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## **Invesco Main Street U.S. Small Cap Class\***

Quarterly review

As at December 31, 2020

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### **Performance highlights**

Invesco Main Street U.S. Small Cap Class, Series I returned 13.88% over the fourth quarter of 2020, underperforming its benchmark, the Russell 2000 Index, which returned 25.30% (net – C\$) over the same period.

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### **Contributors to performance**

The Fund's relative performance benefited from positive stock selection in the real estate sector. The top contributors to Fund performance over the period included WSFS Financial Corporation and Visteon Corporation.

WSFS Financial is a regional bank. Visteon is a supplier of automotive components.

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### **Detractors from performance**

The Fund's holdings within the financials, consumer discretionary and information technology sectors detracted from relative performance during the quarter. The top detractors from Fund performance over the period included Encore Capital Group Inc. and Performant Financial Corporation.

Encore Capital provides debt management and recovery solutions. Performant Financial provides technology-enabled audit, recovery, outsourced services and related analytic services to government and private clients. Both of these Fund positions were exited during the quarter.

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### **Portfolio activity**

During the period, there was a change to the portfolio management team (the "team") and the Portfolio was repositioned to align with the new team's investment philosophy and process.<sup>†</sup>

Some of the key changes that took place included an increase in the number of holdings, a decrease in sector overweights and underweights relative to the Russell 2000 Index, and decreased exposure to non-U.S. companies.

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### **Investment outlook**

We believe we are in the late innings of the pandemic-induced recession. With three effective vaccines on the market (and more in the pipeline), there is a light at the end of the tunnel. While we believe the remainder of winter will be tough from a virus standpoint with the possibility of additional lockdowns, they are likely to be relatively short-lived. We believe life should begin to normalize in the second quarter of 2021, and could essentially return to normal at some point during the third quarter.

We expect that the upcoming rebound in the economy will likely be large. Beyond the pent-up demand caused by cabin fever, this is not a recession caused by excesses that need to be burned off with time. That said, we do not think a simple resumption of the previous economic trend is in the cards. Even with government assistance programs, there are businesses and jobs that have been permanently lost, and the reallocation of people and resources in the economy will take time. In our view, this traumatic experience for many consumers is likely to change future behaviours, increasing the savings rate and reducing the velocity of money. Plus, it is our view that some of the business adaptations are likely to stick as permanent changes to a degree, reducing demand for commercial travel and real estate.

Furthermore, copious monetary and fiscal stimulus is adding to an already significant money supply and US federal budget deficit, raising the risk of material inflation down the road. Interest rates remain low for now, but we think long-term rates bear watching. That said, we expect the world will get through this and we still feel equities are the best place to invest over the long-term.

#### Standard Performance – as at December 31, 2020

	1-year (%)	3-year (%)	5-year (%)	10-year (%)
<b>Invesco Main Street U.S. Small Cap Class - Series I</b>	<b>7.28</b>	<b>6.50</b>	<b>9.50</b>	<b>13.22</b>
Benchmark	17.86	10.86	11.32	14.00

#### Important notes

\*On November 6, 2020, Invesco U.S. Small Companies Class was renamed Invesco Main Street U.S. Small Cap Class.

†On October 15, 2020, the Fund's investment strategies and portfolio advisor were changed. The performance of this Fund for the period prior to this date would have been, and the quartile rankings may have been, different had the current investment strategies and portfolio advisor been in place during that period.

The above companies 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.

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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