Municipal bond investing
A closer look at tax-exempt debt

High yield
Short duration high yield
Long-term
Intermediate-term
AMT-free
State-specific
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Invesco’s national municipal strategies target various maturities and credit ratings
Municipal bonds have financed vital infrastructure throughout the United States for over 200 years.

**Financing America’s infrastructure**

Municipal bonds are essentially the building blocks of a community. They have played a pivotal role in building the framework for America's modern infrastructure. As illustrated in the time line below, municipal bonds were a major source of financing for canals, roads and railroads during the country's westward expansion in the 1800s. Today, the proceeds from municipal debt continue to fund these projects, as well as a wide range of state and local infrastructure components, including schools, hospitals, universities, airports, bridges, highways and water and sewer systems.

Municipal bonds are debt obligations issued by states, cities, counties and other governmental entities. When you purchase a municipal bond, you lend to build schools, highways, hospitals, sewer systems, and many other projects for the public good. In return, the government entity promises to pay a specified amount of interest – usually paid semiannually – and return the principal to you on a specific maturity date.

**The importance of municipal bonds in the development of US infrastructure**

Notable events in history for the municipal bond market:

- **1776**: The Declaration of Independence is signed.
- **1807**: Municipal bonds finance building canals, roads and railroads in westward expansion.
- **1812**: New York City issues the first general obligation bond.
- **1820**: New York State bonds are used to finance the Erie Canal project.
- **1890**: Rapid population growth begins 25-year infrastructure boom.
- **1900**: New York State Port Authority issues first revenue bond.
- **1926**: Most states in the US enact legislation allowing for the issuance of revenue bonds.
- **1950**: Municipal Securities Rulemaking Board is established.
- **1969**: Tax Reform Act of 1969 introduces the Minimum Tax, known today as the Alternative Minimum Tax.
- **1975**: Municipal market size reaches $14.9 billion.
- **1980**: Municipal market size reaches $3.8 trillion.
- **2017**: Municipal market size reaches $3.8 trillion.

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1 Source: Feldstein, Sylvan G. and Fabozzi, Frank J. The Handbook of Municipal Bonds. Copyright © 2008 by John Wiley & Sons, Inc. All rights reserved.

2 Source: Federal Reserve, as of Sept. 30, 2017 (latest available data).
Weighing the tax benefits of investing in municipal securities

Tax advantages are among the many reasons to consider investing in municipal bonds. Interest income from municipal bonds is often exempt from federal taxes. Additionally, bonds issued from entities within a certain state are often exempt from taxation to residents in that state. Occasionally, bonds issued from entities within a certain municipality or region are exempt from taxes in that municipality, possibly providing triple tax exemption — federal, state and local.¹

Earning tax-free income

One of the best ways to gauge the tax-exempt advantage of a municipal bond is to compare its yield to that of a comparable taxable investment. The table below shows the tax-equivalent yield based on the individual federal income tax rates for municipal bonds yielding 3.0%, 4.0% or 5.0%. For example, an investor in the 37% marginal federal income tax bracket who earns a 5.0% yield from a municipal bond would need to earn a 7.9% yield from a taxable investment to produce an equivalent amount of after-tax interest.

<table>
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<tr>
<th>Municipal bonds offer attractive taxable equivalent yields</th>
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<tbody>
<tr>
<td>Regular federal tax exempt yield (%)</td>
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<tr>
<td>Federal tax rate (%)</td>
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<td>10</td>
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<td>12</td>
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Based on 2018 federal tax rates. For illustrative purposes only. Taxable equivalent = (tax-deferred interest rate) x [1 / (1 − your tax bracket)]. These numbers are for illustrative purposes only and are not a representation of future yields. Actual yields may be lower or higher than the example. Income exempt from regular federal income tax may be subject to the US federal alternative minimum tax, as well as state and local taxes. It is important to note that the tax advantages of municipal bonds affect only the interest they pay. Gains or losses from the sale of these bonds are taxed as capital gains or losses.

¹ Some income and interest on out-of-state bonds may be subject to state and local taxes and to the federal alternative minimum tax (AMT). Capital gains, if any, are subject to tax.
Dynamic municipal capabilities to meet investors’ evolving needs

Our management philosophy is based on the belief that creating long-term value through comprehensive forward-looking research is the key to providing clients with investment strategies that are both consistent and successful.

Our investment process
Proprietary credit research and risk management are the foundations of our investment process, supported by a deep and experienced team of investment professionals with expertise that spans the entire municipal investment universe. We maintain an integrated, team-based investment process that combines the strength of our fundamental credit research staff with the market knowledge and investment experience of our portfolio managers.

Our position among the top 10 municipal managers¹ allows us the ability to access preferred market opportunities and gain valuable market insight. The Invesco Municipal Team has established relationships with over 120 national and regional tax-exempt debt dealers. These established relationships as well as our size, allow us to achieve superior execution in daily transactions. Our ability to aggregate trades across multiple funds allows us to obtain lower, institutional pricing which can be additive to fund performance. This value oriented combination of proprietary research and integrated risk management allows us to create highly diversified portfolios that aim to maximize risk-adjusted returns.

