QUARTERLY COMMENTARY

Invesco Canadian Fund/Class

As at June 30, 2023

Key takeaways

1 Equity markets advance

Equity markets posted positive returns for the quarter despite weakness in manufacturing and ongoing interest rate hikes by some central banks. During the quarter, corporate earnings beat expectations, optimism around artificial intelligence (AI) boosted technology stocks, while energy stocks lagged.

2 Portfolio built around core beliefs

The investment team acts as owners of businesses, buying companies that have the potential to compound over time. Markets can be inefficient in the short term, so the Fund focuses on business quality and management quality, purchasing stocks at a discount to intrinsic value.

3 Well-positioned for current outlook

In the team's view, the companies owned by the Fund are highly resilient businesses that can endure challenging economic environments. Strong balance sheets, recurring cash flows, high returns on capital and enduring competitive advantages are intended to provide an extra margin of safety.

Investment objective

Invesco Canadian Fund seeks to provide strong capital growth with a high degree of reliability over the long term; it invests primarily in common shares of Canadian companies. Invesco Canadian Class seeks to generate long-term capital growth by investing mainly in Canadian equities that are determined to be undervalued and that have the potential for future growth

Lead portfolio manager

Alan Mannik

Supported by

Clayton Zacharias
Anthony Rago

Manager perspective and outlook

The global economy expanded in the second quarter despite weakness in manufacturing. The regional banking issues in the U.S. flared up again early in the second quarter with the failure of another bank but then calmed. The U.S. and European economies have shown surprising resilience, helped by strong labour markets. During the quarter, optimism around AI boosted technology stocks, while the energy sector experienced weakness. The U.S. was among the best-performing equity markets and benefited from milder inflation data and better-than-expected corporate earnings.

Inflation generally eased in developed economies, largely driven by moderation in the goods component of inflation. However, core inflation remained more stubborn. This caused developed central banks to continue tightening. The Bank of Canada resumed its tightening after a pause earlier in the year. The People's Bank of China moved to become even more accommodative late in the second quarter. The U.S. Federal Reserve left rates unchanged at its June meeting, giving investors a long-awaited "pause" in rate hikes; however, more rate hikes are projected for later in 2023. Although inflation appears to have retreated from peak levels experienced in 2022, there now appears to be more of an expectation that inflation may remain stubbornly higher than central banks' preferred levels.

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 has not historically been impacted much by a few quarters of challenging economic conditions. As well, the team believes the companies owned by the Fund offer a solid degree of protection given the level of recurring cash flows and attractive valuations, which provide a margin of safety. This thinking aligns with how the team has invested over many years and is linked to the Fund's longer-term results.

Portfolio positioning

- The team added Waters Corp. and CDW Corporation to the Fund. Waters Corp. is a leading laboratory equipment provider. The company produces liquid chromatography machines and mass spectrometers that are used in a variety of pharmaceutical, industrial and academic applications. Recent concerns around biotechnology spending levels and Waters' competitive positioning provided the team with an opportunity to add the company to the Fund at a discount to their estimate of intrinsic value
- CDW Corporation is a leading provider of information technology solutions to business, government, education and health care customers in the United States, the United Kingdom and Canada. Their solutions include hardware, software and integrated IT such as security, cloud, hybrid infrastructure and digital experience
- The team exited its position in Univar Solutions Inc. after the company entered into a definitive merger agreement to be acquired by Apollo Funds, which

would turn Univar Solutions into a privately held company

- In terms of positioning, the Fund has higher-than-benchmark weightings in financials, consumer discretionary and health care. In contrast, the Fund has lower-than-benchmark exposure to energy, consumer staples and materials
- On an absolute basis, the Fund’s largest weightings are in financials, information technology and consumer discretionary. In contrast, the Fund has no investments in the utilities or consumer staples 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

Performance highlights

- Invesco Canadian Fund, Series I generated a return of 5.74% over the second quarter of 2023 versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned 2.28% (C$) over the same period

Contributors to performance

- The Fund’s relative performance benefited from investments in the consumer discretionary and materials sectors, which outperformed those areas of the benchmark over the period
- The most significant individual contributors to Fund performance over the period included **ICON PLC** and **CarMax Inc.**
- **ICON** is the number two global provider of outsourced clinical trial services for drug development and medical devices to the pharmaceutical and biotechnology industry. Shares of ICON advanced over the period due to strong quarterly results and management’s positive commentary around demand and achieving its year-end financial targets. The updated commentary was reassuring to investors who had been concerned that a more challenged biotech funding environment would reduce near-term earnings
- **CarMax** shares gained as some of the concerns related to consumer credit availability and used vehicle affordability abated somewhat during the quarter. CarMax also released better-than-expected first-quarter results. The team continues to believe that CarMax is a competitively advantaged used car retailer and stands to benefit from the normalization of the used car market.

Detractors from performance

- The Fund’s relative performance versus the benchmark was negatively impacted by investments in the information technology sector, which underperformed that area of the benchmark
- The most significant individual detractors from Fund performance for the period included **Texas Instruments Incorporated** and **Cenovus Energy Inc.**
- **Texas Instruments** (TI) is the world’s largest manufacturer of analog semiconductors. Shares of TI underperformed over the quarter due to lower forward earnings guidance compared to what consensus had estimated. Investors had been focused on the impact of weaker near-term semiconductor demand. TI’s management is focused on investing in building capacity to meet long-term analog demand at a low cost, which the team views as the right approach to retain its leading market position
- The pullback in global oil and gas prices in 2023 had a negative impact on market sentiment in the Canadian energy space. However, **Cenovus** also suffered from certain company-specific concerns in their downstream operations. Specifically, throughput was down because of a weather-related outage at their Wood River refinery and the restart of their Toledo and Superior refineries were delayed. As a result, less cash flow was generated from operations than originally expected, which pushed back the timeline for achieving the company’s $4 billion dollar debt target to the fourth quarter of this year. Once the debt target is satisfied, shareholders are meant to receive 100% of the free cash flow generated. While it is possible that management’s full-year production guidance is revised down with second-quarter results, the team believes that these operational issues are a temporary setback and expects volumes to increase meaningfully in the second half of the year

For more information, including the Investment process, prospectus, and commentary, please visit Invesco.ca

Performance of Invesco Canadian Fund, Series I as at June 30, 2023:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Canadian Fund (I)	18.16	20.91	10.90	7.63
65% S&P/TSX Composite Index/35% MSCI World Index (Net) C$	14.26	12.02	8.25	9.77

Important information

Sources: Invesco Canada Ltd., Bloomberg L.P., Factset Research Systems, Inc., Morningstar Research Inc., as at June 30, 2023.

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

The 65% S&P/TSX Composite Index/35% MSCI World Index is a blended index made up of a 65% weighting in the S&P/TSX Composite Index and a 35% weighting in the MSCI World Index.

The Fund was fully transitioned to the Lead Manager, Alan Mannik, as of March 1, 2016.

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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