Quarterly Fund Update

Invesco Euro Equity Fund

Covering Q1 2024

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Performance (% growth)

Past performance does not predict future returns.

	Fund[1]	Benchmark[2]	Sector[3]
3m	3.4	10.3	8.8
6m	9.8	18.8	16.8
YTD	3.4	10.3	8.8
1y	13.6	16.7	14.7
3y	30.3	28.5	23.9
5y	53.0	55.4	47.0

Returns may increase or decrease as a result of currency fluctuations. Source: Invesco, as at 31 Mar 2024**. The investment concerns the acquisition of units in an actively managed fund and not in a given underlying asset."**

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.

Executive summary

- Fund performance is 1st quartile over 3 years
- The market environment during Q1 2024 witnessed extreme momentum and concentration. Though painful, we believe many exciting opportunities are presenting themselves.
- Our fund positioning overall remains diversified across a broad range of sectors.

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 and attribution

The fund delivered a net total return of 3.4% during the quarter. The reference benchmark MSCI EMU Index (Net Total Return) returned 10.3%. The peer group, EAA Fund Eurozone Large-Cap Equity, provided an average return of 8.8%, which placed the fund in the fourth quartile of its peer group.

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 performer for the fund - its shares performed strongly on the back of earnings which beat

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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	0.5
Unicredit	0.4
L'Oreal	0.3
Stellantis	0.2
RWE	0.2

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

Attribution figures are estimates and should be used for indicative purposes only. Data cleansing and retrospective information availability may cause changes.

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 in **Prosus**, the Dutch-listed tech name where we note the subdued valuation of the largest asset in the portfolio (Tencent) but also like the change of capital allocation from reinvestment of cash to better shareholder returns via buybacks. Another new holding added during Q1 was **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** exited the fund to make way for Evotec.

Top sector overweight (%)	
Health Care	5.3
Energy	4.3
Utilities	3.1

Top sector underweight (%)	
Consumer Discretionary	-8.2
Information Technology	-5.1
Consumer Staples	-1.4

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	31.03.15 31.03.16	31.03.16 31.03.17	31.03.17 31.03.18	31.03.18 31.03.19	31.03.19 31.03.20	31.03.20 31.03.21	31.03.21 31.03.22	31.03.22 31.03.23	31.03.23 31.03.24
Fund[1]	18.8	-11.0	21.4	3.9	-3.9	-25.2	57.0	3.8	10.6	13.6
Benchmark[2]	20.5	-13.6	19.8	2.1	0.5	-16.0	44.0	1.8	8.1	16.7
Sector[3]	18.3	-12.4	17.4	1.4	-0.8	-15.6	40.6	2.5	5.4	14.7

Calendar years	2019	2020	2021	2022	2023
Fund[1]	19.3	-5.5	23.9	-4.7	20.8
Benchmark[2]	25.5	-1.0	22.2	-12.5	18.8
Sector[3]	23.8	-1.6	22.0	-13.5	16.9

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.

Data shown relates to the Invesco Actions Euro Fund (French SICAV), which has been merged into the Invesco Euro Equity Fund (Luxembourg SICAV) on 2 October 2015. The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. As at 2 August 2021, this share class is now the Primary share class for this fund. As this share class was launched on 7 October 2015, for the periods prior to this launch date, performance figures are that of the A share class, without any adjustment for fees. 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.

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