

INVESCO
Presentation by
Jerome L. Garffer, SVP
Associate Partner

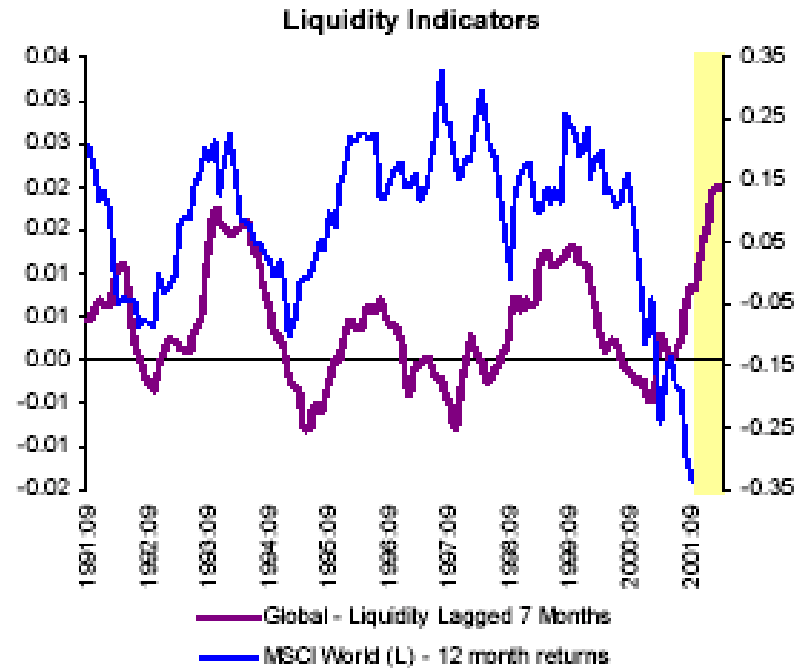
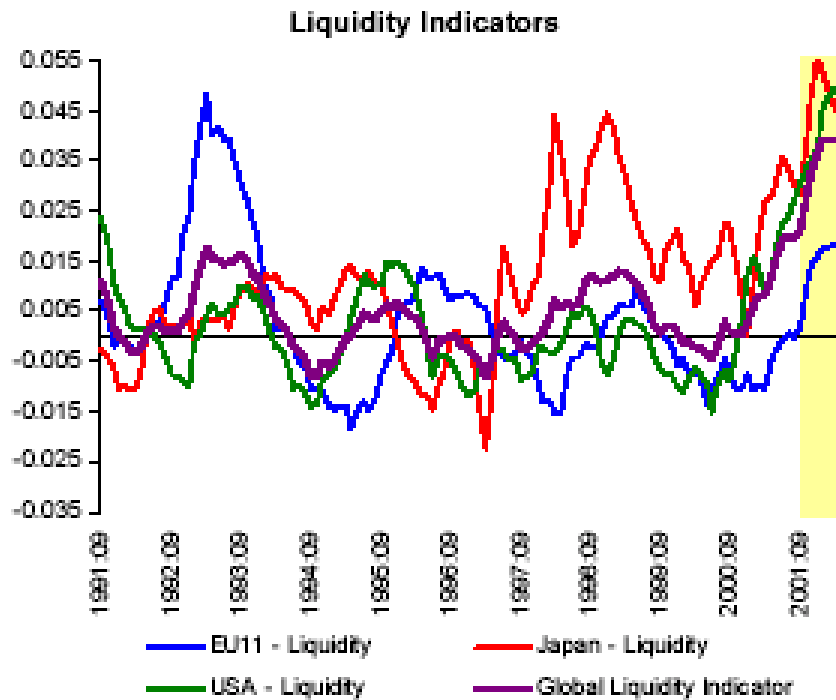
**Global Asset Allocation
Consultiva Internacional
Annual Investment Management
Conference
November 16, 2001**

Section I

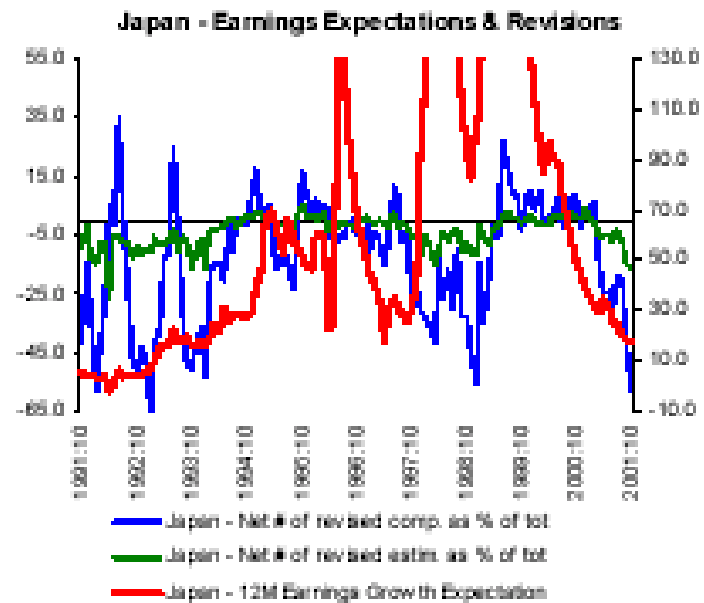
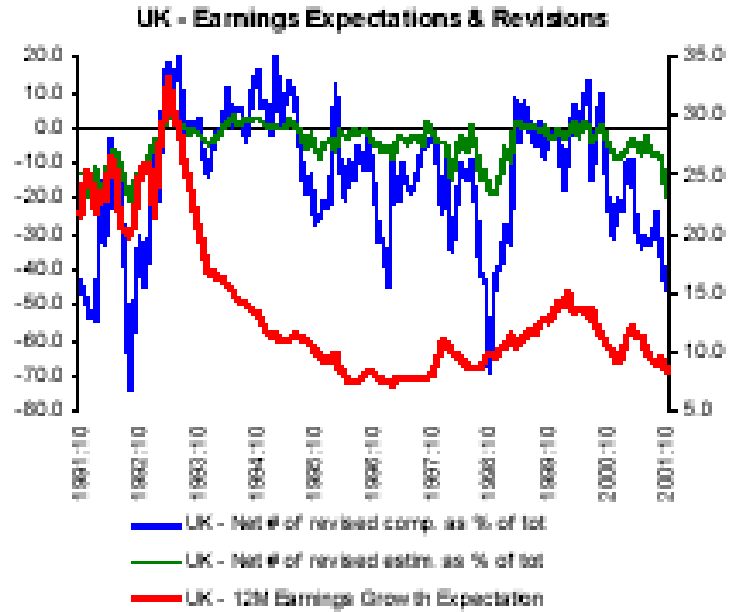
Economic Overview



