Invesco Canadian Fund / Class

Quarterly review | As at March 31, 2023

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 6.87% over the first quarter of 2023 versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned 5.63% (C$) over the same period

Key contributors to performance

- Fund performance was aided by strong returns in communication services. Financials holdings, the largest sector weight within the portfolio, saw gains over the period and outperformed those benchmark names. The Fund's underweight exposure to energy names also had a positive impact as energy lagged the market over the quarter. The most significant individual contributors over the period included **Meta Platforms, Inc. (META)** and **Open Text Corp. (OTEX)**

- **META**, formerly Facebook, Inc., operates the world's largest social media platform and is one of the largest digital advertising companies globally. In the portfolio management team's (the "team's") view, the share price has benefited recently from a significant improvement in market sentiment driven by the company's aggressive actions to reduce costs and capital investments to protect profitability during a challenging market environment

- **OTEX** provides a portfolio of information management products and services in the Enterprise Content Management space. Its products manage and analyze structured and unstructured data and provide decision making, automation and business optimization solutions. Shares in OpenText outperformed due to strong quarterly results, which were ahead of consensus estimates, and management's positive commentary about its acquisition of Micro Focus International PLC, which closed at the end of January. The positive commentary was reassuring to investors who had been concerned about the large size and significant integration risk associated with the Micro Focus transaction

Key detractors from performance

- The Fund's performance versus the benchmark was negatively impacted by equity investments in the information technology and consumer discretionary sectors, which underperformed those areas of the benchmark. Among the most significant individual contributors to Fund performance over the period were **UnitedHealth Group Inc. (UNH)** and **Toronto-Dominion Bank**

- **UNH** is one of the leading managed care organizations in the United States. Shares in the company were down during the period despite reporting strong fourth-quarter results and providing a favourable outlook for 2023. Investor concerns over recent regulatory actions to limit pricing on government-supported healthcare plans have caused a compression in valuations across the industry. The team believes these changes are manageable for UNH and continues to be comfortable with the company's ability to grow at an attractive rate

- Canadian banks saw their share prices decline in March due to the failures of Silicon Valley Bank and Signature Bank in the United States. In the team's view, the share price for TD declined more than other Canadian banks due to its larger exposure to the U.S. market, through both its direct banking operations and its partial ownership of Charles

Schwab Corp. Recent developments in the U.S. banking market should not be dismissed. It is possible that Canadian banks will see near-term profitability constrained by the need to pay more competitive interest rates on deposits. However, the team is not concerned about the risk of any severe impacts for our Canadian bank investments. Among the many factors that provide reassurance:

  - Our bank holdings have diversified deposit bases with a significant portion of insured deposits
  - Our bank holdings generate a meaningful portion of revenues from non-interest income
  - Mortgages in Canada typically reprice within five years. The 30-year fixed rate mortgages seen in the U.S. market don't exist in Canada

Portfolio activity

- 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
- Meta Platforms was sold out of the Fund during the period. There were no new additions to the portfolio

Investment outlook

Despite some headwinds created by aggressive monetary policy tightening in 2022, the first few months of the year were characterized by a relatively strong global economy. The situation was helped by a low unemployment rate in Western developed countries, a robust rebound for the Chinese economy and a mild winter in Europe, which helped to ease energy concerns.

The quarter’s largest news event 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 sell-off in financial stocks. The banking failures in the U.S. are reflective of the balancing act that central banks are attempting to manage; using unprecedented interest rate increases in an effort to tame inflation, while trying to avoid recession. In the case of the SVB and Signature Bank failures, these rate increases were a key contributor to the level of unrealized losses on their balance sheets from investments in government bonds. The volatility in equity prices in the first quarter appeared to be driven by speculation as to whether the central banks can successfully calm inflation, while orchestrating a soft landing for the economy.

The team views the companies owned by the Fund as highly resilient businesses that can endure challenging economic environments. The long-term intrinsic value of companies with strong balance sheets, high returns on capital and enduring competitive advantages is not impacted much by a few quarters of challenging 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.

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.

Performance of Invesco Canadian Fund, Series I, as of March 31, 2023:

	1-year (%)	**3-year (%)**	**5-year (%)**	**10-year (%)**
Invesco Canadian Fund, Series I	**-0.21**	**23.26**	**10.54**	**6.81**
65% S&P/TSX Composite Index/35% MSCI World Index (Net) C$	-3.11	16.82	8.97	9.39

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.

Important information

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

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.

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