Invesco Global Real Estate Fund

Quarterly review | As at March 31, 2022

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

- Global-listed real estate reported negative performance during the period but outperformed broader equities
- Invesco Global Real Estate Fund, Series I returned -6.08% over the quarter, underperforming its benchmark, the FTSE EPRA Nareit Developed Index, which returned -4.84% (C$) over the same period

Key contributors and detractors to performance

Overall absolute performance from global-listed real estate was negative during the period. Real estate investment trusts (REITS) that are typically considered to have value or defensive characteristics outperformed as investors priced in higher expectations for rising interest rates.

The Portfolio's relative performance was also negative, driven by stock selection in Europe, Asia and the United States. In Asia, negative relative performance stemmed from security selection in Australia and Singapore. Australian performance was impacted due to no holdings in retail-focused landlords that bounced back after a prolonged period of underperformance. In Europe, the Portfolio's exposure to Spain also detracted from performance, on a relative basis. A Spanish cell tower holding led underperformance, along with other structural growth and more interest rate-sensitive landlords. In the U.S., overweight exposure to the high-growth industrials sector and an underweight to the deep value office sector detracted from relative performance.

The Portfolio generated positive relative performance in the following areas. In Japan, the Portfolio's positioning towards property developers over JREITs appeared to be rewarded by investors. In Europe, an underweight to Sweden aided relative performance as the country's REITs tend to be more levered than peers, making them particularly sensitive to higher interest rates. In North America, stock selection within the healthcare and data centre sectors positively contributed to relative performance. The top Portfolio contributors, on an absolute basis, included healthcare companies with defensive characteristics such as Ventas Inc. and Welltower Inc.

Portfolio activity

The Portfolio currently holds overweight exposure to Asia, slight underweight exposure to North America and underweight exposure to Europe. Key property type overweights include cell towers, residential and health care. Key underweight exposure includes office and retail. In the investment team's view, portfolio positioning has become modestly more defensive during the quarter due to economic growth moving past peak levels, the deterioration of the geopolitical environment and as inflationary pressures further accelerate. Current central bank policy will likely focus on controlling inflation, which could carry the risk of unintended excessive economic deceleration.

Market commentary

Consensus global economic forecasts suggest that growth is expected to moderate from current levels but remain positive. High demand combined with supply-chain challenges has induced inflationary pressures that remain well above average, and key central banks are now guiding to a significant tightening process to help control inflation. In the investment team's view, economic contraction in key economies is not currently a base case for most economic forecasters; however, the possibility of contraction of growth in these economies is growing higher.

The overall desire is to maintain a Portfolio with a bias toward companies with higher-quality assets, supply-constrained real estate market exposure, lower-leveraged balance sheets and better governance characteristics. The unpredictable macro and geopolitical environments suggest caution in taking significant active factor, country and currency exposures. As such, the team believes Portfolio risk is still most likely to be allocated to stock-specific opportunities where there is a belief that attractive relative value exists.

Important information

Source: Invesco Global Real Estate Fund. Data as at March 31, 2022, in Canadian dollars.

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.

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Series I shares and units are special-purpose securities available to other Invesco Canada Funds, eligible institutional investors or other permitted investors and are not sold to the general public. The Series I performance data displayed does not reflect management and advisory fees. Each Series I investor negotiates its own management and advisory fee that is paid directly to us. Series I shares and units are not generally sold through Dealers, and no sales commissions are payable to Dealers for selling these shares or units. The performance of the series displayed may differ as a result of differences in charges, commissions and fees applicable to each series.

Performance of other Series may also differ, please visit www.invescocanada.com to view performance of other series.

Performance of Invesco Global Real Estate Fund, Series I as at March 31, 2022: 1-year, 14.60%; 3-year, 2.23%; 5-year, 4.98%; and 10-year, 9.32%.

Performance of the FTSE EPRA Nareit Developed Index (Net) as at March 31, 2022: 1-year, 13.77%; 3-year, 3.09%; 5-year, 5.12%; and 10-year, 9.32%.

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.