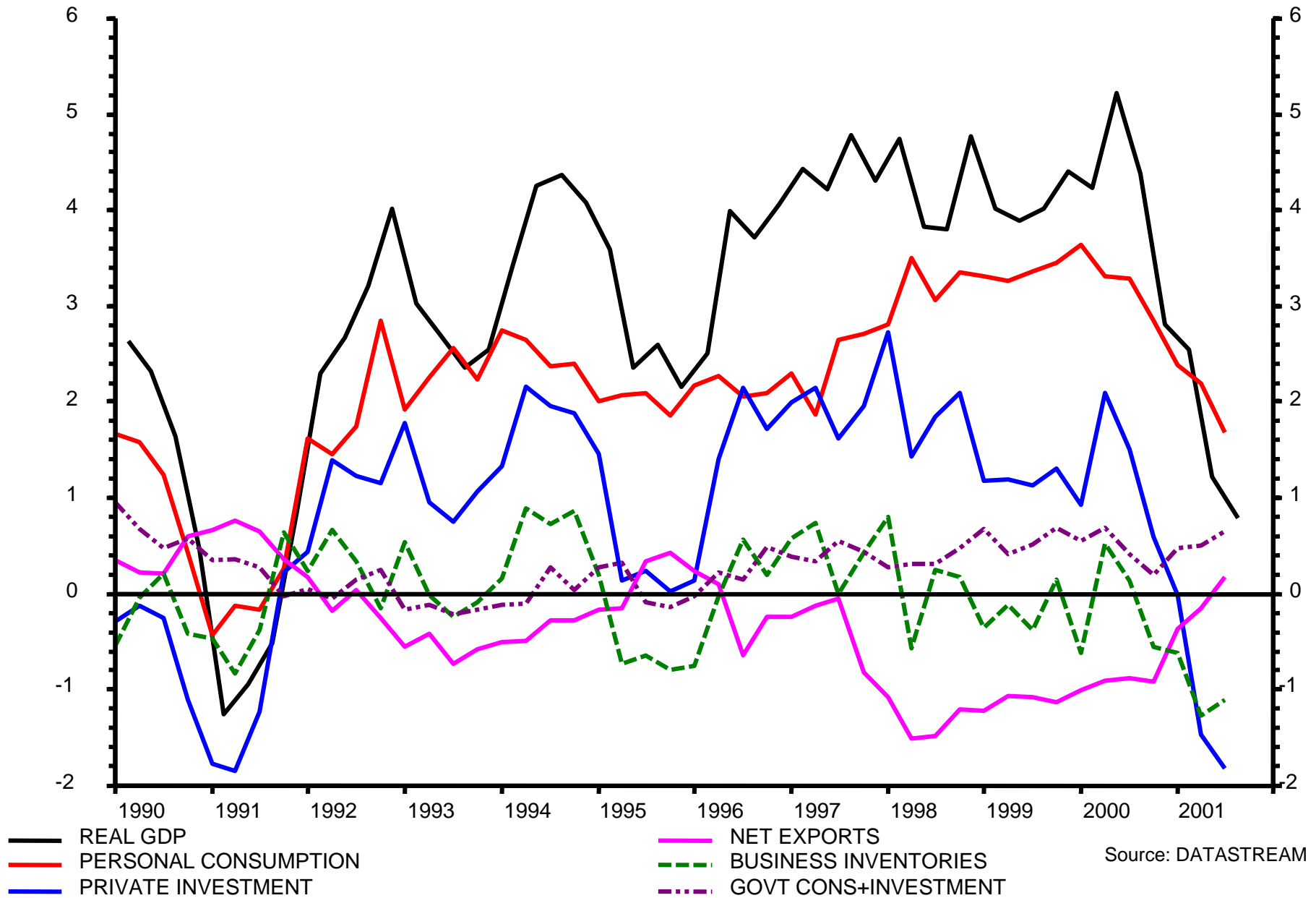
Global Liquidity Indicators



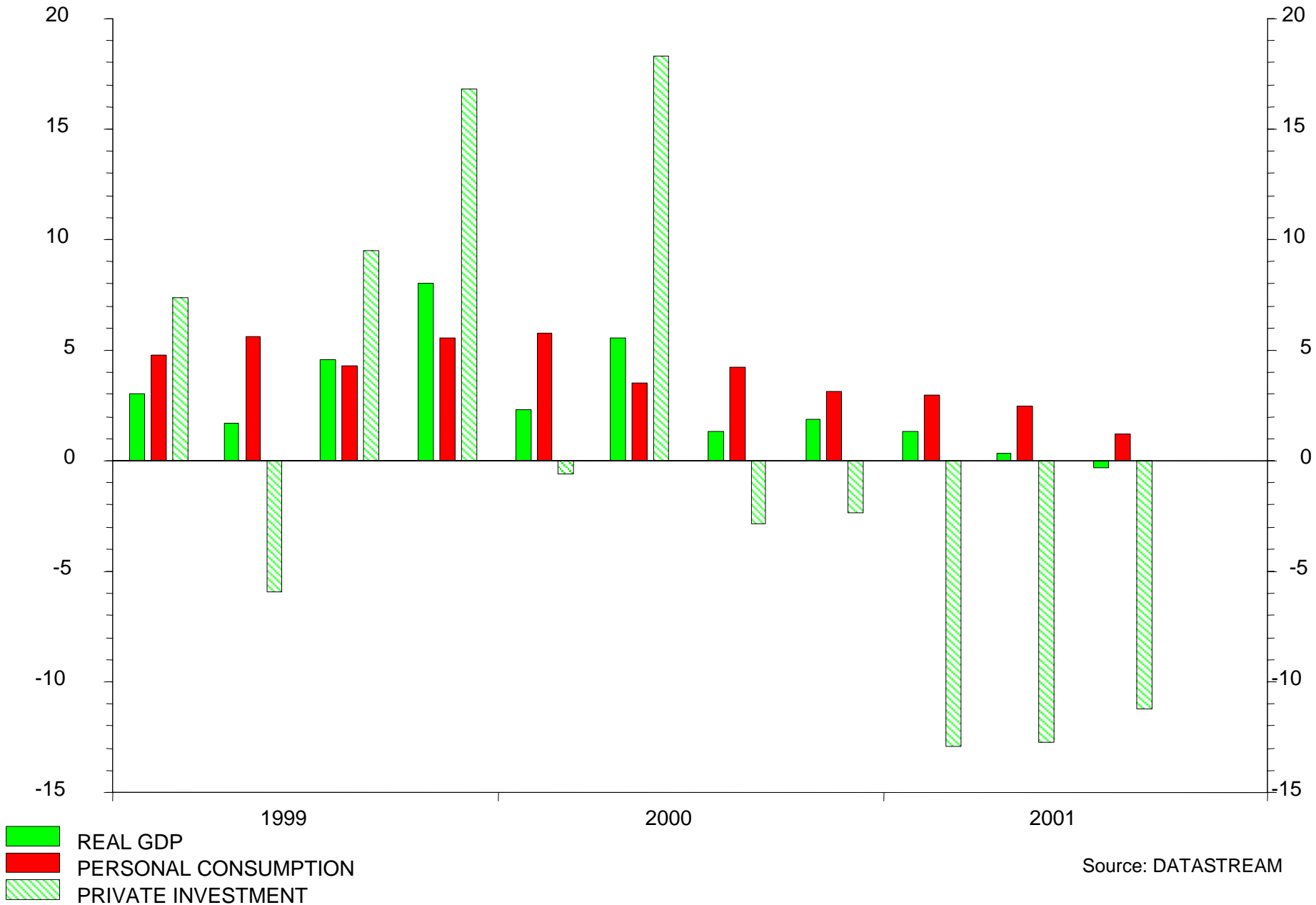
Twelve-Month Earnings Expectations and Revisions



US: Contributions to US Real GDP Growth (% YOY)

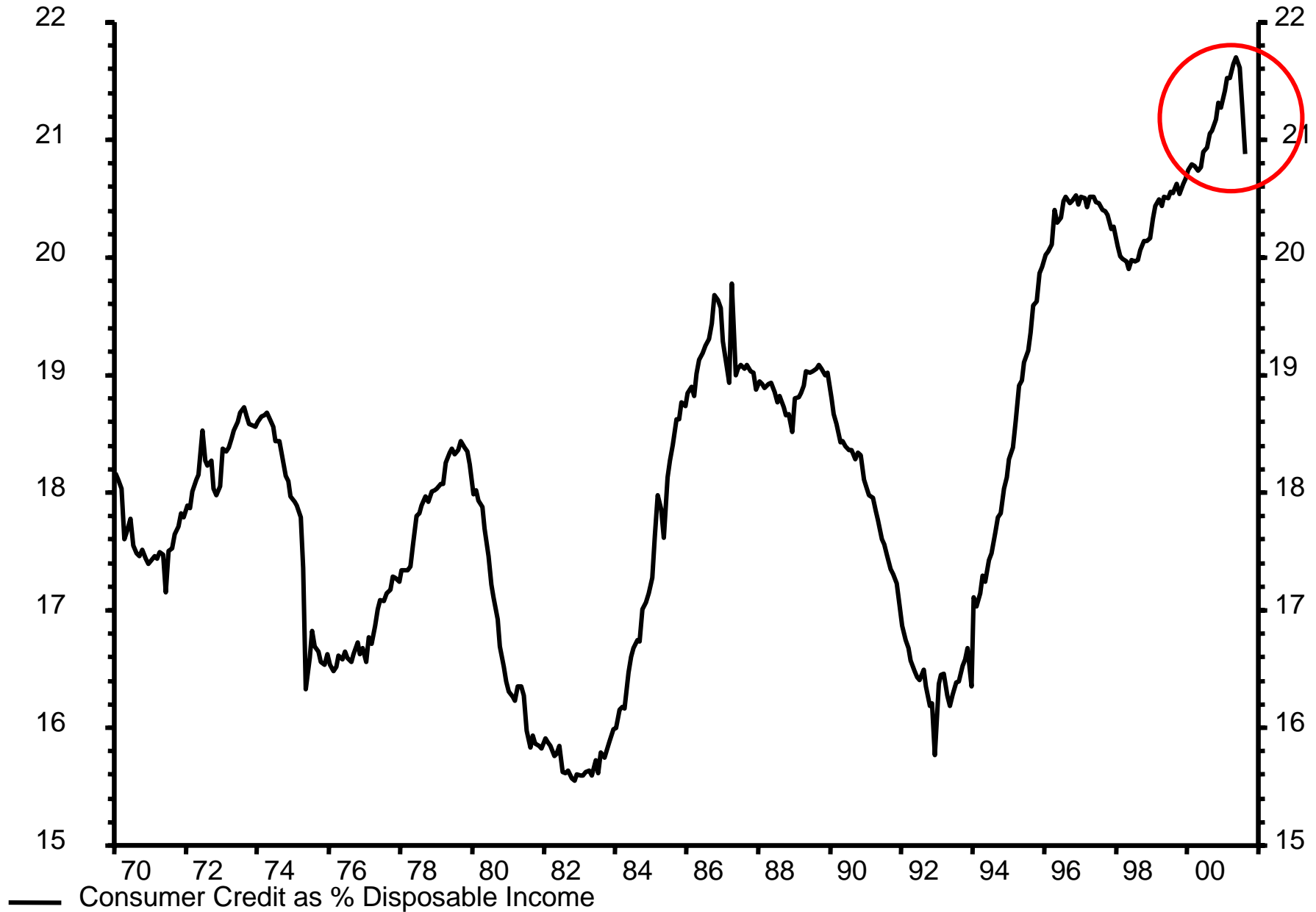


US: Component Changes in US Real GDP Growth (% QoQ at Annual Rate)

