Alternative Investment Fund Managers Directive (AIFMD) investor information

Invesco Enhanced Income Limited

The name of the investment company changed from Invesco Perpetual Enhanced Income Limited on 4 March 2019.

This document has been prepared by Invesco Fund Managers Limited and provides you with key information about this investment company as required by the AIFMD. It is not marketing material. You are advised to read it so you can make an informed decision about whether to invest.

1. Investment objective and policy

The Company's Investment policy comprises its investment objective, investment policy and risk and investment limits and is designed so as to provide shareholders with information on the policies that the Company will follow relating to asset allocation, risk diversification and gearing, including maximum exposures.

The manager monitors the investment portfolio on an ongoing basis to ensure adherence to the Company's Investment policy.

Investment objective

The Company's principal objective is to provide shareholders with a high level of income whilst seeking to maximise total return through investing in a diversified portfolio of high yielding corporate and Government bonds. The Company may also invest in equities and other instruments that the manager considers appropriate.

The Company seeks to balance the attraction of high yield securities with the need for protection of capital and to manage volatility. The manager generally employs gearing in its Investment policy.

Investment policy and risk

The investment portfolio is constructed in order to gain exposure to attractive ideas within the investment parameters of the investment portfolio and to express the Company's views on fixed interest markets. The investment process comprises three key elements which drive portfolio construction – macroeconomic analysis, credit analysis and value assessment. The manager aims to control stock specific risk by ensuring that the investment portfolio is appropriately diversified. In-depth, continual analysis of the fundamentals of all holdings gives the manager an understanding of the financial risks associated with any particular stock.

The Company may enter into derivative transactions (including, but not limited to, options, futures and contracts for difference, credit derivatives and interest rate swaps) periodically for the purposes of efficient portfolio management. Derivative transactions may only be entered into if they are compatible with the Company's Investment policy and fall within the limits determined by the Board from time to time. The Company will not enter into derivative transactions for speculative purposes.

For the purposes of efficient portfolio management, which may include the reduction of risk, reduction of cost, and the enhancement of capital or income, including transactions designed to hedge all or part of the investment portfolio, to replicate or gain synthetic exposure to a particular investment position where this can be done more effectively or efficiently through the use of derivatives than through investment in physical securities, or to transfer risk or obtain protection from a particular type of risk which might attach to portfolio investments, the Company may enter into a derivative transaction provided the maximum exposure (including any initial outlay in respect of the transaction) to which the Company is committed by virtue of the transaction, when aggregated with all other outstanding derivative positions, is covered by the Company's net assets.

The Company may enter into stock lending, repurchase and/or reverse repurchase agreements for the purpose of efficient portfolio management. The Manager may also invest in money market instruments and currencies.

The principal component of the Company's borrowings is repo financing. Under the repo financing, the Company sells fixed interest securities held by it to a counterparty for consideration that is less than such assets' market value and agrees to repurchase on a fixed date the same assets for a fixed price above the consideration received by it on the sale. The difference in these two amounts equates to the cost (effectively interest) of the repo financing.

Investment limits

The Board has prescribed limits on the Investment policy, among which are the following:

- investments in equities are restricted to no more than 20% of the Company's portfolio;
- no single investment (bond or equity) may exceed 10% of gross assets;
- no more than 5% of gross assets may be exposed to unquoted investments;
- no more than 15% of the Company's total assets will be invested in other investment companies (including investment trusts); and
- repo financing and other borrowings may be used to raise exposure to bonds and equities. Net borrowings (comprising aggregate borrowings less cash) may not, at the time of drawdown, exceed 50% of shareholders' funds (as determined under the Company's normal accounting policies).

The Manager is required under the Directive to set limits on leverage. This is calculated on a different basis to commonly used gearing ratios and includes market and credit exposure gained by any method, not just borrowings. Limits are set intentionally above the levels that the Company would normally expect to employ. For these purposes the limits are that aggregate exposure as a percentage of NAV may not exceed 300% measured by the commitment method and 350% measured by the gross method. See paragraph 1 of the key information on page 3 for an explanation of these terms.

