

Invesco Emerging Markets Local Debt Fund

Monthly Report June 2024 (covering May)

Fund manager(s)



Hemant Bajjal
Fund Manager



Wim Vandenhoek
Fund Manager

Investment Risks

For complete information on risks, refer to the legal documents. The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested. Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Changes in interest rates will result in fluctuations in the value of the fund. The fund uses derivatives (complex instruments) for investment purposes, which may result in the fund being significantly leveraged and may result in large fluctuations in the value of the fund. As a large portion of the fund is invested in less developed countries, you should be prepared to accept significantly large fluctuations in the value of the fund. The fund may invest in certain securities listed in China which can involve significant regulatory constraints that may affect the liquidity and/or the investment performance of the fund. Investments in debt instruments which are of lower credit quality may result in large fluctuations in the value of the fund. The fund may invest in distressed securities which carry a significant risk of capital loss.

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Summary of fund objective

The Fund is actively managed. The Fund aims to generate income, together with long term capital growth. The Fund seeks to achieve its objective by investing a minimum of 80% of the NAV of the Fund in debt securities of issuers that are economically tied to emerging market countries and which are denominated in local currencies. The investment concerns the acquisition of units in a fund and not in a given underlying asset.

Fund Performance

The Invesco Emerging Market Local Debt Fund Z-Acc (USD) fund had a solid performance last month, underperforming its reference benchmark by -0.13bps (+1.48% vs +1.61%). The fund is also underperforming its reference benchmark for the year-to-date time period by -0.28bps (-2.94% vs -2.66%). The reference benchmark performance for the month was influenced by higher rates and stronger FX, partially offset by monthly income. From an alpha perspective, the fund overweight positions in duration and FX in Colombia, as well as overweight positions in Chilean Peso (CLP), Turkish Lira (TRY), and Egyptian Pound (EGP), contributed positively to performance. However, being overweight Brazil duration had a negative impact on performance. The team was able to capitalize from active trading in the South African Rand (ZAR) around the most recent election.

Fund Positioning

During the month, we maintained our FX exposure at levels ranging between 103% and 105%. We decreased our holdings in both the Colombian Peso (COP) and Chilean Peso (CLP) during the market upturn, while adding positions in the South Korean Won (KRW), Turkish Lira (TRY), and Brazilian Real (BRL) amid their weakness. Additionally, we scaled back our positions in the Euro (EUR) against the Czech Koruna (CZK) and Polish Zloty (PLN) as both currency pairs moved back to their fair values. In terms of rates, we increased our overweight position in Peru while decreasing the US rate hedges. The overall duration overweight for the portfolio remained between 0.2 and 0.3 throughout the month. The recent election in South Africa saw the African National Congress (ANC) securing the majority of seats, but still falling short of expectations. This has triggered speculation on the formation of a coalition government. Pre-election polls had suggested the ANC would secure close to 45% of the vote, paving the way for an easy coalition government and allowing Ramaphosa to push forward with his reform plans. However, the ANC managed to secure only 40% of the vote, surprising market participants. This outcome will most likely bring volatility in asset prices over the next few weeks, but we anticipate that the ANC will eventually form a government, and Ramaphosa will continue with his reform agenda. Ahead of the election, our team had reduced exposure to the South African rand and maintained a neutral stance on duration. We are now seeking opportunities to increase our exposure in South Africa, anticipating policy to be unchanged in the future.

Outlook

From a monetary perspective, EM central banks continued to lower interest rates, but they took on a more cautious approach, often influenced by the change in Fed expectations. In Latin America, Peru proceeded with another 25bps point rate cut while indicating potential further reductions, possibly below the Fed's rate. On the other hand, Chile and Brazil both reduced the pace of cuts to 50bps and 25bps respectively. In addition, both the Czech Republic and Hungary reduced rates by 50bps, maintaining the current speed of reductions, but suggested that the next cut might come at a slower pace. It appears that we are slowly approaching the beginning of the Fed cycle. The US growth data for the second quarter has been in line with or below expectations, with revisions consistently coming in lower. These factors, alongside a disinflation process that has held limited surprises, provide us with cautious confidence that EM central banks will shift their focus to domestic cycles after dealing with external shocks in the initial part of the year. As we enter this phase of the cycle, we anticipate greater differentiation on the rate side due to domestic policies, as opposed to the FX side, which will be influenced more by the strength or weakness of the USD. Overall, the asset class is in great shape. Robust carry, healthy growth, and favorable interest rate differentials with developed markets present a favorable outlook for EMs in the second half of the year. Additionally, the unique local narratives within EM further contribute to a diverse and lucrative opportunity set.

