Quarterly Fund Update

Invesco Pan European Equity Fund

Covering Q1 2025

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Executive summary

- Despite some portfolio changes, overall Value tilt remains.
- We are looking for ways to take advantage of structurally higher government spending and investment, in combination with a more robust domestic consumption story.
- Fund performance remains ahead of benchmark and peer group average over 5 years.

Market review

Equity markets in general enjoyed a strong start to the year, led by European markets as excess pessimism over the region faded. Later during the period Germany passed a historical amendment to its debt brake paving the way for huge defence and infrastructure spending plans. Increasing potential for a ceasefire in the Russia-Ukraine dispute gave the region some further impetus while the relative moves versus the US were helped as DeepSeek news hindered the crowded technology trade. Financials proved strongest over Q1, as better earnings buoyed momentum within the sector, while energy, communication services and utilities also outperformed. Real estate, technology and consumer discretionary sectors were in negative territory over the period.

Germany, often seen as fiscally very prudent, loosened its purse strings in a meaningful way under newly elected Chancellor Friedrich Merz. A spending package worth €1 trillion cleared by parliament effectively loosens the country’s borrowing restrictions to allow unlimited defence spending and create a special €500bn, 12-year vehicle to modernise the country’s infrastructure. The package is widely seen as signalling the ambition of Germany to accelerate its rearmament and kickstart the largest Eurozone economy back into life.

In macroeconomic news, Eurozone inflation fell for the second month in a row in March to 2.2%, from a revised figure of 2.3% the previous month. However, with the latest activity surveys suggesting that the economy remains sluggish, consensus still expects the ECB to cut interest rates by 25bp again in April, having cut in January and again in March to leave rates at 2.5% by the end of Q1.

Performance (% growth)

Past performance does not predict future returns.

	Fund[1]	Benchmark[2]	Sector[3]
3m	5.9	5.9	7.7
6m	0.4	3.0	4.9
YTD	5.9	5.9	7.7
1y	0.4	6.8	9.9
3y	23.0	27.3	28.5
5y	94.9	88.4	93.3

Returns may increase or decrease as a result of currency fluctuations. Source: Invesco, as at 31 March 2025. **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.

Performance and attribution

The fund rose by a net total return of 5.90% during the quarter. The reference benchmark MSCI Europe Index (Net Total Return) returned 5.91%. The peer group, EAA Fund Europe Large-Cap Value, provided an average return of 7.75%, which placed the fund in the third quartile of its peer group.

Stock selection within financials proved the best attributor, with banks in particular performing very well. Elsewhere there was strong stock selection within industrials while being underweight consumer discretionary was also of benefit to relative returns. Technology and materials exposures were the biggest drag on relative returns over Q1.
French aerospace and defence name Thales was the standout performer over the quarter. Shares benefitted from increased defence spending and support for Ukraine, a theme which also buoyed shares in UK holding BAE Systems. Other key positive attributors all came from the financials sector as strong earnings momentum helped Italian name Unicredit, along with Spanish banking holdings Santander, Caixabank and BBVA. Higher than anticipated dividends and an acceleration of a share buyback program buoyed shares in UK insurance name Prudential.

Conversely, there was relative weakness from paper manufacturer Smurfit Westrock. Operating income came in below analysts expectations during February, while later in the period, potential tariff talk from the US administration weighed on the stock. Within the technology exposures, it was French name Soitec which proved weakest. The wafer maker reduced its full-year outlook amid worsening trends in automotive and consumer markets. Elsewhere within the same sector, US tech jitters hindered European chipmakers leading to a fall in STMicro shares while weak IT demand weighed on Cap Gemini shares. Shares in EasyJet fell as their winter losses were more than the market expected, French media name Publicis proved a drag, while not owning German defence name Rheinmetall also weighed on

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relative returns. Finally, Whitbread, the UK's largest hotel business and owner of Premier Inn, was a further detractor to performance following a fall in per-room revenue in recent results. Despite this, the company reaffirmed its full-year guidance.

