

Market and economic comment*

Credit markets saw a more modest improvement in the final quarter, compared to the second and third quarters of 2009 when performance was particularly strong. According to data from Merrill Lynch, sterling BBB rated spreads decreased by 52bps, while European high-yield spreads narrowed by 128bps. Bank debt saw further improvement, with spreads on Tier 1 debt decreasing by a further 84bps. Lloyds Banking Group announced a bond exchange that will see the new bonds automatically become equity if the bank's core capital falls to less than 5%. Demand was very strong as bondholders receive enhanced coupons and greater certainty of payment. Elsewhere, Barclays declared a dividend during November meaning that they must pay coupons on their subordinated bonds and the remaining US banks that had not exited the US government's Troubled Asset Relief Program announced plans to do so. New issues continued to find demand, although the number of investment-grade issues coming to market has reduced as many companies had refinanced in advance. Demonstrating how much sentiment has improved since the Lehman Brothers bankruptcy, US lender CIT became the fifth largest bankruptcy ever in October after a debt-exchange offer to bondholders failed, however the market took the news in its stride.

Government bonds weakened over the final quarter as ongoing heavy issuance, and sovereign downgrades weighed on sentiment. S&P downgraded Greece to BBB+, less than a week after placing Greece and Portugal on negative watch. Moody's and Fitch also downgraded Greece's debt with the outlook remaining negative. The spread between 2-year Greek and German government bond rose from 8bps to 211bps, while Greek banks saw spreads widen sharply in response. Elsewhere, the government of Abu Dhabi agreed to provide US\$10bn to the Dubai Financial Support Fund. The money will be used to satisfy upcoming obligations of Dubai World, which had asked creditors for a six-month delay on repaying its debts during November. In his Pre-Budget Report, the UK's Chancellor announced little change to the forecast for gilt issuance. The UK's public debt ratio is projected to rise to 78% by 2014-15. Over the quarter, the yield on the 10-year benchmark bond rose by 53bps, 42bps and 16bps in the US, UK and Europe respectively.

The UK's Monetary Policy Committee held interest rates at 0.5% throughout the period and extended quantitative easing by a further £25bn to £200bn. The Inflation Report remained dovish, suggesting that any tightening of monetary policy remains a long way off. Nonetheless, annual UK CPI inflation, which had finally fallen below the government set 2% target in August, rose sharply in December to 2.9%. The increase, from 1.9% in November, was the largest one-month rise in the headline rate since April 1991 (when the rate of VAT was first increased to 17.5% from 15%). The main factors behind the rise were increasing fuel prices, which had seen record falls in the same period last year, and the reversal of last year's temporary cut in VAT (from 17.5% back to 15%).

Portfolio performance*

The fund rose by 2.1% over the three months to the end of December 2009, outperforming the peer group average, which rose by 0.8%, and placing it in the first quartile of its peer group, the IMA UK Corporate Bond sector.

Performance (% growth)*

	Fund	Sector	Quartile
2009	23.0	14.3	1
2008	-8.5	-10.3	2
2007	1.9	-0.7	1
2006	1.6	-0.7	1
2005	6.0	6.8	4
2004	5.5	5.4	2
3 months	2.1	0.8	1
6 months	13.8	11.4	2
1 year	23.0	14.3	1
3 years	14.6	1.8	1
5 years	23.4	8.0	1
10 years	77.3	42.1	1

Standardised rolling 12-month performance (% growth)*

	31.12.04	31.12.05	31.12.06	31.12.07	31.12.08
	31.12.05	31.12.06	31.12.07	31.12.08	31.12.09
Fund	6.0	1.6	1.9	-8.5	23.0

Past performance is not a guide to future returns. This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invescopetual.co.uk

Yield (%)*

	31/12/2009	30/09/2009	Difference
Running Yield	5.3%	5.3%	0.0%
Redemption Yield	5.0%	5.1%	-0.1%
Distribution Yield	5.5%	5.6%	-0.1%
Underlying Yield	5.5%	5.6%	-0.1%

For explanation of yields see Important information overleaf.