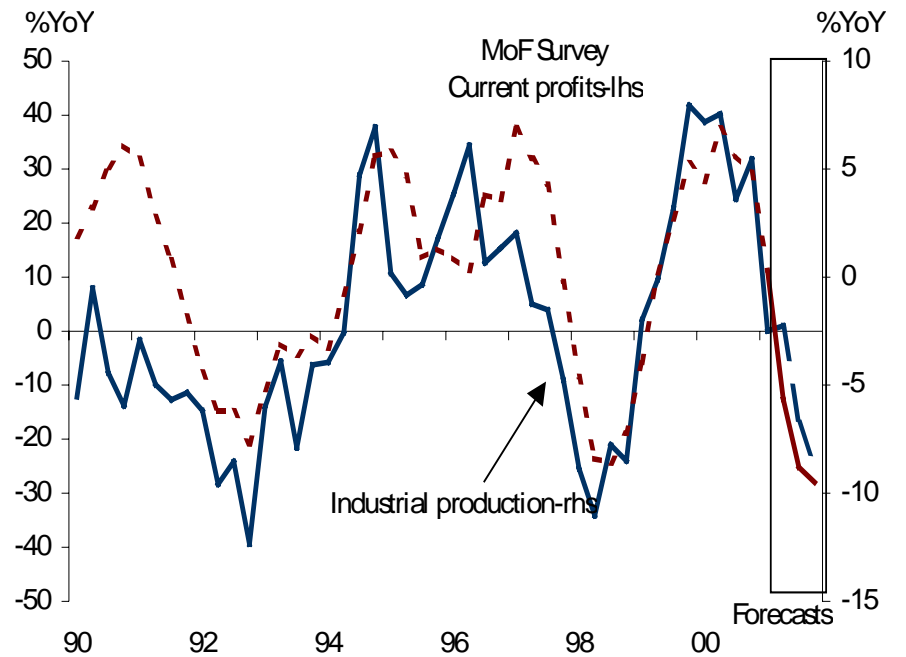
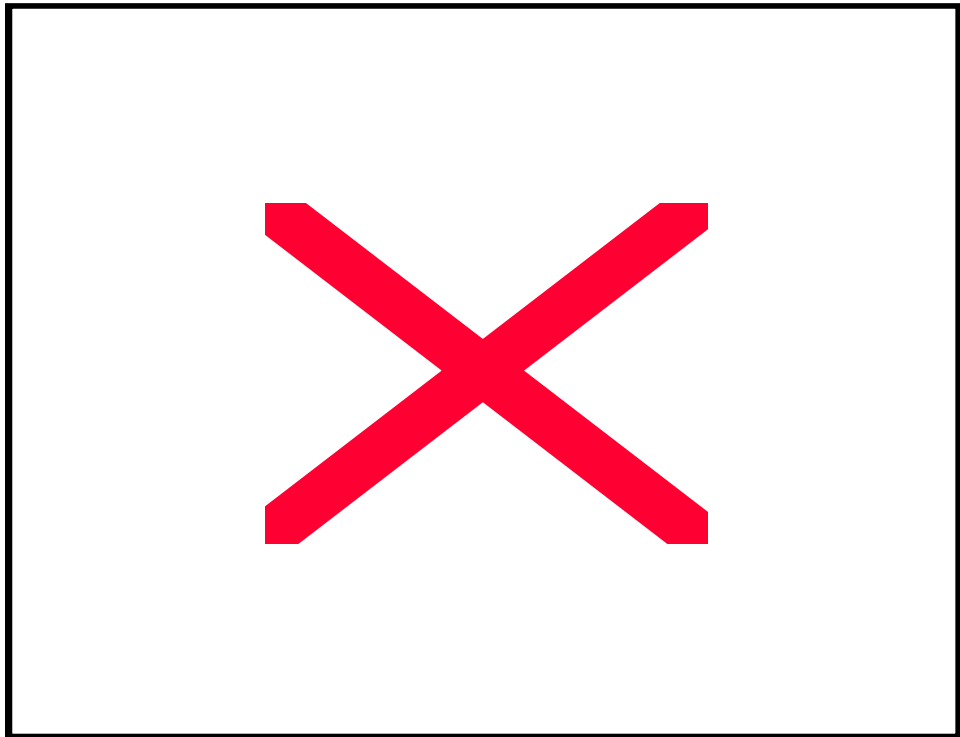


Source: DATASTREAM

US: Consumer Credit As % of Disposable Income

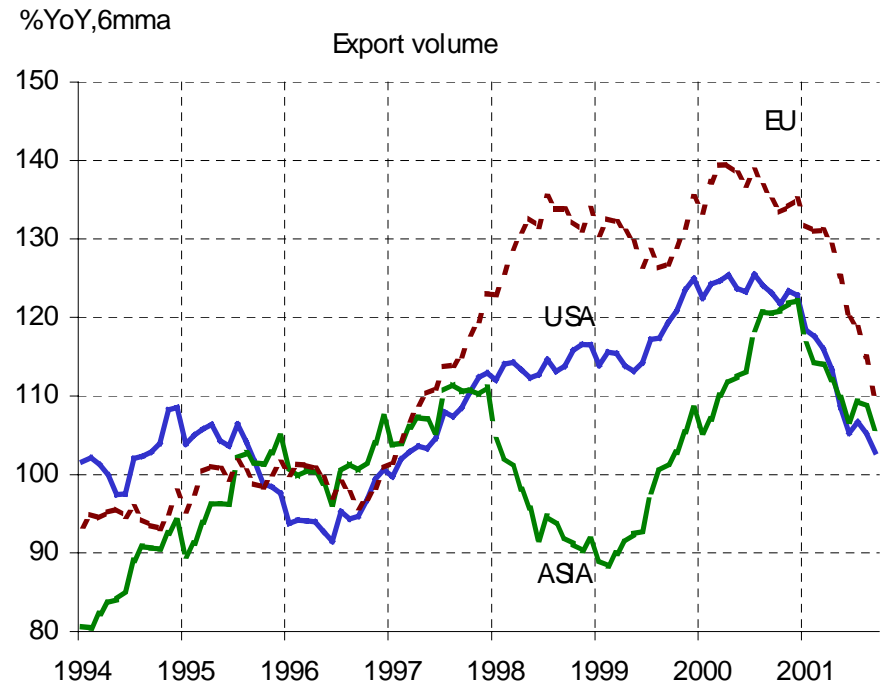
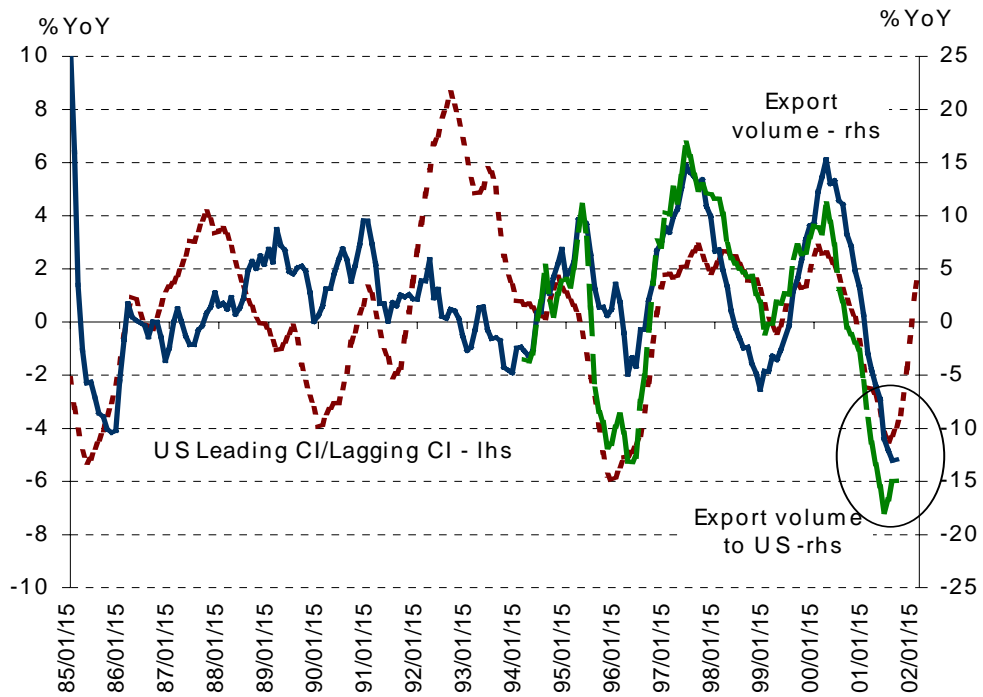


JAPAN: Production is Nose-Diving and the Same for Profits Near-Term



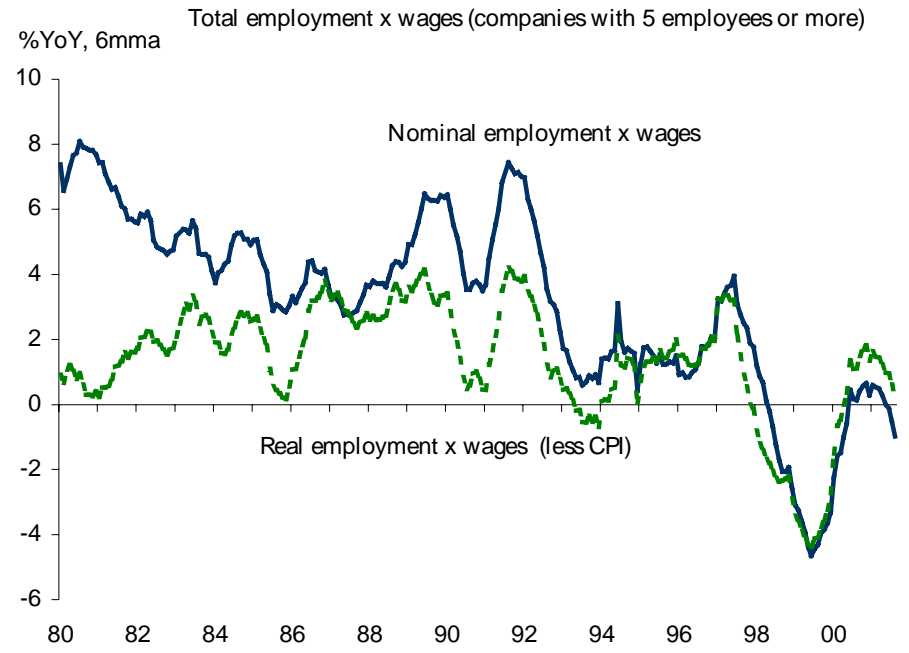
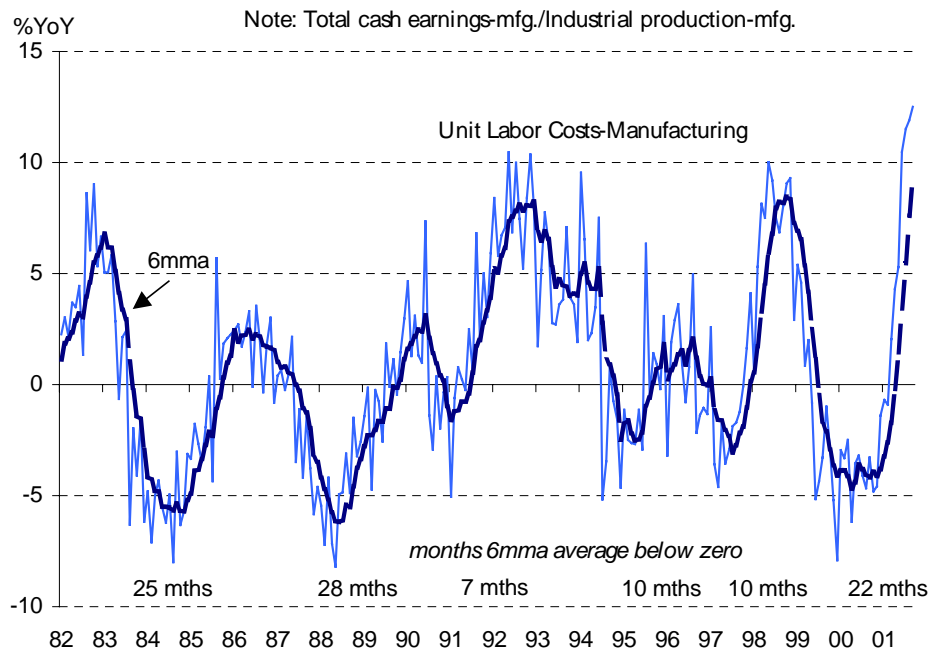
Source: METI, MoF

