

# Invesco Pan European High Income Fund

Covering Q1 2024



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## Performance (% growth)\* Cumulative

Past performance does not predict future returns.

	Fund	Peer Group Benchmark <sup>1</sup>	Quartile Rank
<b>3m</b>	1.8	1.8	3
<b>6m</b>	7.7	6.4	2
<b>YTD</b>	1.8	1.8	3
<b>1y</b>	10.5	6.5	1
<b>3y</b>	5.6	-0.4	1
<b>5y</b>	18.6	4.7	1

Source: Invesco, as of 31 March 2024

The 10-year rolling performance figures, can be found on page three of the document.

Returns may increase or decrease as a result of currency fluctuations

More information on the peer groups can be found at [www.morningstar.com](http://www.morningstar.com)

**This marketing communication is for professional investors. Investors should read the legal documents prior to investing.**

### Risk Warnings

**For complete information on risks, refer to the legal documents.**

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested. Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Changes in interest rates will result in fluctuations in the value of the fund. The fund uses derivatives (complex instruments) for investment purposes, which may result in the Fund being significantly leveraged and may result in large fluctuations in the value of the fund. Investments in debt instruments which are of lower credit quality may result in large fluctuations in the value of the Fund. The fund may invest in distressed securities which carry a significant risk of capital loss. The fund may invest in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events. The fund may invest in a dynamic way across assets/asset classes, which may result in periodic changes in the risk profile, underperformance and/or higher transaction costs.

### Executive summary

- Narrowing credit spreads offset rising government bond yields.
- The ECB indicated interest rate cuts are coming but not imminent.
- Fund performed broadly in line with the EAA Fund EUR Cautious Allocation sector.

### Market review

Bond markets faced headwinds from rising government bond yields as investors heeded warnings from the European Central Bank that while interest rate cuts are coming, they are not imminent. However, with inflationary pressures starting to abate - the annual growth of consumer prices in the eurozone eased to 2.4% in March, bringing it closer to the ECB's 2% target - bond markets staged a late rally on growing confidence that interest rates could be cut by June. According to the S&P composite purchasing managers' index, which measures business activity across the euro area, the economic outlook for the region is brightening with the PMI reading rising to a nine-month high of 49.9 (the 50 mark separates contraction from expansion).

It was a positive quarter for European corporate bond markets with high yield and investment grade registering gains. In terms of credit spreads, euro investment grade narrowed from 136bps to 113bps and euro high yield tightened from 396bps to 358bps.

Drawing support from resilient economic data, a decent earnings season and the prospect of lower interest rates, it was a healthy quarter for European equities with the MSCI Europe index returning 7.6% (net total returns). The best performing sectors were technology, consumer discretionary and financials.

### Bond market performance

Sector	Yield		Spread		Total Return
	Mar-23	3 Month Change	Mar-23	3 Month Change	
<b>Governments</b>					
Euro Government Index	2.95	0.27	-	-	-0.7%
Bunds	2.47	0.34	-	-	-1.4%
BTPs	3.48	0.12	-	-	0.8%
<b>€ Investment Grade Corporate</b>	3.75	0.14	113	-23	0.4%
€ A	3.63	0.17	101	-19	0.2%
€ BBB	3.96	0.10	131	-27	0.7%
<b>€ High Yield</b>	6.65	0.14	358	-38	1.6%
€ BB	5.33	-0.17	231	-57	1.9%
€ B	7.39	0.30	449	-13	0.9%
€ CCC	20.46	0.78	1582	-192	1.3%
<b>CoCos</b>	8.01	0.05	325	-53	3.6%
<b>MSCI Europe</b>	3.25	-0.14	-	-	7.8%

Source: Bloomberg LP, Merrill Lynch data (local currency returns).

Spread is the Option Adjusted Spread. Bps is basis points (each unit is 1/100th of a 1%).

Data as at 31 March 2024.

## Fund performance

The Invesco Pan European High Income Fund returned 1.78% over the quarter compared to a return of 1.82% for its peer group, the EAA Fund EUR Cautious Allocation sector. This placed the fund in the third quartile of the peer group. The fund's benchmark, 45% ICE BofA Euro High Yield Index (Total Return), 35% Bloomberg Pan European Aggregate Corp EUR Hedged Index (Total Return) & 20% MSCI Europe ex UK Index (Net Total Return), returned 2.53%.

Supported by a narrowing in spreads, credit was the biggest driver of performance with subordinated financials and high yield bonds contributing the most. There was also positive input from investment grade bonds, corporate hybrids and senior bank debt. Duration detracted from performance as the timing of the first expected rate cut from the European Central Bank was pushed back due to the lingering strength of inflation. The fund's allocation to equities delivered positive returns. The largest individual contributors were all equity holdings - Intesa Sanpaolo, SAP and Daimler Truck. The biggest detractors were EDP, Neste (both equities) and Codere (high yield bond).

