

# Invesco Small Cap Equity Fund

## Q1 2024

## Key takeaways

- 1 Investment philosophy**

Invesco Small Cap Equity seeks to create wealth by investing in companies generating sustainable, above-average earnings and cash flow growth that is not fully reflected in investor expectations or equity valuations.
- 2 Process highlights**

Rigorous fundamental research and thematic analysis drive bottom-up stock selection. Disciplined portfolio construction acts as risk control and ensures alignment with small-cap market sectors with modest over/underweights. The fund has a long-term investment horizon with relatively low turnover.
- 3 Potential benefits**

The investment team's unique approach to the small-cap arena sets the fund apart from peers through proprietary financial modeling and a disciplined risk-controlled portfolio construction process.

### Investment objective

The fund seeks long-term growth of capital.

### Fund facts

Fund AUM (\$M)	941.76
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### Portfolio managers

Juan Hartsfield, Davis Paddock

## Manager perspective and outlook

- US equities rallied in the first quarter. In February, the S&P 500 Index closed above 5,000 for the first time.
- The US economy defied recession predictions, achieving growth of 2.5% in 2023 as fourth quarter Gross Domestic Product (GDP) growth was 3.4%.
- The labor market remained robust, with continued payroll gains and unemployment still historically low – below 4%.
- Inflation, however, remained persistent. January and February increases in the Consumer Price Index (CPI) were higher than expected, leading the US Federal Reserve (Fed) to defer its proposed interest rate cuts to the second half of 2024.
- Investors appeared mostly pleased by corporate earnings growth, except for three of the so-called “Magnificent Seven” stocks (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla). Apple, Alphabet and Tesla’s stock prices suffered due to disappointing earnings, sales, revenue, or weak forward guidance.
- Higher interest rates have slowed the economy and dampened inflation, though the labor market has remained healthy.
- Elevated consumer savings and a strong job market have supported spending despite higher rates and a decelerating economy.
- Forecasting a recession is difficult as labor market resilience and excess savings have offset negative economic data.
- The recent rally in low quality stocks signals to us that the market thinks the Fed has achieved a soft landing, is done raising interest rates, and is ready to pivot to monetary easing. However, we remain cautious.



## Top issuers

(% of total net assets)

	Fund	Index
Taylor Morrison Home Corp	2.20	0.24
Summit Materials Inc	2.05	0.20
Sprouts Farmers Market Inc	2.05	0.25
Weatherford International PLC	2.03	0.31
XPO Inc	1.94	0.00
Tenet Healthcare Corp	1.81	0.00
ITT Inc	1.71	0.00
Core & Main Inc	1.70	0.00
Applied Industrial Technologies Inc	1.63	0.29
CommVault Systems Inc	1.51	0.17

As of 03/31/24. Holdings are subject to change and are not buy/sell recommendations.

## Portfolio positioning

Relative to its benchmark, the fund has biases toward higher quality and larger market-cap stocks. Structural underweights include REITs, where we see lack of growth opportunities, and pharma/biotech, where we seek to manage risk of binary events, i.e., events that cause extreme gains or losses. Positioning changes are based on bottom-up stock selection, while disciplined portfolio construction acts as a risk control and ensures alignment with small-cap market sector exposure with modest over- and underweights. We scaled back some defensive positioning and introduced more cyclical, but are also aware of potential risks, so we seek to keep positioning balanced. We see artificial intelligence as a significant technology trend with wide-ranging implications for technology investment, employment and productivity enhancements moving forward.

### Notable New Positions

**Celestica** provides supply chain solutions to equipment manufacturers and service providers. Its management is in our view executing at a high level and Celestica has been benefiting from higher demand for machine learning and AI related products.

**Lumentum** manufactures laser and fiber optic products. Its "Cloud Light Technology" enhances cost efficiency and has been attracting major data center customers.

**Rambus** develops advanced semiconductor and Internet Protocol Products. The upcoming transition to DDR5, the next generation random access memory (RAM) specification, represents in our view a potentially significant revenue boost.

**Xenon Pharmaceuticals** is a therapeutics company focused on central nervous system related diseases, an area of relative strength in the therapeutics industry.

**Patrick Industries** is a leading component solutions provider for recreational vehicle, marine and manufactured housing markets. After a couple of challenging years, we see signs of improvement in the company's end markets, which could improve fundamentals.