JAPAN: There is Light at the End of the Tunnel in 2002



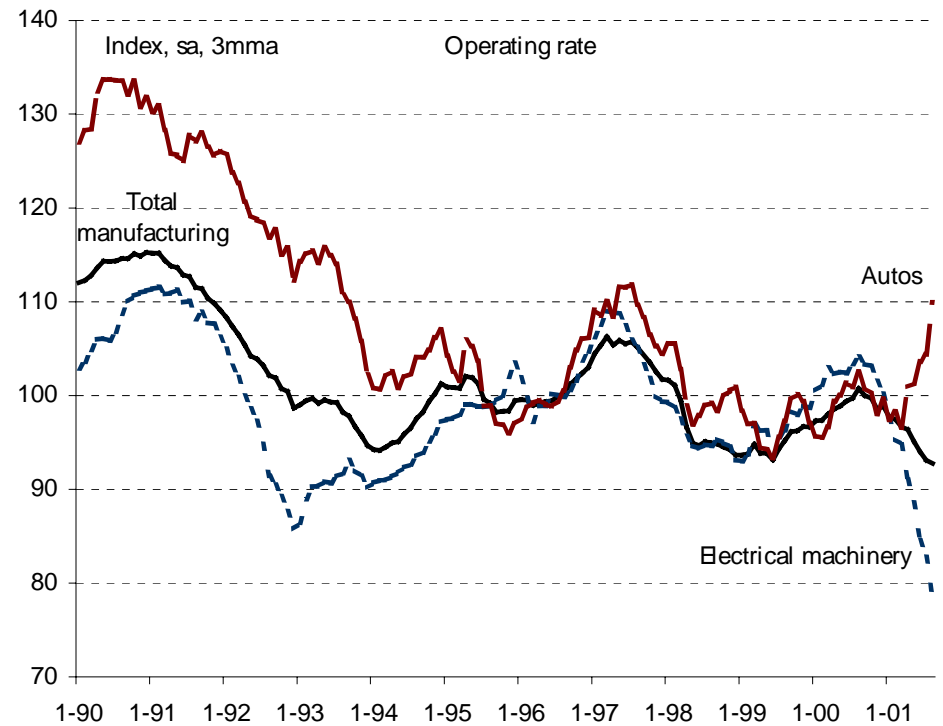
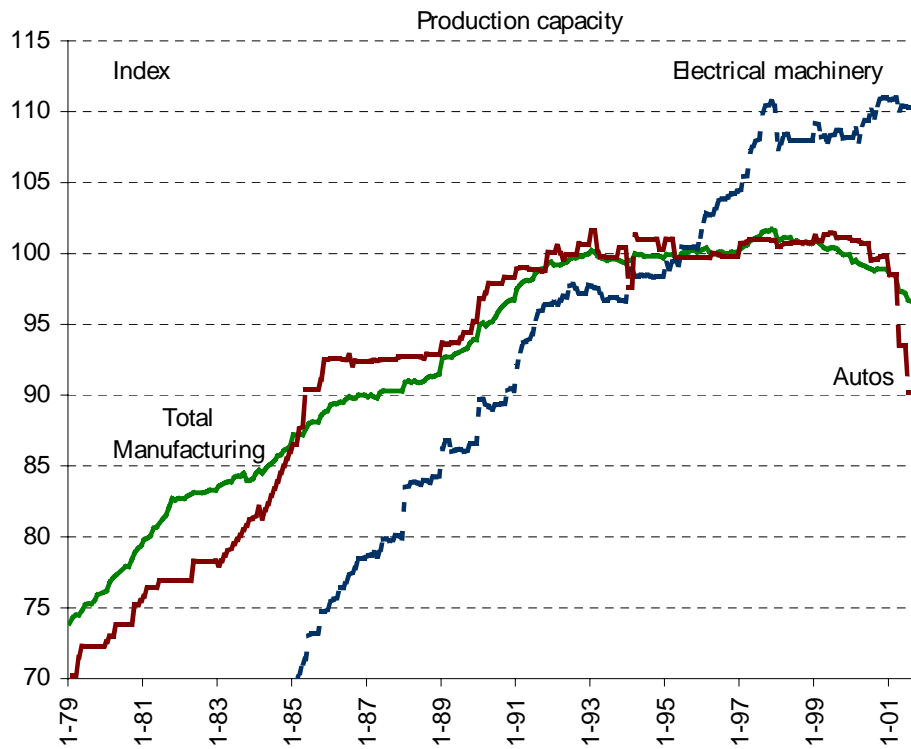
Source: MoF, US Conference Board

