Invesco Canadian Fund / Class

Quarterly review | As at September 30, 2022

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 -2.57% over the third quarter of 2022 versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned -0.94% (C$) over the same period

Key contributors to performance

- The Fund's investments in the industrials sector outperformed those benchmark holdings, aiding performance over the period. The Fund's lower exposure to energy helped performance as it was a large detractor within the benchmark. The two most significant individual contributors to Fund performance over the quarter were **Deere & Company (DE)** and **Starbucks Corp. (SBUX)**
- **Deere** manufactures and distributes a range of agricultural, construction, forestry and commercial and consumer equipment. Deere benefits from a greater than 55% market share in North American large agricultural equipment, and has been growing market share in Europe, South America and Asia.[1] Its extensive dealer network, customer loyalty, industry-leading research and development, advancement in important segments like precision agriculture, as well as its high-quality and efficient manufacturing have contributed to the company's long-term success. Demand for Deere products has remained quite strong despite recent economic anxiety. Downstream prices are high, farmers are spending on new equipment and the need for food production has not abated
- **Starbucks** is a multi-national coffeehouse with over 34,000 stores globally. The company's immense scale allows it to secure convenient locations to capture habitual coffee drinking and control its supply chain to ensure consistent, sustainable products. Starbucks also has a unique culture that is focused on maximizing the benefit for all members of its ecosystem, including its employees, customers, suppliers and community. The outcome of this model is high-quality, personalized customer service, a unique in-store experience, good-quality coffee and sustainable products, resulting in high returns on capital. In the portfolio management team's (the "team's) view, very few competing players, if any, can do all these things well and at scale. In early 2022 the company was looking for a new CEO, was dealing with the emergence of a unionization effort, and there were concerns that the company was underinvesting in its employees. Several of these concerns have dissipated as Starbucks meaningfully increased investment in its employees and store format, and also hired a new CEO. The stock price has reacted positively to the speed and quality of the company's response

Key detractors from performance

- The Fund's relative performance versus the benchmark was hurt by investments in the information technology and consumer discretionary sectors, which lagged those areas of the benchmark. The two most significant individual detractors over the quarter were **Bank of Nova Scotia (BNS) and Open Text Corporation (OTEX)**
- **BNS** is one of the largest banks in Canada and has developed multi-product relationships with its customers, offering retail lending and deposits, wealth management, credit cards, capital markets services and commercial lending. BNS shares declined over the period after releasing disappointing quarterly results, stemming from their international business. BNS also announced a CEO change, appointing Scott Thomson, previously the CEO of Finning International Inc. Bank investors were not excited by the news as bringing in an external CEO is not the typical course of action. Hiring a CEO from outside the industry can also be seen as risky. The team believes that BNS is well-capitalized and has been

relatively conservative with respect to their lending practices. The Canadian banking industry enjoys an oligopolistic market structure, which has helped to generate strong returns on invested capital. In the team's view, BNS continues to be an attractive investment on a risk-reward basis

- **OpenText** 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 have underperformed due to a recent large acquisition of an underperforming business (Micro Focus International), which has disappointed investors. OpenText's management has an excellent track record of executing well on these types of turnaround deals. The team believes in management's capabilities and the significant economic upside potential of the deal. The team views the company's growth outlook favourably and sees a strong recurring revenue base that earns attractive margins and generates strong free cash flow

Portfolio activity

- During the period, Univar Solutions Inc. was added to the Portfolio at a discount to the team's estimate of intrinsic value. Univar is a global leader in chemical and ingredient distribution, and provider of specialty services. Since the addition of Univar, the Fund exited its position in Brenntag SE, a German based chemical distributor. These companies fill an important space in the supply chain, providing vital efficiency gains for chemical producers. Given the logistical complexity and hazardous nature of the products, there are substantial barriers to entry for competitors. Univar's free cash flow is relatively stable throughout the business cycle and its dominant size offers advantages such as pricing power, delivery efficiencies and scalable investment in technology improvements
- The team decided to switch from Brenntag to Univar for a few reasons. Firstly, the team prefers Univar's capital allocation approach, which has been more focused on acquisitions within the existing footprint of the business. Secondly, the team believes that Univar trades at a lower valuation. Finally, the team thinks Univar's geographic exposure, which is more US-centric than Brenntag's, has the potential to be an advantage.
- 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

Investment outlook

The third quarter was another difficult period for global markets, with most major asset classes posting losses. Inflation remained high this quarter, resulting in aggressive monetary policy tightening by many central banks. Global economic growth slowed as rates rose. In addition, China's economy was hurt by issues in the property sector, while the European and U.K. economies were hurt by high energy prices.

The Bank of Canada raised rates by 175 basis points in the third quarter, while the U.S. Federal Reserve (the "Fed") hiked rates by 150 basis points. Other central banks, such as the European Central Bank and the Swiss National Bank, also felt it was appropriate to raise key discount rates in increments of 75 basis points. Volatility in the U.S. Treasury market continued in the third quarter, while the 2s-10s yield curve inverted again.

The U.S. dollar continued to show strength against other major currencies. The Fed's pivot to an increasingly hawkish stance helped to power the dollar higher, as well as its increased popularity as a potential "safe haven" investment in the midst of uncertainty and volatility.

Equities experienced significant volatility during the period. Global stocks made gains early in the quarter, only to falter in mid-August and give up their gains by the end of September. In the team's view, the long-term value proposition for equities has become more attractive as near-term pessimism has increased and valuations have decreased. The team sees recent performance as a function of short-term volatility and noise and not a reflection of a permanent loss of capital. The team remains confident in the companies the Fund owns given the attractive valuations these companies currently trade at. These are highly resilient businesses that can endure a challenging economic environment. To be clear, the team is not suggesting the market cannot go down further, but rather suggesting that long-term investors are usually rewarded for having the courage to buy when the general outlook is most bleak. After all, the long-term value of companies with strong balance sheets, high returns on capital and enduring competitive advantages are not impacted much by a few quarters of difficult economic conditions. This thinking aligns with how the team has invested for over a decade and is linked with the Fund's longer-term results.

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Important information

Sources: Invesco Canada Ltd., Bloomberg L.P., FactSet Research Systems, Inc., Morningstar Research Inc., as at September 30, 2022. Data expressed in Canadian Dollars.

[1]Bloomberg L.P.

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Performance of Invesco Canadian Fund, Series I, as of September 30, 2022:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Canadian Fund, Series I	**-4.07**	**8.84**	**7.45**	**6.74**
65% S&P/TSX Composite Index/35% MSCI World Index (Net) C$	-8.00	6.43	6.89	8.94

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.