### Notable sales

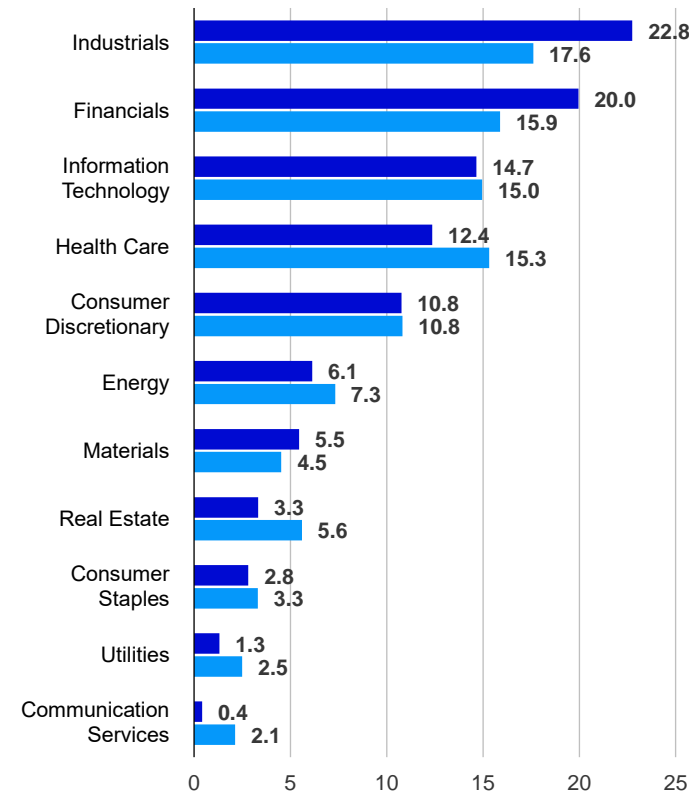
**R1 RCM** was sold due to an acquisition during the quarter that we believe will dilute profit margins in the near to intermediate term.

**NeoGenomics** was sold following litigation in which a jury found it had infringed on a competitor's intellectual property, a verdict that would delay and could potentially eliminate the commercialization opportunity of an upcoming product cycle.

**MaxLinear** has struggled against declining sales and inventory headwinds that are expected to continue. We exited the stock in favor of more attractive opportunities.

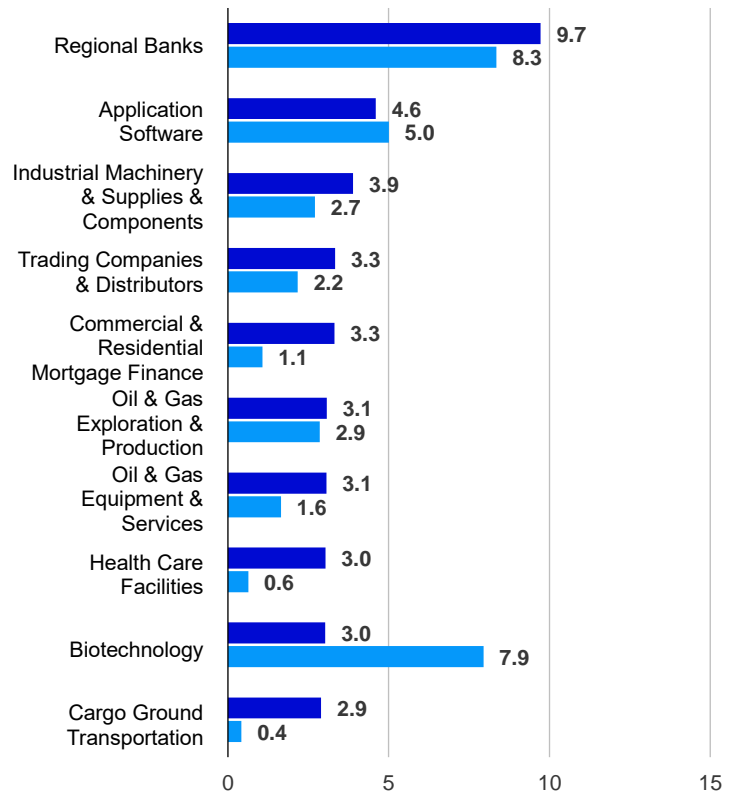
## Sector breakdown (% of total net assets)

■ Fund ■ Russell 2000 Index (USD)



## Top industries (% of total net assets)

■ Fund ■ Russell 2000 Index (USD)



## Top contributors (%)

Issuer	Return	Contrib. to return
XPO, Inc.	39.32	0.65
Sprouts Farmers Market, Inc.	34.03	0.57
Tenet Healthcare Corporation	39.09	0.57
Comfort Systems USA, Inc.	54.60	0.57
Core & Main, Inc.	41.67	0.55

## Top detractors (%)

Issuer	Return	Contrib. to return
Endava plc	-51.14	-0.59
CONMED Corporation	-26.69	-0.34
Iridium Communications Inc.	-36.14	-0.27
QuidelOrtho Corporation	-37.76	-0.27
Pacific Premier Bancorp, Inc.	-16.42	-0.19

## Performance highlights

The fund delivered a positive absolute return for the quarter and outperformed the benchmark index. Stock selection across several sectors including industrials, financials, materials, consumer staples, energy and consumer discretionary drove the fund's strong relative performance. Leading detractors included stock selection in the information technology, health care and communication services sectors.