JAPAN: Unit Labor Costs Have Soared and Companies Are Starting to Cut Costs



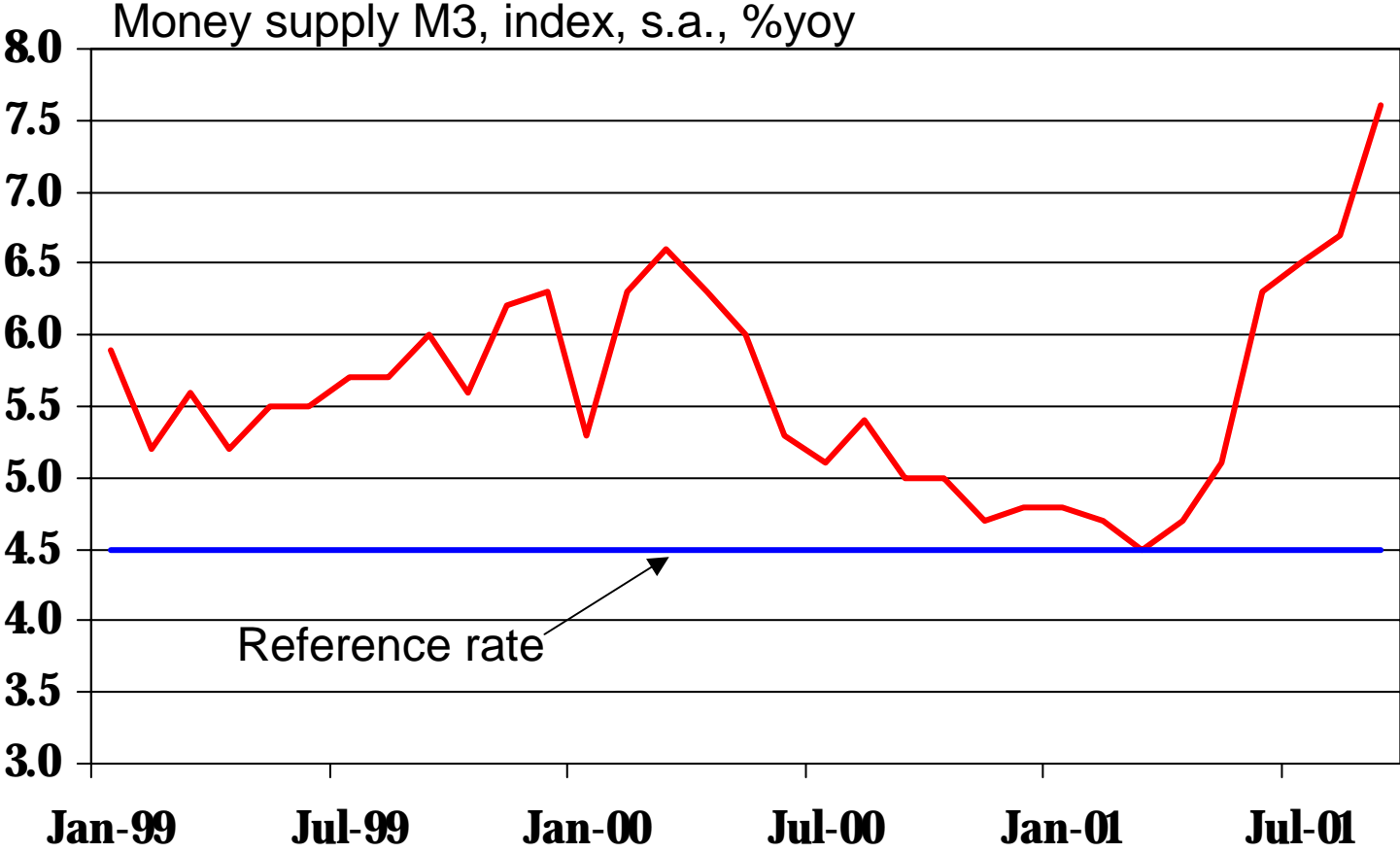
Source: METI, MoHLW, Statistics Office

JAPAN: Some Sectors are Making Progress in Cutting Excess Capacity

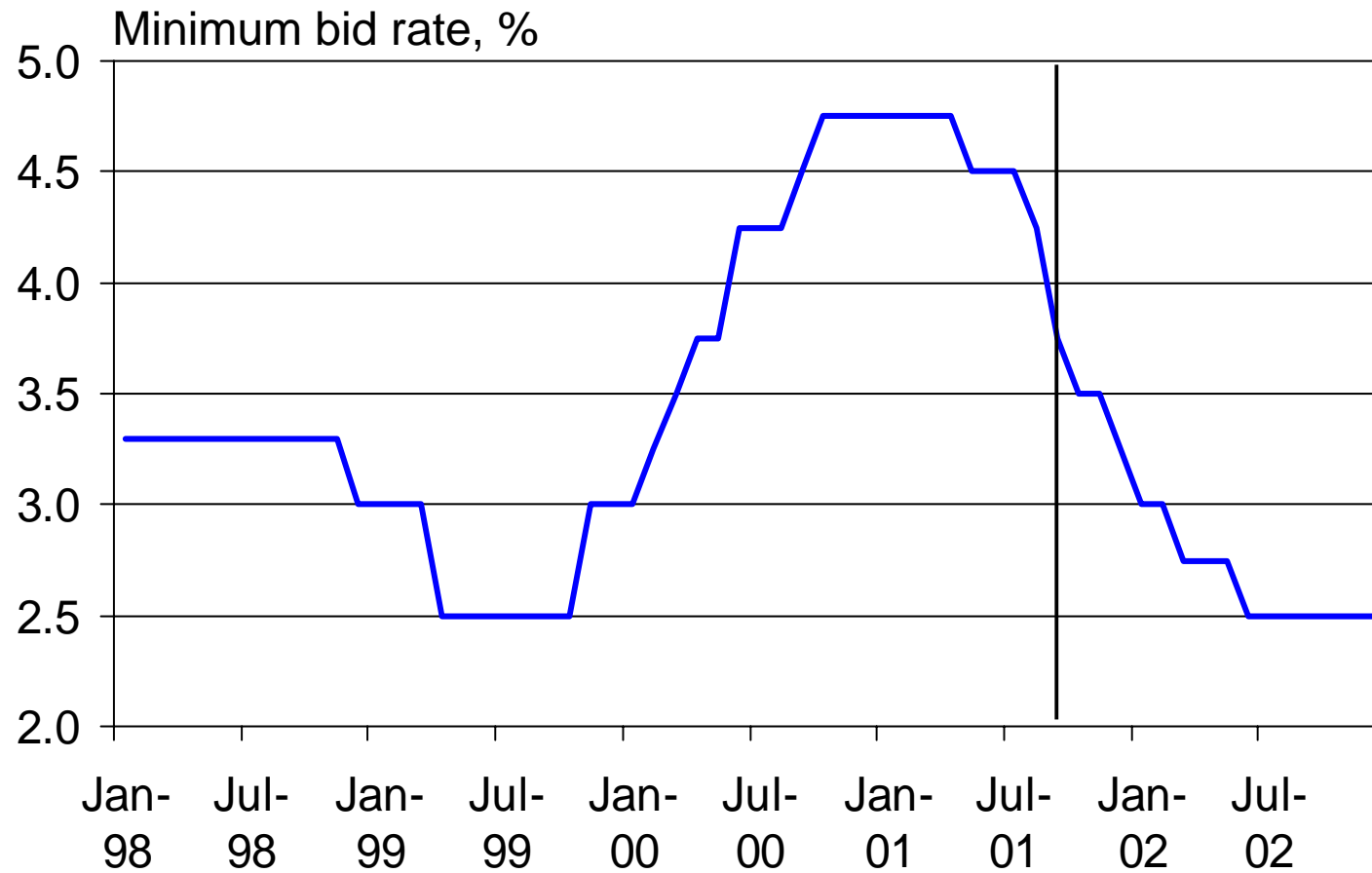


Source: METI

EUROPE: M3 Growth Has Been Up Sharply



EUROPE: The ECB Will Continue to Cut Rates



World GDP Growth Rates

ECONOMIC FORECASTS - October 2001

		2000	2001F	2002F	2000	2001F				2002F	
					Q4	Q1	Q2	Q3	Q4	Q1	Q2
USA	GDP, %YOY	4.2	1.1 (1.9)	0.9 (1.0)	3.4	2.5	1.2	0.8 (0.6)	-0.2 (1.7)	-0.6 (2.6)	0.2
	Consensus	4.2	1.0 (1.6)	1.2 (2.7)	3.4	2.5	1.2	0.8 (1.2)	1.4	1.8	2.5
UK	GDP, %YOY	2.9	2.3 (1.9)	1.9 (1.8)	2.4	2.7	2.3	2.2	2.0 (1.4)	1.7 (1.4)	1.9 (1.6)
	Consensus	2.9	2.1	2.1 (2.7)	2.4	2.7	2.3	2.2	1.8	2.1	2.5
EU-12	GDP, %YOY	3.4	1.5	1.4	2.9	2.4	1.6	1.3	0.6	0.4	1.1
	Consensus	3.4	1.7 (1.9)	1.8 (2.4)	2.9	2.6	1.6	1.7 (1.9)	1.7 (1.9)	1.8 (2.4)	1.8 (2.4)
Japan	GDP, %YOY	1.7	-1.1	-0.1	1.9	0.3	-0.9	-1.0	-2.7	-1.6	-0.8
	Consensus	1.7	-0.5 (-0.1)	-0.4 (0.5)	1.9	0.3	-0.9	0.0	-0.4	-0.3	0.4
Hong Kong	GDP, %YOY	10.5	0.0 (2.0)	2.5 (3.8)	7.0	2.5	0.0	-0.7 (1.5)	-1.8 (1.6)	-1.4 (4.9)	1.4
	Consensus	10.5	-0.2 (0.8)	2.3 (3.6)	7.0	2.5	0.0	-0.6 (-0.3)	1.2	1.6	3.5
Singapore	GDP, %YOY	9.9	-2.1 (0.8)	2.5 (6.3)	11.0	4.7	-0.9	-5.6 (-0.4)	-6.0 (0)	-1.8 (4.6)	2.3
	Consensus	9.9	-1.6 (-0.6)	3.2 (4.7)	11.0	4.7	-0.9	-2.8	-2.5	2.1	4.0

Consensus data as of October 8, 2001

Source: *INVESCO*

Addendums

Section II

Asset Allocation Process



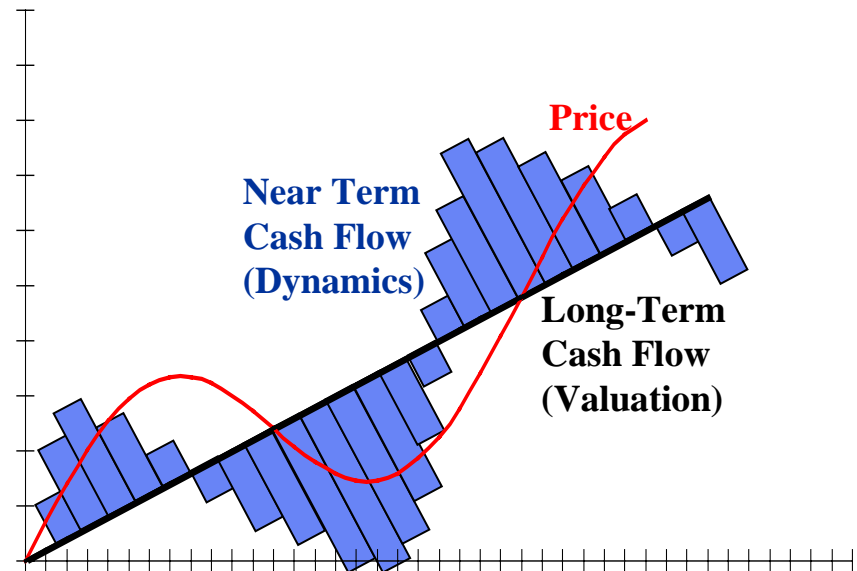
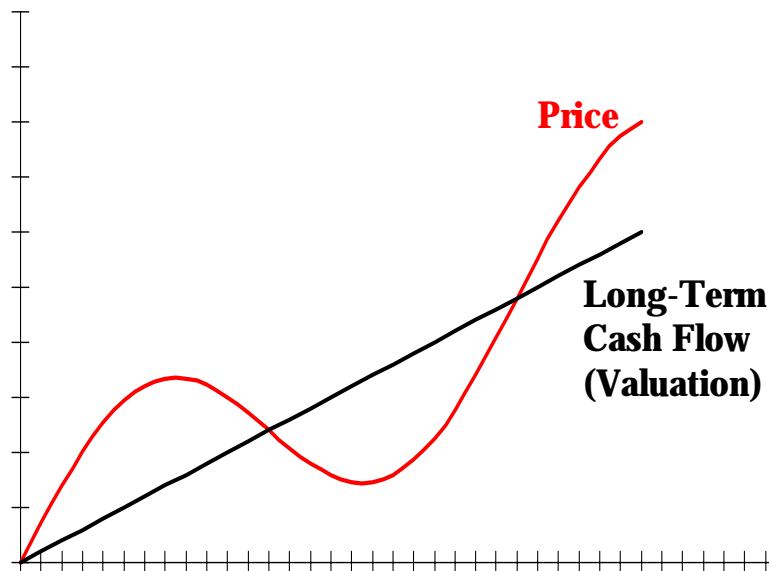
INVESCO's Asset Allocation Philosophy

- Inefficiencies across asset classes are meaningful enough and powerful enough to prompt us to capture them in an active mode.
- A disciplined, systematic approach (grounded in financial theory and devoid of human emotion) can provide incremental value-added.
- We believe that to consistently add value from a top-down perspective, an investment approach needs to combine information from long-run valuation measures with insights about the near-term investment environment.
- The benefit of the approach is the ability to capture fundamental mispricings, but it is also adaptive to changes in the near-term investment environment.

