

Invesco Small Cap Equity Fund

Q4 2023

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)	886.33
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Portfolio managers

Juan Hartsfield, Davis Paddock

Manager perspective and outlook

- US equities posted strong gains in the fourth quarter as investors appeared to anticipate a possible end to Federal Reserve (Fed) interest rate hikes.
- Inflation slowed during the quarter as indicated by the Consumer Price Index (CPI) 12-month headline inflation rate, which fell from 3.7% in September to 3.1% in November, below its 2022 peak.
- Robust consumer spending contributed to a higher-than-expected estimate for third quarter GDP growth, according to a release by the Bureau of Economic Analysis.
- The Fed kept the federal funds rate steady at its 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," prompting a decline in the 10-year US Treasury yield. Stocks also rallied on Powell's remarks.
- Rate increases have slowed the economy and dampened inflation, although the labor market have remained healthy.
- Elevated consumer savings and a strong job market have supported consumption despite higher interest rates and a decelerating economy.
- In our view, forecasting a recession is difficult as labor market resilience and excess savings have been offsetting negative macroeconomic data.
- The recent rally in low quality stocks signals to us that the market thinks the Fed has achieved a soft landing, has finished raising interest rates, and is ready to pivot to easing. However, we remain cautious.



For more information, including prospectus and factsheet, please visit [Invesco.com/SMEAX](https://www.invesco.com/SMEAX)

Please keep in mind that high, double-digit returns are highly unusual and cannot be sustained.

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
Taylor Morrison Home Corp	2.01	0.22
Summit Materials Inc	1.88	0.18
Weatherford International PLC	1.82	0.27
Sprouts Farmers Market Inc	1.62	0.19
ITT Inc	1.59	0.00
Curtiss-Wright Corp	1.52	0.00
Applied Industrial Technologies Inc	1.51	0.26
Pinnacle Financial Partners Inc	1.50	0.00
XPO Inc	1.48	0.00
Acushnet Holdings Corp	1.39	0.08

As of 12/31/23. 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. All 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 cyclicality, but are also aware of potential risks, so we seek to maintain balanced positioning. From a secular perspective, we see artificial intelligence as a significant technology trend that will have wide-ranging implications for technology investment, employment and productivity enhancements moving forward.

New Positions

Permian Resources was added to the fund to increase energy exploration and production exposure. The oil & gas company has high quality acreage in the Delaware Basin in New Mexico and West Texas and has a history of finding operational efficiencies.

Simply Good is a branded consumer packaged food & beverage company that offers a variety of convenient, healthy snacks and meal replacements. In our view, the company has a strong management team with deep experience in food & beverage brands.

Endava is a leader in IT services, and we think it is well positioned longer term to help implement AI strategies through high-end software development.

Notable sales

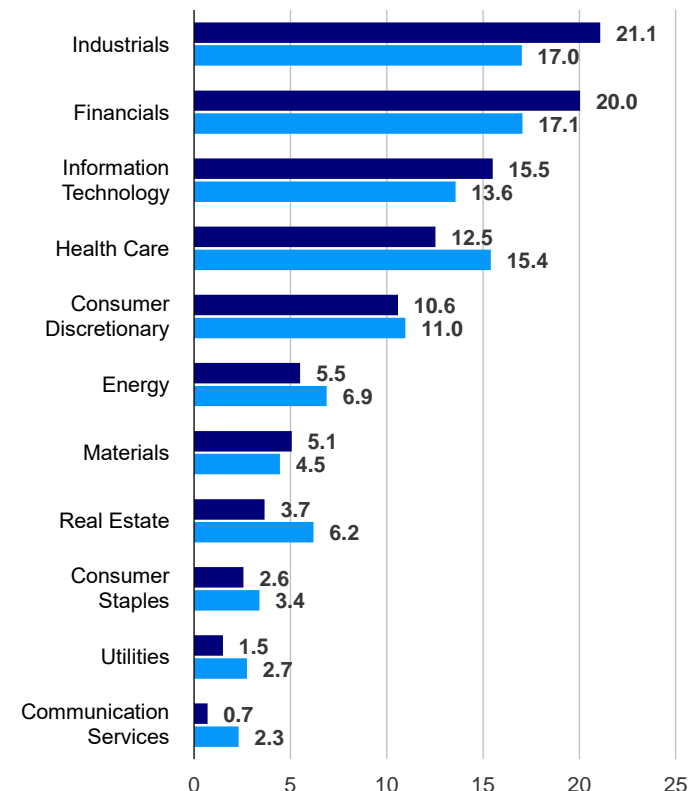
Jabil was forced to reduce forward looking guidance due to macroeconomic headwinds and the stock reacted negatively during the quarter. Given its valuations and high market-cap we sold the position.

