Invesco

Invesco Global Companies Fund

Quarterly review | As at June 30, 2022

Investment philosophy

Invesco Global Companies Fund seeks to achieve strong capital growth with a high degree of reliability over the long term. The Fund invests primarily in equities of companies anywhere in the world.

Performance summary

- Invesco Global Companies Fund, Series I returned -10.38% over the second quarter of 2022 versus its benchmark, the MSCI ACWI Index (C$), which returned -12.90% over the same period

Key contributors to performance

- The Fund's investments in the consumer staples and consumer discretionary sectors outperformed those of the benchmark over the quarter. The two most significant individual contributors to Fund performance over the quarter were **Kweichow Moutai Co., Ltd.** and **AIA Group Ltd.**
- Kweichow Moutai is a Chinese company specializing in the production of Maotai baijiu – a dominant brand of spirits in China. Kweichow's brand equity along with a unique distillery location and superior distribution provides significant competitive advantages in its markets. Kweichow is a capital-light business with high profit margins that generates what the portfolio management team (the "team") considers attractive returns on invested capital. Shares in the company rebounded over the quarter as local lockdowns were lifted, along with accommodative fiscal and monetary stimulus by the Chinese government, which resulted in renewed optimism for Chinese equities
- AIA Group is a pan-Asian life insurance and financial services group with a presence in markets across Asia. Shares in AIA rose over the period despite the recent coronavirus outbreak in key markets such as China and Hong Kong on the strength of continued strong operating results and financial strength. AIA announced a share buyback program and increased its dividend, signalling a surplus of capital and the flexibility to return capital to shareholders. Shares in AIA also rose in sympathy with renewed optimism in the region due to the economic reopening

Key detractors from performance

- The Fund's relative performance versus the benchmark was negatively impacted by a lower-than-benchmark exposure to the energy and healthcare sectors, which performed well over the quarter relative to the benchmark. The two most significant individual detractors from Fund performance for the quarter were **Sabre Corp.** and **KION Group AG**
- Sabre is a leading technology firm, serving the global travel and tourism industry. Sabre provides innovative software solutions and platforms in support of travel suppliers (airlines, hotels, car rental outlets, railways, cruise lines and tour operators) and travel buyers (travel agencies, travel management companies and corporate travel departments) to plan, market, sell, serve and operate their businesses. Shares in Sabre declined over the quarter due to several headwinds for the airline industry including lockdowns in China, high fuel prices and fears of a recession. The team believes that shares in Sabre are significantly undervalued and continues to hold a position
- KION is a global leader in the manufacturing of industrial trucks and forklifts and is a leading provider of warehouse automation solutions. Shares in Kion declined over the quarter as supply-chain issues caused delays in their ability to deliver truck and forklift shipments. In the team's view, these supply-chain issues are diverting sales to a future period and do not impact the long-term value of the business. Kion's products and services are mission-critical to a functioning supply chain and orders on backlog can only be deferred, not cancelled

Portfolio activity

- The team found an opportunity to initiate a new position in a leading software business that the team believes was attractively valued as a result of the decline in the technology sector over the quarter
- In contrast, **Dechra Pharmaceuticals PLC** was sold. Dechra was a smaller weighting in the Portfolio and was sold to redeploy capital to higher opportunities
- In terms of positioning, the Fund has higher-than-benchmark weightings in the information technology and consumer staples sectors. In contrast, the Fund has lower-than-benchmark exposure to energy, materials and financials. 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 or given a market outlook

Investment outlook

Global equity markets declined in the first half of 2022 as record inflation, rising interest rates and recession fears led to generally weaker consumer and investor sentiment around the globe. To tame inflation, central banks such as the U.S. and the U.K. raised interest rates, while the European Central Bank is poised to do so in July. In Europe, a reduction of gas supplies from Russia due to the war in Ukraine has driven prices higher, with mounting fear of gas shortages and rationing. Emerging-market equities also declined but outperformed developed market indices. The outperformance was due to China, which benefited from positive economic indicators and the easing of COVID-19 lockdowns during the second quarter.

Major Western central banks such as the U.S. Federal Reserve (the "Fed") are faced with the unenviable balancing act of tightening monetary policy enough to cool the economy and lower inflation, while avoiding a level of tightening that sends the economy into a recession. Despite the risks of economic slowdown, policymakers remain focused on addressing inflation. In the U.S. for example, inflation, as measured by the Consumer Price Index (CPI), rose by 8.6% for the year ended in May 2022, the largest 12-month increase in 40 years. In response, the Fed raised the benchmark federal funds rate twice during the quarter by 0.50% in May and by 0.75% in June, which was the largest increase in nearly 30 years.

There are clearly risks of a slowdown in the global economy in the second half of 2022 given the rising rate and high inflationary environment which may cool demand. However, Western developed economies have been benefiting from a post-Omicron reopening, and this may help provide some counterbalance to these economic headwinds.

In the portfolio management team's view, one effective way to hedge inflation risk is to own high-quality companies that sell required products and services and possess sustainable competitive advantages. These companies have the increased ability to pass on higher costs to customers, which may better protect returns on capital and free cash flow generation. These traits are characteristic of the investments the team targets for the Fund.

The team believes the next five years may be a very different experience for investors versus the last five years and that a focus on owning high-quality, cash-flow generative companies and paying attention to valuations may help investors navigate periods of uncertainty or turbulence in equity markets.

Important information

Sources: Invesco Canada Ltd., Bloomberg L.P., Factset Research Systems, Inc., Morningstar Research Inc., as at June 30, 2022. Data expressed 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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Performance of Invesco Global Companies, Series I, as at June 30, 2022:

	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
Invesco Global Companies Fund, Series I	-14.87	2.30	5.40	11.09
MSCI AC World Index (Net)	-12.24	5.75	6.86	11.35

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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