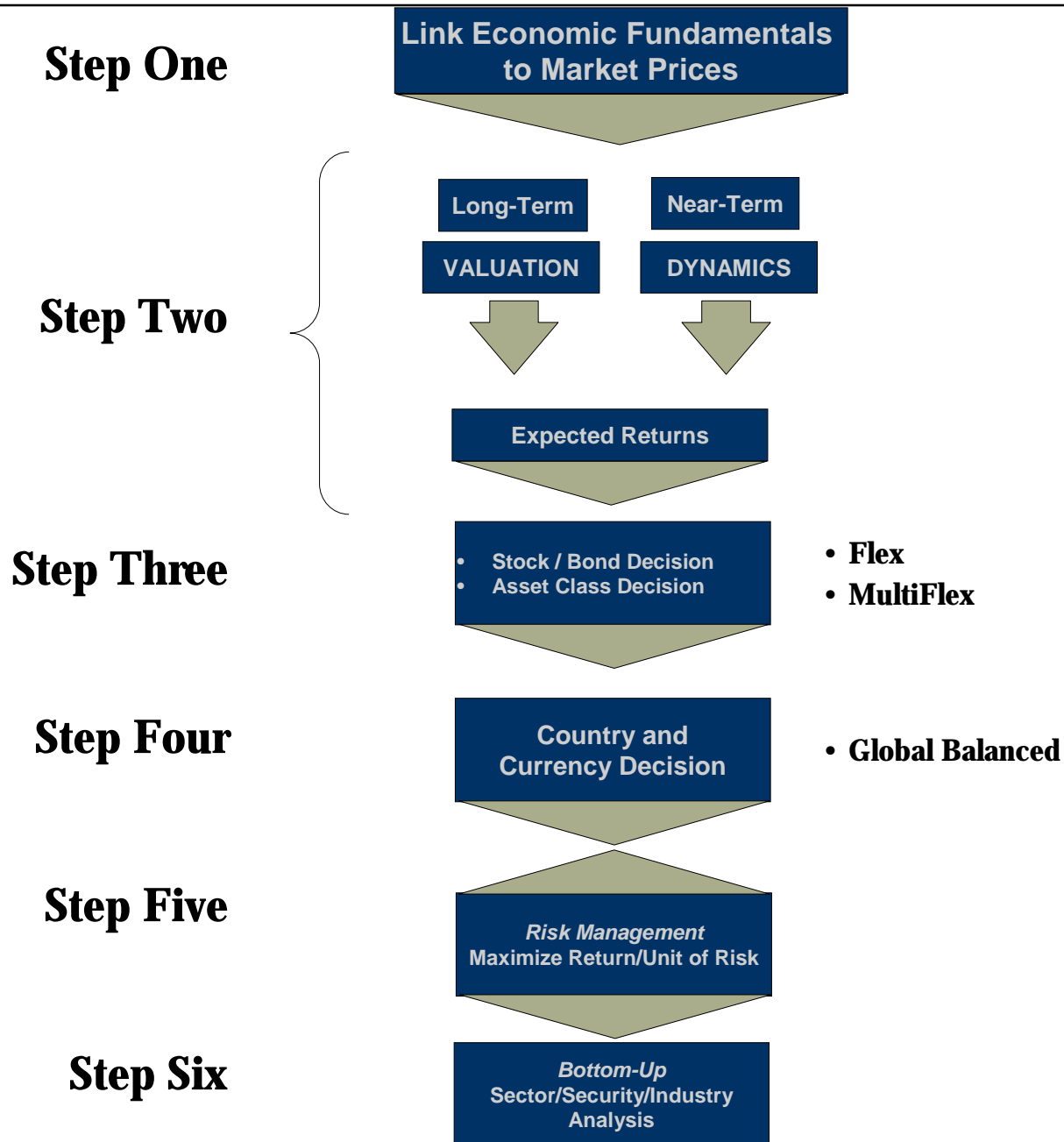
Global Investment Process

Fundamental investing requires long-term *and near-term analysis* to evaluate the relative attractiveness of investment opportunities.

- There are periodic discrepancies between prices and fundamentals that create opportunities for incremental value added.
- *Valuation* defines a central tendency for market prices and is tied to long-term fundamentals.
- *Dynamics* defines price deviations from value tied to near-term fundamentals.
- Combining *Valuation* and *Dynamics* improves the absolute level and consistency of investment results.



Asset Allocation Process

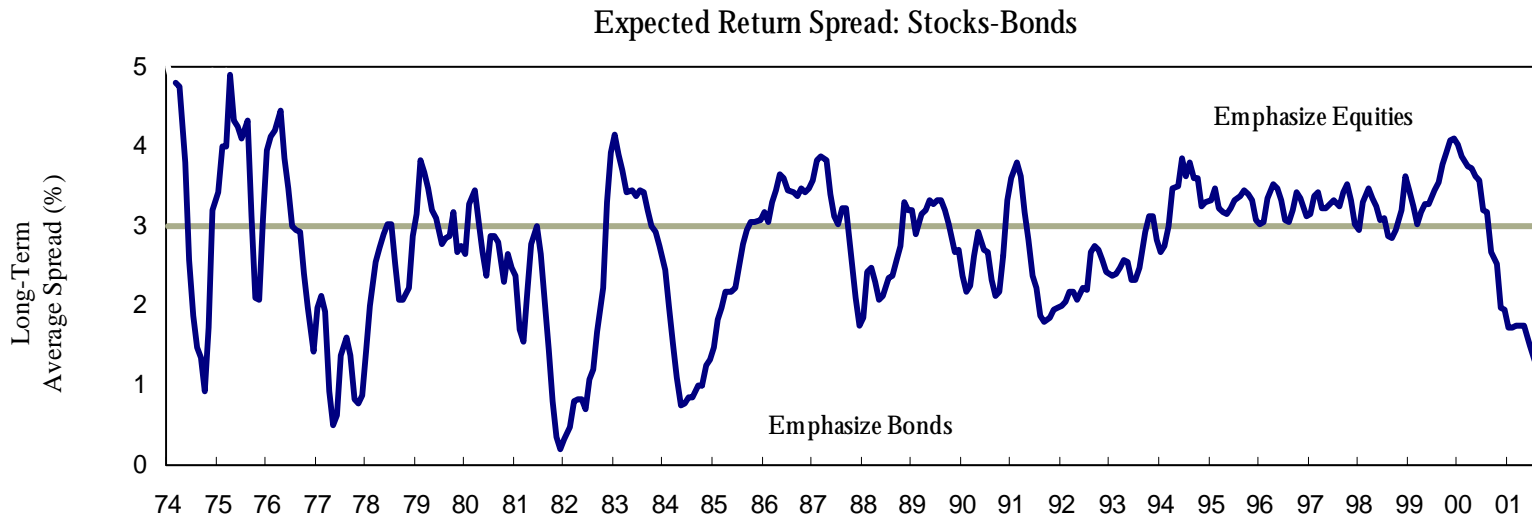
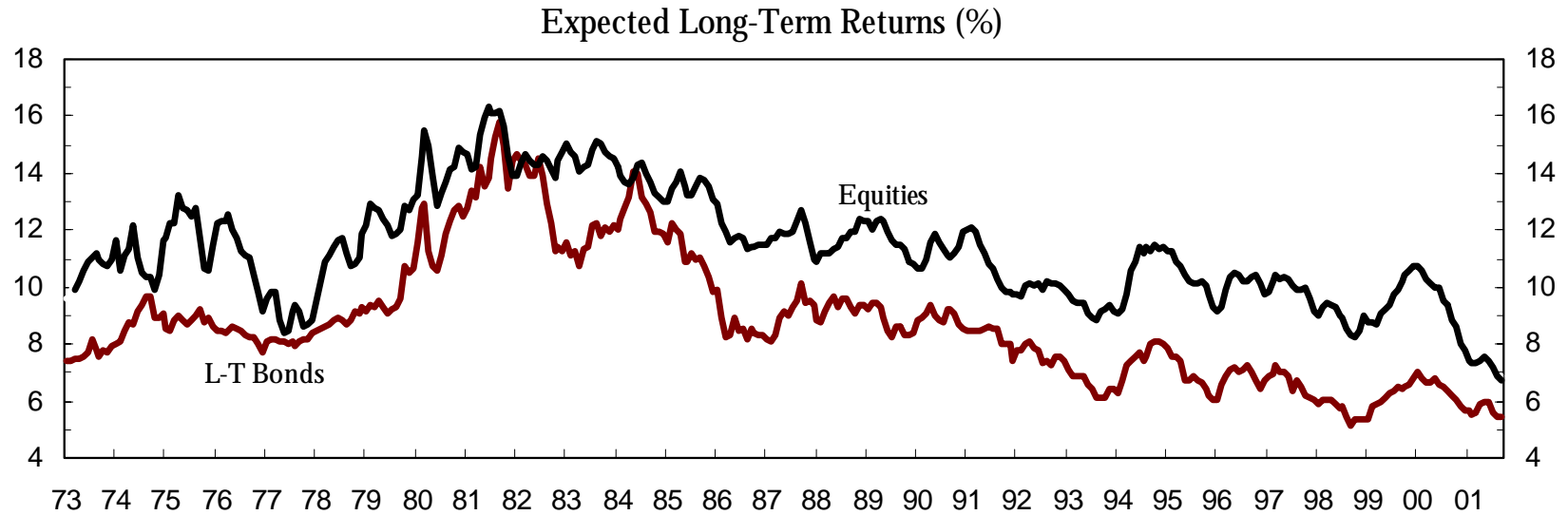


