Invesco Emerging Market Local Currency Debt Fund

Investment Process

Universe Definition

The fund primarily invests in emerging market local currency debt securities, including sovereign, quasi-sovereign corporate and supranational bonds.

Fund Design

- The fund's duration is designed to be within ± two years of the J.P. Morgan GBI-EMGD.
- The fund's number of holdings ranges between 50 and 100.
- The fund invests at least 80% of total assets in emerging market local-currency-denominated debt securities.

Investment Decision Making

Top-down. Investment decisions are based on macroeconomic and market analysis of relevant factors, including:

- Duration and yield curve
- Geo-political environment
- Currency positioning
- Credit markets

Bottom-up. Investment decisions for individual securities are made using intensive fundamental credit research and analysis of:

- Credit quality
- Real effective exchange rates
- Relative value
- Liquidity

Portfolio Construction

Portfolio managers implement analyst recommendations in order to construct a diversified, liquid and flexible portfolio.

Evaluation

Ongoing oversight through:

- Design
- Investment decisions
- Portfolio construction
- Invesco Fixed Income
- Invesco compliance, audit and GPMR teams

Investment objective

The fund seeks total return and current income by investing in a flexible allocation of emerging market debt securities, including sovereign, quasi-sovereign corporate and supranational bonds, and financial derivative instruments denominated in the currency of emerging market countries.

Investment philosophy

We believe dynamic and complex fixed income markets may create opportunities for investors that are best captured by independent specialist decision makers interconnected as a global team. Using this philosophy, we seek to provide income and long-term capital growth by investing in debt securities and derivative instruments.

Universe definition

We primarily invest in sovereign, quasi-sovereign corporate and supranational debt securities denominated in their local currencies and issued in emerging market countries as defined by the International Monetary Fund. The J.P. Morgan Government Bond Index – Emerging Markets (GBI-EM) Global Diversified serves as a reference index because it contains a broad mix of emerging market debt instruments. Investments in noninvestment-grade debt, unrated securities and countries not listed in the J.P. Morgan GBI-EMGD are allowed if the portfolio management team deems them appropriate for the strategy's investment objectives.

At least 80% of total assets must be invested in emerging market local-currency-denominated debt, and up to 100% of total assets may be invested in emerging market local-currency-denominated debt. Emerging market corporate bond issuers typically must have at least US $250 million in outstanding debt to be considered for the portfolio.

Security selection

Our security selection process simultaneously uses bottom up and top down analysis. We develop a base case risk scenario combining the global resources throughout Invesco Fixed Income, external research sources and our own analysis. This determines the amount of beta we are comfortable with and provides the context for portfolio positioning relative to the economic cycle and target portfolio risk levels. Our bottom up research entails using proprietary econometric models, monetary/fiscal policy analysis and country visits, in order to establish currency and interest rate views for each market that we cover. Other specialists within Invesco Fixed Income provide additional direction and analysis on currencies. With this information, we establish forward-looking currency and interest rate views for each emerging market. Bottom-up research includes country visits and effective exchange rate analysis.

Portfolio construction

We use a dynamic portfolio construction process to create the fund's portfolio. A proprietary product design tool factors in product investment parameters, market opportunities and realistic decision-making skills to determine the combination and size of active investment decisions. Portfolio managers then implement investment recommendations from our global team of investment specialists according to the fund's design to minimize risk and meet the team's portfolio return expectations. Our goal is to produce attractive income and long-term capital growth while seeking to minimize risk. Portfolios are continuously reviewed in an effort to maximize opportunities in the prevailing emerging market fixed income investment environment while maintaining liquidity and flexibility.

Risk management

Our risk management process combines the evaluation of macroeconomic portfolio risks, strong commitment to portfolio construction oversight, and post-performance returns and risk oversight. Risk management begins at the portfolio design phase when portfolio guidelines are created to provide diversification and identify optimal exposure to achieve portfolio objectives. Investment decisions are recorded and evaluated, allowing us to learn from our decision-making process. Daily monitoring ensures that the portfolio adheres to the established risk guidelines. Finally, our oversight structure allows us to confirm that portfolio results are evaluated within the risk framework of Invesco Fixed Income and the Invesco compliance, audit and global performance measurement and risk (GPMR) teams.

Sell discipline

We may sell a holding when:

- Foreign exchange rates or interest rates are inconsistent with the original investment thesis.
- Debt securities meet or exceed foreign exchange rate or interest rate objectives.
- We find new opportunities from a relative value perspective.

About risk

Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

There is a risk that the Federal Reserve Board (FRB) and central banks may raise the federal funds and equivalent foreign rates. This risk is heightened due to the potential "tapering" of the FRB's quantitative easing program and other similar foreign central bank actions, which may expose fixed income investments to heightened volatility and reduced liquidity, particularly those with longer maturities. As a result, the value of the Fund's investments and share price may decline. Changes in central bank policies could also increase shareholder redemptions, which may increase portfolio turnover and fund transaction costs.

An issuer may be unable to meet interest and/or principal payments, thereby causing its instruments to decrease in value and lowering the issuer's credit rating.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

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 Fund is non-diversified and may experience greater volatility than a more diversified investment.

The fund is subject to certain other risks. Please see the prospectus for more information regarding the risks associated with an investment in the fund.

Explore Intentional Investing with Invesco®

FOR US INSTITUTIONAL INVESTOR USE ONLY — NOT FOR USE WITH THE PUBLIC

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their advisors for a prospectus/summary prospectus or visit invesco.com/fundprospectus.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

Diversification does not guarantee a profit or eliminate the risk of loss.

The J.P. Morgan Government Bond Index — Emerging Markets (GBI-EM) Global Diversified is a comprehensive global local emerging markets index, and consists of regularly traded liquid fixed-rate domestic currency government bonds.