Quarterly Fund Update

Invesco Euro Equity Fund

Covering Q4 2024

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

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Performance (% growth)

Past performance does not predict future returns.

	Fund[1]	Benchmark[2]	Sector[3]
3m	-3.3	-1.9	-2.6
6m	-1.7	1.1	-0.2
YTD	1.0	9.5	7.2
1y	1.0	9.5	7.2
3y	16.2	13.8	8.4
5y	36.1	37.6	30.1

Returns may increase or decrease as a result of currency fluctuations. Source: Invesco, as at 31 December 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
- Despite some portfolio changes, overall Value tilt remains.
- Low sentiment towards Europe has created opportunities.

Market review

Eurozone equity markets declined over the final quarter as political newsflow dominated headlines which meant European bourses ended the year with modest gains compared to the previous year. From a sector perspective, Q4 saw industrials as the best performing sector with communication services and technology also outperforming. Meanwhile, real estate, consumer staples and materials sectors were among the key laggards.

The European Central Bank (ECB) cut interest rates twice during the fourth quarter, while the accompanying statement in December suggested that policymakers are less concerned than previously about upside risks to inflation and that they don't expect to keep policy restrictive for much longer. The ECB said surveys indicated growth was slowing and that the recovery depended on consumers spending more and businesses increasing their investments. It cut its forecast for growth for the Eurozone economy in 2025 to 1.1%, from the 1.3% it had expected three months earlier. In other data released during Q4, the German Ifo Business Climate Index remained in recessionary territory, while the Composite PMI remained below 50.

The fourth quarter also saw significant political turmoil, much of it caused by domestic disagreements around fiscal prudence and deficits. There was a "no confidence" vote that ousted French Prime Minister Michel Barnier, which was the result of a showdown over the French budget. French bond yields spiked in response to Barnier's exit as well as dysfunction related to not passing a 2025 budget in time. Meanwhile, the German government collapsed, with a general election called for February 2025, seven months ahead of schedule amid a rocky patch for the EU's top economic power.

Performance and attribution

The fund declined by -3.26% during the quarter. The reference benchmark MSCI EMU Index (Net Total Return) returned -1.94%. The peer group, EAA Fund Eurozone Large-Cap Equity, provided an average return of -2.63%, which placed the fund in the third quartile of its peer group.

Stock selections within health care and energy sectors weighed most during Q4 while utilities and technology were also relatively weak. Consumer discretionary exposure proved most beneficial from a sector point of view, followed by consumer staples and industrials exposures, while zero allocation to real estate was also of some benefit.

From an individual stock perspective, exposure to E.ON proved a notable detractor. Shares in the German utility were impacted after a top civil court indicated it will side with regulators who want to cap the amount network operators can charge. Dutch health care name Philips was weak after third quarter sales failed to impress with China being cited as a 'notable headwind'. Elsewhere, Finnish renewable energy name Neste ended a dismal year poorly, with weakness in its Renewable Products division once again a key drag, while French IT services provider Cap Gemini struggled after reporting reduced revenue growth, dragged lower by a decline in its North America market. Finally, performance from Dutch brewer Heineken was poor in part due to unfavourable weather and softer consumer sentiment, leading to earnings downgrades in Q4.

More positively, shares in Ryanair moved higher following comments from CEO of better bookings momentum, aircraft manufacturer Airbus rose as cost-cutting measures and strong deliveries, particularly for the A320, were well received by the market, while Daimler Truck shares performed admirably as analysts were more positive on its prospects despite potential tariffs weighing on the sector. Elsewhere, our large underweight in ASML as well as not owning luxury names L'Oreal and LVMH assisted relative returns during Q4.

The team's over-arching approach is one of a balanced portfolio where each individual holding has the potential for tangible, positive change and a supportive valuation.

