

Invesco Health Care Fund

Q4 2023

Key takeaways

- 1 The fund outperformed its benchmark.**

Stock selection in pharmaceuticals and biotechnology added to relative performance. Stock selection and allocations in health care equipment and managed care detracted from relative return.
- 2 Health care underperformed the overall US stock market.**

Pharmaceuticals, managed care and biotechnology led the sector's underperformance for the quarter. The health care sector outperformed consumer staples and energy but trailed all other sectors for the quarter.
- 3 Our negative outlook for health care is poised to improve in 2024.**

We observe a variety of headwinds across health care industries, but we are also finding small pockets of potential strength.

Investment objective

The fund seeks long-term growth of capital.

Fund facts

Fund AUM (\$M) 1,274.34

Portfolio managers

Justin Livengood

Manager perspective and outlook

- The US equity market rallied in the fourth quarter, driven by a lower 10-year US Treasury yield and expectations that the US Federal Reserve has finished raising interest rates and may be open to rate cuts in 2024.
- Health care underperformed the overall US equity market during the fourth quarter and calendar year 2023.
- The health care sector trailed results of the information technology, communication services and consumer discretionary sectors, which accounted for much of the equity market's return, driven by the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla).
- Though our current outlook for health care is negative, we believe the environment may lean more positive in 2024.
- A variety of headwinds affect health care industries, including inventory destocking, reduced China demand, tight research funding, tough FDA standards, uncertainty tied to the 2024 election and potentially disruptive effects of obesity drugs. We see small pockets of potential strength from increased patient procedure volume, improved staffing and companies with positive exposure to obesity drugs.
- We invest in premier health care companies that we believe are positioned to compound multi-year growth. We combine in-depth health care experience with bottom-up fundamental analysis to evaluate company management, identify growth prospects and manage risk.



Top issuers

(% of total net assets)

	Fund	Index
UnitedHealth Group Inc	8.50	9.07
Eli Lilly & Co	7.76	8.66
Boston Scientific Corp	4.64	1.58
Vertex Pharmaceuticals Inc	4.52	1.95
McKesson Corp	3.72	1.15
Regeneron Pharmaceuticals Inc	3.32	1.75
Zoetis Inc	3.28	1.69
AstraZeneca PLC	3.24	0.00
Merck & Co Inc	3.13	5.15
Stryker Corp	3.07	1.89

As of 12/31/23. Holdings are subject to change and are not buy/sell recommendations.

Portfolio positioning

At quarter end, the fund was overweight health care distributors, biotechnology and health care facilities, while underweight pharmaceuticals, health care services and equipment. During the quarter, the fund's weights in managed care, biotechnology and life sciences tools & services increased. The fund's weights in health care equipment, pharmaceuticals and facilities decreased.

Within pharmaceuticals, we trimmed large-cap positions and added Tarsus Pharmaceuticals. In biotechnology, we bought Amgen, Blueprint Medicines, Twist Bioscience, BridgeBio, Krystal Biotech, Springworks and Immunovant. We sold Alnylam, Genmab, Sarepta and Zentalis. In health care equipment, we sold Becton Dickinson and Penumbra and bought Integer. Within life sciences tools & services, we bought Charles River Labs and sold Pacific Biosciences. We bought health care distributor Cardinal Health and added to the existing position in McKesson, increasing the overweight in distributors. We trimmed exposures in health care facilities and supplies, which included the sale of Align Technology. We sold Guardant Health in health care services. We added life science real estate company Alexandria Real Estate Equities.

Fourth quarter 2023 additions to the fund:

Tarsus Pharmaceuticals makes drugs to treat eye diseases, Lyme disease, Meibomian Gland disease and Rosacea.

Amgen makes treatments for cancer, cardiovascular disease, osteoporosis, asthma and rheumatoid arthritis.

Blueprint Medicines makes treatments for cancer and blood disorders.

