Invesco Developing Markets Fund

Q1 2024

Key takeaways

1 The fund underperformed its benchmark

Invesco Developing Markets Fund Class A shares underperformed the MSCI EM Index. Stock selection in the consumer discretionary sector added to relative return. The largest detractor from relative return was stock selection in financials.

2 Emerging markets outlook

Emerging markets equities delivered positive returns in the first quarter. Most non-China emerging markets have either entered periods of substantial economic growth post COVID or, in our opinion, are expected to experience accelerating growth with potential interest rate cuts.

3 Focused on the long term

Uncertainty provides opportunity for active, idiosyncratic investors by favoring skill sets that emphasize a deep understanding of businesses. We believe emerging market equities are attractive as they are mispriced, with valuation discounts to US and global equities.

Investment objective

The fund seeks long-term growth of capital.

Fund facts

Fund AUM ($M)	22,660.66

Portfolio managers

Justin Leverenz

Manager perspective and outlook

- Since December 2023 when the Federal Reserve signaled an end to aggressive interest rate hiking, financial markets seemed to extrapolate an immaculate disinflation, lower US interest rates, lower energy prices and a weaker US dollar – in essence, a soft landing and a retreat toward lower sovereign rates. In our view, nominal and real interest rates in emerging markets remain unnecessarily high. We believe a peak in US sovereign rates will generate a positive feedback loop for economic growth, investment, currencies, US earnings momentum and equity returns across non-China emerging markets in 2024. China has remained in a structural funk with the government setting its 2024 economic growth target at the same level as 2023. Though we are unconvinced of the viability of more pronounced economic recovery in China, we think there are a handful of terrific idiosyncratic investment opportunities.
- We remain long-term investors and do not make tactical decisions. Unfavorable industry trends have historically created opportunities for truly skilled active managers. We believe this environment favors those with an idiosyncratic approach and rewards genuine imagination and creativity in unearthing the rare breed of extraordinary companies. Company fundamentals are especially crucial to us. Our investment approach has always been rooted in the unwavering focus on high quality compounders.

Not a Deposit Not FDIC Insured Not Guaranteed by the Bank May Lose Value
Not Insured by any Federal Government Agency

Top issuers
(% of total net assets)

	Fund	Index
Taiwan Semiconductor Manufacturing Co Ltd	9.31	8.33
Samsung Electronics Co Ltd	6.35	4.64
Grupo Mexico SAB de CV	5.97	0.26
Kotak Mahindra Bank Ltd	5.30	0.33
H World Group Ltd	4.54	0.11
Tencent Holdings Ltd	4.19	3.57
HDFC Bank Ltd	4.13	0.68
Pernod Ricard SA	3.44	0.00
Tata Consultancy Services Ltd	3.19	0.58
Fomento Economico Mexicano SAB de CV	2.78	0.35

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

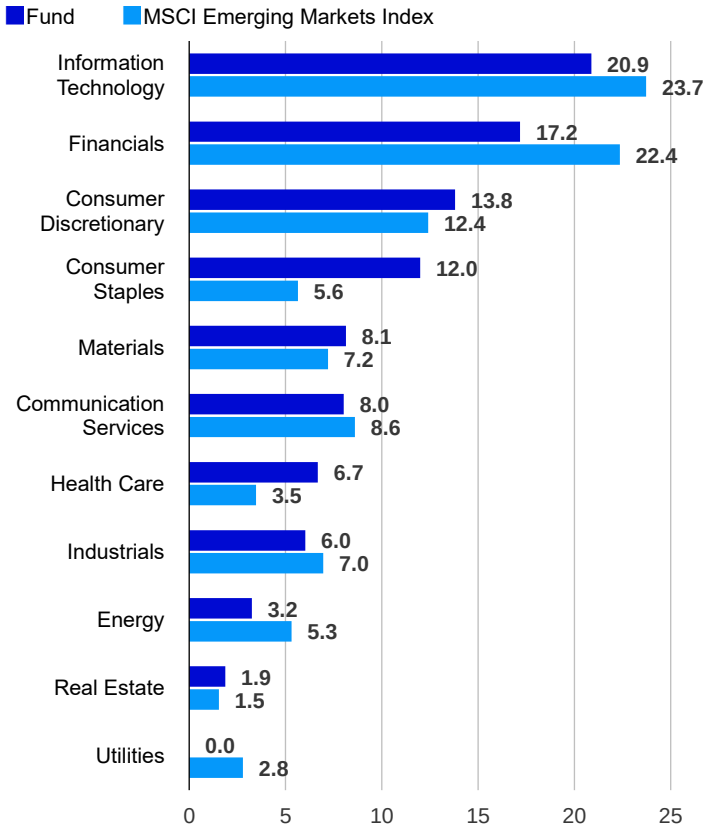
Portfolio positioning

In our view, the real reason to invest in developing market equities is the opportunity to capture unique companies with durable long-term growth and sustainable advantages, including rare companies that have considerable real options often unappreciated by conventional wisdom. We historically typically avoid companies with governance conflicts, unsustainable advantages, mean reversion, product cycle/gadgets and capital intensive/cyclical industries.

