

# Invesco Convertible Securities Fund

## Q4 2023

## Key takeaways

### 1 Convertible securities posted gains in the fourth quarter

Convertibles (as measured by the ICE BofA US Convertible Index) participated in the market rally, returning 6.67% for the quarter. However, convertibles lagged most broad market equity indexes, including the S&P 500 Index, which returned 11.69%.

### 2 The fund outperformed the benchmark for the quarter

The fund's outperformance was primarily due to security selection in the technology, transportation and energy sectors.

### 3 We continue to focus on balanced convertibles

We are focused on the area of the market that we believe offers the best opportunity – balanced convertibles that have upside participation potential should their underlying stocks rise and downside support via the securities' fixed income attributes.

#### Investment objective

The Fund's objective is total return through growth of capital and current income.

#### Fund facts

Fund AUM (\$M)	832.62
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#### Portfolio managers

Robert Young, Ramez Nashed

## Manager perspective and outlook

- The US Federal Reserve (Fed) kept the federal funds rate steady at its mid-December meeting and signaled three rate cuts for 2024. Chairman Powell noted that "our policy rate is likely at or near its peak for this tightening cycle."
- Powell's comments sparked a rally in equities and subsequent decline in 10-year Treasury yields, with most asset classes posting gains for the quarter.
- Convertibles returned 6.67%, lagging the S&P 500 Index, which returned 11.69% for the quarter. Within the convertible index, materials and technology had the highest returns, while energy was the only sector to decline.
- New US convertible issuance totaled \$12.3 billion in the quarter, which was higher than the same period last year.
- We believe normalizing interest rates should reduce the risk of a deep recession, given strong consumer demand and a robust job market.
- However, the full effects of the Fed's monetary tightening have not yet made their way through the economy. Tighter bank lending standards and rising corporate defaults could be a sign that the US economy may weaken in the second half of 2024.
- In this environment, we believe the asset class can provide investors with diversification, offering lower interest rate sensitivity than traditional fixed income and potentially lower volatility compared to equities.



## Top equity issuers

(% of total net assets)

	Fund	Index
Wells Fargo & Co	2.53	1.97
Bank of America Corp	2.48	1.57
Dexcom Inc	2.21	1.06
Palo Alto Networks Inc	2.15	2.40
Rivian Automotive Inc	1.89	1.77
Jazz Investments I Ltd	1.82	0.66
Splunk Inc	1.73	0.91
Akamai Technologies Inc	1.70	1.71
Okta Inc	1.59	0.49
Uber Technologies Inc	1.58	1.27

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

## Asset mix

Dom Convertible Bond	89.40
Dom Convertible Preferred Stock	8.18
Intl Convertible Bond	1.77
Cash	0.64

## Portfolio positioning

During the quarter, we used the new issue market to purchase convertibles with a more balanced risk profile and move out of zero-coupon convertibles with little equity sensitivity. We also made several exchanges between convertibles from the same issuer but with different maturity dates and more balanced equity sensitivity.

Several health care and utility convertibles were among the positions added to the fund from the new issue market:

**Repligen** – The company develops and produces materials used in the manufacture of biological drugs. This convertible was attractive to us as it is a more balanced convertible.

**Evergy** – Evergy is one of several utilities that have issued new convertibles this year, and the yield on this new issue was in our view an attractive 4.5%. This convertible is a bond structure, which is more attractive to us than mandatory issues, a structure that behaves more like an equity with less downside support.

**PG&E** – Another utility, PG&E, finalized settlements in connection to the 2017-2018 wildfires in California and is now working to improve its balance sheet. PG&E's convertible has in our view an attractive 4.25% coupon and is a bond structure.

**Merit Medical** – Merit manufactures products for use in cardiology, radiology and endoscopy procedures. We participated in this deal because it is a more balanced convertible in the health care segment.

**Enovis** – Enovis is a medical technology company that manufactures and distributes medical devices used for reconstructive surgery, rehabilitation, pain management and physical therapy. This convertible also offered a more balanced way to gain exposure to the medical technology segment.

To fund new purchases, we sold several positions during the quarter:

**Microchip** – The convertible matures in November, so we swapped into another more balanced issue to add additional downside support to the portfolio.

**Pioneer Natural Resources** – We sold this convertible following the announcement that ExxonMobil would acquire the company.

