Invesco

Invesco Global Companies Fund

Quarterly review | As at March 31, 2023

Investment philosophy

Invesco Global Companies Fund seeks to achieve strong capital growth with a high degree of reliability over the long term. The Fund invests primarily in equities of companies anywhere in the world.

Performance summary

- Invesco Global Companies Fund, Series I returned 9.02% over the first quarter of 2023 versus its benchmark, the MSCI ACWI Index (C$), which returned 7.18% over the same period

Key contributors to performance

- The Fund's relative performance benefited from investments in the financials and healthcare sectors, which outperformed those of the benchmark over the period. A lack of exposure to the energy sector also contributed to relative performance as the sector had negative returns over the period
- The two most significant individual contributors to Fund performance over the period were **KION Group AG** and **SAP SE**
- KION is a global leader in the manufacturing of industrial trucks and forklifts and is a leading provider of warehouse automation solutions. Shares in KION rose over the period as supply-chain and excess inventory issues, which hampered the company's operating results and cashflows in 2022, began to show signs of resolution
- SAP is a German multinational software company that makes enterprise software to manage business operations and customer relations. The company is especially known for its enterprise resource planning (ERP) software, which provide centralized systems of data management. Shares in SAP rose over the period as the company's significant investment in migrating customers to their cloud-based solutions is beginning to pay off and investor sentiment around SAP's future free cashflow generation improved

Key detractors from performance

- The Fund's relative performance versus the benchmark was negatively impacted by investments in the consumer staples and communication services sectors, which underperformed those of the benchmark
- The two most significant individual detractors from Fund performance for the period were **Sabre Corp**. and **British American Tobacco PLC (BAT)**
- Sabre is a leading technology firm, serving the global travel and tourism industry. Sabre provides innovative software solutions and platforms in support of travel suppliers (airlines, hotels, car rental outlets, railways, cruise lines and tour operators) and travel buyers (travel agencies, travel management companies and corporate travel departments) to plan, market, sell, serve and operate their businesses. Shares in Sabre fell over the quarter when the company reported disappointing operating results. Passenger miles flown – a key metric for Sabre – did not rebound according to expectations and was adversely impacted by lockdowns in China and lower-than-expected business travel revenues, which remained subdued
- BAT is a multinational tobacco company based in London, England. The portfolio management team's ("the team") thesis on BAT is predicated on their extensive and continued investment in harm-reduced products. These "next-generation products" are designed so that customers can continue to consume nicotine without many of the negative health impacts of combustible tobacco. They are one of a very small set of companies that are investing heavily to move society off combustible tobacco. Shares in BAT fell over the quarter due to negative news around a potential menthol product ban in the U.S. market. In our view, this does not impact the long-term thesis on the company and the expected migration to its next-generation reduced-harm products

Portfolio activity

- The team did not add any new positions to the Portfolio over the most recent quarter, and no positions were sold outright
- In terms of positioning, the Fund has higher-than-benchmark weightings in information technology and consumer staples. In contrast, the Fund has lower-than-benchmark exposure to energy, materials, health care and utilities. On an absolute basis, the Fund’s largest weightings are in information technology, financials, and consumer staples. In contrast, the Fund has no investments in the energy, materials, or utilities sectors. 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 or market outlook

Investment outlook

Global equity markets managed to deliver gains for the first quarter despite volatility and a banking crisis. January’s rally gave way to mixed global equity results in February as inflation appeared more persistent, boosting expectations that interest rates will stay higher for longer. The quarter’s largest shock came in March as the failure of two U.S. regional banks, Silicon Valley Bank (SVB) and Signature Bank, along with the subsequent UBS takeover of Switzerland-based Credit Suisse, led to a selloff in U.S. and European financial stocks. Though they lagged international developed equities, emerging-market equities also delivered gains for the quarter. Additionally, China’s economy has rebounded since reopening after ending its zero-COVID policy last year.

The banking failures in the U.S. are reflective of the balancing act that central banks are managing in their effort to tame inflation with several interest rate increases and avoid a recession. In the case of the SVB and Signature Bank failures, these rate increases were a key contributor given the level of unrealized losses on their balance sheets from investments in “conservative” government bonds that had fallen in value from the rate hikes. The volatility in stock prices in the first quarter of 2023 appeared to be driven by this speculation as to whether central banks can successfully quell inflation while orchestrating a soft landing for the economy.

In the team’s view, the financial system is tightly wound given the level of fiscal and monetary policy stimulus pumped into the system over the last few years. This may make it more challenging for central banks to respond to future crises. Unexpected issues may arise that could prove difficult to tame as a result.

Although inflation appears to have retreated from peak levels experienced in 2022, the team expects inflation to remain stubbornly higher than central banks’ preferred levels. The team believes we are still in the early innings of a higher inflation-higher interest rate environment and that investors are not fully appreciating these challenges.

In the team’s view, the Portfolio is well-positioned against this economic backdrop to offer a solid degree of protection given the level of recurring cash flows generated by the Portfolio’s holdings. The cash flows of these businesses are predominately generated in areas that are necessary and required throughout the economic cycle. A second positive underlying factor that may protect capital over the long-term is the attractive valuations of the Fund’s holdings, which provide a margin of safety. Overall, the team believes that this environment is well-suited for both our investment process and our Portfolio as it currently stands.

Important information

Performance of Invesco Global Companies, Series I, as at March 31, 2023:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Global Companies Fund, Series I	0.77	11.79	6.17	10.56
MSCI AC World Index (Net)	0.29	13.44	7.97	11.20

Sources: Invesco Canada Ltd., Bloomberg L.P., Factset Research Systems, Inc., Morningstar Research Inc., as at March 31, 2023. Data expressed in Canadian Dollars.

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