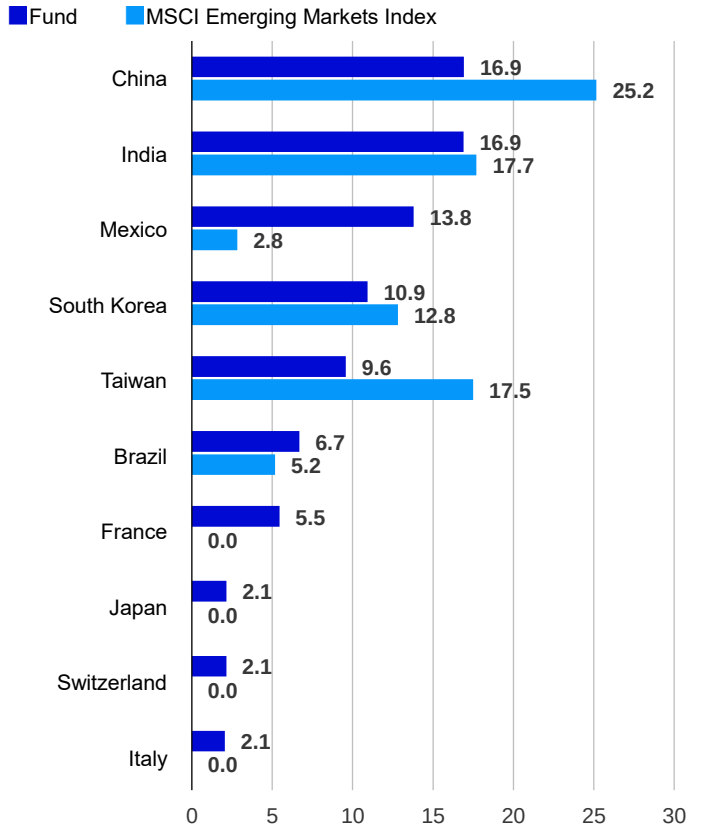
We use a bottom-up, benchmark agnostic approach. Sector and country exposures are a by-product of stock selection. Sector and industry weights reflect areas where we historically tend to find what we consider extraordinary companies, identify dynamic changes and see real value creation. Those areas include technology, consumer, health care, financials and resources/industrials. As of quarter end, relative to the MSCI EM Index, the fund was overweight in consumer staples, health care, consumer discretionary, materials and real estate, while underweight in financials, information technology (IT), utilities, energy, communication services and industrials. During the quarter, we initiated positions in British-Swedish multinational pharmaceutical and biotechnology company **AstraZeneca**, South Korean internet search engine and web portal **Naver,** and India-based multinational real estate company **Lodha**. We sold **BeiGene** and **Zai Lab**.

We added to the following existing positions:
Samsung Electronics, a South Korean producer of consumer electronics with a strong memory business and a growth trajectory supported by proliferation of the Internet of Things.
PDD, a Chinese ecommerce company that pioneered the successful group purchase model, with a focus on value-for-money.
Tencent, a Chinese internet and technology company and long-term fund holding with a robust suite of digital offerings.
Daiichi Sankyo, Japan's second-largest pharmaceutical company with established research and development locations in the US, Europe and emerging markets.
We trimmed the following positions:
Richemont, a Swiss luxury goods conglomerate that we trimmed to deploy capital elsewhere.
Taiwan Semiconductor Manufacturing Co. (TSMC), one of the world's leading semiconductor foundries and key enabler of the new computing revolution, which we trimmed to manage position size.
Yum China operates quick serve restaurants in China's underpenetrated market and was trimmed to reallocate capital.
Tata Consultancy Services, an India-based global IT consultant, was trimmed to allocate capital elsewhere.

Sector breakdown (% of total net assets)



Top countries (% of total net assets)



Top contributors (%)

Issuer	Return	Contrib. to return
Taiwan Semiconductor Manufacturing Company Limited	27.44	2.45
H World Group Limited	15.68	0.63
Prada S.p.A.	38.63	0.54
Nu Holdings Ltd.	43.14	0.42
Grupo Mexico S.A.B. DE C.V.	7.25	0.36

Top detractors (%)

Issuer	Return	Contrib. to return
HDFC Bank Ltd.	-15.22	-0.82
WuXi Biologics (Cayman) Inc.	-53.01	-0.45
Kotak Mahindra Bank Limited	-6.57	-0.40
Pernod Ricard SA	-8.41	-0.34
PDD Holdings Inc.	-20.77	-0.30

Performance highlights

From a sector perspective, stock selection in consumer discretionary, IT and materials added the most to relative return. The largest detractors from relative return were stock selection in financials, an overweight and stock selection in consumer staples, and stock selection and an overweight in health care.

