Invesco Europlus Fund

Quarterly review | As at March 31, 2022

Investment philosophy

The investment philosophy for Invesco Europlus Fund is simple; the portfolio management team (the "team") invests in primarily European high-quality businesses, with strong management at an attractive price. The team believes this philosophy will allow them to deliver a high active share portfolio that targets outperformance over a market cycle.

Performance summary

- Invesco Europlus Fund, Series I returned -21.60% over the first quarter of 2022, underperforming its benchmark, the MSCI Europe Index (net – C$), which returned -8.40% over the same period

Key contributors to performance

- The Fund's relative performance benefited from stock selection in the information technology sector, as well as a modest weight in cash in a period that saw negative performance for the index
- From a country perspective, holdings in France and Sweden added to relative performance due to the top contributors over the period, including Edenred SE, a leading French services and payments platform, and Fortnox AB, a Swedish-based company offering cloud-based financial administration solutions for small businesses and accounting firms

Key detractors from performance

- Stock selection within the healthcare and industrials sectors detracted from relative performance
- From a country perspective, Russia detracted from relative performance, with the Fund's one holding in the country priced to zero as a result of a fair pricing valuation decision by Invesco in March 2022. The Fund did not have a large position in Russia, and the decision will be re-evaluated should circumstances change. Holdings in Germany and the United Kingdom, the countries reflecting the two largest weights in the Fund, also detracted from relative performance during the period
- The top detractors from Fund performance over the period included HeadHunter Group PLC, a leading Russian recruitment platform, as well as Eckert & Ziegler Strahlen-und Medizintechnik AG, a leading German provider of isotope technology for medical, scientific and industrial uses

Portfolio activity

- The Fund's cash weight was reduced to 9% from 10% on account of taking advantage of some of the volatility and rotation out of high-quality growth companies to add to positions
- The Fund had modest Portfolio activity in the first quarter of 2022, with targeted adjustments where the team saw opportunity in some existing holdings that were impacted by the growth sell-off and macro-driven market swings. During the quarter, the team added to the position in Adyen, a Dutch payments company, making it the Fund's largest holding at quarter end. The team believes Adyen has a strong market proposition and is seeing rapid growth, high margins and a confident client acquisition pace and increasing share of wallet of existing customers. While the team is invested in the company for its long-term potential, it also stands to be well-shielded from spillover impacts of the Russia-Ukraine conflict. The firm's earning power is derived from a very diversified set of customers in varying business segments and geographies
- From a country perspective, the Fund's largest overweight continues to be Luxembourg on account of the position in Eurofins Scientific SE. Eurofins is one of the world leaders in testing of food, environment, pharmaceuticals, cosmetics and consumer product

industries, with a broad-geographic base of revenues and main business verticals with very stable demand

- The Fund continues to have an overweight in industrials, information technology and communication services, while having an underweight in financials, consumer staples and materials

Investment outlook

As the year started, pandemic concerns receded, and policymakers turned their attention to the high levels of inflation in much of the global economy. Economic growth slowed for developed economies as conditions began to normalize with the reduction of policy stimulus, increased labour force participation and the drawdown in household savings. Russia's invasion of Ukraine exacerbated inflationary pressures by driving up commodity prices. Concurrently, some major developed central banks pivoted to a more hawkish stance in response to inflation.

Global equities posted losses for the period, experiencing a major sell-off before a partial rebound in March. Developed and developing market stocks came under pressure as concerns grew about aggressive central bank tightening, especially from the U.S. Federal Reserve, as well as the Russia-Ukraine conflict. Many of those emerging-market countries that posted gains for the quarter, like Brazil and Mexico, benefited from the rise in commodity prices, as concerns about supply – especially energy supply – drove prices higher.

The team is disappointed with the Fund's performance during the quarter. In the team's view, the primary cause for Fund underperformance was volatility in the markets with a continuation of the growth sell-off that started in late 2021 driven by higher inflation and rising rates. This was followed by the Russian-Ukraine conflict, which caused investor concerns about spillover effects to European companies. Historically, higher valuation stocks have declined while rates rise, as current investors are less willing to pay higher multiples for future growth. In the team's view, the macro picture has added pressure on the growth, quality-oriented companies that the team typically focuses on in favour cyclical areas that the team tends not to invest in, challenging recent period performance.

Common valuation metrics have pointed to Europe being particularly inexpensive in relation to the U.S., and the recent rotation out of growth stocks, in the team's view, has emphasized the companies that have been trading at higher multiples. The Select Equity team are bottom-up, long-term investors that seek high-quality businesses with attractive growth prospects and sustainable competitive advantages. Looking forward, the team thinks that the long-term capital appreciation potential has meaningfully improved for many companies at recent price levels. Despite market movements being driven by the macro environment in recent periods, in the team's experience, the market ultimately refocuses on fundamentals and returns to separating those businesses that deliver strong results from those that don't. While the team continues to consider adjustments to take advantage of prices for strong businesses that the team believes are undervalued, the team takes a long-term view and is encouraged that many of portfolio businesses continue to deliver strong results. The team believe the thesis for the Fund's companies remain intact.

While this has been an especially challenging period of Fund performance, the team remains optimistic. Holding a collection of businesses in which the team maintains conviction at prices that we view as undervalued, we believe the Fund is well-positioned moving forward.

Important information

Sources: Invesco Canada Ltd. as at March 31, 2022.

The above securities 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.

Performance of Invesco Europlus Fund, Series I as at March 31, 2022:

	1-Year (%)	**3-Year (%)**	**5-Year (%)**	**10-Year (%)**
Invesco Europlus Fund, Series I	**-14.56**	**4.14**	**5.27**	**10.37**
MSCI Europe Index (Net) C$	2.86	5.83	5.53	8.67

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.