Invesco

Quarterly Fund Update

Invesco Pacific Equity Fund

Covering Q4 2023

This marketing communication is exclusively for use by Professional Clients, Financial Advisers and Qualified Clients/Sophisticated Investors. This is not for consumer use, please do not redistribute. Investors should read the legal documents prior to investing.

William Lam
Fund Manager

Tony Roberts
Fund Manager

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

Executive summary

- The Pacific Equity Fund performed rose in Q4, but slightly lagged the benchmark.

Performance

Past performance does not predict future returns.

Cumulative returns (%)	3m	6m	1 year	3 years	5 years
Invesco Pacific Equity Fund[1]	7.3	5.3	16.4	4.6	45.0
MSCI AC Asia Pacific[2]	8.0	5.0	11.4	-9.1	29.9
Out/underperformance	-0.7	+0.3	+4.9	+13.7	+15.1
EAA Fund Asia Pacific Equity[3]	7.8	3.8	10.0	-11.1	22.7
Quartile	2	1	1	1	1

Source: Invesco, as at 31 December 2023. Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time. Returns may increase or decrease as a result of currency fluctuations. The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. The 10-year rolling performance figures, can be found on the fourth page of the document. More information on the peer groups can be found at www.morningstar.com.

Q4 Attribution

- Stock selection in Japan was a significant contributor to relative performance. **Shin-Etsu** outperformed on the back of its US PVC operations, which are geared into a housing recovery. It is also exposed to the semiconductor manufacturing supply chain, which along with the likes of **Tokyo Electron** and **Disco** benefited from further optimism in the outlook for AI-related stocks.
- Semiconductor stocks in Korea and Taiwan also added value, with strengthened expectations that the sector will see a demand recovery in 2024.
- Recovery in demand for high-end smartphones was supportive for miniature lens manufacturer **Largan** and chip designer **MediaTek**.
- **Recruit** made strong gains, with the idea of a more robust US economy raising expectations for the Japanese company's US-focussed portal, with solid growth in revenue and profits at its other HR-related and marketing media businesses.
- Underweight positions in Australia and India detracted as these markets outperformed.
- In Australia, limited exposure to banks and iron ore miners detracted from relative performance, while **Woodside Energy** underperformed given oil price weakness.
- Our exposure to Chinese businesses weighed on performance (e.g. auto parts manufacturer **Minth**, online game developer **NetEase,** and noodle and beverage manufacturer **Tingyi).** Real estate developer **China Overseas Land & Investment** and wind turbine manufacturer **Ming Yang Smart Energy** were also amongst the biggest detractors. On a brighter note, the impact of these was partly offset by a positive contribution from **Tencent Music**.

Top sector overweight (%)	
Communication Services	5.0
Information Technology	2.9
Real Estate	1.8
Industrials	1.5
Financials	1.0

Top sector underweight (%)	
Health Care	-3.8
Consumer Staples	-2.9
Consumer Discretionary	-2.9
Materials	-2.2
Utilities	-2.0

Top attributors (% impact)	
Shin-Etsu Chemical	0.7
MediaTek	0.6
Largan Precision	0.4
Samsung Electronics	0.4
Recruit Holdings	0.3

Top detractors (% impact)	
NetEase	-0.4
Tingyi	-0.3
China Overseas Land	-0.3
Minth	-0.3
Astra Int.	-0.3

Positioning

- South Korea is the fund's largest overweight position. Improvements in corporate governance and dividend pay-outs are being underappreciated by the market, which has provided opportunity to own operationally solid companies, with good balance sheets, as well as an ability and desire to improve shareholder returns over time.
- The fund also has a modest overweight position in HK & China, which is deeply out of favour. We own a mix of large internet companies, life insurers, auto parts manufacturers, as well as selected consumer-related stocks. Attitudes towards China are currently so weak that deeply discounted equity valuations could be quite sensitive to signs of improvement in the economy and the corporate sector.
- The fund continues to have significant exposure to dominant semiconductor companies in Japan, Taiwan and Korea. Excitement surrounding AI-related demand

persists, but it seems to us that the level of semiconductor demand required to support the growth of AI has not been fully priced into some of the mega cap Asian tech stocks.

- The fund is underweight India and Australia.
- In terms of fund activity, we introduced **Anglo American** (miner of metals), **Tencent Music Entertainment** (provider of music streaming services in China), **Grab** (ASEAN ride hailing and food delivery company) and **Brambles (**operator of pallet pooling service**)**. Please see end of document for rationales.
- We sold small positions in **Gree Electric** (Chinese home appliances manufacturer)**, Alumina** (Australian base metals company) **and ComfortDelGro** (land transport company).

2023 Attribution

- Fund performance in 2023 was strong, significantly outperforming the MSCI AC Asia Pacific index, which also delivered decent returns.
- Stock selection in Japan was a significant contributor to relative performance, with strong gains for companies in the AI server supply-chain (e.g. **Disco**, **Shin-Etsu Chemical and Tokyo Electron)** as Nvidia's raised guidance pointed to an acceleration in demand sooner and greater than people had expected.
- Excitement around improvements in Japanese corporate governance, specifically better capital allocation to help companies realise a P/B valuation greater than 1, supported strong gains from **Honda**, **Mitsui Fudosan** and **Hitachi,** amongst others.
- In India, the positive impact of stock selection more than offset the relative impact of being underweight one of Asia's best performing markets. **Aurobindo Pharma** was a key contributor on the back of an improvement in generics pricing in their largest market, the US. The company have also shown strong execution in their injectables business which has helped drive a valuation re-rating.
- Stock selection in Taiwan and Korea also contributed positively, thanks in part to tech exposure, with chip companies MediaTek and Samsung Electronics notable outperformers.
- Chinese consumer-related stocks were the largest detractors, hampered by a disappointing post-Covid recovery and lingering macro uncertainty. Consumer confidence remains weak with the big overhang for markets being concerns over whether the downturn in residential property can be stabilised. **JD.com** and **Tingyi** were amongst the biggest detractors, as was **Ming Yang Smart Energy**.
- Stock selection in Australia detracted, with Alumina being negatively impacted by uncertainty over whether the company would be permitted to expand its bauxite mine in Western Australia.

Arrogance and humility

As active equity investors, we need a mix of personality traits to be successful in the long term. Given how many well-informed investors operate in the market, and that share prices are determined by their collective efforts, you need a degree of arrogance to think they are wrong while you are right. Similarly, given how often your assessment of fair value will prove incorrect (the best investors are probably right only 60% of the time), you also need the humility to say, 'I got that one wrong'. Getting the right mix of arrogance and humility can be challenging.

Whenever we invest in a company, we are faced with a dizzying number of questions. What is the likely rate of sales growth? Are the competitive advantages sustainable? Are management likely to allocate shareholder capital sensibly? And so on. Over the course of owning a stock, we might make hundreds of judgements about various factors which go into our estimate of intrinsic value. With this many questions, having a mindset of right or wrong isn't helpful because the answers aren't usually that simple. Strictly speaking, our estimates are always going to be wrong, but they might be 'roughly right'. Being roughly right is what we are trying to achieve with our fundamental analysis.

John Kenneth Galbraith says there are two types of forecasters, 'those who don't know – and those who don't know they don't know'. We accept that we don't know exactly how things are likely to pan out, but we find our forecasts about business fundamentals over a 3-5 year period useful for estimating fair value. We don't spend much time trying to forecast macroeconomic events, rather we try to understand the microeconomic forces influencing the companies and sectors we invest in.

Probabilities, not right or wrong

In reality, most of our forecasts are probabilistic judgements. 'In all likelihood, the rate of sales growth will be similar to the last 5 years' is the kind of conclusion we might make. 'Probably, competitive intensity will ease because competitors aren't making suitable returns on their capital'. These broad-brush statements feel vague at times and many investors prefer to hear certainty about how the future will look (that's what sell side analysts are for), but certainty is a mirage in equity investing. All we can do is work on the probabilities because there is no right

move in the given moment, there is only a right move in hindsight. We can only analyse the odds to maximise our chances of success.

In a decision where there is a 60% probability of a given outcome, we need to remember that even if we are proven correct, we are simply seeing the 60% outcome. In the 40% of cases where the same judgement produces the wrong outcome, we need to remember that we are seeing the 40% outcome. The temptation to simply judge a decision based on its outcome is too great for most. It's very easy to look at the outcome of an investment decision, say the stock price falling 50%, and simply conclude 'you got it wrong'. This may be satisfying because the numbers don't lie, but by judging a decision purely based on the outcome does little to inform how strong or repeatable the decision-making process is.

When you take on board the idea that you are wrong at least 40% of the time, you also realise that you need to minimise losses in those 40% of cases. That's part of the reason why we are much happier investing in companies with very strong balance sheets – if something goes wrong with those companies, then at least the downside risk will not be amplified by the capital structure. (And if nothing goes wrong, then the strong balance sheet can sometimes amplify the upside in the form of extra dividends or buybacks.)

The importance of process

We regularly spend time as a team thinking of ways in which we can improve our investment process and decision making. We are looking for tools that can help us combat some of the biases we naturally have as humans, of which one of the most powerful is confirmation bias. Humans are naturally prone to confirmation bias; we seek information that supports our point of view and reject information that doesn't support it. When valuing companies, we must stay as dispassionate and objective as possible, so being aware of confirmation bias is important. Former professional poker player Annie Duke talks about the need for 'truth seeking'. She argues that humans are prone to seek confirmation from each other because we are social animals, rather than being prone to seek the truth.

A crucial part of seeking the truth is having a team where challenge is embedded into our process. To aid challenge we use a company shortlist, which compares all the buyable stocks on the team that have been through the research process. The beauty of the company shortlist is that it distils each investment case down to only three variables: business growth, fair valuation, and dividends. The simplicity of these estimates makes challenge easier, encourages open mindedness and enables us to compare the attractiveness of stocks across countries and sectors. Helpfully, the company shortlist is ranked by expected return, so when stocks fall toward the bottom of the list we are encouraged to sell, and when they rise to the top we are encouraged to buy.

The company shortlist makes it easier to combat two other biases that humans tend to have, the endowment effect and loss aversion. The endowment effect is a bias where we tend to value something for more when we own it than when we don't own it. The endowment effect can be strengthened when share prices are rising because you feel good and you get confirmation that 'you were right'. So humans are naturally prone to hold on to stocks as they rise. But as share prices and valuations rise, so too does risk, to the detriment of future returns.

At the other end of the spectrum, loss aversion is idea that humans feel losses to a greater extent than we do gains. Kahneman and Tversky argued that losses can be felt twice as powerfully as gains, which helps to explain why humans are prone to dumping stocks at the bottom. It is during the moment of peak negativity, when the pain is most acute, that human emotions push us toward selling. 'I just want to get rid of the blasted thing, look at the damage it has done to my portfolio!', is a common refrain. As contrarian investors, our aim is to ruthlessly exploit this emotional behaviour by buying shares from people in a depressed state of mind, whose judgement about the value of their asset is clouded by overwhelmingly negative emotions.

These emotions are powerful and hard to combat, but combat them we must, and the company shortlist is a very helpful tool in this regard. Sticking to our process and relying on the tools we have built to encourage rational behaviour isn't always easy, but it has been central to our long-term success.

The thesis check

Working out when we we've got it wrong can be tricky, very tricky. There are rarely situations where things are obvious. Different aspects of the investment case can go in different directions at the same time and the truth is often a complex mesh of differing outcomes. The tool we use to reassess investment cases is called the thesis check. A thesis check is an analysis of how the fundamentals of our investment case have panned out versus our original forecasts. The purpose of the thesis check is to separate the fundamentals from the valuation. When we conclude that our forecasts of the fundamentals were too optimistic, to the point that it invalidates the investment case, the right thing to do is usually sell, even if the shares are

now cheaper and you have suffered a loss. It is too easy, and usually the wrong course of action, to conclude that you should hold on even though the thesis is broken because the shares are now 'too cheap'.

Some recent examples of stocks that have had their thesis checked would be Alibaba, JD.com, Lotte Chemical, Dongfeng Motor, Ping An and Alumina. Some we have chosen to keep, others we have concluded we should sell. As ever these decisions were taken after much deliberation and weren't easy.
Ultimately what we are trying to achieve is simple; buy shares for less than they are worth, and sell them when they are appropriately valued. While this concept may be simple, it isn't easy. The enduring conclusion should therefore be left to the late great Charlie Munger, who is said to have opined that 'it's not supposed to be easy. Anyone who finds it easy is stupid' – amen Charlie.

Fund activity

We introduced four new holdings over the quarter.

Anglo American is an originally South African but now UK-headquartered miner of copper, diamonds, iron ore, platinum group metals (PGMs), nickel, manganese and met coal. After a near death experience during the commodity slump of 2015, AA has been through a cycle of selling high-cost assets, moving down the cost curve, and strengthening the balance sheet. Although the company is not in the benchmark, 70% of revenues and 80% of assets are in emerging countries. The share price is down by more than 40% from its 2022 peak, the balance sheet is in good shape and it's the cheapest of the peer group on a price-to-book basis.

Tencent Music Entertainment is an ecosystem of apps and services that dominate the consumer-facing music industry in China. The company has free cashflow that is higher than earnings. Regulatory concerns are easing and the company is also undergoing a US$500m buyback program which will likely provide downside support.

Grab is the largest ride hailing and food delivery company in ASEAN, with significant market share in each market that it serves. With higher interest rates globally, and uncertainty about the outlook for Grab's financial services business, the share price fell over 80% since listing in late 2020. Grab has built a strong balance sheet – which has set it up to benefit from the growing penetration of ride hailing, food delivery, advertising, and financial services, sectors that are forecast to grow at multiples of ASEAN GDP growth rates.

Brambles is an operationally well-run company that operates a wooden pallet pooling service with dominant positions in many geographies. As an industry, pallet pooling is well penetrated, but the top line could grow quicker than the economy through the cycle as Brambles take more share from single use pallets. The stock is trading at the low end of its P/E range.

We sold small positions in **Gree Electric** (Chinese home appliances manufacturer)**, Alumina** (Australian chemical company) preferring to add in other areas where we have greater conviction in the investment thesis. We also sold **ComfortDelGro** (Singapore listed transport company) after a period of outperformance.

Standardised rolling 12-month performance (% growth)

Past performance does not predict future returns.

Calendar year performance					
In %	2019	2020	2021	2022	2023
Fund[1]	17.67	17.80	1.25	-11.21	16.38
Benchmark[2]	19.26	19.71	-1.46	-17.22	11.45

	31.12.13 31.12.14	31.12.14 31.12.15	31.12.15 31.12.16	31.12.16 31.12.17	31.12.17 31.12.18	31.12.18 31.12.19	31.12.19 31.12.20	31.12.20 31.12.21	31.12.21 31.12.22	31.12.22 31.12.23
Invesco Pacific Equity Fund Z USD Acc[1]	-0.8	-3.6	6.5	38.1	-15.8	17.7	17.8	1.3	-11.2	16.4
MSCI AC Asia Pacific NR USD[2]	0.0	-2.0	4.9	31.7	-13.5	19.4	19.7	-1.5	-17.2	11.4
EAA Fund Asia-Pacific Equity[3]	-1.3	-1.8	3.1	30.7	-16.5	17.6	17.3	0.0	-19.2	10.0

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

Returns may increase or decrease as a result of currency fluctuations. The investment concerns the acquisition of units in a fund and not in a given underlying asset. The

performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units.

[1]Fund (Class Z accumulation – USD) performance figures are sourced from Morningstar, shown in US dollar with gross income reinvested, net of ongoing charges and fund transaction costs. The figures do not reflect the entry charge paid by individual investors. As at 2 August 2021, this is now the Primary share class for this fund. As this share class was launched on 21 February 2019, for the periods prior to that, performance figures are that of the A share class, without any adjustment for fees.

[2]The reference benchmark is the MSCI All Countries Asia Pacific index. As the Fund is actively managed, it is not intended that the performance of the Share Class will track the performance of MSCI AC Asia Pacific Index (Net Total Return) (the "Benchmark"). Prior to 2 July 2020, the performance of the Share Class was compared to another benchmark: MSCI AC Pacific Index (Net Total Return).

[3]The sector is Morningstar EAA Fund Asia-Pacific Equity sector and is shown for performance comparison purposes only. Sector average performance is calculated on an equivalent basis to fund performance. The sector is shown for performance comparison purposes only. The Fund does not track the sector.

The historical performance shown in the chart up to 7 September 2018 relates to the historical performance of the Irish domiciled fund, which was merged into the Luxembourg-domiciled fund on that date. This change has no impact on the investment objective, strategies, risk profile or fee structures of the fund.

Morningstar® 2024. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

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 Dubai, Jersey, Guernsey, Isle of Man and the UK. This communication may also be used by financial intermediaries in the United States as defined below. It is not intended for and should not be distributed to the public.

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

Data as at 31.12.2023, 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 more information on our funds and the relevant risks, please refer to the share class-specific Key Information Documents/Key Investor Information Documents (available in local language), the financial reports and the Prospectus, 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.

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.

Dubai: Invesco Asset Management Limited, Index Tower Level 6 - Unit 616, P.O. Box 506599, Al Mustaqbal Street, DIFC, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority. **Guernsey:** The fund can only be promoted to Professional Clients. **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

Invesco

permit a public offering of the Fund or distribution of this document to the public. This Fund has not been approved by the Israel Securities Authority (the ISA). 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, who in each case have provided written confirmation that they qualify as Sophisticated Investors, and that they are aware of the consequences of such designation and agree thereto and further that the Fund is being purchased for its own account and not for the purpose of re-sale or distribution, other than, in the case of an offeree which is an Sophisticated Investor, where such offeree is purchasing product for another party which is an Sophisticated Investor. This document 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 document 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”). 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 document 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 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 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. **Additional information for financial intermediaries in the United States:** This document is intended for distribution to US financial intermediaries for informational purposes and in relation to their activities with offshore clients only. The Funds are not registered under any US securities law, and may not be offered or sold directly or indirectly in the US, its territories or possessions, nor to any US persons, citizens or residents. The Fund must not be marketed on US soil. Issued in the US by Invesco Distributors, Inc., 11 Greenway Plaza, Suite 1000, Houston, Texas 77046, USA. Invesco Distributors, Inc. is the appointed US sub-distributor of the Invesco Funds SICAV. All entities are indirect, wholly owned subsidiaries of Invesco Ltd

EMEA 3342064