Invesco

Quarterly Fund Update

Invesco Sustainable Eurozone Equity Fund

Covering Q1 2024

This marketing communication is for professional investors and qualified clients/sophisticated investors only. Investors should read the legal documents prior to investing.

Philosophy

We focus on sustainability because it is core to durability. Our goal is to invest in companies that offer a combination of financial return whilst also being a solution to the global need to decarbonise. This requires analysing, and reporting on, the decarbonisation efforts of our holdings.

There is huge interest on the part of many stakeholders, especially shareholders, to understand companies' transition targets and strategies. Companies cannot be allowed to just set long-term emissions targets and move on.

We believe it is important for companies to demonstrate their ability to deliver against those targets. This gives credibility to long-term targets.

Our experience in assessing financials and making forward looking financial estimates means we can make assessments on the likelihood of a company's transition.

Oliver Collin
Co-Head European Equities

Steve Smith
Fund Manager

Performance (% growth)

Past performance does not predict future returns.

	Fund[1]	Benchmark[2]	Sector[3]
3m	3.4	10.3	8.8
6m	9.3	18.8	16.8
YTD	3.4	10.3	8.8
1y	12.9	16.7	14.7

The investment concerns the acquisition of units in an actively managed fund and not in a given underlying asset. "Any investment decision should take into account all the characteristics of the fund as described in the legal documents. For sustainability related aspects, please refer to www.invescomanagementcompany.lu"

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. "The lack of common standards may result in different approaches to setting and achieving ESG objectives. In addition, the respect of the ESG criteria may cause the Fund to forego certain investment opportunities."

Market review

European equity markets enjoyed a strong first quarter as indices set new highs. Resilient economic data, a decent earnings season in aggregate and the onset of the central bank easing cycle boosted soft landing expectations, which underpinned equity markets. Momentum and concentration were in evidence while the technology sector drove equities higher. Consumer discretionary and financials were also outperforming sectors, while defensive areas including utilities and consumer staples lagged.

Inflation in the eurozone continued to tick lower, allowing talk of interest rate cuts to be firmly on the agenda. The ECB next meets to decide policy on 11th April, and most economists expect consumer price growth to continue its downward trend. However, senior policymakers have already signalled they are likely to wait until June to check if wage pressures are moderating enough for them to cut rates. In signs of improving macroeconomic data, Eurozone composite PMI data came in at a nine-month high of 49.9 in March, modestly higher than expected. Services is still the driving force, but manufacturing PMIs have inflected higher while overall a broad range of lead indicators show further disinflation and PMI recovery through the summer.

Performance

At a sector level, the most notable underperformance in Q1 has come from our underweight exposure to the technology sector where not owning index heavyweight ASML has been a key drag. Consumer discretionary, industrials, materials and energy exposures have also hindered relative performance. More positive has been exposure to consumer staples and communication services, while no exposure to real estate also proved to be beneficial for relative returns.

At the stock level, not owning ASML has accounted for around a quarter of the underperformance during Q1 – the portfolio does not own ASML on valuation grounds. Elsewhere, Finnish energy name Neste was a key detractor over the quarter. Neste shares fell after posting fourth quarter results in which renewable product earnings were below expectations, with sales margins disappointing investors. However, this was largely due to short-term operational issues and we believe that this does not impact Neste's role as one of the leading players in the renewable diesel and sustainable aviation fuel markets. Portuguese utility EDP shares moved lower as earnings were negatively impacted by lower power prices. Within materials, shares in UPM (the Finnish paper and pulp firm) were harshly treated by the market after their Q4 earnings beat was overshadowed by disappointing guidance to forward earnings – however we feel that the long-term structural & capital reallocation story here remains intact plus the pulp and paper markets are troughing. Technology name Infineon was weak on concerns about its exposure to autos plus the risk from China – both of which we are think are overblown and misplaced. The French digital services company Teleperformance was another underperformer and suffered at the end of February after speculation that an AI tool could disrupt the company's call-centre business – we think these concerns are overdone.

Banking names saw divergent performance with shares in BNP Paribas disappointing as quarterly earnings came in below estimates while Italian lender Unicredit was the standout

We've had a sustainable cycle, the opportunistic component of sustainable investing has come and gone. However, during this boom and bust the regulators have been working hard. They've been improving the guidelines and labeling, and this has helped mature the conversation. During this cycle, we've seen sustainable investment styles diverge, with newer approaches being supported by refreshed regulation.

