# Invesco Small Cap Growth Fund

Q1 2023

## Key takeaways

1 **The fund outperformed its benchmark**
Stock selection across several sectors drove strong portfolio performance. In select sectors, allocation positioning relative to the benchmark also added to outperformance. Growth-oriented sectors such as tech and communication services generally led equity results.

2 **Sector positioning**
The largest sector overweights at quarter end included information technology (IT), consumer discretionary and financials. The largest underweights included materials, energy and health care.

3 **Disciplined investment approach**
Compared to the benchmark, the fund is biased more toward higher quality and larger market-cap stocks. Positioning changes stem from bottom-up stock selection, while disciplined portfolio construction acts as a risk control and aligns sector exposures with the small-cap market.

**Investment objective**
The fund seeks long-term growth of capital.

**Fund facts**

| | |
|---|---|
| Fund AUM ($M) | 2,385.83 |

**Portfolio managers**
Juan Hartsfield, Clay Manley, Justin Sander

## Manager perspective and outlook

- US equities managed to deliver gains in the first quarter despite significant volatility and a banking crisis.
- A January rally gave way to a February selloff as higher-than-expected inflation, a tight labor market and solid economic growth indicated that Federal Reserve monetary policy would remain tight for the foreseeable future, raising the risk of a deeper recession.
- The quarter's largest shock came in March as the failure of two US regional banks, Silicon Valley Bank and Signature Bank, prompted steep losses in the banking sector.
- The Fed continued its fight against inflation but raised the federal funds rate at a slower pace than in 2022.
- Recent economic data show the Fed has achieved some success in slowing the economy and dampening inflationary pressures.
- The labor market remains healthy with the number of job openings near historic highs despite the recent uptick in layoffs.
- Consumers' excess savings remain above pre-COVID levels, which is working to smooth consumption in the wake of decelerating economic growth.
- Though the Fed is likely near the end of its tightening cycle, a quick pivot to monetary easing seems unlikely given inflation levels and a healthy labor market.
- In this uncertain macroeconomic environment, we are using a barbell positioning strategy that balances defensive exposures with industries that typically do well early in an economic cycle.

## Top issuers
(% of total net assets)

| | Fund | Index |
|---|---|---|
| Allegro MicroSystems Inc | 1.87 | 0.00 |
| Impinj Inc | 1.85 | 0.22 |
| Clean Harbors Inc | 1.78 | 0.00 |
| WESCO International Inc | 1.50 | 0.00 |
| Wingstop Inc | 1.49 | 0.46 |
| Lattice Semiconductor Corp | 1.44 | 0.00 |
| Altair Engineering Inc | 1.40 | 0.31 |
| Littelfuse Inc | 1.30 | 0.00 |
| Insulet Corp | 1.30 | 0.00 |
| Natera Inc | 1.29 | 0.00 |

As of 03/31/23. Holdings are subject to change and are not buy/sell recommendations.