Section III

Current Strategy

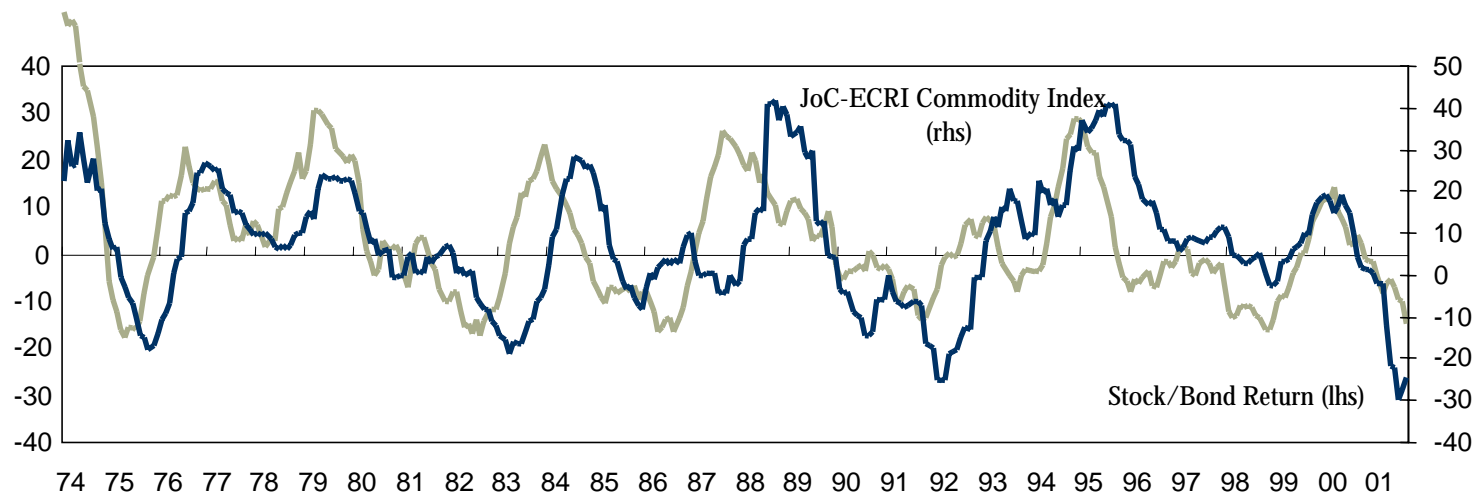
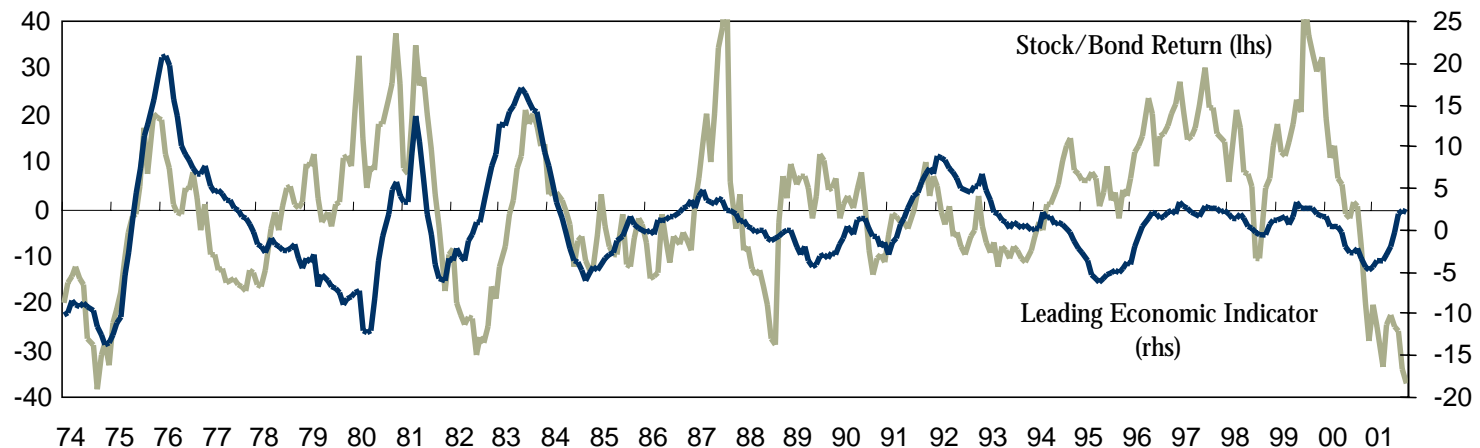


Stock/Bond Model Discipline



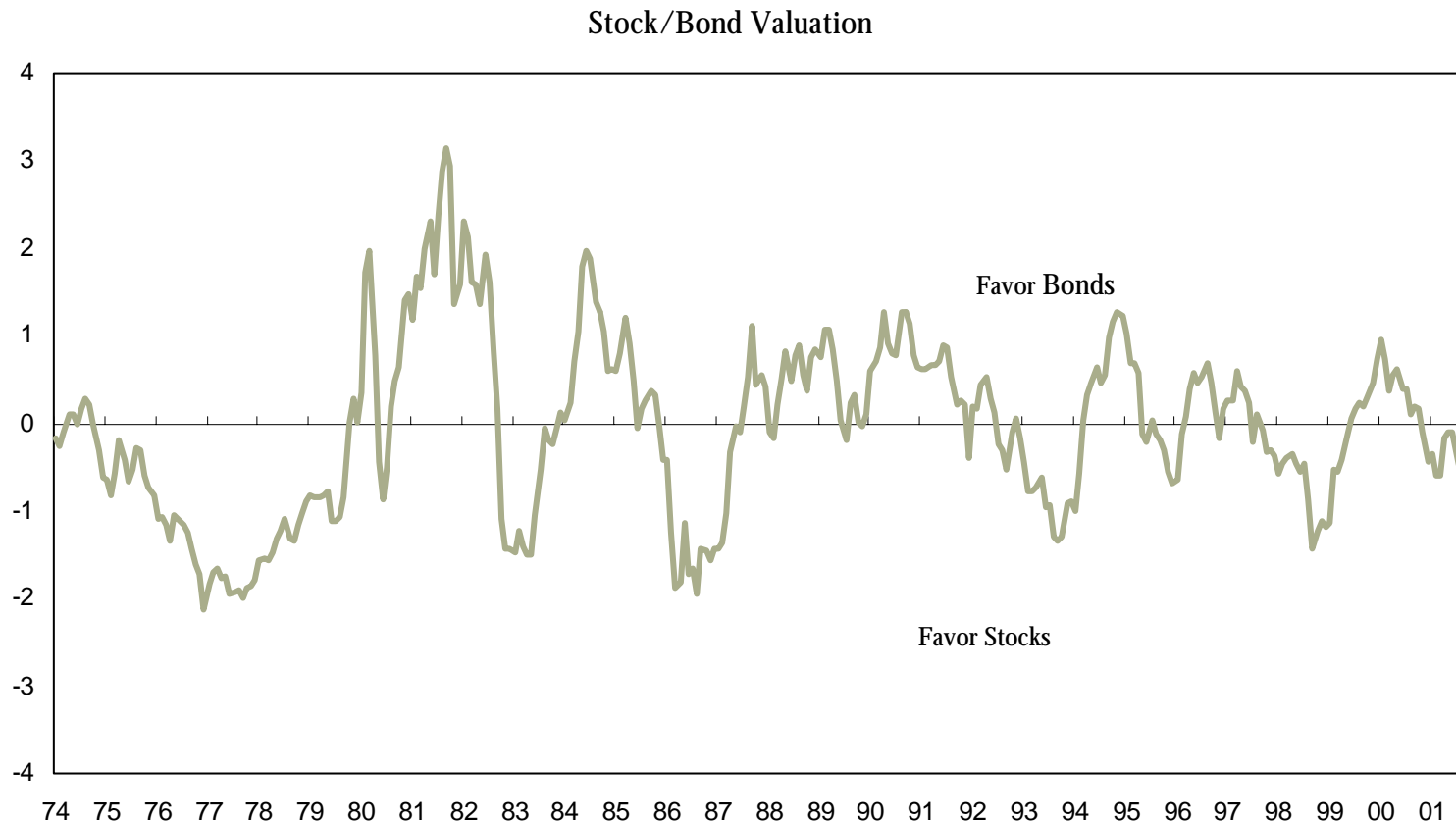
Stock vs. Bond: Economic Fundamentals

- The stock vs. bond decision is not simply a stock decision; rather, the stock/bond cycle follows the economic cycle.
- However, economic cycles do not always coincide with earnings cycles. Hence, understanding the earnings cycle adds to understanding the stock/bond cycle.



