Invesco

Municipal bond market recap and outlook

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Highlights

- March 2016 marked the ninth consecutive month of positive returns for the municipal bond market.
- Positive performance has been driven by favorable market technicals, including robust demand, and low levels of municipal supply.
- The Federal Reserve Open Market Committee (FOMC) reduced its expectations for interest rate increases down to two for the year.
- Municipals underperformed Treasuries primarily due to interest rate movements as dovish comments by the US Federal Reserve (Fed) sustained a rally.

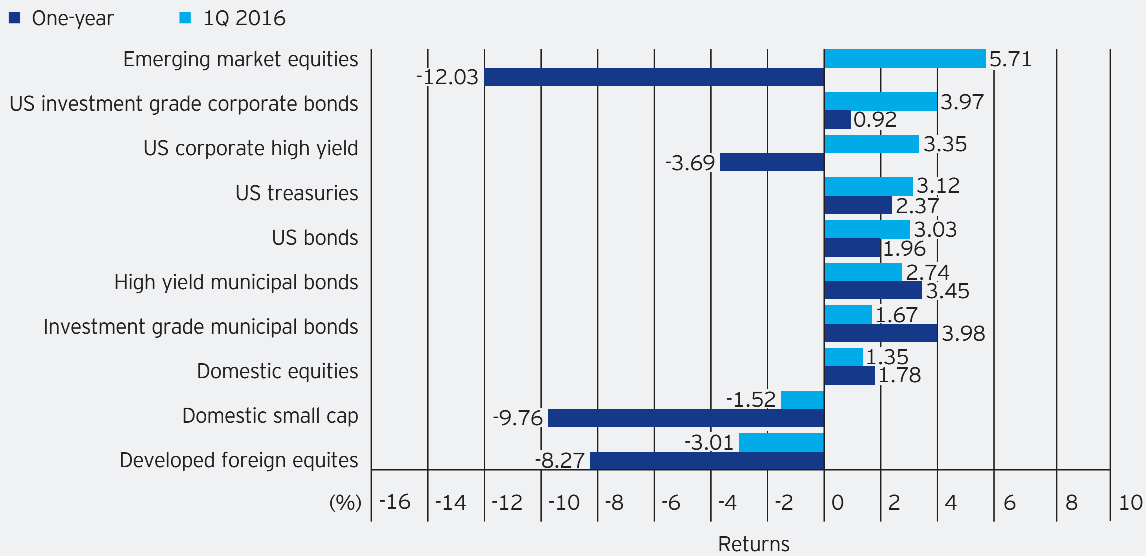
The first quarter of 2016 began on a very familiar note for municipals, but market dynamics appeared to shift as technical conditions continued to strengthen. The shape of the municipal yield curve, which began the quarter largely unchanged from late 2015, bull flattened by the end of the quarter with long-term rates decreasing faster than short-term rates. Municipal interest rates, after starting the quarter moving in a similar pattern to last year, began to diverge in mid-March, rallying across most of the curve. The municipal-to-Treasury (M/T) ratio richened during the first half of the quarter, only to cheapen in the last six weeks of the period as tax-exempts rates began to rally and municipals outperformed. Fund flows were uncharacteristically strong as the market seemed to avoid traditional tax season weakness.

Historically, March has been one of the worst performing months for municipal bonds. This typically occurs because of a supply overhang that is created as March tends to bring the fourth highest new-issue volume of the calendar year during a period when investors typically are selling municipal bonds ahead of April's tax deadline. The result is a period of elevated supply that coincides with a period of reduced demand, which in turn depresses prices and results in poor performance. This tax effect is most pronounced in years following strong stock market performance, since higher capital gains means higher taxes – and a greater need for investors to raise cash to pay the bill. Given the lackluster performance of stocks in 2015, there was much less selling required and municipals were able to avoid the seasonal pressure this year.

The investment grade municipal market returned 1.67% for the three-month period (2.95% on a tax-adjusted basis), and high yield municipals returned 2.74% (4.84% on a tax-adjusted basis).[1] Broad Treasuries[2] returned 3.12% for the quarter, outperforming municipals, driven by a slowdown in emerging markets, supply overhang in the commodities space and monetary policy easing by the European Central Bank and Bank of Japan. Though Treasuries were able to pull ahead for the quarter they continue to lag municipals by 161 basis points (bps) over the trailing one-year period.