Twist Bioscience makes synthetic DNA to treat disease.

BridgeBio Pharma makes treatments for genetic diseases and cancer with genetic drivers.

Krystal Biotech makes gene therapy to treat dystrophic epidermolysis bullosa, a genetic disease that causes severe blistering on the body.

Springworks Therapeutics makes drugs to treat desmoid tumors, non-cancerous growth occurring in connective tissue.

Immunovant makes antibody treatments for autoimmune diseases.

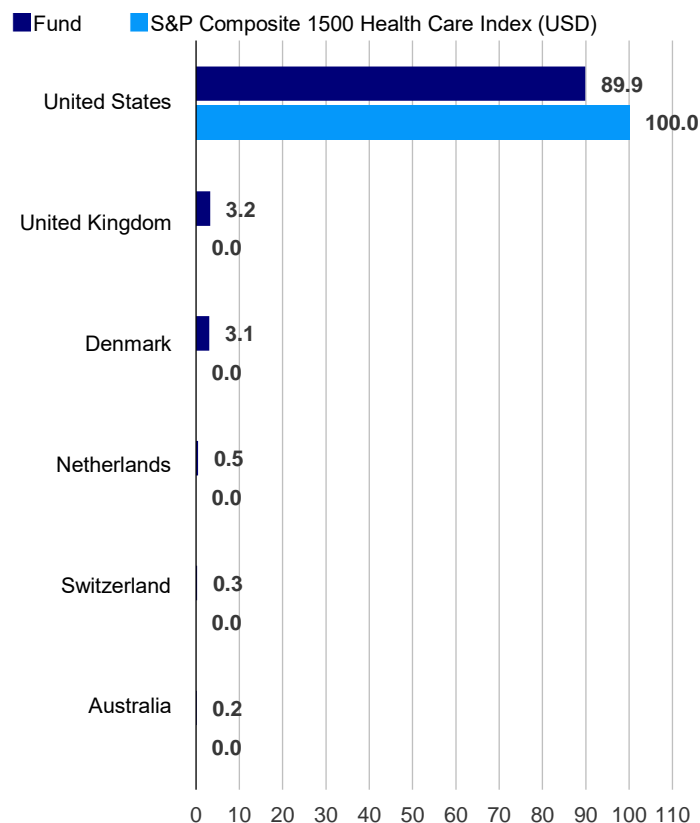
Integer makes surgical devices to treat cardiovascular, neurological, oncological and urological conditions.

Charles River Laboratories is a contract biopharma research and development company.

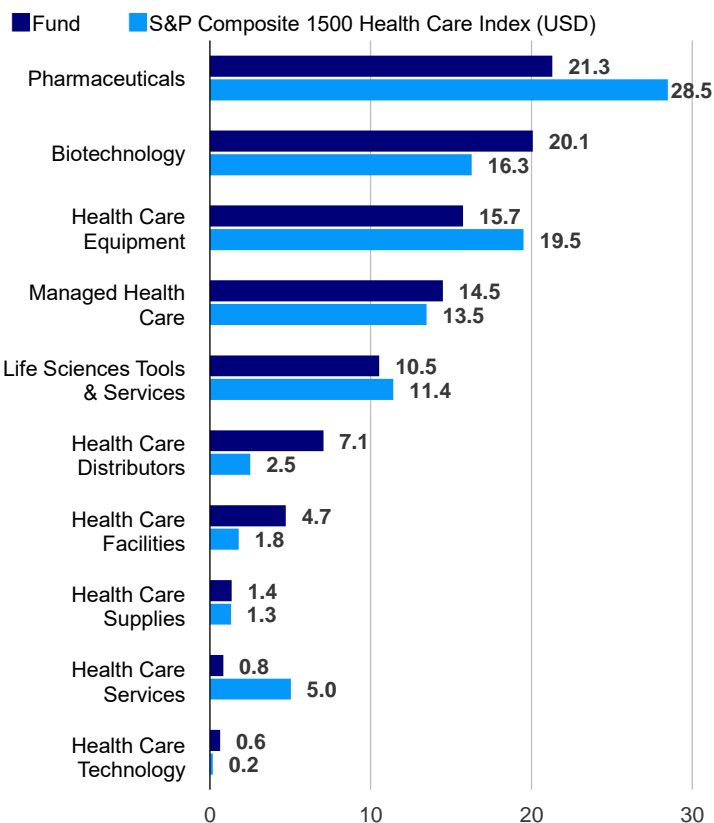
Cardinal Health distributes pharmaceuticals, medical equipment, health care supplies and lab supplies and equipment.