2. Alternative Investment Fund Manager (AIFM) and fees

The Company has appointed Invesco Fund Managers Limited ('the Manager') as its Alternative Investment Fund Manager. The Manager is an associated company of Invesco Asset Management Limited ('IAML'), the Company's previous investment manager, which will continue to act as portfolio manager under delegated authority from the Manager and to perform administration functions. No changes are proposed to the way the Company's assets are invested as a result of the implementation of AIFMD.

The Manager is entitled to a management fee at a rate of 0.8% on the first £80 million of shareholders' funds; 0.7% on the next £70 million; and 0.6% thereafter.

3. Service providers

The Company has appointed service providers to assist the Board and the Manager in meeting regulatory requirements and the needs of investors:

- The Company Secretary and administrator is JTC Fund Solutions (Jersey) Limited;
- The Company's statutory auditor is PricewaterhouseCoopers CI LLP, which audits the financial statements in the Company's Annual Financial Report and report to shareholders thereon;
- The Company's depositary is The Bank of New York Mellon (International) Limited, which is responsible for safe-keeping of the Company's financial assets and for monitoring its cash flows; and
- The Company's registrar is Link Market Services (Jersey) Limited, which is responsible for maintaining and updating the register of members.

4. Specific risk factors applying to Invesco Enhanced Income Limited

The portfolio has a significant proportion of high-yielding bonds, which means that there is more risk to investors' capital and income than from a Company investing in government or investment-grade bonds. The income from the investment may vary due to differing tax arrangements and fluctuations in market conditions.

The Company may invest in derivatives. This means that the net asset value of the Company may, at times, be highly volatile. The use of derivative instruments involves certain risks (including market or communication breakdown, counterparty failure and credit risk) and there is no assurance that the objectives for the use of such instruments will be achieved.

The portfolio may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events.

50% of the annual management charge and finance cost and 100% of any performance-related fee which becomes payable will be deducted from the fund's capital, which may boost income but constrain or erode long-term capital growth.

The Company may use borrowings to invest in the market. The use of borrowings by an investment company may enhance the total return on its shares when the value of the company's assets is rising and exceeds the cost of borrowings, but it will have the opposite effect when the value is falling and when the underlying return is less than the cost of borrowing, thus reducing the total return on the shares. The use of borrowings may increase the volatility of the returns to shareholders and the net asset value per share. In certain circumstances, a fall in the underlying asset value of the investment company could result in it having to repay borrowings in whole or in part together with associated costs. This could adversely affect income and capital returns to shareholders. Repayment on any borrowings will rank ahead of capital payments to shareholders on a winding-up.

As a result of COVID-19, markets have seen a noticeable increase in volatility as well as, in some cases, lower liquidity levels; this may continue and may increase these risks in the future.

5. General risk factors applying to investment companies

When making an investment in an investment company you are buying shares in a company that is listed on a stock exchange. The price of the shares will be determined by supply and demand. Consequently, the share price of an investment company may be higher or lower than the underlying net asset value of the investments in its portfolio and there can be no certainty that there will be liquidity in the shares.

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.

Potential investors should consider the following general risk factors before investing.

Market risk

An investment in an investment company will involve exposure to those risks normally associated with investment in stocks and shares such as general economic conditions, market events and the performance of the underlying investments. As such, the price of shares and the income from them can go down as well as up and an investor may not get back the full amount invested. There is no assurance that the investment objectives of any investment company will actually be achieved.

Currency exchange risk

An investment company may be invested in securities denominated in currencies other than Sterling. Changes in exchange rates may adversely affect the value of any investment, which will have a related effect on the price of shares.

Investing in private and unquoted securities

An investment company may have the ability to invest a proportion of their portfolios in private and unquoted securities. In addition to typical investment risks there may also be some additional specific risks, including: lack of liquidity which could impact the investment company's ability to sell such investments at their true value; lack of pricing transparency; and less readily available information on the company. Ownership may be highly concentrated and certain company action may be driven by these majority owners.

Use of financial derivative instruments

An investment company may use derivatives for the purposes of efficient portfolio management or for specific investment purposes. There may not be a precise correlation between price movements in the underlying securities, currency or index, on the one hand, and price movements in the investments, which are the subject of the hedge, on the other. In addition, an active market may not exist for a particular derivative instrument at any particular time. Should the manager's expectations in employing such techniques and instruments be incorrect, an investment company may suffer a substantial loss, having an adverse effect on the Net Asset Value of the shares. Such instruments may cause greater fluctuations of the net asset value of the investment company concerned. An investment company's ability to use these strategies may be limited by market conditions, regulatory limits and tax considerations.

