Invesco Canadian Fund

Quarterly review

As at March 31, 2021

Performance highlights

Invesco Canadian Fund, Series I returned 12.28% over the first quarter of 2021, versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned 6.45% (C$) over the same period.

Contributors to performance

The Fund's relative performance benefited from an overweighting to the financials sector, which had strong returns over the quarter, and relatively lower exposure to the lagging materials sector. The Fund also benefited from investments in the industrials sector, which outperformed those of the benchmark over the quarter. The top individual contributors to Fund performance over the period included Bank of Nova Scotia (BNS) and Deere & Co.

The resumption of economic activity has had a positive impact on Bank valuations over the quarter, as has the rising interest rate environment and the assessment that total loan losses from the COVID-19 crisis are not looking as bad as previously feared. BNS also benefitted from better-than-expected results in its Latin America business, which had been a concern for investors. We continue to like our three Canadian banks (BNS, Toronto Dominion Bank and Royal Bank) for the same reasons as in previous periods; sticky, multi-product customer relationships and an oligopoly industry structure means there is less pressure for Canadian banks to cut prices and make risky loans versus banks in other jurisdictions. Exposure to various business types (mortgages, credit cards, business loans, capital markets, wealth management, etc.) also provides a variety of growth opportunities and contributes to earnings stability. We believe valuations are still quite reasonable given the quality of these businesses.

Deere is a dominant leader in the global agriculture equipment industry and a meaningful player in global construction equipment. The company has significant competitive advantages, including its exclusive dealer network, scale of operations and culture of product innovation that delivers strong returns on invested capital. The company raised its fiscal year 2021 earnings guidance significantly during the quarter, reflecting strong sales volumes, continuing cost-cutting efforts, and meaningful uptake of precision agricultural offerings (which provide above average margins).

Detractors from performance

The Fund's relative performance was negatively impacted by its underweight exposure to energy and real estate, as these sectors outperformed over the period. Consumer staples were the only sector holdings that lagged those of the benchmark over the quarter. The only individual detractor from Fund performance over the period was Alimentation Couche-Tard Inc.

Alimentation Couche-Tard is one of the largest convenience store chains in North America and has a significant global footprint that extends across five continents. Couche-Tard surprised investors during the quarter with the announcement of their proposal to acquire Carrefour, a large France-based grocery store chain. The proposed acquisition was inconsistent with management's past focus on consolidating the global convenience store market and many questioned the strategic merits of the deal. Despite the acquisition being potentially attractive on a financial basis, the market's confidence in management's approach to capital deployment was impacted.

Portfolio activity

Facebook Inc. and CGI Inc. were added to the Portfolio over the period and no positions were sold outright.

Facebook is a high-quality business that has benefitted from unprecedented network effects and global scale. Approximately 2.6 billion people utilize one or more of its many applications daily (Facebook Blue, Instagram, Whatsapp and Facebook Messenger), and 10 million companies advertise on its platforms[1]. The core business offers advertisers of any size a unique opportunity to deliver hyper-targeted ads with a high return on investment, capturing nearly 30% of global advertising spend[1]. Facebook has grown its profitability at a high rate for a decade, with room for continued growth as ecommerce penetration increases and consumers spend more time online. Additionally, Facebook has yet to monetize WhatsApp and is in the early stages of building out its Augmented Reality/Virtual Reality (AR/VR) business. While the company faces potential challenges in the areas of antitrust and privacy, we believe Facebook's current valuation represents a meaningful discount to our estimate of intrinsic value.

CGI owns enterprise software assets and provides consulting, systems integration, digital transformation and outsourcing services to governments and corporations. CGI has generated impressive long-term growth thanks to prudent acquisitions, close customer relationships and a consistent need for support in utilizing new technology.

The Portfolio's most significant relative overweighting is in financials and industrials, with lower-than-benchmark weightings in materials, information technology, utilities and communication services.

Investment outlook

Caution is warranted today given the significant enthusiasm for equities and the many examples of elevated valuations that appear disconnected from fundamentals. However, the portfolio management team (the "team") remains comfortable with how the Fund is positioned, in large part because the Portfolio's holdings look very different than the overall market. The Fund is a concentrated portfolio of select quality businesses that – on average – trade at a meaningful discount to the market. In the team's view, portfolio valuations remain quite reasonable and in some cases, significantly discounted. The team believes the Fund should continue to benefit from likely improvements in the economy as the distribution of vaccines progress and businesses return to a more normal state.

Performance – as at March 31, 2021

	1-year (%)	3-year (%)	5-year (%)	10-year (%)
Invesco Canadian Fund – Series I	**52.26**	**10.29**	**11.35**	**5.61**
Benchmark	41.35	10.85	11.06	8.41

Important notes

The above companies were selected for illustrative purposes only and are not intended to convey specific investment advice. The statistics in the Snapshot, Country Exposure, and Sector Exposure sections refer to the fund version of the strategy. Portfolio characteristics may differ slightly between fund and class.

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. The indicated rates of return are the historical annual compounded total returns, including changes in security values and reinvestment of all distributions, and do not take into account sales, redemption, distribution or optional charges, or income taxes payable by any securityholder, which would have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated. Please read the simplified prospectus before investing. Copies are available from your advisor or Invesco Canada Ltd.

The views expressed above are based on current market conditions and are subject to change without notice; they are not intended to convey specific investment advice. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations.

Sources: [1] Bloomberg LP, Morningstar Research Inc., Invesco Canada Ltd., as at March 31, 2021.
Data expressed in Canadian Dollars.

Published April 15, 2021

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