

# Invesco International Small-Mid Company Fund

## Q2 2024

## Key takeaways

**1 The fund underperformed**  
Class A shares underperformed the MSCI ACWI ex-US SMid Index during the quarter. This was due to short-term spending patterns in segments of information technology (IT) and health care where the fund is invested. Longer term, we believe secular trends will support the fund's holdings.

**2 Capital costs matter**  
In our view, equity valuations have largely been adjusted to account for higher capital costs. However, we believe the variable effect of higher capital costs on corporate earnings and returns is what will matter going forward.

**3 Time-tested discipline**  
We will continue to practice our time-tested discipline: seeking to invest in consistently profitable companies with high internal rates of return on their capital, that fund operations through internal cash flow without the need for bank financing, and that have strong balance sheets.

### Investment objective

The fund seeks capital appreciation.

### Fund facts

Fund AUM (\$M) 4,643.48

### Portfolio managers

David Nadel

## Manager perspective and outlook

- Equity markets opened the second quarter with a correction, giving back much of the previous quarter's gain. However, after bottoming in mid-April, the US and emerging markets recovered lost ground and advanced further while developed non-US equities lagged.
- As in recent quarters, attention centered on the US Federal Reserve (Fed) and the outlook for US interest rate policy. Fed guidance signaled only one rate cut this year and not before September "at the earliest." Equities rose after the news, which we believe shows valuations have been adjusted for higher capital costs. However, we think the variable effect of higher capital costs on corporate earnings and returns is what matters going forward.
- The fund underperformed for the quarter primarily due to recent spending patterns in IT and health care. Spending on software and IT consulting has slowed while companies have continued to formulate AI strategies. Once strategies are in place, we anticipate activity will pick up for IT consultants that help companies execute them.
- In health care, the growth pattern of many equipment and consumable suppliers has been disrupted: first boosted by a COVID-induced demand spike and now slowed by clients' need to work off overstocked inventory. While this has caused volatility in quarter-to-quarter returns and share price movements, we believe the underlying secular growth trends supporting these companies remain in place.



## Top issuers

(% of total net assets)

	Fund	Index
Obic Co Ltd	2.30	0.09
Carl Zeiss Meditec AG	1.82	0.03
Partners Group Holding AG	1.58	0.00
Descartes Systems Group Inc/The	1.54	0.09
DiaSorin SpA	1.54	0.02
Nice Ltd	1.38	0.11
VZ Holding AG	1.36	0.00
Azbil Corp	1.35	0.03
CCL Industries Inc	1.29	0.08
Spirax Group PLC	1.24	0.08

As of 06/30/24. Holdings are subject to change and are not buy/sell recommendations.

## Portfolio positioning

Our high conviction, low turnover portfolio has a consistent structure that changes little from quarter to quarter. We are benchmark independent, bottom-up investors, focusing on company fundamentals rather than using a “top-down” perspective to overweight or underweight any sector or region. We seek companies supported by structural growth trends in the global economy; that have significant pricing power; can fund operations and growth with operating cash flow; and have strong balance sheets. We find the bulk of our targets in the industrials, health care and IT sectors. We historically tend to avoid the utilities and real estate sectors, which are viewed as bond proxies, and sectors with many industries whose products are commoditized, such as energy and materials.

We added three new positions during the quarter.

**Carel Industries** is an Italian designer, manufacturer and distributor of HVAC and refrigeration systems. We believe it has leading positions in the market for “clean” refrigerants. We find Carel’s business model, operating margins, capital returns, prospects and valuation attractive.

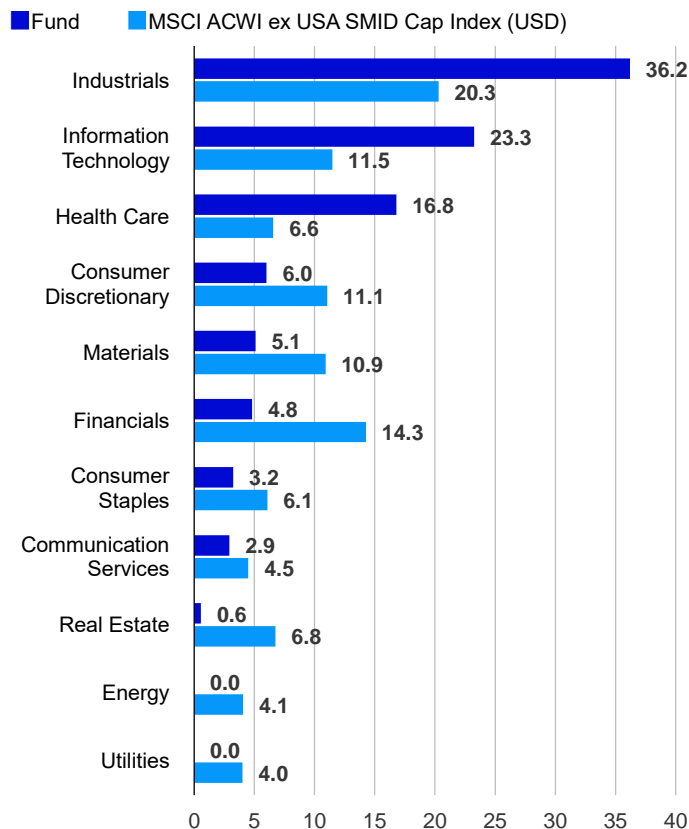
**Coway** is a Korea-based company with a door-to-door distribution model for air and water filtering and purification. Its after-sales services provide a high portion of revenues. In our opinion, Coway’s track record for return on invested capital is attractive.

**Park Systems**, based in South Korea, is the market share leader in atomic force microscopes (AFMs), sold primarily to the semiconductor industry. As semiconductor chip sizes have shrunk, demand for AFMs has risen because conventional electronic microscopes cannot scan nodes smaller than 20 nanometers (a nanometer is about the size of an atom). In our opinion, Park Systems is well-placed to benefit from the continuing miniaturization trend in semiconductors.

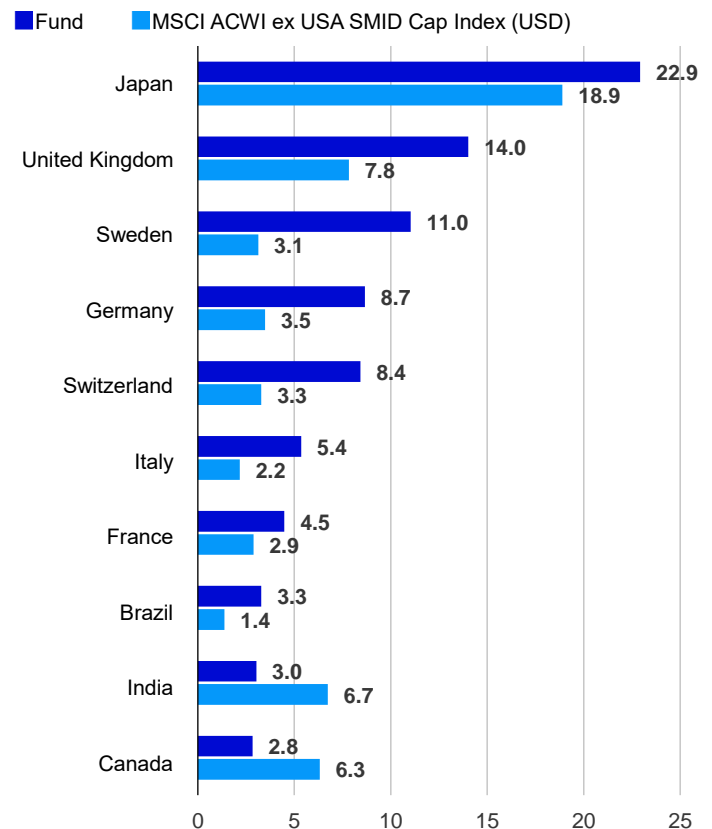
We exited one position.

**New Work**, based in Germany, operates Xing, a professional social-media platform comparable to LinkedIn, and Kununu, a workplace-review platform comparable to GlassDoor. Dominance of these platforms in German-speaking markets attracted us to the company. In the process of transforming its social networks to business recruiting tools, New Work began shifting to a subscription business model. As we have seen with every other internet platform/software company that made this transition, profits initially softened. The share price declined. During the quarter, New Work’s 70% majority owner bought the remainder of the shares, taking the company private.