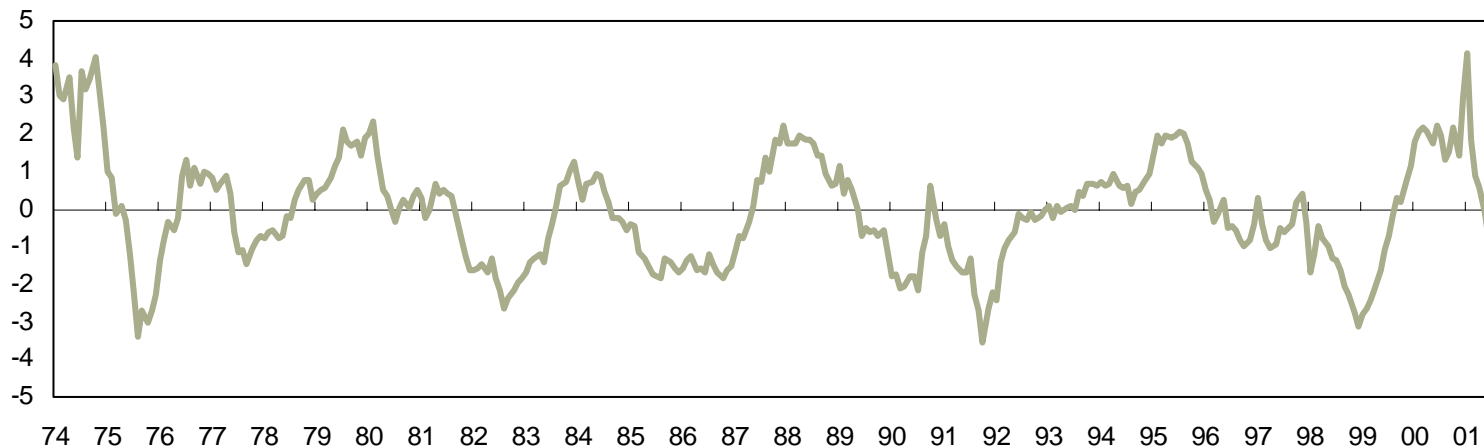
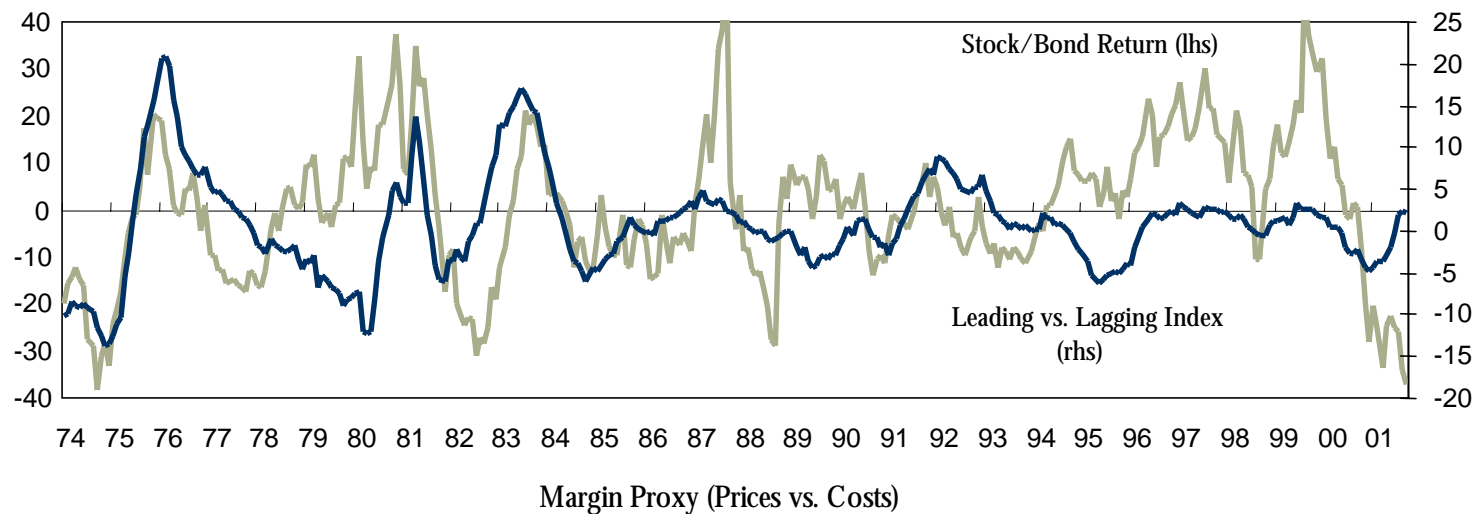
Stock vs. Bond: Valuation

- Stocks tend to be undervalued when interest rates and economic expectations are low. Conversely, stocks tend to be overvalued when interest rates and economic expectations are high.



Stock vs. Bond: Dynamics

- In the near-term, stocks outperform (underperform) bonds. . .
When economic growth is positive (negative),
When companies have pricing power (prices rising vs. costs), and
Earnings are below equilibrium and rising



Global Asset Allocation Strategy

- The near-term impact of the terrorist attack has been to accelerate the process of unwinding the capital investment/technology boom of recent years, which had broadened to encompass more sectors of world economies. Further recent monetary and fiscal stimulus, as well as the already accommodative monetary stances of the major central banks over the past six months, is expected to alleviate the effect on world economies. The completion of the unwinding process combined with significant policy stimulus should re-ignite investor risk-appetite and eventually global economic activity.
- The recently enhanced liquidity conditions, in addition to improved equity valuations, will likely create an inflection point for our models to suggest an overweight to equities relative to bonds.
- With the overvaluation in growth and large cap stocks largely corrected, the more typical inflation and earnings cycle has begun to dominate relative style and size attractiveness. Further progress with monetary stimulus and earnings estimate reductions indicate slowdown may be nearing midpoint.
- Current overweights within global equity is achieved primarily through emerging markets. These markets have made the most progress towards attractive valuations, reduced earnings expectations, and supportive liquidity conditions.
- Stronger preference for high yield and emerging market bonds relative to investment grade and developed bond markets, as credit risk remains attractively priced while risks of severe downturns continue to lessen.
- The Australian dollar and to a lesser extent the Canadian dollar remain attractive based on purchasing power undervaluation and global recovery exposure. A yen underweight to be consistent with economic conditions and policy preferences in Japan. These are offset by a US dollar

Asset Class Summary Analysis

October 2001

	<u>Current</u> <u>Risk Premium</u>	<u>Equilibrium</u> <u>Risk Premium</u>	<u>Difference</u>	<u>Neutral</u> <u>Allocation</u>	<u>Target</u> <u>Allocation</u>
US Large Cap Equities	3.4%	4.0%	-0.6%	39.0%	33.0%
US Small Cap Equities	4.0%	5.0%	-1.0%	6.0%	4.0%
Real Estate Investment Trusts	2.9%	3.0%	-0.1%	5.0%	5.0%
Non-US Equities	1.7%	4.0%	-2.3%	12.0%	4.0%
Emerging Market Equities	10.9%	7.3%	3.6%	3.0%	6.0%
TOTAL EQUITIES				65.0%	52.0%
US Core Bonds	3.7%	1.0%	2.7%	25.0%	28.0%
High Yield Bonds	6.8%	2.3%	4.5%	3.0%	7.0%
Non-US Bonds	5.5%	1.0%	4.5%	5.0%	9.0%
Emerging Market Bonds	7.1%	3.7%	3.4%	2.0%	4.0%
TOTAL BONDS				35.0%	48.0%
Cash	-0.5%	0.0%	-0.5%	0.0%	0.0%

Source: INVESCO

Global Equity Market Summary Analysis

October 2001

	<u>Current Risk Premium</u>	<u>Equilibrium Risk Premium</u>	<u>Difference</u>	<u>Over/Under Allocation</u>
US	3.4%	4.0%	-0.6%	4.5%
Japan	1.8%	4.0%	-2.2%	0.2%
UK	1.8%	4.0%	-2.2%	0.2%
Germany	1.7%	4.0%	-2.3%	-0.1%
France	1.4%	4.0%	-2.6%	-1.0%
Switzerland	0.4%	4.0%	-3.6%	-3.8%
Netherlands	1.8%	4.0%	-2.2%	0.0%
Italy	0.9%	4.0%	-3.1%	-2.4%
Spain	2.5%	4.0%	-1.5%	2.0%
Sweden	1.9%	4.0%	-2.1%	0.3%
Belgium	1.7%	4.0%	-2.3%	-0.1%
Austria	2.5%	4.0%	-1.5%	1.9%
Canada	1.0%	4.0%	-3.0%	-2.1%
Australia	1.7%	4.0%	-2.3%	-0.3%
Hong Kong	1.9%	5.0%	-3.1%	0.4%
Singapore	1.8%	5.0%	-3.2%	0.2%

Source: INVESCO

	Excess vs USD <u>Risk Premium</u>	Over/Under <u>Allocation</u>
US		-1.5%
Euro	0.5%	0.0%
Yen	-2.3%	-1.0%
Sterling	0.6%	0.0%
Australian Dollar	2.5%	1.5%
Canadian Dollar	0.9%	1.0%

Source: INVESCO

Section IV

Risk Management

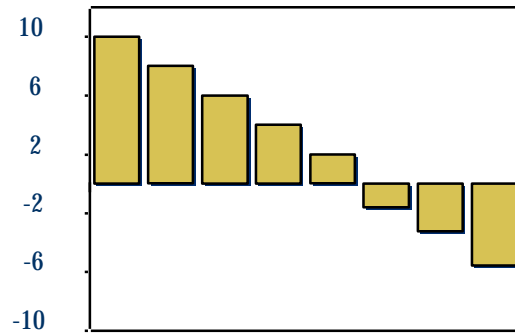


Top-Down Risk Positioning

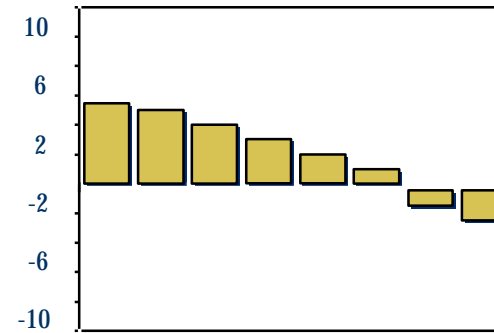
Consistent Results Are Achieved Through Managing Risk

Principle: Take more risk when you are adequately rewarded to do so
 Be more conservative when you are not adequately rewarded to take risk

Condition: Implied Returns are widely distributed Implied returns are bunched

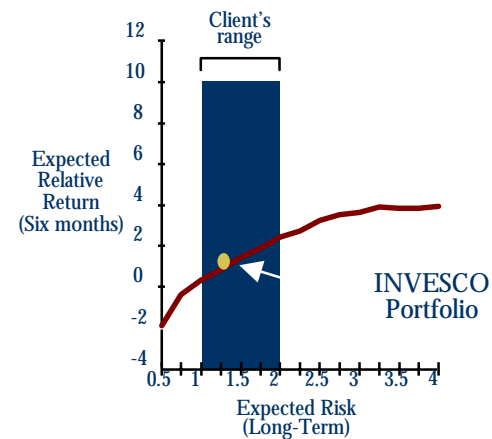


Result: Relatively Steep Efficient Portfolio Line



Result: Relatively Flat Efficient Portfolio Line

Result:



What Is Unique About INVESCO

