Quarterly Update

Invesco Enhanced Income Limited

October 2019 (covering the 3 months ending 30 September 2019)

This document is for Professional Clients only and is not for consumer use.

Market and Economic Comment

Against a backdrop of central bank easing, high yield bonds delivered a positive return.

- As widely expected, the US Federal Reserve cut US interest rates by 25bps in July. However, the accompanying statement suggested that this was a mid-cycle adjustment rather than the beginning of a substantial reduction in interest rates.

- The European Central Bank (ECB) announced a series of measures to help stimulate the eurozone economy. These included a further cut in the deposit rate and a resumption of QE.

- Low yields and a supportive central bank backdrop led to a surge in corporate bond issuance during September. Bloomberg report that in total $308 billion was raised in the debt markets - the first ever month issuance has topped $300 billion.

- However, some companies struggled to raise capital. This included Thomas Cook, which collapsed as it was unable to secure additional funding to continue trading.

Summary of bond market returns

Sector	Yield (%) Sep-19	3 Month Change	Spread (Bps) Sep-19	3 Month Change
Governments				
Gilts	0.64	-0.40	-	-
Bunds	-0.62	-0.17	-	-
US Treasuries	1.73	-0.21	-	-
European High Yield (inc € + £)	**3.87**	**-0.12**	**383**	**-1**
BB	2.58	-0.14	261	-5
B	5.64	-0.31	544	-9
CCC and lower	11.77	-0.89	1153	-92
US High Yield	**6.36**	**-0.09**	**402**	**-5**
BB	4.66	-0.17	232	-11
B	6.54	-0.20	415	-19
CCC and lower	12.71	0.51	1059	62
Investment Grade				
Sterling BBB rated	**2.49**	**-0.34**	**189**	**5**
Euro BBB rated	**0.78**	**-0.19**	**135**	**-7**

Source: Bloomberg LP, Merrill Lynch data. (local currency returns).

Spread is the Option Adjusted Spread. Bps is basis points (each unit is 1/100th of a 1

Yield and spread data includes the effect of index rebalancing undertaken on the last day of the month. Changes in the composition of the index can effect the index

Data as at 30 September 2019

Past performance is not a guide to future returns.

Portfolio performance*

The investment company's NAV increased by 1.0% over the three-month period to 30 September 2019. The company benefitted from the strong rally in high yield bonds with positive contributions to returns across a broad range of sectors. Among the highest contributors was the company's holdings in subordinated financials.

Performance (% growth)	Ord. Share Price	NAV
YTD	10.7	13.0
2018	-7.3	-4.2
2017	11.4	10.0
2016	20.1	16.1
2015	0.0	1.9
2014	15.3	6.4
3 months	1.0	2.5
6 months	9.3	6.8
1 year	6.7	8.9
3 years	18.0	21.9
5 years	40.8	44.0
10 years	194.2	180.5

For source and basis of this data, see Important information overleaf.

Standardised rolling 12-month performance (% growth)	30/09/14 30/09/15	30/09/15 30/09/16	30/09/16 30/09/17	30/09/17 30/09/18	30/09/18 30/09/19
Ord. Share Price	0.2	19.0	10.5	0.1	6.7
NAV	1.3	16.6	11.2	0.8	8.9

Past performance is not a guide to future returns. This information is updated on a calendar quarterly basis.

For source and basis of this data, see Important information overleaf.

Strategy and outlook

The portfolio holds a core of high yield corporate bonds, focused on seasoned issuers that we consider have a low likelihood of default. At a sector level the portfolio's largest exposure is to subordinated financials both banks and insurance. Elsewhere, the portfolio's largest allocations are to telecoms, food, utility and leisure companies.

Alongside these core positions, the portfolio also has a smaller allocation across all sectors to more speculative positions. The expectation with these bonds is that the return will come from both capital appreciation and income.

We have been finding opportunities in the US corporate bond market. As at the 30 September 2019, approximately 45% of the portfolio is allocated to the US market. Most of the res0ultant US dollar exposure is hedged back to sterling.

We currently use borrowing to try to enhance the portfolio's income. This means we can hold higher quality corporate bonds to achieve our income objectives. As at 30 September 2019, borrowing was 19% of the NAV.

Despite some weakness in September, this year has been a particularly strong period for fixed income markets. This is testament to the power of central banks to shape markets and a reminder that in this current economic cycle, the future actions of monetary authorities provide the best guide to market performance. The ECB's decision to resume asset purchases underlines this and should help support markets going forward. Therefore, while we are cognisant that yields are now low and credit spreads relatively tight, we are maintaining credit exposure albeit balanced against a relatively high level of liquidity.

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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 (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 1988. 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 (formerly Perpetual) in 1995.

Rhys Davies: Rhys began his investment career within Invesco's Product Support team in January 2002 before moving to the Henley-based Fixed Interest team in November 2003. In 2014 he was appointed deputy fund manager for the City Merchants High Yield Trust Limited and the Invesco Perpetual Enhanced Income Limited, before being promoted to fund manager in 2016. He holds a BSc (Honours) in Management Science from the University of Manchester Management School and is a CFA charterholder.

Investment Risks

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

The portfolio has a significant proportion of high-yielding bonds, which are of lower credit quality and may result in large fluctuations in the NAV of the product.

The product uses derivatives for efficient portfolio management which may result in increased volatility in the NAV.

The use of borrowings may increase the volatility of the NAV and may reduce returns when asset values fall.

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

Important Information

*Ordinary share price performance figures have been calculated using daily closing prices with dividends reinvested. NAV performance figures have been calculated using daily NAV with dividends.

All performance figures are in sterling as at 30 September 2019 except where otherwise stated.
Source: Morningstar.

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

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For more information on our products, please refer to the relevant Key Information Document (KID), Alternative Investment Fund Managers Directive document (AIFMD), and the latest Annual or Half-Yearly Financial Reports. This information is available using the contact details shown.

Invesco Fund Managers Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK.