

Invesco Global Small Cap Equity Fund

Covering Q1 2024

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Michael Oliveros
Fund Manager

Performance (% growth)*

Cumulative

Past performance does not predict future returns.

	Fund ¹	Ref Bench mark ²	Sector ³	Rank
3m	4.1	3.9	3.7	2
6m	15.5	16.4	15.8	3
YTD	4.1	3.9	3.7	2
1y	14.5	16.5	12.9	2
3y	-2.0	4.9	-0.6	3
5y	46.7	47.0	40.8	2

Source: Invesco, as at 31 March 2024.

Returns may increase or decrease as a result of currency fluctuations.

More information on the peer groups can be found at www.morningstar.com

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

Investment risks

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 fund may invest in certain securities listed in China which can involve significant regulatory constraints that may affect the liquidity and/or the investment performance of the fund.

As a portion of the fund may be exposed to less developed countries, you should be prepared to accept large fluctuations in the value of the fund.

This is a small companies fund; you should be prepared to accept a higher degree of risk than a fund that invests in larger companies.

Executive summary

- Fund returns were positive in Q1, outperforming the reference benchmark and peer group sector average.

Market review

In the first quarter of 2024, global equities performed strongly, with Japanese and U.S. markets leading. The S&P 500 and Japanese equities posted double-digit gains. European and emerging markets also saw advancements, while Chinese equities slightly declined. The global economy, driven by a resilient U.S. market, exceeded expectations. Monetary policy heavily influenced market trends, with changing expectations for Fed policy causing market swings. Disinflation continued in most developed economies, but the Swiss National Bank began rate cuts, with others likely to follow. Conversely, Japan started tightening monetary policy due to better-than-expected wage growth.

Performance

Fund returns were positive in Q1, outperforming the reference benchmark and peer group sector average.

The top contributors to relative performance included **Masonite, Sprouts Farmers Market, XPO, Core & Main, and Tenet Healthcare**. Building products company Masonite saw its share price rise after buildings materials company Owens Corning, announced in February that it would acquire all outstanding shares for \$133 per share. Hospital chain operator Tenet Healthcare announced in early February that it was expecting to exceed the high-end range of its previous FY2023 profit outlook, which provided a catalyst for its share price. US-based Sprouts Farmers Market saw its share price advance after the company provided a forecast for adjusted earnings per share for the first quarter that was higher-than-expected. Maker of hydrants and drainage equipment, Core & Main provided a year sales forecast that topped estimates, which sent its share price higher. Core & Main's fourth quarter earnings were well received with better-than-expected net sales and adjusted Ebitda. Similarly, logistics company XPO also reported some positive results which boosted investor appetite for the stock.

The top detractors to relative performance included **Endava, Conmed, Soitec, TechnoPro and Azelis**. Shares in UK-based IT services company Endava declined after the company announced that it was acquiring GalaxE Group, a US-based IT and business solutions provider. Wafer maker Soitec saw its share price decline after the company set their FY25 revenue outlook well below analyst estimates. US-based health care supplies company Conmed saw its share lose some ground after the company reported adjusted profits and net sales for the fourth quarter that were weaker-than-expected. After a rally in Q4, Azelis shares lagged after the company reported an earnings miss and gave a cautious forecast for 2024.

Top attributors (% impact)	
Masonite	0.2
Sprouts Farmers Market	0.2
XPO	0.2
Core & Main	0.2
Tenet Healthcare	0.2

Top detractors (% impact)	
Endava	-0.3
Conmed	-0.2
Soitec	-0.1
TechnoPro	-0.1
Azelis	-0.1

Past performance does not predict future returns.

Positioning

Top sector overweight (%)		Top sector underweight (%)	
Industries	7.7	Real Estate	-4.1
Financials	2.8	Materials	-2.3
Information Technology	0.8	Consumer Staples	-1.9
		Utilities	-1.7
		Energy	-1.3

Portfolio structure

Michael Oliveros (lead manager) and the Global Smaller Companies Group, Henley Investment Centre, focus on delivering a globally diversified smaller companies' strategy. We believe that smaller company funds are best managed by regional smaller company specialists given the size the small cap universe. Investment decisions are based on views and perspectives from the bottom-up, where the regional managers find value and identify potential stock opportunities. A dual fund manager/analyst role within the Group provides both ownership and accountability for each investment decision and the performance of each regional element. The Group, led by the lead manager, understands the importance of portfolio construction and maintaining balance within the portfolio. Careful consideration is given to risk management to reduce unwanted factor risk to allow stock specifics to drive returns.