Fund Facts

Z-share ISIN	LU2040203619
Bloomberg	INMLDZU LX
Domicile	Luxembourg
AuM	871.71m USD
Launch Date	26 Aug 2019 *
Reference Index**	JP Morgan GBI-EM Global Diversified Composite Index EUR (Total Return)

Fund Managers*** Hemant Bajjal and Wim Vandenhoeck

** The benchmark index is shown for performance comparison purposes only. The fund does not track the index.

*** Hemant Bajjal and Wim Vandenhoeck, since August 2019

Fund Characteristics

(Annualised Data)

	3Y	5Y
Alpha (statistical)	N/A	N/A
Batting Average	N/A	N/A
Gain/Loss Ratio	0.95	1.11
Information Ratio	N/A	N/A
Sharpe Ratio	-0.43	-0.10
Tracking Error	N/A	N/A

Awards & Gradings



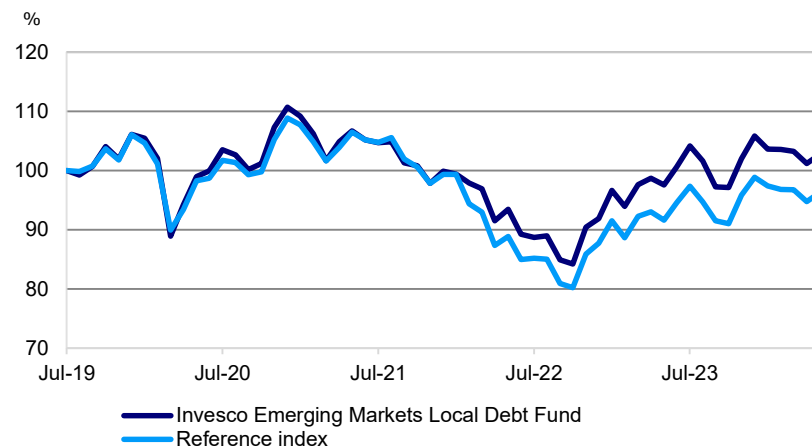
Morningstar Rating 31.05.24

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Past performance does not predict future returns.

Performance (USD) ^{1, 2}

Since Inception Active Return



	YTD	YTQ	1M	1Y	3Y	Since Inception*
Cumulative Fund (Z-shares)	-2.94	-2.44	1.48	5.25	-3.78	2.70
Reference Index	-2.66	-2.12	1.61	5.09	-9.61	-3.75
Active return	-0.28	-0.32	-0.13	0.16	5.83	6.45

Calendar Year	2019	2020	2021	2022	2023
Fund (Z-shares)	-	4.33	-9.78	-7.95	15.12
Reference Index	-	2.69	-8.75	-11.68	12.70

Rolling 12 Months	31.05.14	31.05.15	31.05.16	31.05.17	31.05.18
	31.05.15	31.05.16	31.05.17	31.05.18	31.05.19
Fund (Z-shares)	-	-	-	-	-
Reference Index	-	-	-	-	-
Peer Group	-	-	-	-	-

	31.05.19	31.05.20	31.05.21	31.05.22	31.05.23
	31.05.20	31.05.21	31.05.22	31.05.23	31.05.24
Fund (Z-shares)	-	7.87	-12.43	4.41	5.25
Reference Index	-	8.39	-16.55	3.06	5.09
Peer Group	-	8.74	-14.21	2.91	5.40

Source fund/sector: Morningstar as of 31 May 2024

Source index: RIMES as at 31 May 2024, on a total return basis in USD

Peer Group: Morningstar Category EAA Fund Global Emerging Markets Bond - Local Currency

¹Fund returns are inclusive of gross income re-invested and net of the ongoing charge and portfolio transaction costs, cumulative, in fund currency. The figures do not reflect the entry charge payable by individual investors. Returns may increase or decrease as a result of currency fluctuations.

²A discretionary cap on multiple components of the total costs is maintained. This discretionary cap may positively impact the performance of the Share Class.

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