Quarterly Fund Update

Invesco Pan European Equity Fund

Covering Q1 2024

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Executive summary

- Fund performance is 1st quartile over 3 years.
- 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.
- We believe there is plenty to be optimistic about within European equities.

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 5.1% during the quarter. The reference benchmark MSCI Europe Index (Net Total Return) returned 6.4%. The peer group, EAA Fund Europe Large-Cap Value, provided an average return of 5.1%, which placed the fund in the second quartile of its peer group.

At a sector level, the most notable underperformance during Q1 was from the technology sector where not owning index heavyweight ASML was a key drag. Consumer discretionary, health care, industrials and utilities exposures also hindered relative performance but to a lesser extent. The most significant positive sector was financials exposure where banks proved favourable to relative returns, while communication services and consumer staples were also of small benefit.

From a stock point of view, as mentioned our not owning **ASML** has been the largest individual stock drag as the company reported record quarterly order intake. Elsewhere within the tech sector was weakness from **Infineon** and **STMicro**, both negatively impacted by news towards the end of March that the Chinese government had asked electric vehicle makers to buy more of their auto chips from local chipmakers. Also within the same sector, shares in **Soitec** were weak, falling to their lowest levels since 2020, after the wafer manufacturer set 2025 revenue outlook well below analyst estimates. Not owning Danish pharmaceutical name **Novo**-**Nordisk** was also a key drag, as the company continues to ride the wave from its blockbuster weight loss drug. Finnish energy name **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. 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. UK retailer **JD Sports** was weak during Q1 as a profit warning hindered share price performance in January, although a more upbeat trading update sparked a resilient bounce towards the end of the first quarter.

Performance (% growth)

Past performance does not predict future returns.

	Fund[1]	Benchmark[2]	Sector[3]
3m	4.5	7.6	5.7
6m	9.9	14.6	11.1
YTD	4.5	7.6	5.7
1y	12.6	14.8	13.3
3y	33.0	30.3	23.7
5y	47.3	52.5	38.7

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.

European equity markets during the first quarter of 2024 witnessed momentum and concentration to such a large extent, that we believe many exciting opportunities are presenting themselves.

More positively, all our **banking** exposures were among the top attributors over the first quarter, benefiting from resilient growth, higher-for-longer yields and increased share buybacks. Industrials name **CRH** delivered good returns and reporting a robust set of figures, with analysts noting strong earnings growth, higher margins and increased cash flow. Strong performance came from **Daimler Truck**, where shares surged to new highs following strong Q4 results and bullish guidance for 2024, while car-maker **Stellantis** delivered strong returns as plans for a new buyback and higher dividends drove the shares higher. Not owning **Nestle**, who issued lacklustre full year earnings, also proved beneficial to relative returns.

Top attributors (% impact)	
Unicredit	0.7
Nestle	0.4
Caixabank	0.4
BBVA	0.3
CRH	0.2

Bottom attributors (% impact)	
ASML	-0.7
Novo-Nordisk	-0.6
Infineon	-0.5
Soitec	-0.4
UPM-Kymmene	-0.4

returns.

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

Positioning

The overall tilt and positioning remains unchanged although we did make some small changes to portfolio names during the quarter. Within our banking exposure, we initiated a new position in Spanish name **Santander**. The company 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. We sold out of French name **BNP Paribas** to fund this purchase and also sold our position in insurance name **Munich Re**. We also sold out of **Sandvik** (industrials) and **Yara** (materials) in order to make an investment in **Daimler Truck** where we see a more profitable truck business across cycle. The growing penetration and the increased profitability of service contracts are a tailwind there is also the prospect of an earnings upgrade cycle fuelled by regulatory change in the coming years on both sides of the Atlantic. Elsewhere 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.

Top sector overweight (%)	
Materials	5.5
Energy	3.8
Industrials	3.8
Utilities	3.5

Top sector underweight (%)	
Consumer Staples	-5.3
Health Care	-5.1
Financials	-3.9
Consumer Discretionary	-2.3

Outlook

European equity markets during the first quarter of 2024 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]	18.7	-18.2	16.8	1.8	-2.3	-24.1	46.0	8.5	8.8	12.6
Benchmark[2]	22.0	-13.7	16.9	-0.4	5.5	-13.5	35.3	9.3	3.8	14.8
Sector[3]	17.3	-14.1	17.1	-0.3	-1.1	-21.1	42.1	5.9	3.1	13.3

Calendar years	2019	2020	2021	2022	2023
Fund[1]	18.9	-9.3	26.0	-2.5	17.4
Benchmark[2]	26.1	-3.3	25.1	-9.5	15.8
Sector[3]	21.0	-7.5	22.7	-8.1	15.1

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 Europe 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 Europe Index (Net Total Return) (the "Benchmark").

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

All data as at 31 March 2024, sourced from Invesco unless otherwise stated.

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EMEA 3509220/2024