# Invesco Global Companies Fund

Quarterly review

As at December 31, 2020

**Performance highlights**

Invesco Global Companies Fund, Series I generated a return of 8.17% over the fourth quarter versus its benchmark, the MSCI ACWI (C$), which returned 9.38% over the same period.

## Contributors to performance

The Fund's investments in the communications sector outperformed the benchmark. An underweighting to the lagging healthcare sector was also a positive for performance. Sabre Corp. and Aptiv PLC were the two most significant individual contributors over the quarter.

Sabre is a leading technology firm serving the global travel and tourism industry. Sabre provides innovative software solutions and platforms in support of travel suppliers (airlines, hotels, car rental outlets, railways, cruise lines and tour operators) and travel buyers (travel agencies, travel management companies and corporate travel departments) to plan, market, sell, serve and operate their businesses. Shares in Sabre rose on news that the company had partnered with Google to create expanded AI-based platform offerings to clients. Additionally, airline traffic is showing signs of slowly recovering from the pandemic lows, and is expected to continue to normalize as vaccines roll out, which is causing a shift in sentiment around travel stocks.

Aptiv is a global technology company that designs, develops and manufactures system-level solutions for electric vehicles and smart vehicle architecture. Shares in Aptiv rose over the quarter due to both company-specific and investor sentiment factors. The company's quarterly results beat expectations over the past two quarters, despite lower revenues due to the pandemic lockdowns. Investor sentiment has shifted from short-term concerns around COVID-19 to the long-term growth opportunities in electric and hybrid automotive, and autonomous driving. Both the approval of the U.S. stimulus package and the announcement of approved vaccines from Pfizer and Moderna, helped to send share prices higher as well as increased hopes for the end of the pandemic.

## Detractors from performance

The Fund's investments in the consumer discretionary sector lagged those of the benchmark over the quarter. An underweighting to the strong-performing financials sector also detracted from relative performance. The two most significant individual detractors from Fund performance were Alibaba and SAP SE.

Alibaba is a Chinese multinational technology company that specializes in ecommerce, retail, internet and technology. Alibaba is China's equivalent of Amazon as the dominant ecommerce retailer in the region. Shares in Alibaba fell over the quarter as their planned spin-off IPO of Ant Group – an online payment business – was cancelled by the Chinese authorities. In the portfolio management team's (the "team's") view, this was more of an event-driven decline and therefore does not change their long-term thesis on owning Alibaba and its competitive position in the Chinese marketplace.

SAP is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. The company is especially known for its enterprise resource planning software, which provide centralized systems of data management. Shares in SAP declined over the quarter after management lowered its guidance for expected full-year earnings due to prolonged COVID-19 lockdowns. The pandemic has adversely impacted SAP, as hard-hit industries delayed new investment in software.

## Portfolio activity

Over the quarter, the team initiated investments in three new companies for the Portfolio that met their investment criteria. This included two companies from the information technology sector, and one from the financials sector. Nielsen Holdings PLC, Wells Fargo & Co., and Schlumberger NV were sold to help fund these investment opportunities, which the team believes will likely increase both the quality and margin of safety of the Portfolio. These businesses were also sold in part due to a weakening of the team's thesis around the ability of these companies to successfully compound value post-recovery.

In terms of Fund positioning, the team continues to have strong exposure to consumer staples, information technology and industrials. In contrast, the Fund is underweight the financials and healthcare sectors, with no exposure to sectors such as materials and utilities.

## Investment outlook

Global equity markets again generated positive returns in the fourth quarter of 2020 despite an increasing wave of COVID-19 infections that led to renewed lockdown measures. It appears that stock market valuations are starting to price in a normalization of economic conditions, as vaccines were approved and scheduled for distribution by the end of the quarter.

It remains the team's view that stock market index returns have diverged from the reality of economic conditions. At the beginning of 2020, if one were to have the foresight in predicting the pandemic and the global shutdown and economic contraction that ensued, they would be hard-pressed to predict that global stock markets at year-end would have registered double-digit returns and be trading at new highs.

In the team's view, this was driven in part by structurally low interest rates supporting multiple expansion in global equity markets, and by a relatively narrow group of companies that uniquely benefited from the pandemic. These companies today trade at valuations that appear to imply significant growth rates for many years to come. Given their collectively large weights within the index, these companies drove a very strong return for the index this year.

The team does not believe that these drivers of market returns are sustainable over the long term, and drivers of stock returns should again more strongly correlate with cash flows and valuations. In markets that are strongly positive and led by a narrow group of companies, the team expects to underperform. However, over the long-term, the team believes valuation and business quality are the factors that will likely dictate our returns.

Overall, the team is confident in the positioning of the Portfolio, its underlying investments and current levels of valuation. There remains a lot of uncertainty over how the next 12 to 18 months will unfold. The team remains focused on high-quality businesses that have the ability to cope with the current environment and aim to generate solid returns on their invested capital.

**Standard performance – As at December 31, 2020**

| | 1-year (%) | 3-year (%) | 5-year (%) | 10-year (%) |
|---|---|---|---|---|
| **Invesco Global Companies Fund – Series I** | **5.04** | **8.35** | **9.21** | **12.85** |
| Benchmark | 14.22 | 10.67 | 10.33 | 11.88 |

**Important notes**

The above companies were selected for illustrative purposes only and are not intended to convey specific investment advice. The statistics in the Snapshot, Country Exposure, and Sector Exposure sections refer to the fund version of the strategy. Portfolio characteristics may differ slightly between fund and class.

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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