Alexandria Real Estate Equities is an office REIT specializing in life science properties.

Top countries (% of total net assets)



Top industries (% of total net assets)



Top contributors (%)

Issuer	Return	Contrib. to return
Eli Lilly and Company	8.73	0.71
Vertex Pharmaceuticals Incorporated	17.01	0.69
Boston Scientific Corporation	9.49	0.45
Cencora, Inc.	14.41	0.41
Zoetis Inc.	13.72	0.40

Top detractors (%)

Issuer	Return	Contrib. to return
Sanofi	-7.29	-0.35
argenx SE	-22.62	-0.34
Humana Inc.	-5.72	-0.22
Becton, Dickinson and Company	-6.86	-0.17
West Pharmaceutical Services, Inc.	-6.10	-0.12

Performance highlights

The fund outperformed its benchmark during the fourth quarter. Stock selection in pharmaceuticals and biotechnology added to relative performance. An underweight in pharmaceuticals also contributed to relative results during the quarter.

Stock selection in health care equipment and managed care detracted from relative performance. An underweight in health care equipment and an overweight in managed care also detracted during the quarter.

Contributors to performance

Eli Lilly is a large-cap pharmaceutical company that makes drugs to treat Alzheimer's, cancer, diabetes, obesity, pain and autoimmune diseases. The company again reported better-than-expected results in its GLP-1 diabetes treatment Mounjaro. The stock also benefited from continued positive clinical headlines from Novo Nordisk's obesity treatment Wegovy.

Vertex Pharmaceuticals is a large-cap biotechnology company that makes treatments for cystic fibrosis, viral infections, bacterial infections, influenza, rheumatoid arthritis, cancer, inflammatory bowel disease, pain and multiple sclerosis. The stock has benefited from continued success in its cystic fibrosis franchise.

Boston Scientific makes surgical devices and medical equipment to treat cardiovascular, gastrointestinal and pulmonological conditions. The stock performance was driven by successful launches in cardio surgery devices and continued strength in its base medical device business.

Detractors from performance

Sanofi makes treatments for immunological, neurological, oncological, cardiovascular, diabetic and hematological conditions. The stock declined during the quarter when management reduced profit margin guidance and announced a plan to spin off its consumer unit and focus on its therapeutic research and development platform.

Argenx makes antibody treatments for autoimmune disorders. The stock declined during the quarter following poor results from a Phase 3 clinical trial of a treatment for pemphigus vulgaris, a rare skin blistering disorder.

Humana provides Medicare and Medicaid health insurance and prescription services. The stock declined during the quarter as the company's proposed merger with Cigna was apparently poorly received by the market and its medical loss ratio pressured profit margins.

Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 08/07/89	NAV	6.76	3.05	3.05	-0.01	8.59	6.72	10.04
	Max. Load 5.5%	0.90	-2.61	-2.61	-1.88	7.37	6.12	9.85
Class R6 shares inception: 04/04/17	NAV	6.87	3.42	3.42	0.34	8.95	6.96	-
Class Y shares inception: 10/03/08	NAV	6.85	3.33	3.33	0.25	8.87	6.99	9.57
S&P Composite 1500 Health Care Index (USD)		6.53	1.92	1.92	7.15	11.24	11.32	-
Total return ranking vs. Morningstar Health category (Class A shares at NAV)		-	-	55% (119 of 176)	52% (95 of 158)	63% (100 of 135)	81% (97 of 113)	-

Expense ratios per the current prospectus: Class A: Net: 1.04%, Total: 1.04%; Class R6: Net: 0.69%, Total: 0.69%; Class Y: Net: 0.79%, Total: 0.79%.