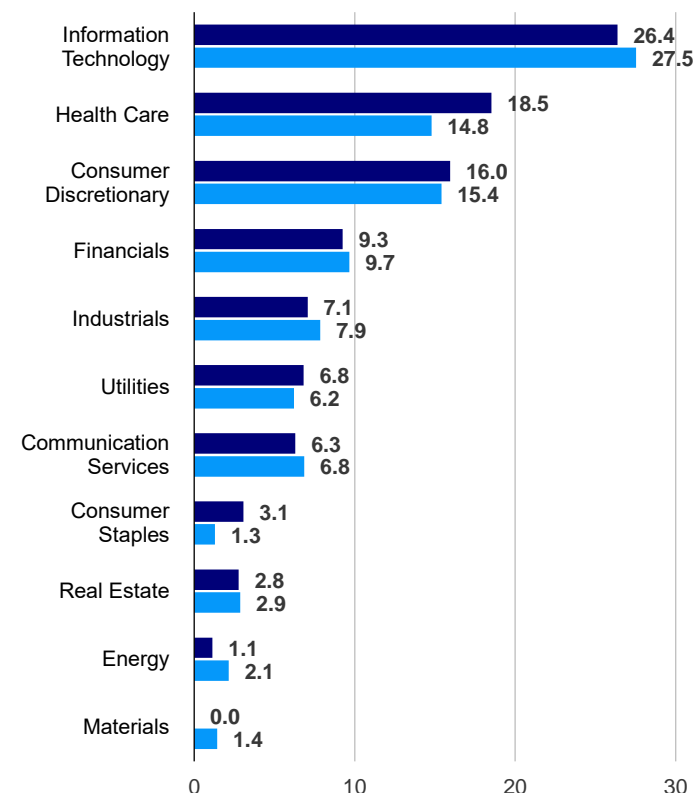
**Ares Capital** – This convertible matures in March and is more yield-oriented, so we sold it to add more balanced convertibles to the portfolio.

**Southwest Airlines** – We sold this convertible based on our outlook for the airline, given its challenges of the past year. Additionally, this was a zero-coupon bond, so we moved to a convertible with a higher yield in the same sector.

**Nice** – This was another zero-coupon holding that we sold in favor of higher yielding convertibles.

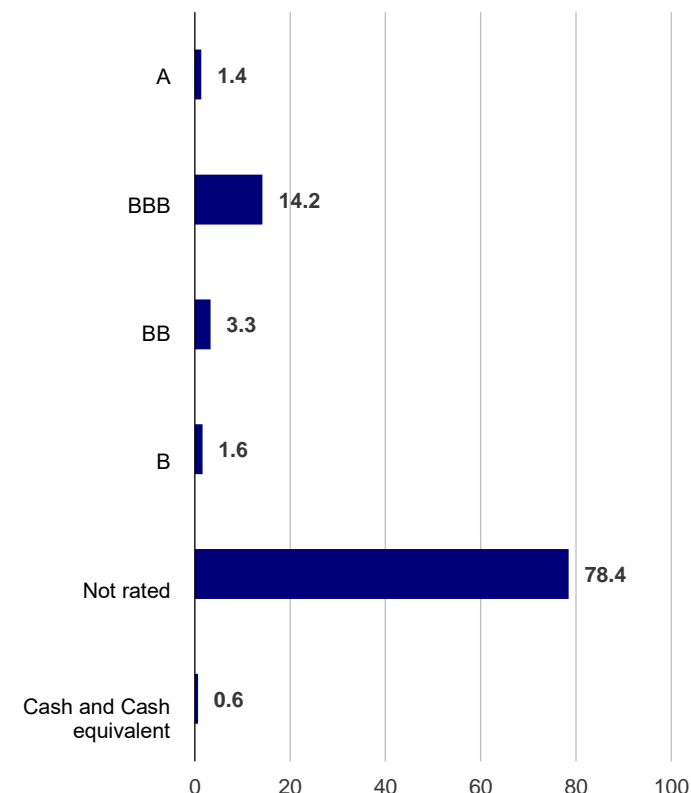
## Equity sector breakdown (% of total net assets)

■ Fund ■ ICE BofA US Convertible Index (USD)



## Credit quality breakdown (% of total net assets)

■ Fund



## Risk statistics (5 year)\*

	Fund	Index
Alpha (%)	0.03	0.00
Beta	0.88	1.00
Sharpe ratio	0.61	0.62
Information ratio	-0.30	0.00
Standard dev. (%)	14.46	16.08
Tracking error (%)	3.89	0.00
Up capture (%)	79.53	100.00
Down capture (%)	90.51	100.00
Max. drawdown (%)	20.42	22.99

## Performance highlights

Strong security selection in the technology, transportation and energy sectors aided relative return during the quarter. Selection in materials and consumer discretionary detracted from relative performance.

### Contributors to performance

Selection in technology was the largest contributor to relative return, due in part to the fund's overweights in **CyberArk Software**, **Western Digital** and **Zscaler**.

Information security company CyberArk reported a strong quarter with a double-digit increase in annual recurring revenue and provided upbeat guidance going forward. Western Digital performed well as it appeared the inventory correction cycle had bottomed. Zscaler continued to gain market share as customers move to the cloud, and company management raised its revenue guidance for 2024.