RenaissanceRe provides reinsurance, insurance and other related business services. Since we added the stock to the portfolio, our thesis that better pricing in the reinsurance market would drive better fundamental results has largely played out, pushing up the share price. Therefore, we sold the stock to reallocate capital elsewhere.

Primerica provides financial and investment services to middle income families. We sold the position during the quarter to reallocate proceeds to increase banking exposure given the likelihood that the federal funds rate has peaked, alleviating some pressure in the industry.

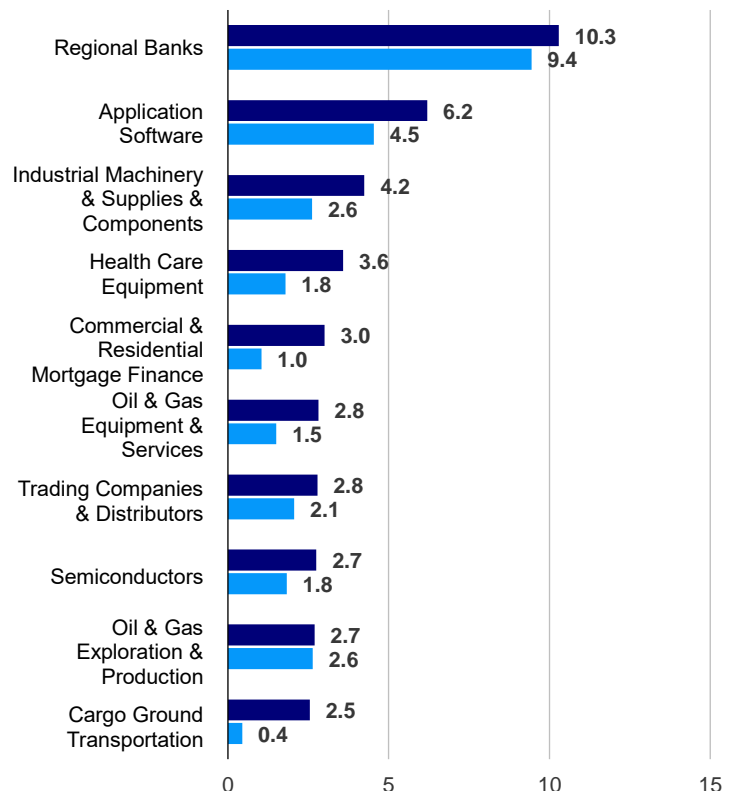
Sector breakdown (% of total net assets)

■ Fund ■ Russell 2000 Index (USD)



Top industries (% of total net assets)

■ Fund ■ Russell 2000 Index (USD)



Top contributors (%)

Issuer	Return	Contrib. to return
Taylor Morrison Home Corporation	25.21	0.47
Core & Main, Inc.	40.07	0.43
SUMMIT MATERIALS, INC.	23.51	0.42
Pinnacle Financial Partners, Inc.	30.53	0.36
ITT Inc.	22.19	0.34

Top detractors (%)

Issuer	Return	Contrib. to return
Lattice Semiconductor Corporation	-19.71	-0.40
R1 RCM, Inc.	-29.86	-0.27
Chart Industries, Inc.	-19.39	-0.25
Eventbrite, Inc.	-30.02	-0.21
Visteon Corporation	-9.54	-0.19

Performance highlights

The fund delivered a positive absolute return for the quarter but trailed the benchmark index. Leading contributors to relative performance included stock selection and overweights in the energy and materials sectors.