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. Performance shown prior to the inception date of Class R6 shares is that of Class A shares and includes the 12b-1 fees applicable to Class A shares. Index source: RIMES Technologies Corp. 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	20.36	2.98	-11.71	15.46	0.46	32.00	14.45	12.19	-13.53	3.05
Class R6 shares at NAV	20.36	2.98	-11.71	15.72	0.79	32.38	14.81	12.56	-13.22	3.42
Class Y shares at NAV	20.65	3.23	-11.50	15.75	0.73	32.32	14.71	12.48	-13.31	3.33
S&P Composite 1500 Health Care Index (USD)	24.79	7.41	-2.05	22.47	6.71	20.87	14.55	24.85	-3.31	1.92

Portfolio characteristics*

	Fund	Index
No. of holdings	86	167
Top 10 issuers (% of AUM)	44.92	51.11
Wtd. avg. mkt. cap (\$M)	158,730	204,271
Price/earnings	27.74	22.81
Price to book	5.94	4.47
Est. 3 – 5 year EPS growth (%)	13.63	8.12
ROE (%)	18.90	20.45
Long-term debt to capital (%)	40.93	41.18
Operating margin (%)	19.24	22.44

Risk statistics (5 year)*

	Fund	Index
Alpha (%)	-2.87	0.00
Beta	1.09	1.00
Sharpe ratio	0.38	0.62
Information ratio	-0.45	0.00
Standard dev. (%)	17.46	15.11
Tracking error (%)	5.94	0.00
Up capture (%)	100.29	100.00
Down capture (%)	108.59	100.00
Max. drawdown (%)	21.99	13.86

Quarterly performance attribution

Industry performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Biotechnology	0.07	0.61	0.68
Environmental & Facilities Services	-0.01	0.00	-0.01
Health Care Distributors	0.07	-0.02	0.06
Health Care Equipment	-0.35	-0.29	-0.64
Health Care Facilities	0.08	-0.06	0.02
Health Care Services	-0.11	0.05	-0.06
Health Care Supplies	-0.07	-0.02	-0.09
Health Care Technology	0.05	-0.16	-0.11
Life Sciences Tools & Services	0.01	0.07	0.08
Managed Health Care	-0.21	-0.18	-0.39
Office Reits	-0.02	0.00	-0.02
Pharmaceuticals	0.26	0.99	1.25
Cash	-0.29	0.00	-0.29
Total	-0.32	0.81	0.49

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 12/31/23. Unless stated otherwise, Index refers to S&P Composite 1500 Health Care Index (USD).

The S&P Composite 1500® Health Care Index comprises those companies included in the S&P Composite 1500 that are classified as members of the GICS® Health Care sector.

About risk

In general, stock and other equity securities values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions. Convertible securities may be affected by market interest rates, the risk of issuer default, the value of the underlying stock, or the issuer's right to buy back the convertible securities.

Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty, and management risks. An investment in a derivative could lose more than the cash amount invested.

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

The performance of an investment concentrated in issuers of a certain region or country is expected to be closely tied to conditions within that region and to be more volatile than more geographically diversified investments.

The health care industry is subject to risks relating to government regulation, obsolescence caused by scientific advances and technological innovations.

Preferred securities may include provisions that permit the issuer to defer or omit distributions for a certain period of time, and reporting the distribution for tax purposes may be required, even though the income may not have been received. Further, preferred securities may lose substantial value due to the omission or deferment of dividend payments.

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.

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.