# Portfolio positioning

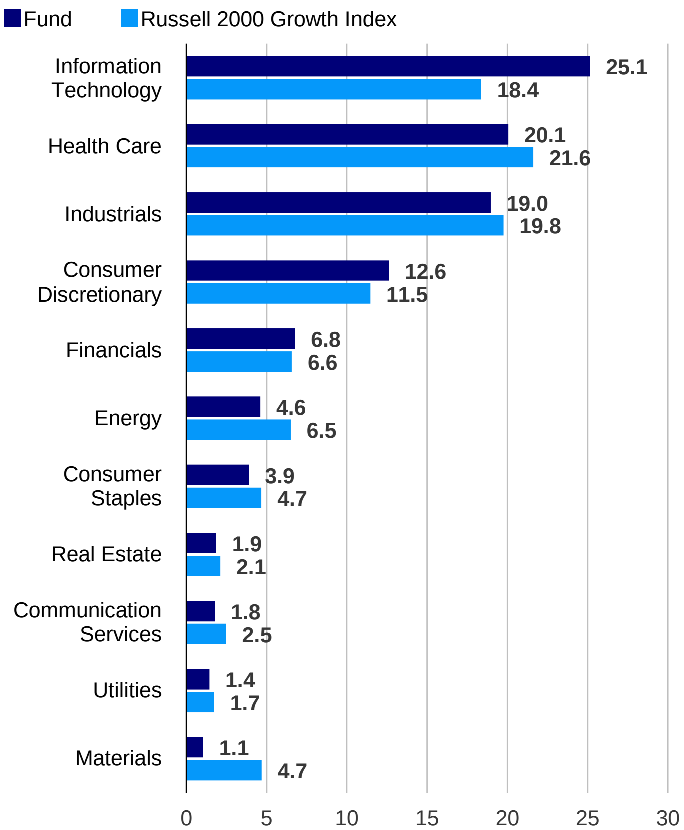
### Buys

**Abcam** is a life sciences tools & services company that manufactures and sells antibodies with the bulk of its sales in the Research Use Only market. Abcam has a diversified customer mix split between private companies, academic institutions and other research labs, which means it tends to provide higher quality, defensive exposure compared to traditional life sciences and biotechnology firms.
**Penumbra** is a medical technology company that provides tools to treat blood clotting. We have identified company-specific dynamics that we believe should boost growth in 2023, including meaningful new product launches and an acceleration in the neurological market as patient access improves.
**10x Genomics** is a biotechnology company that designs and manufactures gene sequencing technology used in scientific research. Now that most COVID-19 related headwinds are abating, we expect growth to reaccelerate. The company has several new product launches in 2023 that are expected to be catalysts, including a next generation product in its single cell instrument business and a new product in its spatial instrument business.
**Arrow Electronics** is one of the world's largest semiconductors distributors, offering above-average return on invested capital and expected to perform defensively in uncertain periods. Also, we expect the company to benefit from improved sentiment as China reopens. We believe a normalizing operating environment and continuation of recent share repurchases should combine to raise its price-to-earnings multiple from current trough levels.
**Inspire Medical Systems** is a medical technology company that treats obstructive sleep apnea via its neurostimulation technology that offers an alternative to the current leading therapy, CPAP. In 2023, we believe improving center utilization will push up revenue, and strong gross profit margins will drive free-cash-flow.