Selection and an underweight in transportation also aided relative return. An underweight in **Lucid** and exposure to **Southwest Airlines** aided relative performance. Southwest rebounded in the fourth quarter after higher fuel prices and labor costs had weighed on the company's profit margins for much of the year. A stronger-than-expected holiday travel season and falling oil prices provided a tailwind to Southwest's stock and convertible.

Security selection in energy was another notable contributor, primarily due to **Pioneer Natural Resources**. In October, ExxonMobil announced plans to acquire Pioneer for

approximately \$60 billion in an all-stock deal. Shares of the stock and the convertible rose following the news.

### Detractors from performance

The fund's cash position was the largest detractor from relative performance given the robust market rally.

From a sector standpoint, selection in media detracted from relative return, due largely to an overweight in **Charter Communications**. Charter's revenues slowed due to weakening broadband growth and loss of cable subscribers. Other detractors included **Formula One** and **Spotify**. Formula One reported an increase in year-over-year revenues, but they were lower than anticipated. Spotify has faced a tough environment for music streaming services, along with declining revenue from premium services. However, Spotify reported increases in users and ad-supported revenue, and management recently announced efficiency measures that should help profitability.

Selection in the consumer discretionary sector also detracted from relative performance due to underweights in cruise operators **Royal Caribbean** and **Carnival**. Both companies have benefited from a sharp rebound in bookings following the end of the pandemic. Exposure to **Live Nation** also detracted. The company reported record concert, ticketing and sponsorship/ad revenue, but profit margins have been shrinking due to higher expenses. A potential breakup of Ticketmaster has also been a headwind to performance.

## Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 07/28/97	NAV	7.24	7.87	7.87	-1.64	10.77	6.80	7.03
	Max. Load 5.5%	1.36	1.92	1.92	-3.48	9.52	6.20	6.80
Class R6 shares inception: 09/24/12	NAV	7.33	8.29	8.29	-1.29	11.16	7.18	8.33
Class Y shares inception: 07/28/97	NAV	7.34	8.17	8.17	-1.39	11.05	7.07	7.29
ICE BofA US Convertible Index (USD)		6.67	12.87	12.87	-0.82	11.93	8.90	-
Total return ranking vs. Morningstar								
Convertibles category		-	-	64%	39%	49%	72%	-
(Class A shares at NAV)				(54 of 82)	(31 of 77)	(44 of 73)	(43 of 57)	

Expense ratios per the current prospectus: Class A: Net: 0.94%, Total: 0.94%; Class R6: Net: 0.58%, Total: 0.58%; Class Y: Net: 0.69%, Total: 0.69%.

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. 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	3.95	-3.02	5.82	10.42	-1.71	21.42	44.35	4.68	-15.72	7.87
Class R6 shares at NAV	4.35	-2.66	6.21	10.82	-1.41	21.82	44.86	5.06	-15.45	8.29
Class Y shares at NAV	4.24	-2.78	6.07	10.68	-1.51	21.73	44.69	4.93	-15.52	8.17
ICE BofA US Convertible Index (USD)	9.44	-2.99	10.43	13.70	0.15	23.15	46.22	6.34	-18.71	12.87

Unless otherwise specified, all information is as of 12/31/23. Unless stated otherwise, Index refers to ICE BofA US Convertible Index (USD).

The ICE BofA US Convertible Index tracks the performance of US-dollar-denominated convertible securities that are not currently in bankruptcy and have total market values of more than \$50 million at issuance. Effective July 2022, the benchmark returns reflect the deduction of transaction costs that are calculated using the bid/offer spread for all new additions to the index, as well as any security whose weight increases in the index at each monthly rebalancing, beginning with the 30 June 2022 rebalancing. The beginning-of-month calculated transaction cost adjustment is applied to index returns daily for the following calendar month. Benchmark returns prior to July 2022 do not reflect the deduction of transaction costs. An investment cannot be made directly in an index.

#### About risk

To the extent an investment focuses on securities issued or guaranteed by companies in a particular industry, the investment's performance will depend on the overall condition of those industries, which may be affected by the following factors: the supply of short-term financing, changes in government regulation and interest rates, and overall economy.

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.

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

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.

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Junk bonds have greater risk of default or price changes due to changes in the issuer's credit quality. Junk bond values fluctuate more than high quality bonds and can decline significantly over a short time.

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.

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.

Ratings source: Standard & Poor's, Moody's or Fitch, as applicable. A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. Not Rated indicates the debtor was not rated and should not be interpreted as indicating low quality. A negative in Cash indicates fund activity that has accrued or is pending settlement. For more information on rating methodologies, please visit the following NRSRO websites: [www.standardandpoors.com](http://www.standardandpoors.com) and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; [www.ratings.moodys.com](http://www.ratings.moodys.com) and select 'Rating Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](http://www.fitchratings.com) and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

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. **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.

#### Morningstar

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