Counterparty risk

An investment company may enter into derivatives transactions or place cash in bank deposit accounts, which would expose the investment company to the credit of its counterparties and their ability to satisfy the terms of such contracts. In the event of a bankruptcy or insolvency of a counterparty, the investment company could experience delays in liquidating positions and significant losses, including declines in the value of investments during the period in which an investment company seeks to enforce its rights, inability to realise any gains on its investments during such period and fees and expenses incurred in enforcing its rights.

Use of warrants

An investment company may invest in warrants. Warrants are instruments where the price, performance and liquidity are linked to that of an underlying security. However, the warrants market is generally more volatile and there may be more fluctuations in the price of the warrant than in the underlying security.

Custody risk

Each investment company has appointed a Depositary which is responsible for the safe-keeping of the assets owned by the investment company. The Financial Conduct Authority requires that there is legal separation of non-cash assets held under custody and that records are maintained which clearly identify the nature and amount of all assets under custody, the ownership of each asset and where the documents of title to that asset are located. The Depositary may, subject to certain conditions, delegate safe-keeping to a third party custodian but is liable to the investment company for the loss by it or any delegate of financial instruments held in custody. In case of a potential bankruptcy of the Depositary or delegated custodian, cash positions of the investment company are not protected and there may be a delay in regaining full control of the non-cash assets.

Market suspension risk

An investment company may invest in securities dealt on a market or exchange. Trading on a market or exchange may be halted or suspended due to market conditions, technical problems or other events and during such circumstances, the investment company will not be able to sell the securities traded on that market until trading resumes. Further, trading of the securities of a specific issuer may be suspended by a market due to circumstances relating to the issuer. If trading of a particular security is halted or suspended, the relevant investment company will not be able to sell that security until trading resumes.

Market liquidity risk

An investment company may be affected by a decrease in market liquidity for the securities in which it invests which may mean that the Manager may not be able to sell shares in those securities at their true value.

1. Investment strategy
See the Company's Investment policy and strategy set out in section 1 on page 1.

Leverage, for the purposes of the Alternative Investment Fund Managers Directive (AIFMD), is not synonymous with gearing as the term is commonly used. In addition to borrowings it encompasses anything that increases the Company's exposure, including foreign currency and exposure through derivatives. Two methods of calculating such exposure are provided in the AIFMD, gross and commitment, each of which is expressed as a ratio of the Company's net asset value. Under the gross method, exposure represents the sum of the Company's exposures, without any offsetting and excluding cash held in sterling. Under the commitment method, sterling cash balances, hedging and other netting arrangements designed to limit risk, are taken into account.

2. Changes to investment strategy
Material changes to investment policy may only be made with the prior approval of shareholders as required by the Listing Rules. Minor changes may be made by the Board from time to time. In each case changes will be disclosed to the market in accordance with applicable regulation.

3. Legal consequences of investment
Purchase of shares in the Company by an investor does not give rise to any contractual relationship between the investor and the Company.

While investors acquire an interest in the Company on subscribing for Shares, the Company is the sole legal and/or beneficial owner of its investments. Consequently, Shareholders have no direct legal or beneficial interest in those investments. The liability of Shareholders for the debts and other obligations of the Company is limited to the amount unpaid, if any, on the Shares held by them.

Shareholders' rights in respect of their investment in the Company are governed by the Company's articles of association and applicable company law.

4. Service providers
A list of the Company's principal service providers and their respective duties is set out in section 3 on page 2.

5. Professional liability
The Manager is required by the AIFMD regulations to cover any professional liability risk. It does so by retaining a portion of its capital reserves in accordance with the levels and standards required by the regulations, and by maintaining an appropriate level of professional indemnity insurance.

6. Delegation
a. The Manager delegates the Company's portfolio management to Invesco Asset Management Limited as set out in section 2 on page 1.
b. The Depositary delegates safe-keeping of investments to sub-custodians.
c. The Manager has delegated fund accounting and pricing/valuation functions to The Bank of New York Mellon.