Top attributors (% impact)	
ASML	0.4
Ryanair	0.3
L'Oreal	0.2
Daimler Truck	0.2
Airbus	0.2

Bottom attributors (% impact)	
Philips	-0.3
Neste	-0.3
E.ON	-0.3
CapGemini	-0.3
Heineken	-0.3

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

Fund Activity

The overall tilt remains very much towards Value despite recent individual name changes. During Q4 we bought a new position in French cable manufacturer Nexans. This is an industrial name we have monitored since early 2024, and when shares retraced based on French politics induced volatility, we used share price weakness as an opportunity to buy. We like their ongoing portfolio rationalisation and growing exposure to high and medium voltage end markets. Within our banking exposure we bought a new position in BBVA. The Spanish banking firm has a large presence in areas like Mexico and Turkey and, in our opinion, we felt the valuation appeared more favourable at the time of purchase, than ING which was sold in order to fund the BBVA purchase. Finally, we slightly altered the make up of our technology exposure by selling our small positions in BE Semiconductor and ASML in order to fund a new position in ASM which we felt was on a more appealing valuation versus other names in the sector and due to having less China risk, we felt there could be better earnings visibility.

Top sector overweight (%)	
Health Care	4.2
Industrials	2.9
Materials	2.5

Top sector underweight (%)	
Consumer Discretionary	-7.6
Information Technology	-2.5
Consumer Staples	-1.5

Outlook

Sentiment towards Europe is obviously extremely low currently – the difficult political backdrop and low growth regionally makes it a complex place to invest. However, valuations already reflect this with European equities trading at the widest discount to the US since pre the sovereign debt crisis. We feel there are some exceptionally interesting opportunities amongst European equities, particularly if the downbeat picture forecast by so many is not so gloomy after all. If we see Germany and France find resolutions to their political stalemate and there is better visibility fiscally, that will be a huge help. Any sort of resolution in the Ukraine/Russia conflict would provide some impetus and again the opportunity there from a reconstruction angle would be significant, particularly so for European corporates. Elsewhere, with interest rates coming down from their highs and credit conditions easing, we are already seeing credit demand pick-up both at the corporate and consumer level while the European consumer is now enjoying growth in spending power having enjoyed material real wage growth over 2024, and also given the high savings rate. Well over 50% of European GDP is driven by the consumer and so an increase in consumer confidence and consequentially consumer spending would be meaningful.

As far as positioning is concerned, we are trying to find the right balance to weather shorter-term volatilities, whilst being well placed to take advantage of longer-term opportunities. Today, we remain exposed to some defensives including telecoms and utilities, but also with exposure to cyclicals where we believe the future opportunity is undervalued by the market. This can be in the form of selected materials or industrials where names are trading on depressed earnings and multiples. We also retain exposure to energy names where capital discipline and shareholder returns are much improved and more reliable, as well as in sustainable aviation fuel. Pharmaceuticals is also an area we like where we believe R&D potential is undervalued, while financials are another area of exposure which – like energy – are now well capitalised and generating strong sustainable earnings and shareholder returns.

There is no doubt the economic recovery has been slower than we had anticipated in 2024 and our portfolio positioning has suffered as a consequence – however, it feels like momentum is tentatively turning and the cyclical tilt in our positioning is well-placed to benefit in that environment.

Standardised rolling 12-month performance (% growth)

Past performance does not predict future returns

	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	31.12.23 31.12.24
Fund[1]	16.0	7.5	10.2	-13.2	19.3	-5.5	23.9	-4.7	20.8	1.0
Benchmark[2]	9.8	4.4	12.5	-12.7	25.5	-1.0	22.2	-12.5	18.8	9.5
Sector[3]	10.9	2.9	11.7	-13.9	23.8	-1.6	21.9	-13.5	16.9	7.2

Calendar years	2020	2021	2022	2023	2024
Fund[1]	-5.5	23.9	-4.7	20.8	1.0
Benchmark[2]	-1.0	22.2	-12.5	18.8	9.5
Sector[3]	-1.6	22.0	-13.5	16.9	7.2

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 December 2024, sourced from Invesco unless otherwise stated.

Important information

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