
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 and slightly outperformed broader equities
- Invesco Global Real Estate Fund, Series I returned -12.49% over the quarter, outperforming its benchmark, the FTSE EPRA Nareit Developed Index, which returned -14.52%% (C\$) over the same period

Key contributors and detractors to performance

Global-listed real estate showed weak absolute performance in the period; however, the Fund’s relative performance was strongly positive, benefiting from a more defensive positioning among stock holdings and solid country allocation.

The Portfolio generated positive relative performance in the following areas. In Asia, positive relative contribution stemmed from an overweight allocation and stock selection in Hong Kong, where property types benefiting from the country’s reopening theme outperformed. Exposure to Japan also benefited as solid stock selection within Japanese real estate investment trusts (JREITs) contributed positively. The Portfolio’s underweight exposure to Europe was also a contributor to relative performance. Specific underweights existed in Sweden and France where companies with higher leverage and low investment cap rates underperformed. In North America, an underweight allocation and keen stock selection in Canada positively contributed to relative performance. In the U.S., underweight exposure to office and life science real estate investment trusts (REITs) positively contributed, as did stock selection within casino and single-family rental REITs.

Detractors from the Portfolio’s relative performance stemmed from stock selection within triple-net lease REITs and overweight exposure to industrial REITs in North America. In Asia, overweight exposure to a Singapore-based datacentre REIT detracted as well. In Europe, an overweight to Germany underperformed as their economy is most exposed to energy sanctions and reprisals from Russia.

Portfolio activity

The Portfolio currently holds overweight exposure to Asia, slight underweight exposure to North America and underweight exposure to Europe. In North America, the Portfolio is overweight senior housing, which may offer potential opportunity for recovery. To gain exposure to structural growth in North America, the Portfolio holds overweight exposure to manufactured housing, single-family rental and infrastructure REITs. The Portfolio’s Asia exposure is overweight Hong Kong/China and Singapore. Positioning within the Asia region shows overweight exposure to stocks that are poised to benefit from the reopening of local economies or have company-specific catalysts. In Europe, the Portfolio holds underweight exposure to office and retail properties and overweight exposure to health care.

Market commentary

General equities have been very weak and government bond yields have rapidly moved higher as capital markets continue to digest changing risk-free rates and the cost of finance implications. Listed real estate reported a weak period of performance in the second quarter of 2022, with Europe significantly underperforming other regions. Europe has companies with generally higher levels of leverage and less specialist investor support than many other regions. Asian real estate has been most resilient given the much lower rates of inflation and less expected change in interest rates. North American private real estate asset values have been among the first to show some pricing correction. U.S. REIT valuations have responded in a similar fashion and now trade at a meaningful discount to net asset value.

Consensus global economic forecasts suggest that growth is expected to moderate from current levels. High demand for goods and services combined with supply-chain challenges have induced inflationary pressures that remain well-above average, and key central banks seem to be guiding to a significant tightening process to control inflation. Balancing inflation control without causing excessive economic growth destruction should be a difficult task for central banks, and the path of the U.S. Federal Reserve is likely to be the most impactful on worldwide capital market sentiment. In an economic environment that is already complex, heightened geopolitical instability will likely negatively impact growth and increase economically problematic inflation.

There is an overall desire to maintain a portfolio with a bias toward companies with higher quality assets, supply-constrained real estate market exposure, generally lower-leveraged balance sheets and better governance characteristics. We remain vigilant for REITs that retain pricing power over tenants that are available at attractive valuations. In addition, relative valuation analysis will also introduce Fund positions where a sharp decline in share prices offer attractive upside opportunities.

Important information

Source: Invesco Global Real Estate Fund. Data as at June 30, 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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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 June 30, 2022: 1-year, -7.33%; 3-year, -1.14%; 5-year, 2.20%; and 10-year, 7.44%.

Performance of the FTSE EPRA Nareit Developed Index (Net) as at June 30, 2022: 1-year, -9.09%; 3-year, -0.60%; 5-year, 2.75%; and 10-year, 8.11%.

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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