Invesco Real Estate Fund

Q4 2023

Key takeaways

1 The fund delivered a strong absolute return but underperformed its benchmark

The fund underperformed its benchmark, the FTSE Nareit All Equity REITs Index, due to its limited exposure to economically sensitive real estate sectors.

2 The fund is positioned for stable growth

The fund is balanced between structural growth opportunities and cyclical property types trading at reasonable valuations. Overall, the fund is positioned toward sectors with more favorable long-term fundamentals and better tenant health.

3 REITs appear attractive, but economic conditions have remained challenging

Relative to general equities, listed real estate has historically delivered strong returns after US Federal Reserve (Fed) rate hikes end as interest rate sensitive sectors draw investor attention.

Investment objective

The fund seeks total return through growth of capital and current income.

Fund facts

Fund AUM ($M)	1,176.48

Portfolio managers

Darin Turner, Grant Jackson, James Cowen, Ping-Ying Wang

Manager perspective and outlook

- Falling interest rates, stable growth conditions and higher risk appetite drove US REITs to their highest quarterly return since 2009.
- Performance for US REITs was led by cyclically exposed and interest rate sensitive sectors like malls, office, towers and self-storage. More defensive sectors like health care, single family rentals, casinos and data centers underperformed.
- As inflation concerns have abated, the prospect of easing financial conditions is a notable positive for real estate asset values and is in our view likely to outweigh the effects of slower earnings growth resulting from orderly deceleration in the economy. Earnings growth has remained positive and is unlikely in our view to deliver surprises as fundamental trends have been stable and interest expense may decline.
- We believe investors are likely to reward companies that experience stronger operating conditions than their peers or take advantage of improving financing conditions.
- Public REITs have still been trading at a discount to private market valuations but have been consistent with recent credit market conditions and the forward yield curve. Ultimately, future real estate valuations will likely largely be determined by capital market conditions, debt financing costs and prospects for cash flow growth – all of which have in our view a wide range of possible outcomes over the next 12-24 months.

Top issuers
(% of total net assets)

	Fund	Index
American Tower Corp	9.14	7.79
Welltower Inc	6.93	3.75
Rexford Industrial Realty Inc	4.81	0.91
Digital Realty Trust Inc	4.49	3.15
SBA Communications Corp	4.40	2.11
Prologis Inc	4.18	9.53
UDR Inc	4.14	0.97
Realty Income Corp	3.89	3.22
Alexandria Real Estate Equities Inc	3.69	1.68
Healthpeak Properties Inc	3.62	0.84

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

Portfolio positioning

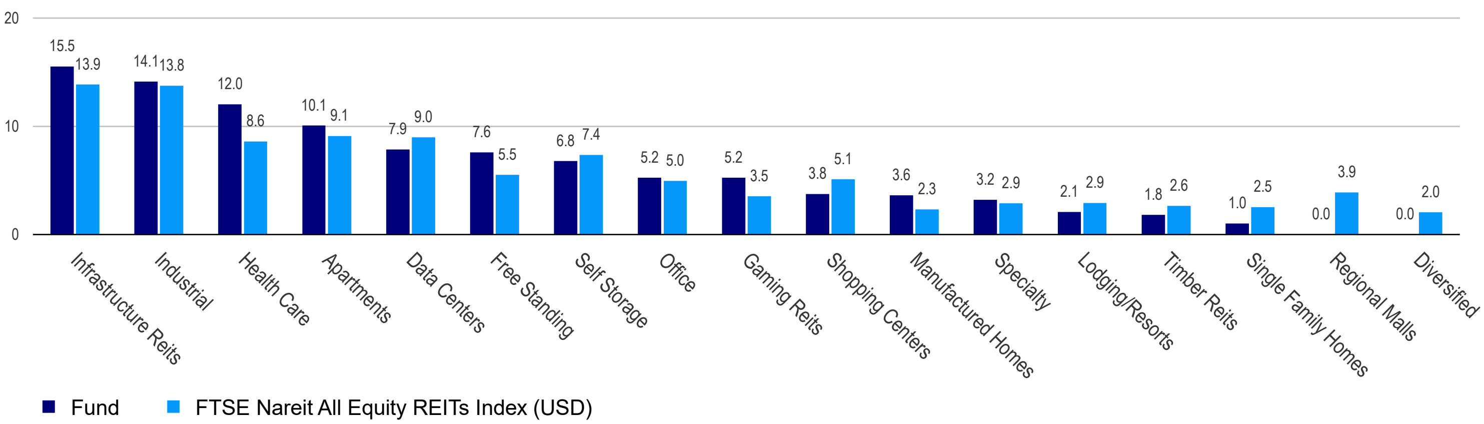
The fund has overweight exposures in structural growth opportunities, some defensive property types with more income durability, and some cyclical property types where valuations have in our view become attractive. Key overweights include health care, towers and specialty sectors such as billboard and timber. The fund has underweights in retail, single family rental and office REITs.

