



Investable Ideas

Generating Income With Premium Bonds

Following the Federal Open Market Committee meeting on August 10, 2011, the Federal Reserve Board announced that it will be keeping the key Federal Funds Rate low until sometime in 2013, reflecting an unprecedented course of action. This may create an environment of sustained interest rates that could potentially result in an abundant supply of premium bonds in the bond market.

What Are Premium Bonds

A bond often trades at a premium when its stated interest rate (or "coupon") is higher than prevailing interest rates in the market. The fact that a premium bond pays a higher coupon than a new bond issued at face value (or "par") drives the premium bond's price above par. When an investor pays more than par value for a bond, the amount above par is in essence the premium paid for that bond.

Reasons to Invest in Premium Bonds

- **Potential for Higher Current Income** – Current income will be greater for a premium bond than a par bond due to the larger semiannual interest payments. For example, a premium bond with a 4.50 percent coupon pays interest of \$45 a year per \$1,000, while a par bond with a 3.50 percent coupon pays interest of \$35 per \$1,000 over the same period. This is an attractive feature for investors who wish to maximize current income without extending maturities or lowering quality standards.
- **May be Undervalued** – Many investors will not consider premium bonds because of a common misconception that a premium represents an overpayment on the bond. For this reason, premium bonds typically offer a higher yield to maturity than par bonds of similar quality and maturity. For example, if a par bond is priced to yield 3.50 percent, a competing premium bond may be priced to yield 3.60 percent or more. Thus, the market perception of the premium may create opportunities to pick up additional yield without incurring additional risk. There is no assurance, however, that such opportunities will be available at any time.
- **Potential for Price Stability** – Premium bonds have strong defensive characteristics, which is why they are known as "cushion bonds." Their prices tend to decline more slowly than those of par or discount bonds when interest rates rise, thereby offering the potential for downside price protection. Conversely, premium bond prices tend to advance more slowly than other bonds when interest rates fall. The reason for this lower price volatility relative to par or discount bonds is primarily because the higher coupon of the premium bond returns more reinvestable cash to the investor sooner.

Risk of Early Redemptions on Premium Bonds

- The call feature on a bond gives the issuer the option to redeem the bond prior to maturity. Because there is uncertainty about whether the bond will be called prior to maturity, yields on callable bonds are calculated using the call date or maturity date that results in the lowest yield, known as the "yield-to-worst." The risk of early redemption on a premium bond is that principal is returned to the investor when interest rates are low, which would likely result in a lower principal reinvestment rate. Investors are rewarded with additional yield for accepting call risk. One way to avoid risk of early redemption is to invest in noncallable bonds, or bonds that offer a deferred first call date.

Conclusion

Successful investors take advantage of opportunities as they arrive to enhance their portfolio returns. Premium bonds allow investors to potentially enhance yield without incurring additional risk.* For a list of bond trust offerings for both taxable and tax-exempt trusts within Invesco Unit Trusts, please contact Invesco's sales desk (800) 959-4246.

* Invesco is offering trust units for purchase and not individual bonds. There is no assurance that units of any particular trust will own premium bonds.

Assume a premium bond, a par bond, and a discount bond are offered at a yield to maturity of 4 percent, the investment is \$1,000 of face value, with a maturity of 25 years. The investor's expected results would be as follows:

Fixed Income Bond Chart**

	Premium Bond	Par Bond	Discount Bond
	Bond A	Bond B	Bond C
Coupon	5%	4%	3%
Maturity	2036	2036	2036
Price	\$1,150.00	\$1,000.00	\$840.00
Annual Interest Income	\$50.00	\$40.00	\$30.00
Total Interest Income Over 25 Years	\$1,250.00	\$1,000.00	\$750.00
Minus/Plus Premium/Discount Paid	-\$150.00	-	+\$160
Net Income Over 25 Years	\$1,100.00	\$1,000.00	\$910.00

**For Illustrative Purposes Only. The illustration serves only as an example to demonstrate the hypothetical performance of different bonds, and does not represent characteristics of units of any particular trust offered by Invesco. The illustration also assumes that the bonds are not redeemed or called during the period indicated.

Below are some of Invesco's Unit Trusts investment solutions for both the taxable and tax-exempt trusts.

Taxable	Tax-Exempt
Investment Grade Income Trust, 7+ Year Series (IGST)	Investment Grade Municipal Trust, Intermediate Series (IGIN)
Investment Grade Income Trust, 10-20 Year Series (IGLM)	Investment Grade Municipal Trust, (IGMT)
Investment Grade Income Trust, 20+ Year Series (IGLT)	Quality Municipals Income Trust, Limited Maturity Series (QMLM)
	Investors' Quality Tax-Exempt Trust, (QUAL)

For more information

Contact Invesco at 800 959 4246 from 7 a.m. to 6 p.m. Central time on weekdays. You can also visit us at www.invesco.com/unittrusts.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

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

Risk Considerations

There is no assurance that a unit trust will achieve its investment objective. Unit trusts are subject to market risk, which is the possibility that the market values of securities owned by the unit trust will decline and that the value of your units may therefore be less than what you paid for them.

An investment in a trust should be made with an understanding of the risks associated therewith, such as the inability of the issuer or an insurer to pay the principal of or interest on a bond when due, volatile interest rates, early call provisions and changes to the tax status of the bonds. As interest rates rise, bond prices fall.

Investments in a trust may be subject to interest rate risk. If interest rates rise, the value of the bonds in a trust may decline and if interest rates decline the value of the bonds may increase. Also, the longer the period to maturity, the greater the sensitivity to interest rate changes tends to be.

A trust may concentrate in bonds of a particular type of issuer. This makes the trust less diversified and subject to greater risk than a more diversified portfolio.

Should the issuer of a Build America Bond or Qualified Bond fail to continue to meet the applicable requirements imposed on the bonds as provided by the American Recovery & Reinvestment Act of 2009, it is possible that such issuer may not receive federal cash subsidy payments, impairing the issuer's ability to make scheduled interest payments.

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