Duration (years)*

	31/12/2009	30/09/2009	Difference
Duration	6.7	6.1	0.6
Modified Duration	6.2	5.6	0.6

Rating breakdown (%)*

	31/12/2009	30/09/2009	Difference
AAA	4.0	3.0	1.0
AA	3.1	3.9	-0.8
A	31.9	32.2	-0.3
BBB	42.1	43.6	-1.5
BB	9.4	6.1	3.3
B	2.2	3.4	-1.2
CCC & below	2.1	3.1	-1.0
Non-rated (investment grade)	4.6	4.3	0.3
Non-rated (high yields)	0.7	0.8	-0.1
Cash	-0.1	-0.4	0.3

Maturity breakdown (%)*

Years	31/12/2009	30/09/2009	Difference
20+	10.3	9.7	0.6
16-20	4.3	4.5	-0.2
11-15	10.5	11.0	-0.5
7-10	32.9	28.8	4.1
4-6	25.2	26.4	-1.2
0-3	16.9	20.0	-3.1
Cash	-0.1	-0.4	0.3



Quarterly Briefing

Invesco Perpetual Corporate Bond Fund

January 2010 (covering 30 September 2009 to 31 December 2009)

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Both relative and absolute performance once again benefited from the low exposure to government bonds as they continued to be outpaced by corporate bonds. The fund benefited from the continued, albeit at a slower rate, improvement in subordinated bank debt as well as good exposure to a number of new issues that have performed well in the secondary market.

Strategy & Outlook*

In terms of strategy, we continue to prefer corporate over government bonds, as we believe there are risks to medium-term government bond returns given the sharp increase in supply. Nonetheless, volatility continues to present opportunities in government bond markets. Overall the fund's duration position (a measure of its sensitivity to changes in interest rates) remains at relatively low levels, although we have increased this over recent months through the purchase of long Gilt and Treasury futures.

Within corporate bonds, we believe that some of the more attractive investment opportunities are to be found amongst higher yielding investment-grade names. Spreads remain relatively generous by historical standards and we believe that credit remains attractive for income seeking investors prepared to take a medium-term view. The more defensive sectors such as utilities and energy, are no longer offering the value that they were a year ago and capital returns in these sectors are likely to be more modest. Nonetheless, there remain sections of the market that continue to offer attractive opportunities. For example, yields on insurance names and other financials still have attractive spreads and yields of over 6.5% in aggregate, while on subordinated financials, spreads remain well above historical levels with yields typically around 7%-10% on Tier 1 debt. Bank debt has performed exceptionally well from the lows in March 2009 and there are many examples of bonds that have more than tripled in value. Nevertheless, despite the beginning of a recapitalisation of the banking sector and a better understanding of the risk of holding these bonds, we believe that there remains an opportunity for further improvement.

Although we do not expect to see a repeat of last years strong gains in 2010, underlying conditions are still supportive of credit markets. Short-term interest rates are expected to remain low right through 2010 and the Bank Rate is unlikely to rise before the latter half of 2010. Although the recent increase in inflation could continue beyond the 3% level, triggering a letter from the Bank of England to the Chancellor, Mervyn King has said that the MPC would "look through" a near-term spike in inflation. The increase, although likely to be temporary, could spell an end to QE purchases beyond February.

Portfolio breakdown (%)*	31/12/2009	30/09/2009	Difference
Corporate Bonds	97.2	98.3	-1.1
Bank & Building Society	35.9	32.1	3.8
Telecoms & Telecom Equipment	7.8	9.3	-1.5
Utilities	7.3	8.3	-1.0
Insurance	6.3	5.6	0.7
Financial	4.9	5.5	-0.6
Beverages	3.5	4.3	-0.8
Food & Food Producers	3.9	4.0	-0.1
Industrial	2.8	3.1	-0.3
Transport	3.1	2.8	0.3
Retail	2.3	2.7	-0.4
Services	2.3	2.5	-0.2
Tobacco	2.9	2.4	0.5
Manufacturing	2.2	2.3	-0.1
Autos	1.6	2.1	-0.5
Property	1.8	1.8	0.0
Media	1.4	1.6	-0.2
Construction	1.4	1.0	0.4
Other	5.8	6.9	-1.1
Government Bonds	2.9	2.1	0.8
UK Government	1.3	0.4	0.9
Foreign Government	1.6	1.7	-0.1
Cash	-0.1	-0.4	0.3

Top 10 holdings (%) *	Coupon	Maturity	% of Fund
Issuer			
Long Gilt Future	n/a	29/3/2010	3.8
US Treasury	\$4.25%	15/8/2039	1.6
US Long Bond Future	n/a	22/3/2010	1.3
General Electric	£6.50%	15/9/2017	1.2
Santander	£11.30%	27/7/2014	1.2
Siemens	£6.125%	14/9/2016	1.2
Barclays	£14.00%	15/6/2019	1.0
Heineken	£7.25%	10/3/2015	1.0
John Lewis	£8.375%	8/4/2019	1.0
Rentokil Initial	£5.75%	31/3/2016	1.0

Investment team

Paul Causer: After graduating in Economics from the London School of Economics in 1983, Paul began his career with Asahi Bank in research, before moving to the bank's Treasury department. In 1990 he was given responsibility for managing the bank's multi-currency investment portfolio. Paul joined Invesco Perpetual (formerly Perpetual) in 1994.