Leading detractors included stock selection in the information technology, financials, consumer discretionary and health care sectors. The fund's ancillary cash position detracted given the quarter's strong equity rally.

Contributors to performance

Taylor Morrison benefited from an improving macroeconomic environment for builders and home buyers alike given potential for interest rate cuts in 2024.

Core & Main, a Missouri-based distributor of water, sewer and fire protection products, delivered financial results that exceeded analysts' expectations and raised its forward-looking guidance.

Summit Materials rallied on strong quarterly earnings results and confirmation of a planned acquisition that is expected to be a substantial growth catalyst once the deal closes.

Pinnacle Financial stock rose on potential for lower interest rates in the near future, which would likely improve mark-to-market positions on loans and securities for banks. **ITT** manufactures and sells engineered

components and custom technology solutions for the transportation, industrial and energy markets. **ITT** reported solid fundamental results exceeding analysts' estimates.

Detractors from performance

Lattice Semiconductor manufactures programmable semiconductor chips. During the quarter, the semiconductor company provided guidance that was below consensus estimates due to industrial and telecommunication weakness.

R1 RCM announced an acquisition of competitor Acclara, which would likely dilute earnings and was apparently poorly received by investors, causing the share price to decline.

Chart Industries reported a weak third quarter due to underwhelming sales tied to supply chain issues, customer design changes and an outage at one of its facilities.

Eventbrite has struggled to sustain positive stock performance despite solid quarterly earnings. We believe the macroeconomic environment continues to dampen demand for live events. We sold the position in favor of more attractive cyclical growth opportunities with better upside potential.

Visteon struggled during the quarter amid slower adoption of electric vehicles as higher interest rates inhibited demand for big-ticket items and willingness to pay higher EV costs.

Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 08/31/00	NAV	9.07	15.96	15.96	3.39	12.15	6.30	7.32
	Max. Load 5.5%	3.03	9.60	9.60	1.46	10.89	5.70	7.06
Class R6 shares inception: 09/24/12	NAV	9.26	16.58	16.58	3.85	12.68	6.81	9.20
Class Y shares inception: 10/03/08	NAV	9.11	16.23	16.23	3.63	12.42	6.56	9.20
Russell 2000 Index (USD)		14.03	16.93	16.93	2.22	9.97	7.16	-
Total return ranking vs. Morningstar Small Blend category (Class A shares at NAV)		-	-	60% (338 of 616)	82% (457 of 595)	25% (126 of 559)	77% (298 of 393)	-

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	97	1,966
Top 10 issuers (% of AUM)	16.32	3.25
Wtd. avg. mkt. cap (\$M)	5,447	3,214
Price/earnings	16.75	15.76
Price to book	2.24	1.96
Est. 3 – 5 year EPS growth (%)	10.47	11.90
ROE (%)	11.22	5.39
Long-term debt to capital (%)	37.73	35.02
Operating margin (%)	16.81	14.37

Risk statistics (5 year)*

	Fund	Index
Alpha (%)	2.50	0.00
Beta	0.92	1.00
Sharpe ratio	0.45	0.33
Information ratio	0.40	0.00
Standard dev. (%)	22.94	24.22
Tracking error (%)	5.42	0.00
Up capture (%)	93.76	100.00
Down capture (%)	94.73	100.00
Max. drawdown (%)	28.96	30.61

Quarterly performance attribution

Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Communication Services	0.08	-0.37	-0.30
Consumer Discretionary	-0.03	-0.77	-0.80
Consumer Staples	0.03	-0.08	-0.05
Energy	0.36	0.40	0.76
Financials	0.19	-1.22	-1.03
Health Care	-0.01	-0.79	-0.80
Industrials	-0.03	-0.19	-0.23
Information Technology	-0.10	-1.12	-1.22
Materials	0.01	0.02	0.03
Real Estate	-0.07	-0.19	-0.26
Utilities	0.08	-0.10	-0.02
Cash	-0.64	0.00	-0.64
Total	-0.13	-4.43	-4.56

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 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.

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.

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.