7. Valuation
The majority of the Company's investments are quoted on one or more exchanges and are valued using prices sourced from third party vendors of market data.

Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value based on recommendations from the Manager's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Valuation Guidelines, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

8. Liquidity risk
The Company's Ordinary Shares are not ordinarily redeemable at the option of shareholders. The Company's liquidity risk is measured and monitored daily.

9. Fees and expenses
The Manager is entitled to a management fee as set out in section 2 on page 1. In addition the Company will incur annual fees and expenses including fees for: secretarial and administration services, depositary, registration services, directors and other operating expenses. Such expenses are all paid by the Company and thus indirectly borne by its shareholders.

The aggregate fees and expenses incurred each year are set out in the Company's annual financial report as Ongoing Charges.

The expenses of managing the Company are not subject to any maximum but are carefully monitored by the Board and the ongoing charges ratio provides a guide to the effect on performance of the annual operating costs. The Board reviews expenditure using an annual budgetary process.

10. Fair treatment
The Listing Rules set out Principles and Rules, to which the Company is subject, for the fair treatment of investors, notably Listing Principles 3 and 5. The Manager and the Company are required to ensure fair treatment of investors. This is achieved through application of relevant Financial Conduct Authority (FCA) rules and regulations that the Manager and its delegates employ in its day-to-day activities in managing the Company.

11. Preferential treatment
The Company does not give any investor preferential treatment.

12. Issue and sale of shares
The Company's shares are not generally available for subscription by investors, but are available for investment on the Main market of the London Stock Exchange. From time to time the Company is permitted to issue shares subject to applicable limits and regulation including the Listing Rules and Prospectus Rules. Shares can be bought and sold directly through a stockbroker or an execution-only dealing service, or you can invest via a provider of packaged products such as savings schemes, ISA/NISA accounts or pension schemes.

13. NAV
The Company's net asset value per share (NAV) is announced daily to the market. Its shares are quoted on the London Stock Exchange and prices are available through a wide range of market data sources. NAVs and prices are also available on the Manager's website at www.invesco.co.uk/investmenttrusts

14. Annual report
The Company's most recent Annual Reports are available on the Manager's website at www.invesco.co.uk/enhancedincome

15. Performance
Factsheets, including data relating to the Company's performance, are available on the Manager's website at www.invesco.co.uk/enhancedincome

16. Prime broker
The Company does not have a prime brokerage firm.

17. Periodic reporting
Periodic reporting of information relating to liquidity and leverage will be made to the market through a Regulatory Information Service and will be available through a wide range of market data sources.

A link to regulatory news services can be found on the Manager's website at www.invesco.co.uk/enhancedincome

18. Repo Financing
As noted under 'Investment policy and risk' on page 1 of this document the company uses repurchase ('repo') arrangements as the principal component of its borrowings. Under these arrangements, the Company sells securities to another party at one price at the start of the trade and at the same time agrees to repurchase (buy back) the asset from the original buyer at a different price at a future date or on demand. The Company retains the economic benefit of ownership of the securities sold. Further information regarding these arrangements is set out below:

- Only fixed interest securities may be sold under the repo arrangements
- Securities subject to repo arrangements, which comprise the counterparty's collateral, are selected by the Manager to provide the Company with the most attractive financing terms. These securities are necessarily acceptable to the counterparty
- Net borrowings (including obligations owed under repo arrangements) may not, at the time of drawdown, exceed 50% of shareholders' funds
- The company will only enter into repo arrangements with counterparties that are authorised by or registered with an appropriate regulator, and whose credit rating is not less than the minimum investment grade credit ratings issued by internationally recognised agencies
- The Company retains an economic interest in the securities sold under repo arrangements and accordingly these are valued in line with the Company's accounting policies and recognised as assets in the Company's balance sheet. Cash received from the counterparty and any assets purchased using that cash are, in the same way as all other assets in the Company's portfolio, held by the Depositary and valued according to accounting policies
- The risks associated with use of repo arrangements are set out in the risk factors on page 2 of this document – notably borrowing risks in section 4 and counterparty risk in section 5
- The Company bears all costs associated with, and accrues all returns generated from, the repo arrangements

The Company although it is not restricted from doing so, does not engage in stock lending arrangements.

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Further information

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Important information

The information contained in this document is accurate as at 29 May 2020.

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