Invesco Canadian Fund / Class

Quarterly review | As at December 31, 2022

Investment philosophy

Invesco Canadian Fund seeks to provide strong capital growth over the long term. The Fund invests primarily in common shares of Canadian companies. The Fund can invest up to 49% of assets in global companies.

Performance summary

- Invesco Canadian Fund, Series I generated a return of 7.33% over the fourth quarter of 2022 versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned 6.76% (C$) over the same period

Key contributors to performance

- The Fund's investments in the financials and consumer discretionary sectors outperformed those benchmark holdings, aiding performance over the period. The two most significant individual contributors to Fund performance over the quarter were **Deere & Company (DE)** and **Fairfax Financial Holdings Limited (FFH)**

- **Deere** manufactures and distributes a range of agricultural, construction, forestry and commercial and consumer equipment. Deere benefits from a greater-than-55% market share in North American large agricultural equipment, and has been growing market share in Europe, South America and Asia. Its extensive dealer network, customer loyalty, industry-leading research and development, advancement in important segments like precision agriculture, as well as its high-quality and efficient manufacturing have contributed to the company's long-term success. During the period, Deere released strong fourth-quarter results with both earnings and forward earnings guidance ahead of expectations. Deere is continuing to see strong demand for its products from farmers and relatively few problems in its credit book. Deere also appears to be moving past some of the production and supply chain challenges that it faced in previous quarters

- **Fairfax Financial** is a holding company that is engaged in property and casualty insurance and reinsurance, and investment management through its subsidiaries. The company seeks to differentiate itself by combining disciplined underwriting with the investment of its assets on a total-return basis. Shares of Fairfax advanced over the period after reporting favourable quarterly results, including strong underwriting performance driven by the ongoing firm pricing environment and resilient demand for commercial insurance. The company is also benefiting from past investment decisions to position its bond portfolio conservatively, focusing on very short duration treasuries. FFH's bond portfolio was largely insulated from the negative impact of rising rates during the year, and management has also begun to increase duration to benefit from higher yields

Key detractors from performance

- The Fund's relative performance versus the benchmark was hurt by investments in the communication services and healthcare sectors, which lagged those areas of the benchmark. The two most significant individual detractors over the quarter were **Brookfield Corporation (BN)** and **Meta Platforms Inc. (META)**

- **Brookfield** is a global alternative asset manager with over US$700 billion of assets under management. The company's investments are focused on real estate, renewable power, infrastructure, private equity and credit. Despite reporting solid quarterly results and record fundraising, BN's share price has likely been impacted by rising rates. Higher interest rates negatively impact asset values through higher discount rates, and funding costs on debt. While acknowledging these factors, the portfolio management team (the "team") believes the majority of BN's high-quality long-life assets should be fairly recession-resistant and offer a good level of inflation protection. It's also likely that BN experienced

some selling pressure in December following the spin-out of a 25% stake in its asset management business (BAM). Some investors in the market have expressed a preference to own the capital-light asset manager (BAM), without owning the parent company (BN). The team views BN as being well-positioned to deploy capital opportunistically in a downturn, as it has demonstrated many times in the past, given the significant amount of liquidity it currently enjoys

- **Meta Platforms**, formerly Facebook, Inc., operates the world's largest social media platform and is one of the largest digital advertising companies globally. The share price has been under pressure due to concerns over the health of the digital advertising market in the face of a potential recession and a slowdown in ecommerce. While there will likely be short-term pressures from a cyclical decline in digital advertising spend, the team believes the medium-to-long-term outlook remains favourable. Apple's App Tracking Transparency (ATT) changes and elevated competition have also been a concern. The team continues to hold shares in Meta because the company trades at a discount to its estimate of intrinsic value, and based on Meta's track record, they believe the company should be able to overcome these challenges over time

Portfolio activity

- Brenntag SE and Starbucks Corporation were sold during the period. Starbucks was sold after reaching the team's estimate of intrinsic value

