
Invesco Europlus Fund

Quarterly review | As at June 30, 2022

Investment philosophy

The investment philosophy for Invesco Europlus Fund is simple; the portfolio management team (the "team") invests in primarily European high-quality businesses, with strong management at an attractive price. The team believes this philosophy will allow them to deliver a high active share portfolio that targets outperformance over a market cycle.

Performance summary

- Invesco Europlus Fund, Series I returned -14.39% over the second quarter of 2022, underperforming its benchmark, the MSCI Europe Index (net – C\$), which returned -11.69% over the same period

Key contributors to performance

- The Fund's relative performance benefited from stock selection in the consumer discretionary and information technology sectors, as well as a modest weight in cash during a period that saw negative performance for the index
- From a country perspective, holdings in France and the Netherlands added to relative performance
- The top relative contributors over the period included Prosus N.V., a Dutch multinational company holding leading international internet companies, and Virbac SA, a French pharmaceutical company that specializes in veterinarian products and services

Key detractors from performance

- Stock selection within the industrials and healthcare sectors detracted from relative performance
- From a country perspective, holdings in the United Kingdom and Germany, the countries reflecting the two largest weights in the Fund, also detracted from relative performance during the period
- The top detractors from Fund performance over the period included Eckert & Ziegler Strahlen-und Medizintechnik AG, a leading German provider of isotope technology for medical, scientific and industrial uses, as well as Benefit Systems SA, a leading provider of employee benefit programs and solutions based in Poland

Portfolio activity

- The Fund had modest Portfolio activity in the second quarter of 2022, with targeted adjustments where the team saw opportunity within existing holdings for better positioning given ongoing volatility and macro-driven market swings. During the quarter, the team added modestly to a position in DSV AS, a leading transport and logistics company based in Denmark, as well as Howden Joinery Group PLC, a leading U.K. supplier of kitchens and joinery products to the building trade. Alternatively, we trimmed our positions in Scout 24 and Edenred SE as both stocks outperformed and caused relative valuations to look less compelling
- The Fund's cash weight modestly decreased to 8% as the team continues to find opportunities amid the volatility and rotation out of smaller-sized, high-quality growth companies
- From a country perspective, the Fund's largest overweight is in the Netherlands due to its position in Adyen NV and Prosus NV, as well as Luxembourg, on account of the position in Eurofins Scientific SE, the largest holding in the Portfolio. Eurofins is one of the world leaders in the testing of food, environment, pharmaceuticals, cosmetics and consumer product industries, with a broad geographic base of revenues and main business verticals with very stable demand

- The Fund continues to have an overweight in industrials, information technology and communication services, while having an underweight in financials, consumer staples and materials

Investment outlook

The second quarter proved to be difficult for global markets due to a challenging economic environment. Inflation and supply-chain issues remained problematic given the ongoing war in Ukraine, which along with COVID-19 and supply-chain issues that drove energy and food prices higher and depressed real incomes. Many economies showed signs of slowing down as central banks took steps to manage inflation while balancing recession risks.

The primary detractor impacting the Fund's performance relative to the benchmark during the quarter was volatility in the markets with a continuation of the growth sell-off that started in 2021, which has been driven by high inflation and rising rates. The team has seen downward pressure on higher valuation stocks and continued outperformance in cyclical areas that we tend not to invest in, challenging our short-term performance. Historically, higher valuation stocks have declined while rates rise, as investors are less willing to pay higher multiples for future growth. We think our Portfolio stands to benefit, as it is our experience that beyond the short-term, the market ultimately refocuses on fundamentals and rewards stocks that continue to reflect strong earnings. We believe the long-term capital appreciation potential has improved meaningfully for quality companies, and in many cases, valuations in European businesses appear to be increasingly compelling.

The Select Equity team are bottom-up, long-term investors that seek high-quality businesses with attractive growth prospects and sustainable competitive advantages. While the team is invested in companies for their long-term potential, we continue to closely monitor what many investors see as heightened macro risks. We are confident that our thesis for our Portfolio companies remains intact and we think our holdings stand to be well-shielded from the direct spillover impacts of the Russia-Ukraine conflict. We are also encouraged that many of our Portfolio businesses continue to deliver strong results.

While recent period headwinds have been challenging to Fund performance, the team remains optimistic. We maintain high conviction in a collection of businesses at prices we view as undervalued and believe the Fund is well-positioned moving forward.

Important information

Sources: Invesco Canada Ltd. as at June 30, 2022.

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 Europlus Fund, Series I is as at June 30, 2022:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Europlus Fund, Series I	-33.84	-0.45	1.45	9.11
MSCI Europe Index (Net) C\$	-14.17	0.80	2.02	7.95

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