Geographically, an overweight in Italy, an underweight in China and stock selection in Taiwan were the largest contributors to relative return. The largest detractors from relative return were stock selection in India and overweights in France and Hong Kong.

Absolute Contributors to performance

Taiwan Semiconductor Manufacturing Co. (TSMC), one of the world's leading semiconductor foundries and the key enabler of the new computing revolution, should in our view be well positioned as the company has continued migrating to next generation processing nodes.

H World is a pioneer in China's hotel industry, primarily using a franchise model. Management has been focused on continued portfolio optimization with the phaseout of underperforming brands, continued expansion initiatives and strong revenue growth.

Prada is an Italian fashion house and long-term fund holding. Momentum has been building at Prada as China slowly has slowly returned to normal, tourism in Europe has regained steam and profit margins have improved. Investors also have appeared to respond positively to leadership changes.

Detractors from absolute return

HDFC Bank is India's largest private sector bank. In 2023, HDFC Bank merged with its parent, HDFC Ltd., a long-term fund holding. The bank's weaker-than-expected quarterly results, along with apparent concerns about tight liquidity conditions for Indian banks, negatively affected its share price.

WuXi Biologics leveraged its unique technology and drug production know-how to become China's largest contract development and manufacturing organization (CDMO). WuXi has continued to sign large projects and expand capacity, which should in our view provide solid earnings for the foreseeable future. However, we will continue to monitor the competitive landscape.

Kotak Mahindra Bank is India's fourth largest private bank with operations in banking, asset management, life insurance and capital markets. The stock has been under pressure from apparently negative investor sentiment related to tight liquidity in India's financial sector as banks face pressure to boost deposits in response to rising loan-to-deposit ratios.

Standardized performance (%) as of March 31, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 11/18/96	NAV	2.03	2.03	1.94	-7.98	0.32	1.87	9.45
	Max. Load 5.5%	-3.58	-3.58	-3.66	-9.69	-0.81	1.29	9.22
Class R6 shares inception: 12/29/11	NAV	2.15	2.15	2.34	-7.62	0.72	2.29	4.09
Class Y shares inception: 09/07/05	NAV	2.12	2.12	2.19	-7.74	0.57	2.12	6.42
MSCI Emerging Markets Index		2.37	2.37	8.15	-5.05	2.22	2.95	-
Total return ranking vs. Morningstar Diversified Emerging Mkts category (Class A shares at NAV)		-	-	91% (733 of 810)	81% (530 of 714)	87% (564 of 653)	79% (321 of 426)	-

Expense ratios per the current prospectus: Class A: Net: 1.26%, Total: 1.26%; Class R6: Net: 0.88%, Total: 0.88%; 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 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. As the result of a reorganization on May 24, 2019, the returns of the fund for periods on or prior to May 24, 2019 reflect performance of the Oppenheimer predecessor fund. Share class returns will differ from the predecessor fund due to a change in expenses and sales charges. 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.

Calendar year total returns (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class A shares at NAV	-4.80	-14.06	6.89	34.77	-12.14	23.99	17.22	-7.50	-25.16	11.17
Class R6 shares at NAV	-4.39	-13.67	7.38	35.33	-11.79	24.53	17.66	-7.13	-24.85	11.54
Class Y shares at NAV	-4.55	-13.84	7.16	35.10	-11.95	24.31	17.51	-7.25	-24.97	11.40
MSCI Emerging Markets Index	-2.19	-14.92	11.19	37.28	-14.57	18.42	18.31	-2.54	-20.09	9.83

Portfolio characteristics*

	Fund	Index
No. of holdings	79	1,376
Top 10 issuers (% of AUM)	49.15	24.13
Wtd. avg. mkt. cap ($M)	146,105	119,829
Price/earnings	18.69	15.14
Price to book	2.94	1.76
Est. 3 – 5 year EPS growth (%)	14.39	14.60
ROE (%)	18.72	15.10
Long-term debt to capital (%)	24.68	21.42
Operating margin (%)	23.27	19.51

Risk statistics (5 year)*

	Fund	Index
Alpha (%)	-1.71	0.00
Beta	0.99	1.00
Sharpe ratio	-0.09	0.01
Information ratio	-0.31	0.00
Standard dev. (%)	19.81	19.05
Tracking error (%)	6.05	0.00
Up capture (%)	91.90	100.00
Down capture (%)	101.29	100.00
Max. drawdown (%)	42.91	35.98