## Sector breakdown (% of total net assets)



## Top countries (% of total net assets)



## Top contributors (%)

Issuer	Return	Contrib. to return
Alpha Financial Markets Consulting plc	52.80	0.33
Sdiptech AB	25.49	0.22
Restore plc	25.67	0.16
MISUMI Group Inc.	25.80	0.16
Mips AB	21.47	0.15

## Top detractors (%)

Issuer	Return	Contrib. to return
Carl Zeiss Meditec AG	-43.74	-1.16
NICE Ltd.	-34.02	-0.62
Sartorius AG	-40.92	-0.60
Bruker Corporation	-32.02	-0.44
ChemoMetec A/S	-28.99	-0.31

## Performance highlights

The fund outperformed most in the consumer discretionary sector due to stock selection and its underweight position, and in the real estate sector due to the usual underweight position.

The fund underperformed in the health care, IT and materials sectors, all due to stock selection.

### Contributors to performance

**Alpha Financial Markets**, based in the UK, provides consulting services to the asset management business. During the quarter, Alpha Financial received an all-cash takeover bid from private equity firm Bridgepoint and the shares rose close to the offer price.

**Sdiptech**, a Swedish company, provides public infrastructure control systems for water treatment, transportation, building climate control and security. During the quarter Sdiptech announced earnings that exceeded analysts' forecasts.

**Restore** is a UK-based document storage and management company, much like Iron Mountain (not a fund holding) in the US. During the quarter, the share price reacted favorably to the company's release of revenue and guidance numbers.

**MISUMI**, based in Japan, distributes precision machine parts to specialized industries such as hospitals and restaurants and to manufacturers. Its customers appear more sensitive to reliability and delivery speed than price. The company reported earnings and provided guidance during the quarter and the share price reacted favorably.

**Mips**, based in Sweden, is the world's leading supplier of interior safety systems for

sports helmets. It has established a recognizable brand among end users, much as Intel did with "Intel Inside." During the quarter, Mips raised its earnings guidance.

### Detractors from performance

**Carl Zeiss**, based in Germany and the global leader in ophthalmic surgery lenses, has been supported by an aging world population and increasing access to health care in emerging markets. That said, shorter term sales volumes have slowed in the aftermath of COVID-related overstocking by customers. During the quarter, management issued a profit warning.

**NICE** produces software to optimize call centers and customer service. The CEO announced he would be stepping down. After examining the issue thoroughly, we are comfortable that the business is fine, and he simply wants to take on new challenges.

**Sartorius**, based in Germany, is a leading maker of precision equipment and components for research and production in the biologic drug industry. Sartorius' sales have slowed after an above-trend period. In our opinion, the company's clients are working off inventory.

**Bruker**, arguably the market leader in spectrometers, primarily for drug developers and researchers, is another supplier for whom inventory de-stocking has suppressed recent profit growth.

**ChemoMetec**, based in Denmark provides cell counters for life science research. In a pattern familiar to us, post-COVID destocking has suppressed near-term growth.

## Standardized performance (%) as of June 30, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 11/17/97	NAV	-5.37	-4.45	-0.31	-7.49	1.95	5.85	10.65
	<b>Max. Load 5.5%</b>	-10.57	-9.70	-5.80	-9.22	0.80	5.25	10.42
Class R6 shares inception: 12/29/11	NAV	-5.29	-4.28	0.07	-7.15	2.33	6.27	10.60
Class Y shares inception: 09/07/05	NAV	-5.30	-4.32	-0.07	-7.26	2.20	6.11	9.37
MSCI ACWI ex USA SMID Cap Index (USD)		-0.07	2.38	10.30	-1.65	5.05	3.92	-
Total return ranking vs. Morningstar Foreign Small/Mid Growth category (Class A shares at NAV)		-	-	90% (114 of 127)	66% (81 of 116)	80% (90 of 115)	14% (10 of 79)	-

Expense ratios per the current prospectus: Class A: Net: 1.35%, Total: 1.35%; Class R6: Net: 0.99%, Total: 0.99%; Class Y: Net: 1.11%, Total: 1.11%.

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. 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 sources: Invesco, 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	0.11	14.91	-0.49	37.93	-9.46	24.78	24.78	13.86	-31.19	12.29
Class R6 shares at NAV	0.54	15.40	-0.07	38.54	-9.09	25.28	25.23	14.26	-30.94	12.73
Class Y shares at NAV	0.38	15.15	-0.24	38.30	-9.25	25.08	25.07	14.14	-31.02	12.57
MSCI ACWI ex USA SMID Cap Index (USD)	-3.05	0.44	3.57	30.35	-17.06	22.36	12.01	10.16	-19.49	15.79

