



Market Commentary

Lehman Brothers file for bankruptcy – Exposure in Invesco's Global Product Range

17 September 2008

Lehman Brothers files for bankruptcy

As reported on September 15, 2008, the fourth-largest investment bank in the US, Lehman Brothers Holdings ("LEH"), succumbed to the subprime mortgage crisis and filed for bankruptcy, as potential buyers Barclays plc and Bank of America abandoned takeover talks at the weekend. Lehman Brothers, the 158-year old firm, said it intended to file for Chapter 11 bankruptcy protection, which allows a company time to reorganise and devise a plan to pay creditors.

In response to recent enquiries, while it is not our policy to disclose individual holdings within portfolios, we would like to provide an overview on its impact on funds within Invesco's Global Product Range.

As John Greenwood, Invesco Chief Economist, said in response to the news:

"At its core the Lehman-Merrill Lynch-AIG financial crisis is about balance sheets. On the way up the credit bubble helped to inflate the values of houses and commercial real estate and mortgage-backed securities based on them, as well as the values of risky equities, high-yielding currencies and finally commodities. As long as asset prices were rising, investment banks, mortgage finance companies and hedge funds were only too happy to borrow more and more to fund such acquisitions. Rising asset prices fostered illusions of balance sheet strength.

"Now as the credit bubble bursts the positive feedback loop that strengthened asset values and investors' equity in the boom years has gone into reverse. Two types of investors have been, and will be hit hardest: (1) those holding substantial amounts of assets in the previously targeted risky, high return areas such as real estate, high-yield currencies and commodities, and (2) those firms, funds, or individuals that are most heavily leveraged. Investment banks like Lehman Brothers and Merrill Lynch were at the forefront of the balance sheet boom, but now their assets have gone bad, and lenders have been unwilling to roll over their loans. Lehman's large holdings of real estate and mortgage backed securities, combined with their massive leverage has destroyed its business".

Invesco's Global Product Range – Equity funds

These funds have not been impacted as we did not have any direct exposure to LEH.

Invesco's Global Product Range – Fixed Interest funds

As of 12th September 2008, the following fixed interest funds maintained minimal direct exposure to LEH:

- Invesco UK Investment Grade Bond Fund
- Invesco Absolute Return Bond Fund
- Invesco Euro Bond Fund
- Invesco Bond Fund
- Invesco European Bond Fund
- Invesco Pan European High Income Fund
- Invesco Sterling Bond Fund

The main thing to note is that as of 12th September 2008, no fund had a direct exposure to Lehman Brothers of greater than 1% of NAV. Given that there is no clarity on the final recovery value of the senior bonds we are not in a position at this time to gauge the final impact to our clients.

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