Whereas the first regulatory frameworks invoked 'the stick' – i.e. higher cost of equity placed on high emitters – regulators are now happy for investors to use 'a carrot' to promote change – i.e. reducing the cost of equity for high emitters than can transition to a low carbon business model. The formal adoption of the word 'transition' by regulators will be important. It will make a clear delineation between those sustainable investment strategies that invest in already clean businesses and those who want to facilitate the decarbonization journeys of companies with high emissions today.

It is important to combine the 'carrot' with the 'stick' to facilitate change. Global energy markets are a current example of this. High natural gas prices (carrot) and stricter regulation on coal projects (stick), we believe, will loosen the gas markets and tighten coal markets by 2026. This is important. The growth of renewables is key to decarbonising our economies, but we should not overlook the positive impact coal to gas switching can have. A higher coal price and lower gas price would speed this up."

banking performer for the fund - its shares performed strongly on the back of earnings which beat market expectations. Shares in Daimler Truck surged to new highs following strong Q4 results and bullish guidance for 2024, while car-maker Stellantis was a positive as plans for a new buyback and higher dividends drove the shares higher.

Top attributors (% impact)	
Daimler Truck	0.6
Unicredit	0.4
L'Oreal	0.3
Stellantis	0.2
RWE	0.2

Bottom attributors (% impact)	
ASML	-1.2
EDP	-0.9
Neste	-0.8
Infineon	-0.7
Teleperformance	-0.6

Positioning

In terms of fund activity, the overall shape of the fund remains broadly unchanged. Having said that there were some changes to individual stocks names. Within our banking exposure, we initiated new positions in Spanish names **Santander** and **Caixabank**. Santander trades on 0.6x price-to-book for a mid-teens return on equity while there are also cost savings to make from the business, while Caixabank has transitioned from being very rate sensitive to now much less so due to asset duration. French name **BNP Paribas** has been sold in order to fund these purchases. We bought a new position **STMicro**, which provides tech exposure but diversifies away from Infineon's more auto-focused to more consumer related exposure. Finally, we made a purchase in **Evotec**, a German pharmaceutical service provider which uses high-tech in a structurally growing market. Spanish healthcare name **Rovi** was sold to make way for Evotec, while industrial name **St Gobain** also exited the fund during Q1.

Top sector overweight (%)	
Health Care	5.3
Energy	4.1
Utilities	3.6

Top sector underweight (%)	
Consumer Discretionary	-9.4
Information Technology	-4.8
Consumer Staples	-1.5

Outlook

During the first quarter of 2024 European equity markets witnessed momentum and concentration to such a large extent, that we believe many exciting opportunities are presenting themselves. The momentum in some of the mega-cap names we have seen so far this year has been the very antithesis of our investment approach – we are looking for companies that are undergoing positive change that have been overlooked by the market. Narrow leadership in the markets is rarely a healthy sign as eventually this will crack and, as investors reconnect with the reality of interest rate cuts being pushed out further into 2024 and with an increasing number of indicators suggesting that economies may be bottoming, it is quite possible that this could be to the benefit of more cyclical areas where we believe there is meaningful opportunity for positive change and where valuations are at extreme lows.

In terms of positioning, we remain well diversified across a broad range of sectors and continue to believe in the market-wide themes such as decarbonisation, digitalisation, improving the efficiency and security of supply. These structural tailwinds that were not present during the last cycle require a great deal of capital investment and will continue to support employment levels, wages and the wider economy. Weaker power prices have hindered utilities holdings so far this year, however we believe they are well-positioned to deliver sustainable earnings despite the power price backdrop. Within financials, we retain exposure to both banks - where share buybacks are now widespread and names we have exposure to include leading franchises with strong capital positions on single-digit PE's – and also insurance companies where sustainable earnings and good dividends remain prevalent. We retain exposure to more cyclical areas too, as here stocks appear to have a recessionary scenario already priced in. As far as technology exposure is concerned, we are aware of the growth in the semi-conductor industry, and we could expect the cycle to turn later in 2024. We do have selected exposure to this theme via names where there are interesting internal improvement stories too. The focus within semiconductors thus far has solely rested on those companies who have perceived exposure to AI, while we think the market is missing an opportunity within analogue names which trade at a steep discount now. Elsewhere, we maintain balance within our portfolio by having some defensive exposures in areas such as telecoms, pharmaceuticals, food retail and utilities. Finally, long duration assets, which benefitted in a low inflation/low interest rate environment, appear more challenged in a regime of higher inflation and higher rates. As such, we maintain an underweight position in those long duration areas of the market which, in our opinion, still feel expensive.