Top contributors (before fees return in bps)		Top 5 contributors			
		Coupon	*Maturity	BPS	
<b>Credit</b>	<b>161</b>				
Subordinated Financials	76				Intesa Sanpaolo
High Yield	48				SAP
Investment Grade	15				Daimler Truck
Corporate Hybrids	12				Caixabank Sa
Emerging Market	5				Allianz Se-Reg
Banks - Senior	4				
Other Credit/Derivatives	1				
<b>Equity</b>	<b>62</b>				
Currency	-2				
Duration & Yield Curve	-34				
		Bottom 5 contributors			
		Coupon	*Maturity	BPS	
					EDP
					Neste
					Codere
					Teleperformance
					Infineon

**Past performance does not predict future returns. Contribution returns are gross.**  
**\*\*Lack of maturity date represents perpetual bond. The contribution figures are estimates and should be used for indicative purposes only. Data cleansing and retrospective information availability may cause changes.**

## Positioning

Current investment themes %	Dec 23	Jan 24	Feb 24	Mar 24
<b>Liquidity</b>	<b>9.1</b>	<b>9.8</b>	<b>9.7</b>	<b>8.7</b>
Cash	5.5	5.9	5.9	4.6
Bonds maturing within 1 year*	2.3	2.6	2.4	2.8
Government**	1.3	1.3	1.4	1.3
<b>Defensive</b>	<b>13.2</b>	<b>13.3</b>	<b>13.6</b>	<b>13.7</b>
Investment grade	11.0	11.2	11.5	11.4
Senior banks	2.2	2.1	2.1	2.3
<b>Credit risk</b>	<b>59.3</b>	<b>58.2</b>	<b>58.1</b>	<b>58.6</b>
'Peripheral' government	0.2	0.2	0.1	0.1
Subordinated banks	19.4	19.4	19.4	19.2
Subordinated insurers	4.2	4.4	4.4	4.4
Corporate high yield (inc. EM)	29.8	28.5	28.4	29.3
Hybrids	5.7	5.7	5.7	5.5
<b>Equities</b>	<b>18.4</b>	<b>18.7</b>	<b>18.7</b>	<b>19.0</b>

The fund continues to be biased towards higher yielding parts of the bond market but avoiding companies that we think are likely to face significant challenges in dealing with rising borrowing costs and weakening economic activity. The largest allocation by industry within the bond portion remains financials. By industry the biggest non-financial exposures are to utilities, food and telecoms. The fund also has exposure to relatively defensive credits such as investment grade corporate bonds.

To broaden the opportunities for income and increase the opportunities for capital return, the fund holds an allocation of 19% in European equities. The focus here is on high-quality companies with strong balance sheets, healthy free cash flow generation and good management teams that are committed to and capable of returning that cash flow to shareholders where appropriate.

Modified duration was kept steady at 2.6 during the period.

## Outlook

The US federal funds rate is now in a target of 5.25% to 5.50%, its highest level in more than 20 years. In the eurozone, interest rates currently stand at a record-high of 4%. This highlights how far central banks have moved interest rates since the start of 2022. While the tightening effect has helped to calm inflation, it is important to shift focus towards the broader negative impact that higher borrowing costs have on economies. For us, this is particularly relevant to the weaker parts of the high yield bond market. While we continue to enjoy the higher income that today's yields offer, our more cautious outlook for the European economy and for high yield bond markets remains unchanged.

## Standardised rolling 12-month performance (% growth) \*

**Past performance does not predict future returns. Returns may increase or decrease as a result of currency fluctuations**

	31.03.14	31.03.15	31.03.16	31.03.17	31.03.18	31.03.19	31.03.20	31.03.21	31.03.22	31.03.23
	31.03.15	31.03.16	31.03.17	31.03.18	31.03.19	31.03.20	31.03.21	31.03.22	31.03.23	31.03.24
Invesco Pan European High Income Fund	10.5	-5.6	9.8	2.1	1.0	-7.3	21.3	-0.4	-4.1	10.5
EAA Fund EUR Cautious Allocation <sup>1</sup>	7.5	-3.8	3.6	0.3	-0.4	-5.4	11.2	-1.6	-5.0	6.5
Benchmark <sup>2</sup>	9.9	-2.8	9.0	2.7	2.6	-7.5	20.6	-2.0	-3.9	10.6

## Calendar year performance

	2019	2020	2021	2022	2023
Invesco Pan European High Income Fund	13.2	2.8	5.8	-9.1	10.2
EAA Fund EUR Cautious Allocation <sup>1</sup>	6.7	0.8	3.7	-10.5	6.7
Benchmark <sup>2</sup>	6.1	-0.4	10.0	-15.7	12.0

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website [www.invesco.co.uk](http://www.invesco.co.uk)

The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. The investment concerns the acquisition of units in an actively managed fund and not in a given underlying asset. As at 2 August 2021, this is now the Primary share class for this fund. As this share class was launched on 22 November 2017, for the periods prior to that, performance figures are that of the Z share class, without any adjustment for fees.

<sup>1</sup> is the EAA Fund EUR Cautious Allocation. EUR Cautious Allocation funds have a mandate to invest in a range of asset types for an EUR-based investor. The equity component does not exceed 35% in the normal running of the fund. Morningstar Category Index: 75% Bond & 25% Equity.

<sup>2</sup> 45% ICE BofA Euro High Yield Index (Total Return), 35% Bloomberg Pan European Aggregate Corp EUR Hedged Index (Total Return) & 20% MSCI Europe ex UK Index (NetTotal Return)

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