Overall, the fund is positioned for stable growth with more favorable long-term fundamentals and better tenant health. The fund generally has underweights in consumer-facing, economically sensitive REITs and sectors facing structural headwinds. Recent changes to the fund added exposure to stocks and sectors that have remained discounted relative to private market values and are expected to have improving growth prospects.

We increased the fund's exposure to self-storage, timber, life science and apartment companies, which appear more attractive in our revised outlook given that all can likely benefit from improved capital markets and a stronger housing industry. Conversely, reductions have included shopping centers, casinos, manufactured housing and single-family rental, whose relative valuations appear less attractive after outperformance and improving growth rates elsewhere.

The fund maintains overweight exposures in medical office, life science and tower REITs, which have continued to offer opportunities due to discounted valuations. The fund also has underweight exposures in consumer-facing regional mall and shopping center REITs, where relative value has deteriorated and which may face headwinds from reduced goods consumption. The fund is underweight data centers because share prices appear to already reflect optimism from AI-fueled demand. The fund's investment strategy remains balanced with elements of both relative value and quality across the portfolio. Relative valuation considerations following periods of out- and underperformance have continued to influence investment activity.

Sector breakdown (% of total net assets)



Top contributors (%)

Issuer	Return	Contrib. to return
American Tower Corporation	33.66	2.98
SBA Communications Corp. Class A	27.20	1.19
Welltower Inc.	10.86	0.97
Alexandria Real Estate Equities, Inc.	27.89	0.94
Prologis, Inc.	19.56	0.92

Top detractors (%)

Issuer	Return	Contrib. to return
Americold Realty Trust, Inc.	0.26	-0.08
Extra Space Storage Inc.	-2.37	-0.06
Highwoods Properties, Inc.	2.91	0.00
OUTFRONT Media Inc.	6.81	0.00
Four Corners Property Trust, Inc.	0.00	0.00

Performance highlights

Invesco Real Estate Fund had a positive absolute return but underperformed its benchmark.

Contributors to performance

Key contributors to absolute return included exposures in industrial, health care and data center REITs. The industrial sector enjoys a growth premium over other REIT sectors despite some deceleration in market rents. Though the rental growth rate for industrials has slowed, we still expect several years of strong cash flow growth as industrial landlords capture favorable mark-to-market leasing spreads.

In health care, senior housing operating trends continue to recover from COVID and there are attractive external growth opportunities for those with low cost of capital. Data centers continue to benefit from activities related to artificial intelligence (AI), especially companies with larger capacity footprints.

Relative to its benchmark, the fund benefited from an overweight in infrastructure, which outperformed on expectations for falling interest rates. Infrastructure REITs have long duration assets and significant refinancing activities, which benefit from lower interest rates.

An underweight in the multifamily sector was beneficial as fundamentals decelerate due to oversupply, particularly in Sunbelt markets. Demand has returned to normal seasonality trends and excess supply may persist through most of 2024, leading to weak operating results.

Detractors from performance

Key detractors from relative return included overweights in more defensive property types with durable cash flows, including gaming, health care and triple net retail, along with underweights in more cyclical property types, including lodging, self-storage and malls.

Macroeconomic forecasts at the start of the quarter indicated worsening economic conditions as several leading indicators showed persistent deceleration. The fund was overweight in gaming, health care and triple net REITs, all of which lagged as durable cashflows were not rewarded. Though expectations for cash flow growth and leasing opportunities were unchanged, risk appetites, interest rate outlooks and investor optimism unexpectedly improved.

Optimism about slowing inflation and an end to Fed rate hikes boosted investors' appetites for sectors with more cyclical exposure, including lodging, self-storage and mall REITs, which outperformed and further hampered fund results.

An underweight in mall REITs was the largest detractor from relative return as the sector benefited from investors' shift toward cyclically exposed stocks and resilient consumer spending that has driven solid leasing results. Additionally, mall REITs have higher leverage and significant annual refinancing activity so they benefit from lower interest rates. An overweight in gaming REITs also detracted from relative return as investors did not reward the durable cash flows offered by the sector.

Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class C shares inception: 05/01/95	NAV	16.33	7.89	7.89	4.06	4.81	5.73	9.03
Class A shares inception: 12/31/97	NAV	16.57	8.75	8.75	4.86	5.62	6.37	8.19
	Max. Load 5.5%	10.13	2.74	2.74	2.91	4.44	5.77	7.97
Class R6 shares inception: 09/24/12	NAV	16.67	9.21	9.21	5.30	6.09	6.85	6.36
Class Y shares inception: 10/03/08	NAV	16.66	9.04	9.04	5.13	5.88	6.63	7.08
FTSE Nareit All Equity REITs Index (USD)		17.98	11.36	11.36	5.70	7.59	7.95	-
Total return ranking vs. Morningstar Real Estate category (Class C shares at NAV)		-	-	97% (249 of 252)	72% (181 of 236)	87% (192 of 215)	82% (132 of 156)	-

Expense ratios per the current prospectus: Class C: Net: 1.99%, Total: 1.99%; Class A: Net: 1.24%, Total: 1.24%; Class R6: Net: 0.81%, Total: 0.81%; Class Y: Net: 0.98%, Total: 0.98%.

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. 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.

No contingent deferred sales charge (CDSC) will be imposed on redemptions of Class C shares following one year from the date shares were purchased. Performance shown at NAV does not include sales charges, 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 C shares at NAV	27.14	0.97	5.03	7.61	-6.35	26.76	-11.43	39.90	-25.34	7.89
Class A shares at NAV	28.12	1.72	5.80	8.43	-5.66	27.78	-10.77	40.99	-24.80	8.75
Class R6 shares at NAV	28.69	2.16	6.28	8.96	-5.20	28.32	-10.32	41.60	-24.49	9.21
Class Y shares at NAV	28.40	1.98	6.06	8.66	-5.38	28.11	-10.58	41.38	-24.63	9.04
FTSE Nareit All Equity REITs Index (USD)	28.03	2.83	8.63	8.67	-4.04	28.66	-5.12	41.30	-24.95	11.36

Portfolio characteristics*

	Fund	Index
No. of holdings	37	140
Wtd. avg. mkt. cap ($M)	35,451	42,237
Top 10 issuers (% of AUM)	49.30	47.00
Earnings multiple	18.20	17.80
Expected earnings growth (%)	2.68	0.94
Multiple to growth ratio	6.79	18.96
Leverage (%)	27.60	29.96

Risk statistics (5 year)*

	Fund	Index
Alpha (%)	-2.45	0.00
Beta	0.97	1.00
Sharpe ratio	0.15	0.28
Information ratio	-1.15	0.00
Standard dev. (%)	20.20	20.69
Tracking error (%)	2.41	0.00
Up capture (%)	85.53	100.00
Down capture (%)	100.35	100.00
Max. drawdown (%)	32.85	31.37

Quarterly performance attribution

Sector performance analysis (%)

Sector	Allocation effect	Selection effect	Total effect
Apartments	0.40	0.03	0.43
Data Centers	0.05	0.02	0.06
Diversified	-0.05	0.00	-0.05
Free Standing	0.01	-0.15	-0.14
Gaming Reits	-0.34	-0.03	-0.37
Health Care	-0.25	0.08	-0.17
Industrial	0.10	-0.67	-0.57
Infrastructure Reits	0.22	0.07	0.30
Lodging/Resorts	-0.05	0.02	-0.02
Manufactured Homes	-0.13	0.15	0.02
Office	0.03	0.12	0.15
Regional Malls	-0.57	0.00	-0.57
Self Storage	-0.17	-0.15	-0.32
Shopping Centers	0.02	0.06	0.08
Single Family Homes	0.10	0.01	0.11
Specialty	-0.05	0.12	0.07
Timber Reits	0.14	0.01	0.14
Cash	-0.05	0.00	-0.05
Total	**-0.59**	**-0.30**	**-0.89**

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 FTSE Nareit All Equity REITs Index (USD).

The FTSE NAREIT All Equity REITs Index is an unmanaged index considered representative of U.S. REITs. An investment cannot be made directly in an index.

About risk

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.

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 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.

Mortgage- and asset-backed securities are subject to prepayment or call risk, which is the risk that the borrower's payments may be received earlier or later than expected due to changes in prepayment rates on underlying loans. Securities may be prepaid at a price less than the original purchase value.

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.

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.

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. **Earnings multiple –** Security price/expected earnings of the next 12 months. Earnings are defined as adjusted funds from operations (AFFO), funds from operations (FFO), or equivalent. **Multiple to growth ratio—**Earnings multiple/expected earnings growth over the next 12 months. Earnings are defined as adjusted funds from operations (AFFO), funds from operations (FFO), or equivalent. **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.