of each underlying asset class investment strategy is evaluated against the peer group - cheapest to most expensive - the screening threshold being set at the bottom quartile. | N/A Underlying investments are not mutual funds. |
| 7. Performance relative to assumed risk | |
| This analysis evaluates historical performance within the context of overall risk. It examines the number of positive and negative annual returns, the average of the positive and negative annual returns, and the best and worst annual returns, for a minimum of three years (max: 10 years). | Over the ten years ended 12/31/12, the <i>Investment</i> had positive returns in eight calendar years. Average positive return: +13.29% Average negative return: -13.01% Best annual return: +23.51% Worst annual return: -24.78% |
| 8. Performance relative to a peer group | |
| The average 1-, 3-, and 5-year performance of each asset class investment strategy is evaluated against the peer group's median. | The performance of the <i>Invesco Equity and Income Fund</i> was superior to its peer group for all standard periods. |



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