1 Source: Barclays Municipal Bond Index and Barclays High Yield Municipal Bond Index, as of March 31, 2016. The tax-adjusted calculation uses a tax rate of 43.4%, which is the top federal tax bracket of 39.6% + the net investment income tax of 3.8%.
2 Broad Treasuries represented by the Barclays U.S. Government Index

Figure 1: Municipals continue to outperform on a one-year basis



Source: StyleADVISOR, as of March 31, 2016. Emerging market equities represented by the MSCI Emerging Markets Index; US investment grade corporate bonds by the Barclays U.S. Corporate Index; US corporate high yield by the Barclays U.S. Corporate High Yield Index; US Treasuries by the Barclays U.S. Government Index; US bonds by the Barclays Capital U.S. Aggregate Bond Index; high yield municipal bonds by the Barclays High Yield Municipal Bond Index; investment grade municipal bonds by the Barclays Municipal Bond Index; domestic equities by the S&P 500 Index; domestic small cap by the Russell 2000 Index; and developed foreign equities by the MSCI EAFE Index. Past performance cannot guarantee future results. An investment cannot be made in an index.

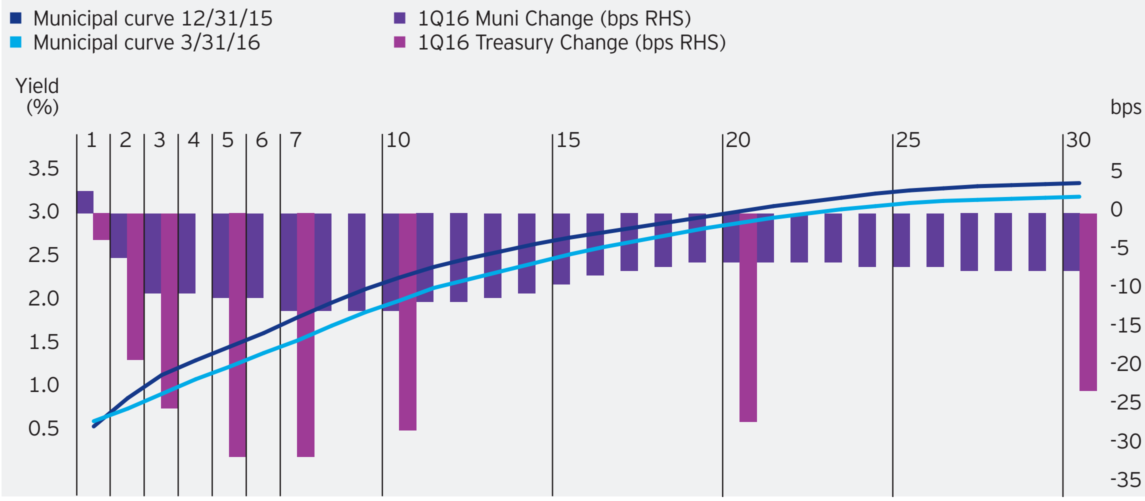
During the quarter, revenue bonds outperformed general obligation and lower-rated investment grade bonds[3] outperformed relative to higher-rated investment grade bonds. Within the investment grade municipal space all sectors produced positive returns. The quarter's top performing sectors were industrial development revenue/pollution control revenue (IDR/PCR) (+2.09%), housing (+1.96%), and tobacco (+1.92%). The sectors with the lowest total returns over the quarter were resource recovery (+1.48%) and hospitals (+1.77%).[4] Within high yield municipals, the top performing sectors were tobacco (+7.05%), transportation (+5.42%), and IDR/PCR (5.28%), while general obligation (-2.94%), electric (-0.94%), and leasing (-0.92%) sectors lagged, driven by exposure to Puerto Rico.

On March 16, 2016, the Federal Reserve Open Market Committee (FOMC) announced that it would maintain the target range for the Federal Funds rate at 0.25%-0.50%, as expected. The Fed also reduced its expectations for the number of future rate increases in 2016 from four hikes, as communicated at the FOMC's December meeting, to two hikes. Following the Fed's comments, US Treasury yields fell and municipal yields followed, though not to the same magnitude. The tax-exempt yield curve flattened as yields on short-dated municipal bonds rose, underperforming a rally in long-term rates.