The four pillars of our philosophy²

1. **Team of specialists.** At Invesco, our team of dedicated municipal bond professionals have an average of over 20 years of industry experience.

2. **Top 10 municipal manager.** Invesco’s municipal complex manages over $27 billion on behalf of our clients and is ranked among the top 10 municipal bond managers by assets.¹

3. **Fundamental research.** Our dedicated municipal credit analysts are among the most seasoned in the industry. The team completes thorough analysis of current opportunities in the municipal universe as well as on-going surveillance of those issuers held, to identify opportunities to add alpha³ or reduce exposure to deteriorating credits. Site visits are an important part of our bottom-up fundamental research process. Credit analysts perform anywhere from 100-200 site visits and management conference calls per year. This specialization means that every bond is thoroughly vetted before making it into one of our portfolios.

4. **Active investing.** Our investment experts make informed decisions by combining experience-based knowledge with market trends to uncover relative value opportunities.

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¹ Source: Alpha Strategic Insight Simfund/MF Desktop, based on assets under management as of Dec. 31, 2017
² Data as of Dec. 31, 2017
³ Alpha refers to the fund’s risk-adjusted return. It is calculated by comparing the volatility of a fund to the risk-adjusted performance of a benchmark index. The alpha of the fund is the excess return compared to that of the index.
Invesco offers municipal investment strategies that span the risk spectrum

Just as planning and funding infrastructure was essential to growing the nation, selecting the right municipal bond investment is essential to achieving your portfolio objective.

Choosing the right municipal bond investment
At Invesco, we understand that investors need a variety of choices to meet their financial goals within their risk tolerance. That’s why we offer eight mutual funds and three separately managed accounts (SMAs) that invest in municipal bonds and provide a wide range of:

- Credit qualities – from investment grade to high yield
- Maturities – from short-intermediate to long-term
- Geographies – from national to state-specific

Invesco offers various strategies that invest primarily in municipal bonds
Strategies designed to meet a variety of objectives

<table>
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Invesco manages over $27 billion in municipal assets under management

1 Data as of Dec. 31, 2017

A separately managed account (SMA) is a private portfolio of actively managed, individual securities. SMAs differ from pooled vehicles like mutual funds in that each portfolio can be customized so that it is unique to a single account, and they are typically offered to high-net-worth and institutional investors seeking more specialized services. Minimum investment amount is $200,000 for each of the following: Invesco Limited Term Municipal Income SMA, Invesco Intermediate Term Municipal Income SMA, and Invesco Long Municipal Income SMA.

Separately managed accounts are offered by Invesco Advisers, Inc., which provide investment advisory services and do not sell securities. Invesco Distributors, Inc. is the US distributor for Invesco Ltd. Invesco Advisers, Inc. and Invesco Distributors, Inc., are indirect, wholly owned subsidiaries of Invesco Ltd.
Invesco offers five national municipal bond mutual funds for investors seeking tax-free income.

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<th>Maturity target</th>
<th>Credit quality target</th>
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| Investors have a choice of various maturity and credit quality targets to help them build wealth.

**Invesco Limited Term Municipal Income Fund**
- Maturity: Short, Intermediate, Long
- Credit Quality: Investment Grade, High Yield

**Invesco Intermediate Term Municipal Income Fund**
- Maturity: Short, Intermediate, Long
- Credit Quality: Investment Grade, High Yield

**Invesco Municipal Income Fund**
- Maturity: Short, Intermediate, Long
- Credit Quality: Investment Grade, High Yield

**Invesco Short Duration High Yield Fund**
- Maturity: Short, Intermediate, Long
- Credit Quality: Investment Grade, High Yield

**Invesco High Yield Municipal Fund**
- Maturity: Short, Intermediate, Long
- Credit Quality: Investment Grade, High Yield
About risk
Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer’s ability to make payments of principal and/or interest.

The funds may invest in municipal securities issued by entities having similar characteristics. The issuers may be located in the same geographic area or may pay their interest obligations from revenue of similar projects. This may make the fund’s investments more susceptible to similar social, economic, political or regulatory occurrences. As the similarity in issuers increases, the potential for fluctuation in the fund’s net asset value also increases.

Junk bonds involve a greater risk of default or price changes due to changes in the issuer’s credit quality. The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

Market prices of municipal securities with intermediate lives generally fluctuate more in response to changes in interest rates than do market prices of municipal securities with shorter lives but generally fluctuate less than market prices of municipal securities with longer lives.

The income you receive from the fund is based primarily on prevailing interest rates, which can vary widely over the short- and long-term. If interest rates drop, your income may drop as well.

All fixed-income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

The funds’ distributions primarily are exempt from regular federal income tax. A portion of these distributions, however, may be subject to the federal alternative minimum tax and state and local taxes. The fund may also make distributions that are taxable to you as ordinary income or capital gains.

Please see the “Principal Risks of Investing in the Funds” section of the prospectus available at www.invesco.com/fundprospectus for a detailed description of specific risks associated with the funds.