# Invesco Global Real Estate Fund

**Quarterly review |** As at December 31, 2022

## Investment philosophy

Invesco Global Real Estate Fund seeks to generate a total return through capital growth and income by investing primarily in real estate securities from around the world. The portfolio management team (the "team") uses a fundamentals-driven investment process, including market-cycle analysis and property evaluation, to identify companies with quality underlying properties, solid management and attractive valuations.

## Performance summary

- Global-listed real estate reported positive absolute performance during the period, underperforming broader equities
- Invesco Global Real Estate Fund, Series I returned 3.73% over the quarter, underperforming its benchmark, the FTSE EPRA Nareit Developed Index, which returned 5.62% (C$) over the same period

## Key contributors and detractors to performance

Global-listed real estate delivered positive absolute performance in the period. The Portfolio had negative relative performance driven by stock selection among U.S. REITs and Japanese developers. Underweight exposure to Europe, which performed well, also detracted from performance.

Within the United States, negative relative performance, which stemmed from an underweight allocation to the dramatically outperforming mall sector, explains the majority of underperformance. Despite continued structural headwinds, the mall sector reported strong gains on news of Simon Property Group's (SPG US) third-quarter operating results, which were better than expected. Incrementally, underweight positioning to lodging and an overweight allocation to single-family homes also detracted from relative performance. In Asia, negative relative performance was driven by security selection within Japanese developers, data centre companies and no exposure to Australian retail mall owners. Relative detractors in Europe included stock selection in Sweden, no exposure to the Netherlands and an underweight to France.

The Fund generated a smaller amount of positive relative performance in the following areas. In Canada, strong stock selection in healthcare properties led performance. In the U.S., underweight allocations to self-storage and office REITs also contributed positively. In Asia, Hong Kong/China holdings generated strong relative performance with companies that own luxury malls and hospitality properties outperforming. These companies should continue to benefit from a cyclical recovery as the Chinese economy reopens. In Europe, relative performance was aided by exposure to diversified properties (office/retail/industrial) in Spain and office properties in London. Both sectors were trading at discounted valuations and rebounded as investors showed an increased appetite for risk.

## Portfolio activity

Overall, the Fund has overweight exposure to real estate in the U.S. and Hong Kong, and underweight exposure to Europe, Canada and Japan. Overweight property type exposures are cell towers, residential and health care. Underweight property exposures include office and retail.

On a sector basis, the Fund continues to hold underweight exposure to the mall sector despite its recent outperformance. The investment team believes mall REITs will likely continue to face structural headwinds related to ecommerce, and retail space may need to downsize as a result. The Portfolio also has underweight exposure to self-storage REITs, which are seeing slowing growth and trading at high relative valuations. Overweight exposure exists in companies with more defensive or structural growth characteristics, such as residential, industrial, cell towers and health care.

On a regional basis, the Fund has overweight exposure to the North America region, with underweight positioning in Canada and overweight exposure to U.S. REITs. Overweight exposure is also found in Asia, led by holdings in Hong Kong/China. Exposure to Hong Kong/China was increased to capture the cyclical reopening upside as China continues with its financial easing and aggressive reopening following a long period of a zero-COVID policy. The Fund maintains underweight exposure to Europe; however, this underweight exposure was reduced during the quarter to reflect the region's prior period underperformance and improved valuation characteristics. Exposure within the region has shifted to companies with value characteristics, while favouring cashflow resilience and balance sheet strength.

## Market commentary

Consensus global economic forecasts suggest that growth is expected to moderate from current levels with a significant chance of recessionary conditions in many key economies in 2023. Persistent demand, combined with supply chain challenges, has sustained inflationary pressures well above tolerable levels, which has driven key central banks to tighten financial policies significantly. Gaining inflation control without causing excessive economic growth destruction is proving a difficult task for central banks – with tightening by the U.S. Federal Reserve proving most impactful on worldwide capital market sentiment. In an economic environment that is already extremely complex, heightened geopolitical instability is likely to negatively impact growth and increase economically problematic inflation. Further capital market volatility generated by war, COVID-19 related news, uncertainty over inflation prospects and speculation over central bank policy should be anticipated during 2023.

In a slowing growth and high inflation environment, the investment team believes the maintenance of pricing power and the ability to pass on inflation will become increasingly important. Certain property types with long-term cash flow security may also become more attractive. Externally driven growth opportunities for REITs is now likely limited and a slowing environment where construction costs appear to be rising suggests increased caution toward new development. Listed real estate companies are generally maintaining financial discipline and absolute levels of debt remain in check. Overall earnings from real estate are expected to be positive in 2023, although companies may choose to be more cautious in raising current dividend levels. We anticipate that earnings growth will be passed on to similar levels of dividend growth by most REITs.

There is an overall desire to maintain a portfolio with a bias toward companies with more favourable long-term growth prospects, generally supported by higher quality assets, attractive fundamental prospects, lower leveraged balance sheets and better environmental, social and governance characteristics. We remain vigilant for REITs that retain pricing power over tenants that are available at attractive valuations. In addition, relative valuation analysis will also introduce portfolio positions where a sharp decline in share prices offers asymmetric future upside opportunities. The unpredictable macro and geopolitical environments require constant monitoring of active factor, country and currency exposures in portfolios. Within the broader investment market context, cash flow security, growth opportunity, inflation hedge characteristics, discounted valuations and the tangible asset nature of real estate appear to offer relative attraction to a diversified investor. On this basis, we view listed real estate as offering fair-to-attractive relative return opportunities at present, as part of a wider investment portfolio allocation.

Performance of Invesco Global Real Estate Fund, Series I as at December 31, 2022: 1-year, -19.01%; 3-year, -3.31%; 5-year, 1.40%; and 10-year, 6.32%.

Performance of the FTSE EPRA Nareit Developed Index (Net) as at December 31, 2022: 1-year, -19.64%; 3-year, -3.53%; 5-year, 1.34%; and 10-year, 6.22%.

## Important information

Source: Invesco ~~Global Real Estate Fund~~. Data as at December 31, 2022, 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.

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