
Invesco Main Street U.S. Small Cap Class

Quarterly review | As at December 31, 2021

Investment philosophy

Invesco Main Street U.S. Small Cap Class seeks to identify smaller-capitalization companies with skilled management teams, strong value creation potential and a compelling risk/reward profile to achieve long-term capital growth. The portfolio management team (the “team”) uses a fundamental approach to analyze companies on factors such as financial performance, competitive position, industry dynamics and business model and management strength.

Performance summary

- During the fourth quarter of 2021, Invesco Main Street U.S. Small Cap Class, Series I returned 4.60%, outperforming its benchmark, the Russell 2000 Index, which returned 1.84% over the same period
- During the quarter, the Fund’s outperformance was mainly driven by stock selection in the healthcare and industrials sectors. This was partially offset by weaker stock selection in the materials and information technology sectors

Key contributors to performance

- The Fund benefited from positive stock selection in the healthcare and industrials sectors
- The top individual contributors to relative performance included TopBuild Corp., Bottomline Technologies Inc. and National Storage Affiliates Trust

Key detractors from performance

- Stock selection in the materials and information technology sectors detracted from performance over the period
- The top individual detractors to relative performance included Paya Holdings Inc., Amyris Inc. and Everbridge Inc.

Portfolio activity

- There were no significant changes to the overall positioning of the Portfolio
- There were nine new additions to the Portfolio and eight names exited
- Relative sector weights versus the benchmark remain all within +/- 6%
- The biggest changes to absolute sector weights were an increase to the information technology sector and a decrease to the healthcare sector

Investment outlook

We expect 2022 to be a year of transition as policies and economies move toward a more normal state. However, issues remain that will likely define the economic and market environment, including continued supply-chain disruptions and an upsurge in demand that threaten to keep inflation high across many economies. The Omicron variant will likely exacerbate these conditions and aggravate inflation in the short term. However, within a few months, Omicron is likely to be a positive force or at least a relatively neutral one if it remains as mild as we have seen thus far. Because it is highly contagious, it appears to be crowding out the more dangerous Delta variant and could aid in rapidly immunizing populations. And so, our 2022 outlook is centred on the question of inflation and how markets and policymakers may react to it.

We expect the growth of developed economies to normalize, remaining above its long-term trend but decelerating to a more sustainable rate as fiscal stimulus is gradually removed. However, we expect emerging economies – led by China – to experience improving economic growth for the year. We anticipate that inflation will peak in mid-2022 and then start to slowly moderate, backing down toward target rates by the end of 2023 as supply-chain issues resolve, vaccination levels increase and more employees return to the workforce. We still believe the U.S. Federal Reserve will be patiently accommodative with a rate lift-off in the latter half of 2022, although other developed countries' central banks may act more quickly. Finally, we expect volatility will increase as markets digest the transition to slower growth and a gradual tightening in monetary policy.

Important information

Sources: Invesco Canada Ltd., as at December 31, 2021.

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

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.

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

Performance of Invesco Main Street US Small Cap, Series I as at December 31, 2021: 1-year, 22.14%; 3-year, 15.44%; 5-year, 10.24%; and 10-year, 14.20%.

Performance of the Russell 2000 Index as at December 31, 2021:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Main Street US Small Cap Class, Series I	22.14	15.44	10.24	14.20
Russell 2000 Index	13.84	16.94	10.69	15.70

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.

Invesco® and all associated trademarks are trademarks of Invesco Holding Company Limited, used under licence.