Invesco Short Term Bond Fund

Investment Process

Universe Definition

- Investment-grade corporate bonds
- Mortgage and asset-backed securities (MBS & ABS)
- US government and agency securities
- USD denominated foreign securities (developed and emerging markets)
- Noninvestment-grade securities

Fund Design

- Attempt to maintain an average effective portfolio maturity of less than three years
- Benchmarked to the Barclays 1-3 Year Government/Credit Index

Investment Decision Making

Top-down. Macroeconomic and market analysis is conducted to formulate independent investment decisions on relevant macro investment factors:

- Duration and yield curve
- Market segments (Gov't., Corp., MBS)
- Sector/subsector selection

Bottom-up. Intensive fundamental credit and technical research is performed to arrive at independent investment decisions regarding individual securities. The team analyzes:

- Security structure and underlying collateral
- Credit dynamics and quality
- Relative value opportunities
- Price volatility and liquidity consideration

Portfolio Construction

Portfolio management and trading skills used to implement the many investment decisions that affect the fund.

Risk Management and Oversight

Several layers of ongoing oversight:

- Design
- Decisions
- Portfolio construction
- Invesco Fixed Income oversight

Investment objective

The fund seeks to achieve total return, comprised of current income and capital appreciation by investing in a diversified portfolio of investment-grade, fixed-income securities with a weighted average effective maturity and effective duration of less than three years.

Investment philosophy

We believe increasingly dynamic and complex fixed income markets create investor opportunities that are best captured by independent specialist decision makers interconnected as a global team.

Timely investment decisions, made by specialists, combine with a rigorous portfolio construction process designed to maximize each opportunity. We believe our approach to decision making and portfolio construction sets us apart from other managers. Using this philosophy, we seek to generate total return, composed of current income and capital appreciation, for investors.

Universe definition and fund design

We invest primarily in short term investment grade fixed income securities, including corporate bonds, US Treasury and agency securities, mortgage-backed securities (MBS) and asset backed securities (ABS). The Fund may also invest up to 20% if its total assets in high yield debt securities (“junk bonds”), up to 25% of its total assets in foreign securities, and up to 25% of its total assets in securities of issuers located in developing (“emerging”) markets. The Fund may only invest in foreign securities denominated in US dollars. The fund is benchmarked to the Barclays 1-3 Year Government/Credit Index. We seek to maintain a dollar-weighted average portfolio maturity of less than three years.

The Fund invests from time to time in derivatives such as futures contracts and swap agreements, including interest rate futures and credit default swaps. It can also engage in mortgage dollar roll transactions, a form of repurchase agreement activity in the to-be-announced (TBA) market for agency MBS. These strategies are implemented within the guidelines set forth in the prospectus.

Investment decision making

Consistent with the belief that markets are increasingly complex, we use a distributed approach to decision making that gives the proven specialists closest to the information the authority to make decisions. Investment decisions are made continuously and shared instantly for timely implementation in our portfolios. This is true for top-down macro and bottom-up security selection decisions, which are all made by specialists.

We track the results of every investment decision to develop a detailed understanding of the quality and skill of our decision makers to enhance quality control.

Portfolio construction

We use a dynamic, highly engineered portfolio construction process to create the fund's portfolio. We use a proprietary product design tool that factors in product investment parameters, current market opportunities and realistic decision-making skills to determine the combination and size of active investment positions. Our goal is to produce attractive total return while seeking to minimize risk.

Portfolio managers leverage this powerful technology to help them implement the many investment decisions that affect the fund. Strategic positioning is periodically retuned in an effort to maximize opportunities in the prevailing fixed income market environment.

Risk management and oversight

Our risk management process combines the evaluation of macroeconomic portfolio risks, strong commitment to portfolio construction oversight, and post-performance returns and risk oversight. Four key components are essential to the fund's investment risk management process:

- Design. Our disciplined portfolio design process calculates appropriate position sizes for each investment decision.
- Decisions. Every investment decision is recorded, measured and evaluated to improve overall decision-making quality.
- Portfolio construction. Our unique portfolio design approach allows the daily monitoring of portfolio management accuracy relative to recommended investment positions.
- Fund oversight. A global committee of our most senior fixed income investment professionals provides oversight of our investment capabilities and products.

Clear buy-sell disciplines

Each investment decision is assigned to an individual within the firm. He or she uses an independent, distributed approach to decision making that gives the proven specialists closest to the information the authority to make decisions. Specialists are required to explain the rationale behind every investment decision, thereby enabling the firm to distinguish skill from good fortune.

Each investment decision includes pricing review levels. The upper level is the objective that the trade is expected to reach, and the lower level is the point at which the rationale for maintaining the position must be reevaluated by the specialist. Specialists receive alerts from our proprietary investment system when the investment decision is approaching or has reached these levels. While specialists are not forced to sell when these levels are reached, the investment decision must be reevaluated. Pricing levels are monitored continuously by senior management, which is integral to the firm's risk management oversight.

In addition to the realignment of a security's valuation targets, sell decisions may also be based on:

- A conscious decision to alter the fund's macro risk exposure (e.g., duration, yield curve positioning, sector exposure).
- The need to limit or reduce exposure to a particular sector or issuer.
- Degradation of an issuer's credit quality.
- Realignment of a valuation target.
- The presentation of a better relative value opportunity.
- The general liquidity needs of the fund.

About risk

The principal risks of investing in the Fund are:

Credit Risk. The issuers of instruments in which the Fund invests may be unable to meet interest and/or principal payments. This risk is increased to the extent the Fund invests in junk bonds. An issuer's securities may decrease in value if its financial strength weakens, which may reduce its credit rating and possibly its ability to meet its contractual obligations.

