Investment objective
Seeks total return through growth of capital and current income. The team intends to manage the fund as a pure high yield strategy with no significant exposures to investment grade, mortgages, convertibles or bank loans.

High yield bonds have worked during previous rising rate environments
Since 1987, there have been 17 quarters where yields on the 5-year Treasury note rose by 70 basis points or more. During 11 of those quarters, high yield bonds demonstrated positive returns; during the six quarters where high yield bond returns were not positive, the asset class rebounded the following quarter. In fact, in the 38 years since 1980, the high yield bond asset class only experienced negative returns in five calendar years.

Three ways rising rates can benefit high yield bond investors
1. Rising rates by themselves are not bad for most high yield bonds. Normally, rates will rise as the economy is expanding. The expanding economy will generate more profits for most companies, and with increased profits, companies can better service their debt. Typically, in this environment you will see lower or declining default rates and potentially a tightening of credit spreads.
2. The second reason why high yield returns are typically positive in a rising rate environment is because high yield bonds offer call protection. When rates are set to rise, companies are more likely to try and take advantage of lower rates and refinance their debt before rates increase. If an issuer refinances its debt before maturity, they normally pay a penalty (call price) that has varied between 102 and 105. This pre-payment penalty is added to the returns for the high yield bond.

Case study
On the back of strong earnings, Micron Technology (MU) decided to reduce their balance sheet leverage and pay down debt with cash. Given that their bonds have call protection they were forced to offer a premium above the face value of the bond. Micron launched a $1 billion tender offer targeting long dated notes in particular (2026-2022) in order of priority. The 2026 notes for example, not callable until May 2020, forced the company to offer a 4-point premium versus prior trading levels.

As of Dec. 31, 2017, Micron Technology represented 0.3% of the Invesco High Yield Fund.

3. Lastly, duration of high yield bonds is typically much lower than investment grade bonds due to high yield's relatively short maturity and high coupon. As high-yield investors, we are certainly aware of duration risk and the volatility associated with movements in rates. We believe that rising rates not only benefit the asset class due to improved fundamentals, but also may create opportunity for multi-cycle experienced active managers with a well-defined credit process and track record.
Invesco High Yield Fund highlights

Seeks to be a true high yield fund
Invesco has a dedicated high yield team with experience investing through multiple credit cycles. The strategy seeks to be a pure high yield strategy with no significant exposures to investment grade, mortgages, convertibles or bank loans.¹

Dynamic portfolio positioning
The fund has scale, but its smaller size relative to a number of peers enables it to be more tactical in positioning allowing investors to use the fund as a strategic holding. The team manages through the credit cycle by adding risk when appropriate return is available and by limiting risk when the risk/reward profile is unfavorable. As the market tightens, they underweight the riskiest credits (i.e. the CCCs, as the incremental yield pickup is not worth taking the risk).

Risk management
The team's 15-year old metric-driven credit process seeks to limit downside. This process emphasizes risk management and liquidity. The team limits position sizes and outsized bets relative to the index in order to build a flexible, well-diversified, liquid portfolio.

Explore High-Conviction Investing with Invesco

¹ The fund is able to invest in these assets as outlined in the prospectus
² Source: J.P. Morgan High Yield Monitor, December 2017

About risk

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

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.

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.

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

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

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.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. A basis point (bps) is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

A credit rating is an assessment provided by a nationally recognized statistical rating organization (NRSRO) of the creditworthiness of an issuer with respect to debt obligations, including specific securities, money market instruments or other debts. Ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest); ratings are subject to change without notice. NR indicates the debtor was not rated, and should not be interpreted as indicating low quality. For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Ratings' under Rating Resources on the homepage; www.moodys.com and select 'Rating Methodologies' under Research and Ratings on the homepage; www.fitchratings.com and select 'Ratings Definitions' on the homepage.