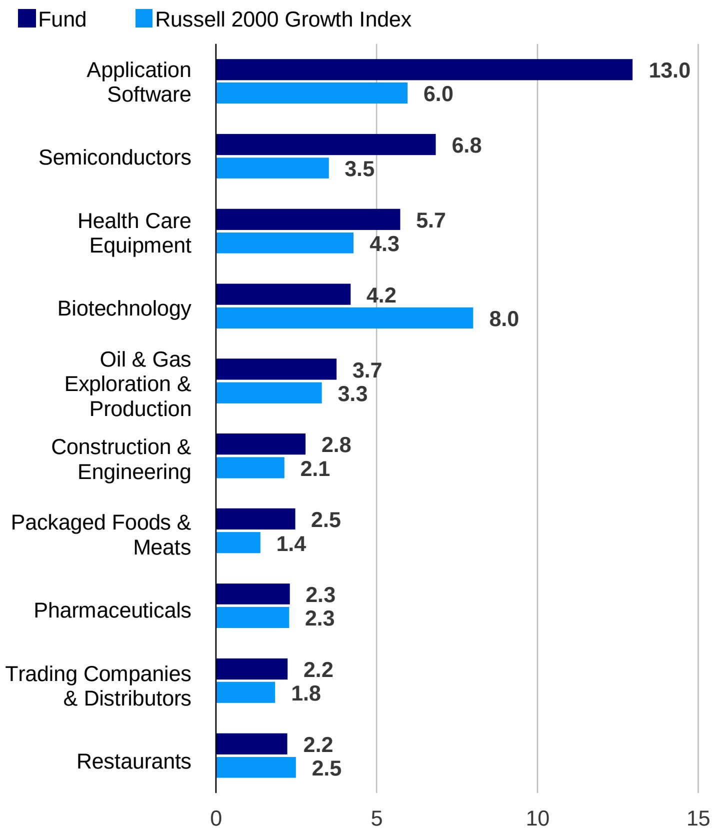
### Sales

**Overstock.com** gained significant customers during COVID, which boosted sales and earnings. However, the company was unable to retain customers as the economy reopened and consumer preferences shifted back to experiences over material consumption. Also, rising interest rates depressed housing activity and sales of big-ticket items.
**Arvinas** is a biotechnology company we sold in favor of another biotechnology firm with clearer catalysts and trading at a more attractive valuation.
**Intellia Therapeutics** and **Mirati Therapeutics** were sold due to concerns about negative cash flow despite being well funded. Also, we have identified other stocks with more compelling near-to-intermediate term catalysts and better valuations.
**Cleveland-Cliffs** was sold to reduce the portfolio's cyclical exposure amid concerns about a decelerating economy.

## Sector breakdown (% of total net assets)




## Top industries (% of total net assets)



## Top contributors (%)

| Issuer | Return | Contrib. to return |
|---|---|---|
| Allegro MicroSystems, Inc. | 59.86 | 0.79 |
| Altair Engineering Inc. | 58.59 | 0.53 |
| Lattice Semiconductor Corporation | 47.19 | 0.47 |
| Impinj, Inc. | 24.13 | 0.40 |
| Evoqua Water Technologies Corp. | 22.90 | 0.40 |

## Top detractors (%)

| Issuer | Return | Contrib. to return |
|---|---|---|
| National Vision Holdings, Inc. | -40.97 | -0.42 |
| Halozyme Therapeutics, Inc. | -32.88 | -0.41 |
| Harmony Biosciences Holdings, Inc. | -40.74 | -0.36 |
| Calix, Inc. | -21.69 | -0.27 |
| Matador Resources Company | -16.53 | -0.19 |

## Performance highlights

Stock selection in the IT, energy, real estate and communication services sectors added to relative return. An overweight in the IT sector and an underweight in the energy sector also added to relative return. Within IT, strong performance in the semiconductor and software industries helped drive results.

Stock selection in the consumer discretionary, consumer staples and industrials sectors detracted from relative return amid growing concern about slower consumer spending. An underweight in the materials sector also detracted from relative return.

**Contributors to performance:**

**Allegro MicroSystems** delivered good performance during the quarter, like many semiconductor companies, as auto and renewable energy demand has grown.

**Altair Engineering** reported strong financial results for the fourth quarter, with earnings-per-share and revenue that surpassed analyst expectations.

**Lattice Semiconductor** delivered solid quarterly results. Additionally, management provided positive commentary and outlook for Avant, its new Field Programmable Gate Array semiconductor. Avant is expected to be a major driver of the company's top line performance over the next three years.

**Impinj** was a leading contributor after reporting fourth quarter earnings-per-share and revenue that beat expectations, as well as providing first quarter 2023 revenue guidance similarly above consensus estimates.

**Detractors from performance:**

**National Vision** reported fourth quarter results that were weaker than expected and also provided soft guidance. The eye exam and vision industry has historically been very resilient during economic downturns, but the company is experiencing sustained weakness from uninsured customers who represent about two-thirds of its sales. With no near-term fixes in sight, we elected to sell the position.

**Halozyme Therapeutics** declined during the quarter following fourth quarter results that showed earnings-per-share in line with estimates but revenue that fell short by $10.55 million.

**Harmony Biosciences** faced headwinds during the quarter following the announced departure of its CEO in January.

**Calix** declined despite delivering fourth quarter financial results that beat analyst estimates. Many IT outperformers from 2022 were sold in the first quarter to provide funding for shifts into more cyclical technology stocks that had not performed well in 2022.