Outlook

Looking ahead we would expect to see inflation fall further from current levels in Europe, the US and Asia. Recent signals from the Federal Reserve indicate a pause in interest rate rises and we are optimistic that interest rates may begin to decline in early 2024. So, far consumer spending has held up well, in part due to excess savings built up during the pandemic being run down. Our concern would be that those excess savings are rapidly being drawn down and energy prices have spiked back up, as such, we would not be surprised to see consumer spending weakening, especially in the US.

Against this backdrop, we continue to find value in industrial, financial and information technology names where we have diversified exposure across a broad range of subsectors. We have also found value in health care and life sciences. They have faced headwinds with post-covid normalisation and declining R&D budgets giving uncertainty and higher interest rates. These headwinds in our view are well reflected in valuations and headwinds are abating. Meanwhile, we remain underweight the real estate sector where we are concerned by structural change, specifically in areas such as retail and office where the demand outlook is looking bleak. In addition, higher interest rates will have an impact on capital values and refinancing costs. More broadly speaking, we think the opportunity to invest in small- and mid-cap names has never been better. From a valuation perspective, they are now trading at extremely depressed levels vs large caps, providing a very attractive entry point. They also offer incredible diversification benefits to a global portfolio at a time when we are seeing rising concentration risks in large cap global equities (the "Magnificent 7"). From a more structural perspective, we have been noticing an onshoring/friend-shoring trend emerging, driven initially by Covid-related supply chain issues, and now, more recently, due to rising political tensions around China-Taiwan and the US. This should provide a tailwind to smaller companies (particularly in areas such as industrials) in Europe and US as more of the supply links move closer to home.

We also note that small caps have been more adversely affected by rising interest rates than larger companies as their debt profile is shorter duration; the falling interest rates we expect later this year will therefore be a positive for the asset class.

Our strategy will remain consistent; we will seek to identify companies with a sustainable financial framework and competitive advantage, also where our investment thesis is different to the consensus, and where we see an asymmetry of returns which are skewed in our favour.

Standardised rolling 12-month performance (% growth)
Past performance does not predict future returns.

Calendar year performance

In %	2019	2020	2021	2022	2023
Fund ¹	23.27	21.71	13.11	-22.10	14.72
Benchmark ²	24.65	16.33	16.10	-18.67	16.84

	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	31.03.24
Invesco Global Small Cap Eq Fund Z USD AD ¹	1.9	-5.1	15.5	18.0	-8.8	-22.9	94.1	-5.4	-9.5	14.5	
MSCI ACWI Small NR USD ²	3.2	-4.5	17.5	16.2	-2.7	-23.1	82.0	-0.3	-9.6	16.5	
EAA Fund Global Small/Mid-Cap Equity ³	2.1	-3.5	13.7	17.3	-5.0	-20.1	77.4	-2.7	-9.6	12.9	

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

The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. Returns may increase or decrease as a result of currency fluctuations. The investment concerns the acquisition of units in an actively managed fund and not in a given underlying asset.

*All data is as at 31/03/24, sourced from Invesco unless otherwise stated. The performance shown in the chart above up to 7 September 2018 relates to the performance of the Irish-domiciled fund, which was merged into the Luxembourg-domiciled fund on that date.

¹Fund performance figures are based on the fund (Class Z annual distribution - USD) and sector Average performance data is source: Morningstar. Fund performance is calculated (excluding the entry charge), US dollar, with gross income reinvested, net of ongoing charges and portfolio transaction costs. Sector average performance is calculated on an equivalent basis. Benchmark and other index information is source: Thomson Reuters Datastream, net total returns, US dollar.

²Reference Benchmark is the MSCI AC World SmallCap index.

³Sector is the EAA Fund Global Small/Mid Cap Equity.

As the fund is actively managed, it is not intended that the performance of the Share Class will track the performance of MSCI AC World Small Cap Index (Net Total Return) – the “Benchmark”. The EAA Fund Global Small-Cap Equity sector is shown for performance comparison purposes only. The Fund does not track the sector. The attribution figures are estimates and should be used for indicative purposes only. Data cleansing and retrospective information availability may cause changes.

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