### Portfolio characteristics\*

	Fund	Index
No. of holdings	117	5,605
Top 10 issuers (% of AUM)	15.40	2.51
Wtd. avg. mkt. cap (\$M)	6,452	7,041
Price/earnings	24.92	16.07
Price to book	3.71	1.57
Est. 3 – 5 year EPS growth (%)	11.38	13.19
ROE (%)	17.58	12.06
Long-term debt to capital (%)	17.05	26.44
Operating margin (%)	20.04	16.09

### Risk statistics (5 year)\*

	Fund	Index
Alpha (%)	-2.57	0.00
Beta	1.02	1.00
Sharpe ratio	-0.01	0.15
Information ratio	-0.32	0.00
Standard dev. (%)	21.65	19.15
Tracking error (%)	9.57	0.00
Up capture (%)	118.26	100.00
Down capture (%)	111.43	100.00
Max. drawdown (%)	41.76	31.23

## Quarterly performance attribution

### Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Communication Services	-0.01	-0.02	-0.03
Consumer Discretionary	0.15	0.15	0.30
Consumer Staples	0.00	-0.17	-0.17
Energy	-0.01	0.00	-0.01
Financials	-0.25	0.06	-0.19
Health Care	-0.12	-2.73	-2.85
Industrials	0.06	-0.30	-0.24
Information Technology	0.16	-1.77	-1.61
Materials	0.02	-0.36	-0.34
Other	0.00	0.00	0.00
Real Estate	0.30	-0.06	0.24
Utilities	-0.08	0.00	-0.08
Cash	0.04	0.00	0.04
<b>Total</b>	<b>0.27</b>	<b>-5.21</b>	<b>-4.94</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.**

### Region performance analysis (%)

Region	Allocation effect	Selection effect	Total effect
<b>Developed</b>	<b>-0.31</b>	<b>-3.50</b>	<b>-3.80</b>
Africa/Mideast	0.01	-0.54	-0.53
Asia/Pacific Ex Japan	0.07	0.14	0.22
Europe	0.07	-2.91	-2.84
Japan	-0.16	0.01	-0.14
North America	-0.03	-0.48	-0.51
<b>Emerging</b>	<b>-0.83</b>	<b>-0.35</b>	<b>-1.18</b>
Africa/Mideast	-0.08	0.04	-0.04
Asia/Pacific Ex Japan	-1.01	-0.09	-1.09
Europe	-0.17	0.00	-0.17
Latin America	-0.17	0.29	0.12
<b>Cash</b>	<b>0.04</b>	<b>0.00</b>	<b>0.04</b>
<b>Total</b>	<b>-1.09</b>	<b>-3.85</b>	<b>-4.94</b>

## Performance attribution (cont'd)

### Performance analysis by country — top 5 (%)

	Total effect	Avg. weight	Total return
Sweden	0.41	10.24	4.88
United Kingdom	0.35	15.69	2.47
Australia	0.22	2.70	4.60
Mexico	0.10	0.57	-1.92
Saudi Arabia	0.07	0.00	0.00

### Performance analysis by country — bottom 5 (%)

	Total effect	Avg. weight	Total return
Germany	-1.77	9.94	-18.36
India	-0.73	2.73	8.51
Switzerland	-0.58	8.55	-6.09
Israel	-0.53	1.51	-34.02
United States	-0.49	2.30	-19.81

Unless otherwise specified, all information is as of 06/30/24. Unless stated otherwise, Index refers to MSCI ACWI ex USA SMID Cap Index (USD).

**As of the close of business on April 1, 2016, the fund limited public sales of its shares to certain investors. For more information on who may invest in the fund, please see the prospectus.**

The MSCI All Country World ex USA SMID Cap Index is considered representative of small- and mid-cap stocks in developed and emerging markets, excluding the US. The indexes are computing using the net return, which withholds applicable taxes for nonresident investors. An investment cannot be made directly in an index.

#### About risk

Stock and other equity securities values fluctuate 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.

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.

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

Many countries in the European Union are susceptible to high economic risks associated with high levels of debt, notably due to investments in sovereign debts of European countries such as Greece, Italy, and Spain.

Investments concentrated in a comparatively narrow segment of the economy may be more volatile than non-concentrated investments.

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

Source: ©2024 Morningstar Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers. It may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Open-end mutual funds and exchange-traded funds are considered a single population for comparison purposes. Had fees not been waived and/or expenses reimbursed currently or in the past, the ranking would have been lower. Rankings for other share classes may differ due to different performance characteristics.

**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.**