- The Fund began exiting its position in Brenntag following the purchase of Univar in the third quarter of 2022. Brenntag and Univar are global leaders in chemical and ingredient distribution. These companies fill an important space in the supply chain, providing vital efficiency gains for chemical producers. Given the logistical complexity and hazardous nature of the products, there are substantial barriers to entry for competitors

- The team decided to switch from Brenntag to Univar for a few reasons. Firstly, the team prefers Univar's capital allocation approach, which has been more focused on acquisitions within the existing footprint of the business. Secondly, the team believes that Univar was trading at a lower valuation. Finally, the team thinks Univar's geographic exposure, which is more U.S.-centric than Brenntag's, has the potential to be an advantage.

- In terms of positioning, the Fund is most overweight the financials and consumer discretionary sectors. In contrast, the Fund is most underweight energy, consumer staples and materials. Sector weights are a function of the team's bottom-up, fundamental investment approach and are not a top-down call on the attractiveness of any given sector

Investment outlook

The last quarter of 2022 saw a continuation of monetary policy tightening by Western developed central banks, although many reduced the size of their rate hikes. The 10-year minus 2-year Treasury yield curve inverted more deeply during this period. The effects of rapid and aggressive policy tightening on economic growth became more evident. Leading economic indicators continued to weaken, suggesting that growth is likely to be below trend across many regions.

Inflation appeared to peak in some major Western economies later in 2022, including the United States and Canada. However, it remains higher than central bank inflation targets. The U.S. dollar weakened against other major currencies in the fourth quarter. Anticipation of a U.S. Federal Reserve pause in the near future, along with expectations of other central banks becoming more hawkish in relative terms, contributed to the dollar's relative softening.

The final quarter of 2022 offered a reprieve for both global equities and global fixed income, with major asset classes posting positive returns after a challenging environment in the first three quarters of the year.

In the team's view, the long-term value proposition for equities is attractive as short-term pessimism has kept valuations at relatively low levels. The team sees 2022 performance as a function of short-term volatility and noise and not a reflection of any permanent loss of capital. The team views the companies owned by the Fund as highly resilient businesses that can endure challenging economic environments. The team also feels these investments are still trading at attractive valuations. To be clear, the team is not suggesting the market cannot decline from these levels, but rather that long-term investors are typically rewarded for having the courage to buy when the general outlook is bleak. After all, the long-term value of companies with strong balance sheets, high returns on capital and enduring competitive advantages are not impacted much by a few quarters of difficult economic conditions. This

thinking aligns with how the team has invested for over a decade and is linked to the Fund's longer-term results.

Important information

Sources: Invesco Canada Ltd., Bloomberg L.P., FactSet Research Systems, Inc., Morningstar Research Inc., as at December 31, 2022. Data expressed in Canadian Dollars.

The above securities were selected for illustrative purposes only and are not intended to convey specific investment advice.

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.

Series F shares or units are available to investors who have fee-based accounts with their dealer or have access to a discount brokerage platform through their dealer. Sales charges and trailing commissions are not payable for Series F shares or units; however, investors holding such series in fee-based accounts pay fees to their dealer for investment advice and other services.

Performance of other Series may also differ, please visit www.invescocanada.com to view performance of other series.

Series I shares and units are special-purpose securities available to other Invesco Canada Funds, eligible institutional investors or other permitted investors and are not sold to the general public. The Series I performance data displayed does not reflect management and advisory fees. Each Series I investor negotiates its own management and advisory fee that is paid directly to us. Series I shares and units are not generally sold through Dealers, and no sales commissions are payable to Dealers for selling these shares or units. The performance of the series displayed may differ as a result of differences in charges, commissions and fees applicable to each series.

Performance of Invesco Canadian Fund, Series I, as of December 31, 2022:

	1-year (%)	**3-year (%)**	**5-year (%)**	**10-year (%)**
Invesco Canadian Fund, Series I	**-6.96**	**9.97**	**7.94**	**7.09**
65% S&P/TSX Composite Index/35% MSCI World Index (Net) C$	-8.06	7.27	7.26	9.39

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.