

# Invesco Small Cap Value Fund

## Q1 2024

## Key takeaways

- 1 The fund outperformed its benchmark**

Outperformance during the quarter was mainly due to good stock selection in the industrials sector.
- 2 Fund activity took advantage of market volatility**

We took advantage of market volatility to add several new holdings to the fund, spanning various sectors. We sold a number of holdings across several sectors and used the proceeds to fund investments we believe have more upside potential.
- 3 Longer term, small-cap value stocks appear attractive relative to S&P 500 stocks**

The price/earnings (P/E) multiple of the Russell 2000 Value Index is at a large historical discount compared to the P/E of the S&P 500 Index (Source: FactSet Research Systems, Inc.). We believe this valuation represents a compelling long-term investment opportunity.

### Investment objective

The fund seeks long-term growth of capital.

### Fund facts

Fund AUM (\$M)	4,616.42
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### Portfolio managers

Jonathan Edwards, Jonathan Mueller

## Manager perspective and outlook

- We use an intrinsic value approach to select investments for the fund. The portfolio is not constructed based on a short-term macroeconomic view. Instead, positioning is driven by bottom-up stock selection based on intrinsic value. We seek to create wealth by maintaining a long-term investment horizon and investing in companies that we believe are significantly undervalued on an absolute basis.
- Given our focus on intrinsic value and long-term investment horizon, the fund was positioned with more economically sensitive stocks than its peers at quarter end.
- Following the outperformance of large-cap over small-cap in recent years, we see greater long-term upside to intrinsic value in many small-cap stocks compared to large-cap stocks.
- At quarter end, the difference between the market price and the estimated intrinsic value of the fund's holdings was very attractive, according to our estimation. Although there is no assurance that market value will ever reflect our estimate of the fund's intrinsic value, we believe the gap between price and estimated intrinsic value indicates above-average, long-term capital appreciation potential.



## Top issuers

(% of total net assets)

	Fund	Index
Lumentum Holdings Inc	2.87	0.00
Western Alliance Bancorp	2.84	0.00
Vertiv Holdings Co	2.83	0.00
Coherent Corp	2.81	0.00
Vistra Corp	2.76	0.00
Expedia Group Inc	2.51	0.00
NRG Energy Inc	2.39	0.00
Huntington Bancshares Inc/OH	2.10	0.00
MKS Instruments Inc	2.08	0.00
Pinnacle Financial Partners Inc	2.07	0.00

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

## Portfolio positioning

Investors' short-term fears appeared to remain somewhat elevated during the quarter, and we continued to identify attractive long-term potential upside to intrinsic value across a diverse set of industries. At quarter end, the fund remained overweight in more economically sensitive stocks than its benchmark and peers. However, we also found what we considered attractive investment opportunities in some more defensive areas.

### Notable New Additions

**East West Bancorp** is a regional bank in California with a special niche serving Chinese-American communities in west coast cities. We were able to buy the stock at a discount to our estimate of intrinsic value because investors appeared concerned about the bank's commercial real estate loans and we believe they failed to appreciate the unique, quality nature of its loan book and its extremely strong capital position.

**Chart Industries** is a specialized industrial machinery company that provides a variety of cryogenic equipment for storage, distribution and other processes within the industrial gas and liquefied natural gas (LNG) industries. We bought the stock as its share prices fell below our estimate of intrinsic value due to weak financial results related to project delays that we view as temporary in nature.

**MP Materials** is a metals and mining company that produces rare earth materials. The company owns and operates the Mountain Pass Rare Earth Mine and Processing Facility, the only rare earth mining and processing site of scale in North America. We bought the stock at a discount to our estimate of intrinsic value as the company's market price was negatively affected by a drop in rare earth metal prices in 2023, which occurred due to near-term demand weakness and customers destocking their inventories.

### Notable Sales

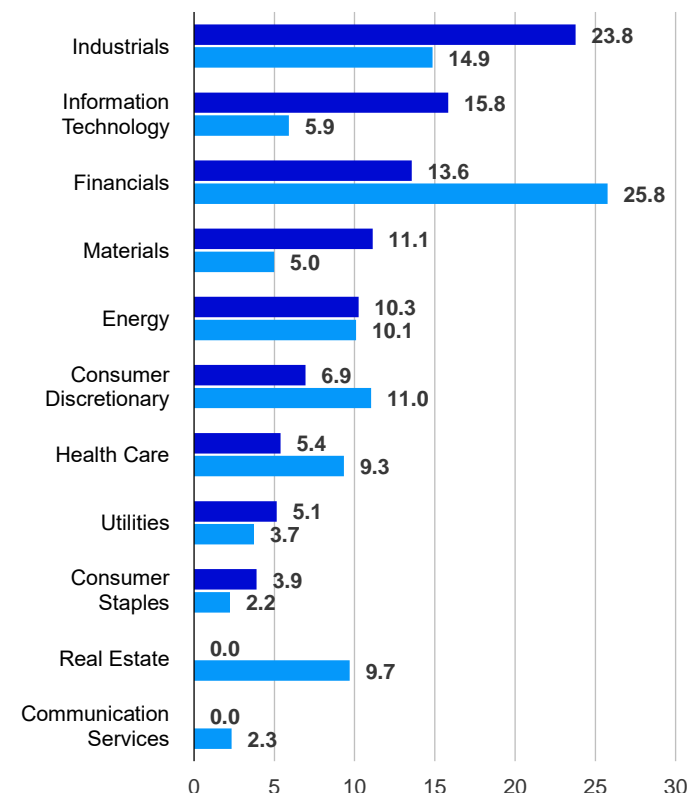
**Universal Health Services:** We sold the fund's successful position in one of the nation's largest providers of hospital and health care services based on valuation and to fund investment opportunities that we believe have better upside to intrinsic value.

**Huntington Ingalls Industries:** We sold the fund's successful position in the largest independent military shipbuilder in the US because the stock price had appreciated and to fund potentially more attractive opportunities elsewhere.

**Enerplus:** We sold the fund's successful investment in this oil & gas exploration & production company because the stock price rose after management announced it would be acquired by Chord Energy.

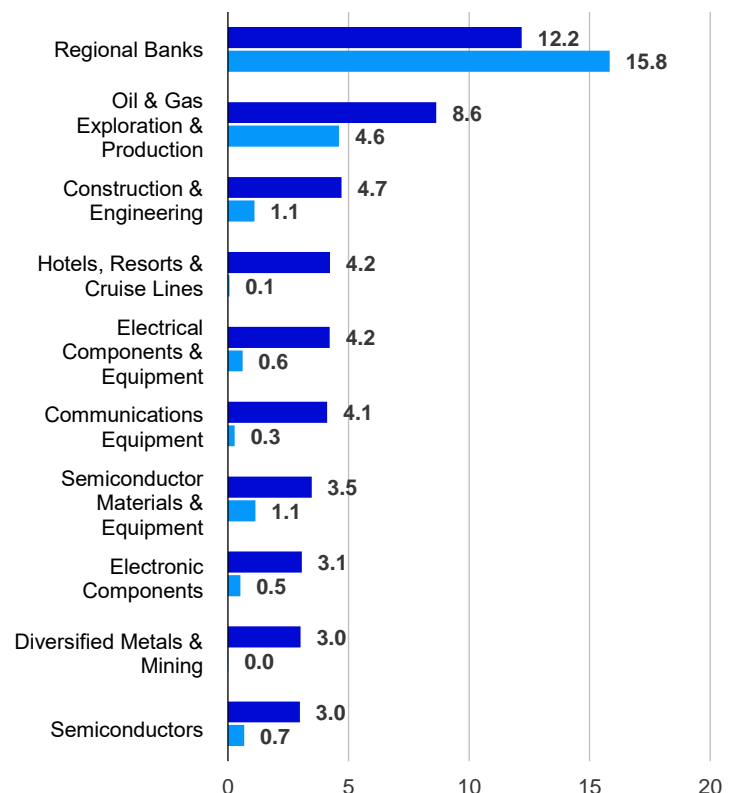
## Sector breakdown (% of total net assets)

Fund Russell 2000 Value Index (USD)



## Top industries (% of total net assets)

Fund Russell 2000 Value Index (USD)



## Top contributors (%)

Issuer	Return	Contrib. to return
Vistra Corp.	81.43	1.52
Vertiv Holdings Co	70.09	1.51
Coherent Corp.	39.26	1.22
Leonardo SpA	52.40	1.00
NRG Energy, Inc.	31.93	0.68

## Top detractors (%)

Issuer	Return	Contrib. to return
MaxLinear, Inc.	-21.46	-0.56
Lumentum Holdings Inc.	-9.67	-0.32
New Fortress Energy Inc.	-18.66	-0.29
Expedia Group, Inc.	-9.25	-0.26
Adtalem Global Education Inc.	-12.81	-0.23

## Performance highlights

The fund's sector performance was mostly positive with consumer discretionary being the only small detractor from absolute return. The industrial sector was the largest contributor. Stock selection in industrials, utilities and IT added the most to relative return. Stock selection in consumer discretionary and energy detracted the most from relative return.