Top attributors (% impact)	
Thales	1.2
Unicredit	0.7
Santander	0.6
Caixabank	0.5
Prudential	0.4

Bottom attributors (% impact)	
Smurfit Westrock	-0.6
Soitec	-0.5
EasyJet	-0.5
Publicis	-0.4
CapGemini	-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 some changes to individual holdings during Q1. We took the consumer discretionary weighting down by making disposals of Stellantis and Prosus while introducing a new holding in UK housing name Bellway. Bellway has an impressive record of growing volumes historically and we see the company as a play on the UK consumer recovery in an improving housing market environment in a firm with a good, disciplined management team. Car-maker Stellantis was sold as we wanted to reduce auto exposure given tariff speculation and increasing uncertainty while Prosus was disposed of on concerns that capital allocation is moving towards M&A from share buybacks. Within healthcare we introduced a new position in Philips, the MedTech company which has now completed the majority of its restructuring program, while we also added a new position in UK banking name Lloyds. We sold our holding of disappointing performer Neste where a further deterioration in market fundamentals pushed the recovery out, and also sold UK industrial holding Ashtead where the investment case looks more challenged post US elections. Finally, we consolidated our utilities exposure by selling Engie early in Q1, in favour of preferred holdings in Enel and Veolia, alongside UK names National Grid and SSE.

Top sector overweight (%)	
Materials	6.2
Industrials	4.9
Utilities	2.8
Energy	1.8

Top sector underweight (%)	
Consumer Discretionary	-5.4
Consumer Staples	-4.5
Health Care	-3.4
Financials	-2.9

Outlook

Despite the strong gains made by European equity markets in Q1, we remain optimistic of further absolute and relative progress versus other regions. The valuation gap between European and US markets for example has widened over the longer-term horizon – despite Europe having outperformed over 2025 to date. There are multiple reasons for this, but one key driver is divergence in fiscal policy. In the aftermath of the Global Financial Crisis, the US was much more aggressive in supporting the economy, whereas Europe focused on fiscal austerity, cutting government spending and reducing budget deficits. Post Covid, we did see Europe start to use its fiscal firepower through the creation of the EU Recovery Fund, but even then this was markedly lower than US actions. However, what we are now seeing is Europe meaningfully starting to use its financial headroom more aggressively, which is in contrast to what is happening under the current US administration where they are trying to reduce the budget deficit. This is significant, as put simply, higher government spending has led to higher US GDP growth. Since Covid, the US has grown 2.5x more than Europe, with its budget deficit growing at a similar rate. Comparing the debt dynamics of the two regions today reveals a big divergence – Europe has lots of headroom, US much less so. Ultimately, we believe this is positive for European GDP going forward and this also bodes well for European Equities, with the notable caveat being the upcoming Tariff agenda which could reintroduce market volatility.

In terms of portfolio positioning, we are looking for ways to take advantage of structurally higher government spending and investment, in combination with a more robust domestic consumption story. Ultimately, we want stocks with more of a domestic focus, not global companies that happen to be listed in Europe. Within industrials, we like having exposure to defence companies, as well as companies that would directly benefit from higher infrastructure spending too. Elsewhere, we are exposed to the construction and infrastructure names putting building projects together, basic material companies within steel and specialty chemicals which will provide the underlying components of builds, utilities names that will supply and transmit the energy required around Europe, and of course we also have targeted technology exposures, specifically in the undervalued analogue space given semiconductors are going to play an integral role in this new world technological automation. Finally, we also continue to be overweight banks. The sector is the main source of funding for much of Europe (unlike the US which is far more dependent on the capital markets), and so key beneficiaries of this pick up in European activity, while earnings momentum is evident across the names we own.

Standardised rolling 12-month performance (% growth)

Past performance does not predict future returns

	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	31.03.24 31.03.25
Fund[1]	-18.2	16.8	1.8	-2.3	-24.1	46.0	8.5	8.8	12.6	0.4
Benchmark[2]	-13.7	16.9	-0.4	5.5	-13.5	35.3	9.3	3.8	14.8	6.8
Sector[3]	-14.1	17.1	-0.3	-1.1	-21.1	42.1	5.9	3.1	13.3	9.9

Calendar years	2020	2021	2022	2023	2024
Fund[1]	-9.3	26.0	-2.5	17.4	-0.9
Benchmark[2]	-3.3	25.1	-9.5	15.8	8.6
Sector[3]	-7.5	22.7	-8.1	15.1	7.8

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 2025, sourced from Invesco unless otherwise stated.

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