Paul Read: Paul graduated in Economics and History from the University of Toronto in 1984 and has an MBA from INSEAD. He began his career with UBS (Securities) Ltd, moving to Merrill Lynch International in 1986. Paul initially worked on bond sales, before moving on to

debt trading and working as a director of fixed income trading in Tokyo. Paul joined Invesco Perpetual (formerly Perpetual) in 1995.

Investment process

A top-down review of markets provides an insight into the direction of monetary policy and interest rates, the shape of the yield curve, the policy trends and credit risk. Credit analysis is employed to select individual issuers, focussing on: the quality of management, the extent of gearing, the relationship between net debt and EBITDA, and the relationship between EBITDA and overall financing costs. Emphasis is then placed on the dynamics of these measures. The fund managers consider absolute levels of risk as a key measure.

The team's approach to investment management can be summarised as follows:

- **Active:** we do not track indices and our focus is on absolute risk and return.
- **Flexible and pragmatic:** our approach is informal, iterative, flexible and changes according to market conditions.
- **Market driven:** we exploit opportunities on a short-term as well as a longer-term basis.
- **'All-weather' funds:** our products are designed to be managed through the market cycle.
- **Valuation driven:** we place strong emphasis on assessing value, based on fundamental analysis of potential risk versus potential return.

This approach has shaped an investment process which adheres to the core disciplines of logical thought processes, comprehensive analysis and constant re-questioning of underlying assumptions.

Investment expertise

The Henley-based fixed income team specialise in managing UK retail funds and manage a broad range of assets, including:

- UK government bonds
- Foreign government bonds
- Investment-grade credit
- High-yield credit

The team assets under management (including equity) as at 31 December 2009 totalled £12.4 billion (source: Invesco Perpetual).

Important information

*All data is as at 31/12/09, sourced from Invesco Perpetual unless otherwise stated. Fund and Sector Average performance data is source: Lipper, mid-to-mid, GBE, with net income reinvested. Sector is IMA UK Corporate Bond.

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested.

Past performance is not a guide to future returns.

Where Invesco Perpetual has expressed views and opinions, these may change. Where securities are mentioned in this document they do not necessarily represent a specific portfolio holding and do not constitute a recommendation to purchase or sell.

The fund invests in bonds and other fixed income securities that are subject to the risk that issuers do not make payments on such securities. The fund may be adversely affected by a decrease in market liquidity which may impair the fund's ability to acquire or to dispose of securities at their intrinsic value. The fund may invest in high yield bonds which are regarded as being more speculative (than investment grade bonds) as to the issuer's ability to make payments of principal and interest.

The yields shown are expressed as % per annum of current NAV of the fund. They are estimates for the next 12 months, assuming that the fund's portfolio remains unchanged and there are no defaults or deferrals of coupon payments or capital repayments. They are not guaranteed. They are shown net of all fund charges and do not reflect the initial (sales) charge of the fund. Investors may be subject to tax on distributions. Cash income is estimated from coupons from bonds and, where applicable, estimated dividends from equities.

The running yield estimates expected cash income into the fund from coupons of current bond holdings and, where applicable, dividends from current equity holdings.

The redemption yield estimates the annualised total return: in addition to expected cash income, it includes the amortised annual value of unrealised capital gains/losses of current bond holdings, calculated with reference to their current market price and expected redemption value.

The distribution yield estimates the cash distribution to the shareholders: in addition to expected cash income, it includes the amortised annual value of unrealised capital gains/losses of current bond holdings, calculated with reference to their historic purchase price and expected redemption value (known as 'effective yield from purchase price' method). For this fund the distribution yield is the same as the underlying yield.

Where, in the Manager's judgement, there is significant uncertainty that a bond holding will be redeemed at par, the amortised capital component for that holding is retained in the fund's capital and not distributed. This has the effect of reducing the estimated redemption, distribution and underlying yields and the actual distribution rate.

Invesco Perpetual is a business name of Invesco Fund Managers Limited. Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Services Authority.

For further information on our funds, please refer to the Simplified Prospectus or other material at: www.invescopetperpetual.co.uk