Invesco Global Real Estate

Quarterly review | As at September 30, 2021

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 a small positive return (C$) during the quarter, underperforming the broader global equity universe.
- Invesco Global Real Estate Fund, Series I returned 1.96% over the quarter, outperforming its benchmark, the FTSE EPRA Nareit Developed Index, which returned 1.38% (C$) over the same period.

Key contributors and detractors to performance

The Portfolio delivered positive relative performance during the period, which was driven by stock selection in North America and Europe.

In U.S. equities, overweight exposure to the multifamily and single-family rental sectors benefited the Portfolio. The U.S. multifamily sector outperformed as the market rewarded sectors experiencing improving operating results amid the economic recovery. A top contributor was UDR Inc. (UDR US), which owns a high-quality portfolio of multifamily assets in major metropolitan areas. Additional relative gains were found in the U.K. industrials and self-storage sectors, which benefited from better-than-expected operating results. No exposure to Europe's largest mall operators also contributed, on a relative basis, as these stocks were impacted by ongoing COVID-19 cases, limiting the ability for economies to reopen smoothly.

The Portfolio's top detractors, on an absolute basis, during the period included Americold Realty Trust (COLD US), a U.S. cold storage company whose stock fell after the company revised guidance downward due to labour cost pressures, which led to declining margins. Additional losses stemmed from holdings in Asian property developers as concerns over their ability to maintain long-term margins from increased regulatory oversight in China drove share prices lower.

Portfolio activity

The Portfolio maintains overweight exposure to North America, where access to cyclical reopening as well as sustained structural growth is anticipated to drive above-average returns. Europe country weight is consistent with the benchmark, while the Portfolio is positioned underweight to Asia. The Portfolio shows overweight exposure to companies aligned with the cyclical recovery (e.g. senior housing, lodging and shopping centres) as well as overweight positioning to long-term structural growth sectors (e.g. single-family residential and industrial). Companies with defensive income profiles (e.g. triple-net lease and medical office) or secular headwinds (e.g. retail) remain underweight.

Market commentary

The global economy continues to deliver growth and recovery; however, modest headwinds including the delta variant, inflation concerns, waning stimulus and supply chain disruptions, are currently restricting growth below potential. The combination of accommodative monetary policy, fiscal stimulus, high corporate and personal savings and increasing demand from

normalizing behaviours should sustain favourable growth conditions for the foreseeable future. Global equity markets have been volatile in September following positive returns in July and August. Having been stable for some time, global government bond yields rose in September as markets anticipate the U.S. Federal Reserve will begin tapering its asset purchase program. However, it is clear that interest rate increases remain some distance away unless demand-driven inflationary pressures persist. Current inflationary pressures are being driven by supply shortages of labour and goods.

Listed real estate delivered a quarter of volatile performance aligned with trends in the wider markets. Weakest performance was notable among many of the Hong Kong and China-exposed real estate companies, U.S. triple-net lease REITs and European mall owners. Best performance was generated by several of the US REIT sub-sectors, including apartments, industrials and storage. Australian REITs also delivered positive returns, reflecting improving sentiment as the country's vaccination rate catches up to other developed nations. Listed real estate continues to trade, on average, at a premium to underlying net asset value. This reflects, to some extent, embedded earnings growth from inflation protecting leases, organic growth for many property types and the ability of many companies to continue delivering external growth from acquisition. Equity issuance was evident again in September 2021 as management teams used their premium valuation and more vigorous transaction markets to acquire assets and boost earnings growth.

Established real estate fundamental trends remain in place. Industrial, residential, data centre, cell tower and storage property types continue to show pricing power. There has been little progress during the quarter for office landlords in gaining clarity over return-to-work activity. Retail remains bifurcated with non-discretionary spend-focused retail showing fundamental health. Discretionary spend-focused retail remains difficult with rental rebasing ongoing in many markets.

Important Information

Source: Invesco Global Real Estate Fund. Data as at September 30, 2021, 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.

Performance of Invesco Global Real Estate Fund, Series I as at September 30, 2021: 1-year, 19.78%; 3-year, 4.94%; 5-year, 3.70%; and 10-year, 10.56%.

Performance of the FTSE EPRA Nareit Developed Index (Net) as at September 30, 2021: 1-year, 22.95%; 3-year, 5.47%; 5-year, 3.76%; and 10-year, 10.48%.

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.