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

| | | Quarter | YTD | 1 Year | 3 Years | 5 Years | 10 Years | Since inception |
|---|---|---|---|---|---|---|---|---|
| Class A shares inception: 10/18/95 | NAV | 7.21 | 7.21 | -13.20 | 14.03 | 5.07 | 9.12 | 9.89 |
| | **Max. Load 5.5%** | 1.34 | 1.34 | -17.96 | 11.91 | 3.89 | 8.50 | 9.66 |
| Class R6 shares inception: 09/24/12 | NAV | 7.31 | 7.31 | -12.85 | 14.51 | 5.52 | 9.62 | 10.62 |
| Class Y shares inception: 10/03/08 | NAV | 7.28 | 7.28 | -12.96 | 14.31 | 5.33 | 9.39 | 10.97 |
| Russell 2000 Growth Index | | 6.07 | 6.07 | -10.60 | 13.36 | 4.26 | 8.49 | - |
| Total return ranking vs. Morningstar Small Growth category (Class A shares at NAV) | | - | - | 65% (393 of 607) | 66% (347 of 577) | 82% (427 of 539) | 60% (237 of 405) | - |

## Calendar year total returns (%)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|---|
| Class A shares at NAV | 39.90 | 7.67 | -1.84 | 11.30 | 24.91 | -9.01 | 24.28 | 57.00 | 7.33 | -35.60 |
| Class R6 shares at NAV | 40.53 | 8.21 | -1.38 | 11.85 | 25.49 | -8.58 | 24.86 | 57.70 | 7.80 | -35.35 |
| Class Y shares at NAV | 40.24 | 7.95 | -1.59 | 11.56 | 25.25 | -8.80 | 24.59 | 57.38 | 7.61 | -35.44 |
| Russell 2000 Growth Index | 43.30 | 5.60 | -1.38 | 11.32 | 22.17 | -9.31 | 28.48 | 34.63 | 2.83 | -26.36 |

Expense ratios per the current prospectus: Class A: Net: 1.14%, Total: 1.14%; Class R6: Net: 0.70%, Total: 0.70%; Class Y: Net: 0.89%, Total: 0.89%.

**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. 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.**

## Portfolio characteristics*

| | Fund | Index |
|---|---|---|
| No. of holdings | 117 | 1,095 |
| Top 10 issuers (% of AUM) | 15.21 | 5.84 |
| Wtd. avg. mkt. cap ($M) | 6,019 | 3,326 |
| Price/earnings | 21.61 | 16.41 |
| Price to book | 3.70 | 3.45 |
| Est. 3 – 5 year EPS growth (%) | 15.08 | 16.31 |
| ROE (%) | 8.13 | 10.23 |
| Long-term debt to capital (%) | 36.43 | 36.87 |
| Operating margin (%) | 10.29 | 11.12 |

## Risk statistics (5 year)*

| | Fund | Index |
|---|---|---|
| Alpha (%) | 0.92 | 0.00 |
| Beta | 1.00 | 1.00 |
| Sharpe ratio | 0.15 | 0.12 |
| Information ratio | 0.14 | 0.00 |
| Standard dev. (%) | 25.04 | 24.30 |
| Tracking error (%) | 5.67 | 0.00 |
| Up capture (%) | 106.21 | 100.00 |
| Down capture (%) | 100.31 | 100.00 |
| Max. drawdown (%) | 42.48 | 33.43 |

# Quarterly performance attribution

## Sector performance analysis (%)

| Sector | Allocation effect | Selection effect | Total effect |
|---|---|---|---|
| Communication Services | 0.00 | 0.21 | 0.21 |
| Consumer Discretionary | 0.14 | -0.79 | -0.65 |
| Consumer Staples | -0.06 | -0.13 | -0.19 |
| Energy | 0.27 | 0.17 | 0.43 |
| Financials | 0.03 | 0.00 | 0.02 |
| Health Care | 0.07 | 0.07 | 0.13 |
| Industrials | 0.00 | -0.21 | -0.21 |
| Information Technology | 0.34 | 1.28 | 1.62 |
| Materials | -0.14 | -0.01 | -0.14 |
| Real Estate | 0.02 | 0.22 | 0.24 |
| Utilities | -0.01 | -0.04 | -0.05 |
| Cash | 0.00 | 0.00 | 0.00 |
| **Total** | **0.67** | **0.76** | **1.42** |

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 03/31/23. Unless stated otherwise, Index refers to Russell 2000 Growth Index.

The Russell 2000® Growth Index is an unmanaged index considered representative of small-cap growth 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.

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

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.

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. **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. **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. **Information Ratio** is a measurement of portfolio returns beyond the returns of a benchmark, usually an index, compared to the volatility of those 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. **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**

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