### Contributors to performance

**XPO** has benefited from a competitor's bankruptcy, which has driven higher freight volumes to the less-than-truckload shipping company.

**Sprouts**, a health centric specialty grocery store chain, reported strong earnings results that are expected to continue as the company grows its store count and expands into new states.

**Tenet Healthcare** rallied during the quarter after earnings results exceeded analysts' expectations.

**Comfort Systems** has had an impressive streak of beating consensus earnings estimates and raising forward looking guidance. The company has continued to benefit from several positive trends in the mechanical and electrical services segments.

**Core & Main**, a Missouri-based distributor of water, sewer and fire protection products, delivered strong financial results that exceeded analysts' expectations.

### Detractors from performance

**Endava** delivered an underwhelming earnings report, notably a 10% decline in year-over-year revenue.

**CONMED** reported quarterly earnings and revenue that were below analysts' expectations.

**Iridium** previously entered into an agreement with Qualcomm (not a fund holding) to facilitate direct-to-device satellite messaging. However, the agreement was subsequently terminated, creating headwinds for stock performance.

**QuidelOrtho** has been experiencing headwinds related to a needed rationalization of its cost structure following the acquisition of Ortho Clinical Diagnostics. Additionally, revenue and profitability were below expectations. We exited the position during the quarter.

**Pacific Premier** reported a loss of \$1.44 per share due to a strategic balance sheet repositioning that involved the sale of a significant portion of its securities portfolio and incurred a loss amid rising interest rates.

## Standardized performance (%) as of March 31, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 08/31/00	NAV	8.31	8.31	18.72	1.89	10.91	7.18	7.60
	Max. Load 5.5%	2.33	2.33	12.20	-0.02	9.66	6.57	7.34
Class R6 shares inception: 09/24/12	NAV	8.41	8.41	19.24	2.35	11.44	7.70	9.76
Class Y shares inception: 10/03/08	NAV	8.35	8.35	18.94	2.12	11.18	7.44	9.61
Russell 2000 Index (USD)		5.18	5.18	19.71	-0.10	8.10	7.58	-
Total return ranking vs. Morningstar Small Blend category (Class A shares at NAV)		-	-	56% (329 of 610)	72% (400 of 585)	24% (117 of 553)	70% (265 of 385)	-

Expense ratios per the current prospectus: Class A: Net: 1.26%, Total: 1.26%; Class R6: Net: 0.80%, Total: 0.80%; Class Y: Net: 1.01%, Total: 1.01%.

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit [invesco.com](https://www.invesco.com) for the most recent month-end performance. Performance figures reflect reinvested distributions and changes in net asset value (NAV). Investment return and principal value will vary so that you may have a gain or a loss when you sell shares. Returns less than one year are cumulative; all others are annualized. Index source: RIMES Technologies Corp. Please keep in mind that high, double-digit returns are highly unusual and cannot be sustained. Had fees not been waived and/or expenses reimbursed in the past, returns would have been lower. Performance shown at NAV does not include the applicable front-end sales charge, which would have reduced the performance.

Class Y and R6 shares have no sales charge; therefore performance is at NAV. Class Y shares are available only to certain investors. Class R6 shares are closed to most investors. Please see the prospectus for more details.

## Performance highlights (cont'd)

### Calendar year total returns (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class A shares at NAV	2.17	-5.61	11.72	13.58	-15.16	26.13	27.29	20.02	-20.60	15.96
Class R6 shares at NAV	2.60	-5.10	12.31	14.19	-14.75	26.67	28.03	20.46	-20.25	16.58
Class Y shares at NAV	2.36	-5.37	12.02	13.88	-14.92	26.36	27.70	20.27	-20.40	16.23
Russell 2000 Index (USD)	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44	16.93

### Portfolio characteristics\*

	Fund	Index
No. of holdings	94	1,946
Top 10 issuers (% of AUM)	18.63	5.66
Wtd. avg. mkt. cap (\$M)	6,225	4,694
Price/earnings	18.26	16.87
Price to book	2.47	2.05
Est. 3 – 5 year EPS growth (%)	11.86	12.98
ROE (%)	10.59	6.58
Long-term debt to capital (%)	36.74	33.44
Operating margin (%)	12.65	12.63