The share price performance and re-rated valuations of the highly concentrated group of names which have led the market higher so far this year feels extremely stretched and

increasingly dislocated from fundamentals – we have trimmed positions and taken some profits in positions exposed to this momentum. On the other hand, there are many other areas where we see improving fundamentals in the medium/long-term that are looking extremely attractive in terms of both earnings prospects and valuation, and so where we see considerable share price upside - we have tactically increased positions in-line with this conviction. In conclusion, we expect the market focus to broaden out as equity markets reconnect with fundamentals and therefore remain extremely optimistic around the prospects for our portfolio.

Standardised rolling 12-month performance (% growth)

Past performance does not predict future returns

	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
Fund[1]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	12.9
Benchmark[2]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	16.7
Sector[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14.7

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invesco.eu.

[1]Fund (Z EUR Acc shares) performance figures are shown in EUR, inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Returns may increase or decrease as a result of currency fluctuations.

[2]Benchmark: MSCI EMU Index (Net Total Return) in EUR. As the Fund is actively managed, it is not intended that the performance of the Share Class will track the performance of MSCI EMU Index (Net Total Return) (the "Benchmark").

[3]Sector: EAA Fund Eurozone Large-Cap Equity. The sector is shown for performance comparison purposes only. The Fund does not track the sector.

The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. More information on the peer groups can be found at www.morningstar.com.

All data as at 31 March 2024, sourced from Invesco unless otherwise stated.
Fund launched 29 March 2023.

Important information

This marketing communication is exclusively for use by professional investors in Continental Europe as defined below, Qualified Clients/Sophisticated Investors in Israel and Professional Clients in Jersey, Guernsey, Ireland, Isle of Man and the UK. It is not intended for and should not be distributed to the public.

Data as at 31.03.2024, unless otherwise stated. By accepting this material, you consent to communicate with us in English, unless you inform us otherwise. This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. Views and opinions are based on current market conditions and are subject to change. For information on our funds and the relevant risks, refer to the Key Information Documents/Key Investor Information Documents (local languages) and Prospectus (English, French, German, Spanish, Italian), and the financial reports, available from www.invesco.eu. A summary of investor rights is available in English from www.invescomanagementcompany.lu. The management company may terminate marketing arrangements. Not all share classes of this fund may be available for public sale in all jurisdictions and not all share classes are the same nor do they necessarily suit every investor.

For the distribution of this communication, Continental Europe is defined as Austria, Belgium, Finland, France, Germany, Greece, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland

Issued by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.

Guernsey: The fund can only be promoted to Professional Clients. **Isle of Man**: The fund is an unregulated scheme that cannot be promoted to retail clients in the Isle of Man. The participants in the scheme will not be protected by any statutory compensation scheme. **Israel**: Issued by Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority. No action has been taken or will be taken in Israel that would permit a public offering of the Fund or distribution of this communication to the public in Israel. This Fund has not been approved by the Israel Securities Authority (the ISA). Accordingly, the Fund shall only be sold in Israel to an investor of the type listed in the First Schedule to the Israeli Securities Law, 1968, which has confirmed in writing that it falls within one of the categories listed therein (accompanied by external confirmation where this is required under ISA guidelines), that it is aware of the implications of being considered such an investor and consents thereto, and further that the Fund is being purchased for its own account and not for the purpose of re-sale or distribution. This communication may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this communication should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. Neither Invesco Ltd. Nor its subsidiaries are licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder. This communication does not constitute an offer to sell or solicitation of an offer to buy any securities or fund units other than the fund offered hereby, nor does it constitute an offer to sell to or solicitation of an offer to buy from any person or persons in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person or persons to whom it is unlawful to make such offer or solicitation. **Switzerland**: Invesco Asset Management (Schweiz) AG acts as representative for the funds distributed in Switzerland. Paying agent in Switzerland: BNP PARIBAS, Paris, Zurich Branch, Selnaustrasse 16 8002 Zürich. The Prospectus, Key Information Document, and financial reports may be obtained free of charge from the Representative. The funds are domiciled in Luxembourg. **Jersey**: Consent under the Control of Borrowing (Jersey) Order 1958 (the "COBO Order") has not been obtained for the circulation of this communication. The offer that is the subject of this communication may only be made in Jersey where it is valid in the United Kingdom. **Portugal:** The issuer is authorised to provide financial services in Portugal and is regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.

EMEA 3511830/2024