Invesco Global Real Estate Fund

Quarterly review

As at December 31, 2020

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

Absolute performance was positive across equities, as the world continued to navigate the changing economic reality driven by the global health pandemic. Invesco Global Real Estate Fund, Series I returned 3.89% over the quarter, underperforming its benchmark, the FTSE EPRA Nareit Developed Index, which returned 8.03% (C$) over the same period.

Key contributors/detractors to performance

The Portfolio had strong absolute performance over the period, driven by surprisingly positive announcements regarding vaccine efficacy for COVID-19, which ushered in a persistent market rally. While this rally was positive for absolute performance, the dramatic reversal in the characteristics driving relative share price performance also drove negative relative performance. Stock selection among U.S. REITs was the major detractor for the period; however, all regions underperformed as real estate companies with lower or negative growth, higher leverage and deeper value characteristics outperformed.

Asia saw negative relative performance during the quarter. Market allocation was slightly positive; however, stock selection was negative. Market allocation was boosted by out-of-index exposure in the Philippines to development-focused real estate companies, which were trading at significant discounts to underlying asset values. Absolute returns were positive, led by Australia, where underweight exposure to retail-focused REITs drove negative stock selection. Security selection in Singapore and Hong Kong both detracted. In Singapore, overweight exposure to industrial and data centre-focused REITs drove negative attribution results. In Hong Kong, underweight exposure to retail real estate negatively impacted the Portfolio. Stock selection in Japan provided a small positive contribution to relative performance.

Relative performance in Europe was negative for the period. Investors shifted very rapidly to deeply discounted, pandemic-impacted REITs. Overweight exposure to German apartments, which lagged the market, was the region's largest detractor. No exposure to German office-focused landlords also detracted from performance, as they rallied sharply. No exposure to retail-focused REITs in the region also detracted from performance. Overweight exposure to discounted U.K. and French office and large-cap diversified REITs helped to offset some of the negative performance.

North America saw negative relative performance during the quarter. Market allocation was slightly positive; however, stock selection was negative. Market allocation benefited from overweight positioning to Canada, and underweight positioning to the United States. Within the U.S., negative relative performance was broad across infrastructure, regional mall, apartments, office, industrial, and single-family rental sectors. Positioning to Canada also detracted from performance due to underweight exposure during a rally in REITs with retail exposure.

Portfolio activity

The Portfolio ended the period with a modest underweight exposure to the Asia-Pacific region. Country weights across the region show overweight exposure to Hong Kong, underweight exposure to Singapore, and neutral weight to Japan and Australia. Positioning in the region shows overweight exposure to structural growth via industrial and data-centre sectors, as well as medium-term cyclical recovery via developers and office/retail REITs. Exposure to Hong Kong was shifted from China luxury retail, which significantly outperformed, to Hong Kong discretionary retail and developers, in the early part of the quarter.

The Portfolio ended the period with an underweight exposure to Europe. Key active positioning reflects underweight exposure to retail-focused REITs, and overweight exposure to residential real estate. Switzerland and the U.K were also held underweight at period end. Material country overweight exposure in Continental Europe was mainly focused on Germany, where apartment rental exposure dominated. Stability of income and growth prospects remain positive for this exposure. In addition, small overweight exposure to Spain and France in the Portfolio was driven by positions in discounted office-focused REITs, which offer attractive value characteristics. Overall exposure to Europe was reduced over the quarter. Exposure to U.K. and Belgian health care was reduced, reflecting a desire to add higher levels of operating leverage in the Portfolio.

The Portfolio ended the quarter with a modest overweight exposure to North America. The Portfolio reflects underweight exposure to some sectors that proved more durable during the period of peak COVID-19 disruption, but may experience a more muted response to the economic recovery. To gain exposure to structural growth, the Portfolio holds key overweight exposure to tower REITs, which are benefiting from the long-term demand trends for wireless infrastructure. The Portfolio also holds overweight exposure to certain property types that were fundamentally impacted by COVID-19, which should see a recovery and opportunity for re-rating during the early phase of economic expansion. These include lodging REITs, shopping-centre REITs and office REITs, which now all trade at discounts to long-term valuation measures. Exposure to these property types was added during the quarter. To fund these additions, the Portfolio reduced exposure to net lease REITs, medical office REITs and casino REITs, which are trading at less attractive relative valuation and may experience a more muted growth acceleration.

Market commentary

The year ended with positive sentiment gripping markets and the prospect of widespread economic recovery in 2021. The surprisingly positive announcements for therapeutic treatment and COVID-19 vaccine efficacy have ushered in a persistent market rally and a swift reversal in the characteristics driving relative share price performance. As a result of this substantial change in outlook, the market experienced one of the most pronounced short-term inflections from structural growth into value-oriented stocks.

The efficacy of COVID-19 vaccines has positively altered the path for growth and appetite for risk. Recently, rising deaths and lockdown measures in much of the northern hemisphere have negatively impacted early-year economic activity. Capital markets appear willing to look beyond these headwinds, assuming virus vaccines will effectively allow more normal life to return. This risk appetite is also backed by a view that globally, governments appear committed to accommodative monetary policy and further fiscal stimulus in order to promote economic normalization. The team believes global-listed real estate is poised to benefit both from improved economic prospects and enhanced capital market conditions, which helped deliver very strong returns during the final quarter of the year.

Companies with growth, quality and momentum characteristics led investment performance for much of the past year as economic conditions troughed; however, November saw a sharp pivot toward economic recovery, with strong performance from companies with value, high volatility, and high leverage.

Performance in the fourth quarter of 2020 was led by retail and lodging REITs, while companies with good structural growth prospects lagged. Investor attention may turn to year-end results and 2021 earnings guidance in the coming weeks. The team believes focus will be on management commentary around operating normalization, dividend expectations and asset valuations. For many countries, results will likely confirm significant asset value declines in retail-focused REITS, who properly reflect market valuations for their assets. The investment market for malls continues to be scarce as many mall owners are struggling to sell assets and de-leverage. The offering prices from buyers appear to be much lower than current book values.

Office asset valuations have been resilient so far, but future trends may be uncertain until there is visibility on long-term occupation trends. Post-pandemic corporate strategies for office occupation continue to be unclear.

Industrial, data centre, cell tower and select residential-focused REITs will likely deliver year-end growth in earnings and asset values, and positive prospects for 2021. Accretive external growth activity may be expected by these types of companies in 2021. Global-listed real estate ended the year trading, on average, at a small discount to its underlying net asset value.

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

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Standard performance

	1-year (%)	3-year (%)	5-year (%)	10-year (%)
Invesco Global Real Estate Fund, Series I	**-12.46%**	**1.26%**	**1.49%**	**8.01%**
FTSE EPRA Nareit Developed Index (Net)	-10.63%	2.09%	1.97%	8.09%

Source: Invesco Global Real Estate Fund. Data as at December 31, 2020 in Canadian dollars.

The views expressed above are based on current market conditions and are subject to change without notice; they are not intented 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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