### Risk statistics (5 year)\*

	Fund	Index
Alpha (%)	2.99	0.00
Beta	0.92	1.00
Sharpe ratio	0.39	0.25
Information ratio	0.51	0.00
Standard dev. (%)	22.62	23.88
Tracking error (%)	5.47	0.00
Up capture (%)	95.46	100.00
Down capture (%)	94.33	100.00
Max. drawdown (%)	28.96	30.61

## Quarterly performance attribution

### Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Communication Services	0.19	-0.24	-0.05
Consumer Discretionary	0.00	0.16	0.16
Consumer Staples	0.00	0.31	0.32
Energy	-0.07	0.34	0.27
Financials	-0.24	1.60	1.35
Health Care	0.02	-0.34	-0.31
Industrials	0.17	2.34	2.51
Information Technology	0.14	-1.59	-1.45
Materials	0.00	0.54	0.54
Other	0.00	0.00	0.00
Real Estate	0.18	-0.03	0.15
Utilities	0.12	-0.03	0.08
Cash	-0.01	0.00	-0.01
<b>Total</b>	<b>0.50</b>	<b>3.07</b>	<b>3.56</b>

Holdings are subject to change and are not buy/sell recommendations. Attribution methodology notes: The attribution provides analysis of the effects of several portfolio management decisions, including allocation and security selection. Securities classified as "Other" may include non-equity securities, derivatives, and securities for which a sector classification may not be appropriate. The portfolio is actively managed and portfolio holdings are subject to change. The percentage weights represented for the portfolio are dollar weighted based on market value. **Market allocation effect** shows the excess contribution due to sector/market allocation. A positive allocation effect implies that the choice of sector weights in the portfolio added value to the portfolio contribution with respect to the benchmark and vice versa. **Selection effect** shows the excess contribution due to security selection. A positive selection effect implies that the choice of stocks in the portfolio added value to the portfolio contribution with respect to the benchmark and vice versa. **Total effect** is the difference in contribution between the benchmark and portfolio. **Past performance does not guarantee future results.**

Unless otherwise specified, all information is as of 03/31/24. Unless stated otherwise, Index refers to Russell 2000 Index (USD).

The Russell 2000® Index is an unmanaged index considered representative of small-cap stocks. The Russell 2000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. An investment cannot be made directly in an index.

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#### About risk

The risks of investing in securities of foreign issuers can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Stocks of small and medium-sized companies tend to be more vulnerable to adverse developments, may be more volatile, and may be illiquid or restricted as to resale.

The fund is subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the fund.

The opinions expressed are those of the fund's portfolio management, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Note: Not all products available at all firms. Financial professionals, please contact your home office.

The fund holdings are organized according to the Global Industry Classification Standard, which was developed by and is the exclusive property and service mark of MSCI Inc. and Standard & Poor's.

\* **Alpha** (cash adjusted) is a measure of performance on a risk-adjusted basis. **Beta** (cash adjusted) is a measure of relative risk and the slope of regression. **Sharpe Ratio** is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk. A higher Sharpe ratio indicates better risk-adjusted performance. **Information Ratio** is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those returns. **Standard deviation** measures a fund's range of total returns and identifies the spread of a fund's short-term fluctuations. **Tracking Error** is defined as the expected standard deviation of a portfolio's excess return over the benchmark index return. The **up and down capture** measures how well a manager was able to replicate or improve on periods of positive benchmark returns and how severely the manager was affected by periods of negative benchmark returns. **Maximum Drawdown** is the maximum observed loss from a high to a low of a portfolio, before a new high is attained. Maximum drawdown is an indicator of downside risk over a specified time period. **Weighted Average Market Cap** is a measure of the average size of company held in a portfolio. The percentage of the portfolio invested each company, or its weight, is multiplied by its size (market capitalization). An average of the weighted size of all companies held is then calculated. **Price/earnings** measures the price per share relative to the earnings per share of the company while excluding extraordinary items. **Price to book** measures the firm's capitalization (market price) to book value. **Est. 3-5 year EPS (Earning per share) growth** measures the earning per share growth from FY3 to FY5. **ROE** is the Return on Equity that measures the fund's annual return relative to total shareholders' equity. This ratio evaluates how quickly investments can be turned into profits. **Long-term debt to capital** measures a fund's financial leverage by calculating the proportion of long-term debt used to finance its assets relative to the amount of equity used for the same purpose. A higher ratio indicates higher leverage. **Operating margin** measures the profit a fund makes for every dollar of sales after paying the variable expenses. **Contribution to Return** measures the performance impact from portfolio holdings over a defined time period. It takes into account both weight and performance of the portfolio holdings. Contribution to Return is calculated at security level.

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#### Morningstar

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**Before investing, consider the Fund's investment objectives, risks, charges and expenses. Visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus) for a prospectus/summary prospectus containing this information. Read it carefully before investing.**