Quarterly performance attribution

Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Communication Services	0.02	0.15	0.17
Consumer Discretionary	-0.02	1.00	0.98
Consumer Staples	-0.45	-0.26	-0.70
Energy	-0.09	0.07	-0.02
Financials	0.01	-1.14	-1.13
Health Care	-0.21	-0.29	-0.50
Industrials	0.00	-0.03	-0.03
Information Technology	-0.14	0.82	0.68
Materials	-0.05	0.51	0.47
Other	0.00	0.00	0.00
Real Estate	0.00	0.12	0.13
Utilities	-0.03	0.00	-0.03
Cash	0.00	0.00	0.00
Total	**-0.95**	**0.95**	**0.00**

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.**

Region performance analysis (%)

Region	Allocation effect	Selection effect	Total effect
Developed	**0.17**	**0.00**	**0.17**
Asia/Pacific Ex Japan	-0.35	0.00	-0.35
Europe	0.42	0.00	0.42
Japan	0.10	0.00	0.10
Emerging	**0.00**	**-0.17**	**-0.17**
Africa/Mideast	0.22	-0.16	0.06
Asia/Pacific Ex Japan	-0.20	-0.44	-0.64
Europe	-0.07	0.11	0.03
Latin America	-0.82	1.20	0.38
Other	**0.00**	**0.00**	**0.00**
Cash	**0.00**	**0.00**	**0.00**
Total	**0.17**	**-0.17**	**0.00**

Performance analysis by country — top 5 (%)

	Total effect	Avg. weight	Total return
Italy	0.51	1.74	37.18
China	0.49	17.24	-1.86
Taiwan	0.45	9.55	27.10
Switzerland	0.20	2.42	12.14
Thailand	0.18	0.00	0.00

Performance analysis by country — bottom 5 (%)

	Total effect	Avg. weight	Total return
India	-1.72	17.55	-3.85
France	-0.46	5.73	-5.40
Hong Kong	-0.35	0.74	-34.39
South Korea	-0.14	9.99	-0.43
Saudi Arabia	-0.11	0.19	5.73

Unless otherwise specified, all information is as of 03/31/24. Unless stated otherwise, Index refers to MSCI Emerging Markets Index.

The MSCI Emerging Markets Index (ND) is an unmanaged index considered representative of stocks of developing countries. The index is computed using the net return, which withholds applicable taxes for non-residents investors. An investment cannot be made directly in an index.

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.

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.

Environmental, Social and Governance (ESG) considerations may vary across investments and issuers, and not every ESG factor may be identified or evaluated for investment. The Fund will not be solely based on ESG considerations; therefore, issuers may not be considered ESG-focused companies. ESG factors may affect the Fund's exposure to certain companies or industries and may not work as intended. The Fund may underperform other funds that do not assess ESG factors or that use a different methodology to identify and/or incorporate ESG factors. ESG is not a uniformly defined characteristic and as a result, information used by the Fund to evaluate such factors may not be readily available, complete or accurate, and may vary across providers and issuers. There is no guarantee that ESG considerations will enhance Fund performance.

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.

Growth stocks tend to be more sensitive to changes in their earnings and can be more volatile.

The Fund may hold illiquid securities that it may be unable to sell at the preferred time or price and could lose its entire investment in such securities.

Following Russia's invasion of Ukraine in February 2022, various countries, including the U.S., NATO and the European Union, issued broad-ranging economic sanctions against Russia and Belarus. As a result, responses to military actions (and further potential sanctions related to continued military activity), the potential for military escalation and other corresponding events, have had, and could continue to have, severe negative effects on regional and global economic and financial markets, including increased volatility, reduced liquidity, and overall uncertainty. Russia may take additional counter measures or retaliatory actions (including cyberattacks), which could exacerbate negative consequences on global financial markets. The duration of ongoing hostilities, corresponding sanctions and related events cannot be predicted. As a result, the value of an investment in the Fund and its performance may be negatively impacted, particularly as it relates to Russia exposure.

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.

Investing in securities of Chinese companies involves additional risks, including, but not limited to: the economy of China differs, often unfavorably, from the U.S. economy in such respects as structure, general development, government involvement, wealth distribution, rate of inflation, growth rate, allocation of resources and capital reinvestment, among others; the central government has historically exercised substantial control over virtually every sector of the Chinese economy through administrative regulation and/or state ownership; and actions of the Chinese central and local government authorities continue to have a substantial effect on economic conditions in China.

The investment techniques and risk analysis used by the portfolio managers may not produce the desired results.

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 for a prospectus/summary prospectus containing this information. Read it carefully before investing.