

Quarterly review | As at March 31, 2022

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## Investment philosophy

Invesco Canadian Fund seeks to provide strong capital growth over the long term. The Fund invests primarily in common shares of Canadian and global companies.

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## Performance summary

- Invesco Canadian Fund, Series I generated a return of -0.36% over the first quarter of 2022 versus its benchmark, the 65% S&P/TSX Composite Index/35% MSCI World Index, which returned 0.23% (C\$)

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## Key contributors to performance

- The Fund's performance versus the benchmark was helped by its underweight exposure to a lagging information technology sector, along with strong relative stock selection. The Fund's financials holdings advanced and outperformed those benchmark names over the period. The two most significant individual contributors to Fund performance over the quarter were Canadian Natural Resources Ltd. (CNQ) and the Cenovus Energy (CVE)
- CNQ is an energy producer with a diversified portfolio of assets in North America, the U.K. North Sea and Offshore Africa. CNQ is one of the largest independent natural gas and heavy crude oil producers in Canada. The company has a long-life low decline asset base, which in the portfolio management team's (the team) view will allow it to generate significant value, even in challenging economic environments
- Cenovus is the third-largest Canadian oil and natural gas producer and the second-largest Canadian-based refiner and upgrader, combining high-quality and low-cost oil sands and heavy oil assets with extensive midstream and downstream infrastructure<sup>1</sup>. Their strategy focuses on cost leadership and realizing the best product margins
- Oil prices increased over the quarter reflecting improving demand as the global economy continues to recover from the pandemic, especially with limited new supply coming online. The war in Ukraine caused a further spike in oil prices as Russian exports are expected to be negatively impacted. Both CNQ and CVE have high operating leverage to elevated oil prices given their low cash operating costs. At recent oil prices, free cash flow generation for both companies is tremendous and the team believes this will result in meaningful deleveraging and returns to shareholders

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## Key detractors from performance

- The Fund's relative performance versus the benchmark was hurt by investments in the materials and communication services sectors, which lagged those of the benchmark. The two most significant individual detractors over the quarter were Meta Platforms Inc. and Sherwin-Williams Co.
- Meta Platforms, formerly Facebook, Inc., operates the world's largest social media platform and is one of the largest digital advertising companies globally<sup>1</sup>. Meta's stock price declined during the quarter after the company lowered its revenue growth expectations for 2022. Management cited Apple's recent App Tracking Transparency (ATT) changes as a key contributor to the lowered guidance. The portfolio management team (the "team") continues to hold shares in Meta because the company trades at a meaningful discount to its estimate of intrinsic value, and based on Meta's track record, they believe the company should be able to mitigate the effects of the ATT updates over time
- The Sherwin-Williams Company is engaged in the development, manufacture, distribution and sale of paint, coatings and related products. The company's share price declined after reporting fourth-quarter profitability below expectations due to a variety of interconnected challenges. This includes raw material availability, supply-chain disruptions, labour shortages and increased freight costs around the reopening of economies. The team believes Sherwin-Williams can leverage their competitive advantages to continue driving sales growth while supply-chain pressures improve

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## Portfolio activity

During the period, ICON PLC and BRP Inc. were added to the Portfolio at a discount to the team's estimate of intrinsic value. ICON provides outsourced clinical trial services for drug development and medical devices to the pharmaceutical and biotechnology industry. The team believes ICON's global scale, vertical integration, deep regulatory experience, and decades-long relationships with several of the largest pharma companies in the world has led to exceptional free cash flow growth and strong returns on capital.

- BRP is a former holding of the Fund that was recently added back to the Portfolio. In the team's view, the company's strong management and industry-leading innovation in the powersports market allowed it to gain substantial market share in areas like side-by-side ATVs and personal watercraft. Shorter-term concerns about supply-chain disruptions and U.S. economic growth provided an opportunity to re-acquire shares
- Positions in Total Energy Services Inc. and Alimentation Couche-Tard Inc. were sold, with proceeds redeployed into investment ideas where the team sees the potential for better risk-adjusted returns
- In terms of positioning, the Fund is most overweight the financials sector. In contrast, the Fund is most underweight information technology and materials. Sector weights are a function of the team's bottom-up, fundamental investment approach and are not a top-down call on the attractiveness of any given sector

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## Investment outlook

In the team's view, caution is warranted given the swings in valuations for most asset classes, along with examples of elevated valuations that they feel are disconnected from fundamentals. However, the team remains comfortable with how the Fund is positioned in large part because the Portfolio's holdings look very different than the overall market. The Fund is a concentrated portfolio of select quality businesses that, on average, trade at a discount to the market. In the team's view, Portfolio valuations have remained quite reasonable and, in some cases, significantly discounted. The team believes the Fund's fundamental, bottom-up and value-oriented investment approach is poised to perform well through the market cycle.

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## Important information

Sources: Invesco Canada Ltd., Bloomberg L.P., FactSet Research Systems, Inc., Morningstar Research Inc., as at March 31, 2022. Data expressed in Canadian Dollars.

<sup>1</sup> Bloomberg L.P.

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Performance<sup>†</sup> of Invesco Canadian Fund, Series I, as at March 31, 2022:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
<b>Invesco Canadian Fund, Series I</b>	<b>23.26</b>	<b>16.62</b>	<b>11.41</b>	<b>8.85</b>
65% S&P/TSX Composite Index/35% MSCI World Index (Net) C\$	16.41	13.64	10.64	10.66

<sup>†</sup> Performance is gross of fees.

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