Derivatives Risk. The use of derivatives involves risks similar to, as well as risks different from, and possibly greater than, the risks associated with investing directly in securities or other more traditional instruments. Risks to which derivatives may be subject include market, interest rate, credit, leverage and management risks. They may also be more difficult to purchase, sell or value than other investments. When used for hedging or reducing exposure, the derivative may not correlate perfectly with the underlying asset, reference rate or index. A fund investing in a derivative could lose more than the cash amount invested. Over-the-counter derivatives are also subject to counterparty risk, which is the risk that the other party to the contract will not fulfill its contractual obligation to complete the transaction with the Fund. In addition, the use of certain derivatives may cause the Fund to realize higher amounts of income or short-term capital gains (generally taxed at ordinary income tax rates).

Dollar Roll Transactions Risk. Dollar roll transactions involve the risk that the market value and yield of the securities retained by the Fund may decline below the price of the mortgage-related securities sold by the Fund that it is obligated to repurchase. Also, in the event the buyer of mortgage-related securities files for bankruptcy or becomes insolvent, the Fund's use of the proceeds from the sale may be restricted pending a decision whether the Fund is obligated to repurchase mortgage-related securities.

Foreign Securities Risk. The dollar value of the Fund's foreign investments may be affected by changes in the exchange rates between the dollar and the currencies in which those investments are traded. The value of the Fund's foreign investments may be adversely affected by political and social instability in their home countries, by changes in economic or taxation policies in those countries, or by the difficulty in enforcing obligations in those countries. Foreign companies generally may be subject to less stringent regulations than US companies, including financial reporting requirements and auditing and accounting controls. As a result, there generally is less publicly available information about foreign companies than about US companies. Trading in many foreign securities may be less liquid and more volatile than US securities due to the size of the market or other factors.

Interest Rate Risk. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise; conversely, bond prices generally rise as interest rates fall. Specific bonds differ in their sensitivity to changes in interest rates depending on their individual characteristics. One measure of this sensitivity is called duration. The longer the duration of a particular bond, the greater its price sensitivity is to interest rates. Similarly, a longer duration portfolio of securities has greater price sensitivity. Falling interest rates may also prompt some issuers to refinance existing debt, which could affect the Fund's performance.

Leverage Risk. Borrowing money to buy securities exposes the Fund to leverage because the Fund can achieve a return on a capital base larger than the assets that shareholders have contributed to the Fund. Certain other transactions may give rise to a form of leverage. Leverage also exists when the Fund purchases or sells an instrument or enters into a transaction without investing cash in an amount equal to the full economic exposure of the instrument or transaction and the Fund could lose more than it invested. Such instruments may include, among others, reverse repurchase agreements, written options and derivatives, and transactions may include the use of when-issued, delayed delivery or forward commitment transactions. Except in the case of borrowing, the Fund mitigates leverage risk by segregating or earmarking liquid assets or otherwise covers transactions that may give rise to such risk. To the extent that the Fund is not able to close out a leveraged position because of market illiquidity, the Fund's liquidity may be impaired to the extent that it has a substantial portion of liquid assets segregated or earmarked to cover obligations and may liquidate portfolio positions when it may not be advantageous to do so. Leveraging may cause the Fund to be more volatile because it may exaggerate the effect of any increase or decrease in the value of the Fund's portfolio securities. There can be no assurance that the Fund's leverage strategy will be successful.

Management Risk. The investment techniques and risk analysis used by the Fund's portfolio managers may not produce the desired results.

Market Risk. The prices of and the income generated by the Fund's securities may decline in response to, among other things, investor sentiment; general economic and market conditions; regional or global instability; and currency and interest rate fluctuations.

Mortgage- and Asset-Backed Securities Risk. The Fund may invest in mortgage- and asset-backed securities that 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. Faster prepayments often happen when interest rates are falling. As a result, the Fund may reinvest these early payments at lower interest rates, thereby reducing the Fund's income. Conversely, when interest rates rise, prepayments may happen more slowly, causing the security to lengthen in duration. Longer duration securities tend to be more volatile. Securities may be prepaid at a price less than the original purchase value.

Reinvestment Risk. Reinvestment risk is the risk that a bond's cash flows (coupon income and principal repayment) will be reinvested at an interest rate below that on the original bond. If interest rates decline, the underlying bond may rise in value, but the cash flows received from that bond may have to be reinvested at a lower interest rate.

US Government Obligations Risk. Obligations issued by US government agencies and instrumentalities may receive varying levels of support from the government, which could affect the Fund's ability to recover should they default.

High Yield Bond (Junk Bond) Risk. Junk bonds involve a greater risk of default or price changes due to changes in the credit quality of the issuer. The values of junk bonds fluctuate more than those of high-quality bonds in response to company, political, regulatory or economic developments. Values of junk bonds can decline significantly over short periods of time.

Developing Markets Securities Risk. Securities issued by foreign companies and governments located in developing countries may be affected more negatively by inflation, devaluation of their currencies, higher transaction costs, delays in settlement, adverse political developments, the introduction of capital controls, withholding taxes, nationalization of private assets, expropriation, social unrest, war or lack of timely information than those in developed countries.

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NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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.

The Barclays 1-3 Year Government/Credit Index is an unmanaged index that is considered representative of performance of short-term US corporate bonds and US government bonds with maturities from one to three years. An investment cannot be made directly in an index.