### Contributors to performance

**Vistra:** One of the largest power producers and retail energy providers in the US, the company's shares rose during the quarter due to a better outlook for long-term demand growth, driven by the buildout of energy-intensive artificial intelligence (AI) data centers. Strong financial results for 2023 also supported the stock price.

**Vertiv:** A manufacturer of electrical power, thermal management and other equipment for data centers, the company's shares rose after management reported strong performance for 2023, driven by increased data center spending as a result of AI investments.

**Coherent:** This laser company develops and manufactures optoelectronic components and

devices used in the communications, electronics and industrial markets. Coherent has been benefiting from the growth of AI as its optical transceivers are key enablers for networking of AI servers.

### Detractors from performance

**MaxLinear:** The company designs semiconductors for broadband internet, wifi, data center and industrial applications. The stock price fell as an inventory correction at its customer base continues to negatively affect near-term results.

**Lumentum:** A market-leading designer and manufacturer of innovative optical and photonic products for the communications and electronics end markets, Lumentum's shares fell during the quarter as the company has continued to deal with reduced end-market demand due to a customer inventory correction in the telecommunications market.

**New Fortress Energy:** Shares of this natural gas infrastructure company fell during the quarter as gas prices declined and management announced delays for several projects.

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

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 06/21/99	NAV	12.06	12.06	38.13	16.79	19.15	10.88	11.59
	Max. Load 5.5%	5.91	5.91	30.52	14.62	17.82	10.26	11.33
Class R6 shares inception: 02/07/17	NAV	12.13	12.13	38.65	17.25	19.63	11.20	-
Class Y shares inception: 08/12/05	NAV	12.12	12.12	38.43	17.08	19.45	11.16	11.58
Russell 2000 Value Index (USD)		2.90	2.90	18.75	2.22	8.17	6.87	-
Total return ranking vs. Morningstar Small Value category (Class A shares at NAV)		-	-	1% (5 of 489)	2% (6 of 457)	1% (5 of 426)	1% (4 of 335)	-

Expense ratios per the current prospectus: Class A: Net: 1.10%, Total: 1.10%; Class R6: Net: 0.71%, Total: 0.71%; Class Y: Net: 0.85%, Total: 0.85%.

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	7.14	-8.83	18.27	18.28	-25.29	32.05	10.81	36.51	4.32	22.91
Class R6 shares at NAV	7.14	-8.83	-	18.68	-24.97	32.55	11.31	37.00	4.71	23.46
Class Y shares at NAV	7.43	-8.64	18.61	18.58	-25.11	32.35	11.15	36.83	4.58	23.21
Russell 2000 Value Index (USD)	4.22	-7.47	31.74	7.84	-12.86	22.39	4.63	28.27	-14.48	14.65

### Portfolio characteristics\*

	Fund	Index
No. of holdings	103	1,419
Top 10 issuers (% of AUM)	25.25	4.97
Wtd. avg. mkt. cap (\$M)	8,591	2,918
Price/earnings	13.97	13.37
Price to book	1.99	1.37
Est. 3 – 5 year EPS growth (%)	12.14	6.98
ROE (%)	10.03	4.65
Long-term debt to capital (%)	42.77	32.48
Operating margin (%)	13.16	16.77

### Risk statistics (5 year)\*

	Fund	Index
Alpha (%)	10.45	0.00
Beta	1.16	1.00
Sharpe ratio	0.57	0.25
Information ratio	1.10	0.00
Standard dev. (%)	30.24	24.91
Tracking error (%)	9.95	0.00
Up capture (%)	177.81	100.00
Down capture (%)	100.70	100.00
Max. drawdown (%)	44.59	35.66

## Quarterly performance attribution

### Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Communication Services	0.21	0.00	0.21
Consumer Discretionary	-0.07	-0.51	-0.59
Consumer Staples	-0.09	0.62	0.53
Currency Forward	0.07	0.00	0.07
Energy	0.21	-0.56	-0.34
Financials	0.69	0.60	1.29
Health Care	-0.04	0.07	0.03
Industrials	0.43	3.24	3.66
Information Technology	-0.20	1.70	1.50
Materials	0.32	0.10	0.41
Other	-0.01	0.01	0.00
Real Estate	0.51	0.00	0.51
Utilities	-0.02	2.22	2.20
Cash	-0.07	0.00	-0.07
<b>Total</b>	<b>1.94</b>	<b>7.50</b>	<b>9.43</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 Value Index (USD).

Asset allocation/diversification does not guarantee a profit or eliminate the risk of loss.

The Russell 2000® Value Index is an unmanaged index considered representative of small-cap value stocks. The Russell 2000 Value 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

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.

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.

A value style of investing is subject to the risk that the valuations never improve or that the returns will trail other styles of investing or the overall stock markets.

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.**