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Current views on banks May 2009



“We were concerned about the level of debts that they were building up”

Banks have been prominent in the recent market rally, as cyclical sectors have risen strongly amid hopes that the worst of the economic slowdown has passed. We believe that the UK economy will experience a protracted period of anemic growth and we do not see meaningful recovery in the near-term. Accordingly, we believe that the risks associated with this sector easily outweigh the potential for short-term gains and we remain comfortable with our generally defensive bias.

One of the key reasons that we have not held bank shares for a number of years is that we were concerned about the levels of debt that they were building up. This concern has become a reality and has been even more severe than we expected. Whilst UK banks have taken steps towards strengthening their balance sheets we believe that the level of exposure to toxic assets remains in doubt and in our view the potential for further write-downs is high. We believe they will require a lot more capital to repair their balance sheets, even after the vast amounts that they have already received, and this means outright nationalisation remains a possibility.

Valuation is integral to our investment process and the uncertainty surrounding bank balance sheets makes valuing these businesses highly speculative in our view. In contrast, we believe areas like tobacco, pharmaceuticals and utilities offer a transparent outlook and reliable earnings prospects. Looking ahead, we will maintain our investment discipline, our focus on value, sustainable earnings and dividend growth. In our view, these are key elements in our aim of delivering positive long-term returns for our investors.

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. Current tax levels and reliefs may change. Depending on individual circumstances, this may affect investment returns. Past performance is not a guide to future returns.

Views and opinions expressed are Neil Woodford's, these may change and are not necessarily representative of Invesco views. Please refer to the latest relevant fund's Simplified Prospectus.