The M/T ratio stabilized over the first quarter, with municipals ending the quarter at cheaper levels than the rich valuations we saw in December 2015. The ratio between municipals and Treasuries has become more attractive with the 30-year M/T ratio ending the first quarter at 103%, up from 93.5%, seen at year-end. The 10-year US Treasury rate declined by 49 bps over the quarter, ending at 1.78%, while the 30-year rate fell 40 bps to 2.61%. To a lesser degree, the 10-year municipal AAA general obligation rate rallied by 22 bps to 1.70% and the 30-year fell by only 13 bps to 2.69%.[5]

3 BBB-rated bonds
4 Source: Barclays, as of March 31, 2016
5 Source: Municipal Market Monitor (TM3) and US Treasury, as of March 31, 2016

Figure 2: Longer-maturity bonds outperformed shorter-maturity bonds as the yield curve flattened
First quarter 2016 shift in AAA general obligation yield curve with changes in basis points



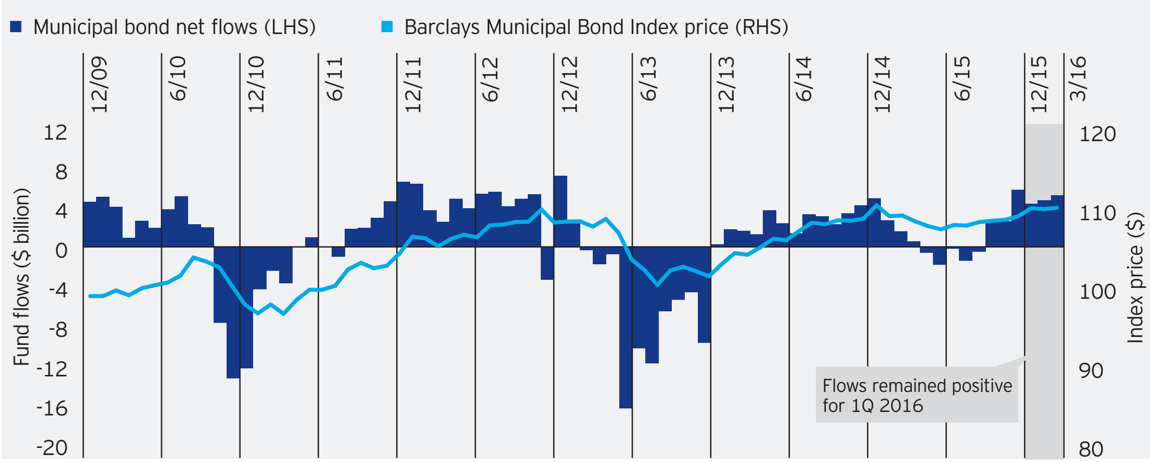
Source: Municipal Market Monitor (TM3) and US Treasury, as of March 31, 2016. Past performance is not a guarantee of future results. An investment cannot be made directly into an index.

Demand

Ownership of municipal securities has steadily grown since the end of 2014. Year-end 2015 total municipal assets outstanding were at $3.71 trillion, up 2% from year-end 2014 when outstanding municipals were at $3.65 trillion. While households[6] continue to own nearly three-quarters of the market, their percentage of direct bond ownership has dropped by 2% over the last year, while ownership of municipal securities by mutual funds has increased 3.6%.[7] As households have seen their municipal bond holdings called away and matured out of the market, they have been reallocating proceeds into mutual funds. Given the limited new issue market, retail investors have been inclined to invest in municipal bond funds as opposed to direct bond purchases as finding attractive individual bonds has been nearly impossible. By investing with fund managers, investors may be able to benefit from the experience of seasoned municipal investment professionals that are able to navigate the markets and perform in-depth fundamental analysis.

The municipal market continues to see robust demand with 26 consecutive weeks of weekly inflows.[8] During the first quarter, municipal bond mutual funds took in over $14 billion in net inflows – the largest quarterly inflow for the asset class since 2Q 2012.

Figure 3: Municipal bond funds have experienced net inflows of $14.3 billion year-to-date
Monthly municipal bond fund net flows and municipal index price history



Source: Morningstar and Barclays, as of March 31, 2016. An investment cannot be made directly into an index.

6 Includes direct retail holdings as well as indirect holdings via mutual funds, money market funds, closed-end funds and exchange-traded funds.
7 Source: SIFMA, fourth quarter data as of March 10, 2016
8 Source: EPRF Global, as of March 31, 2016

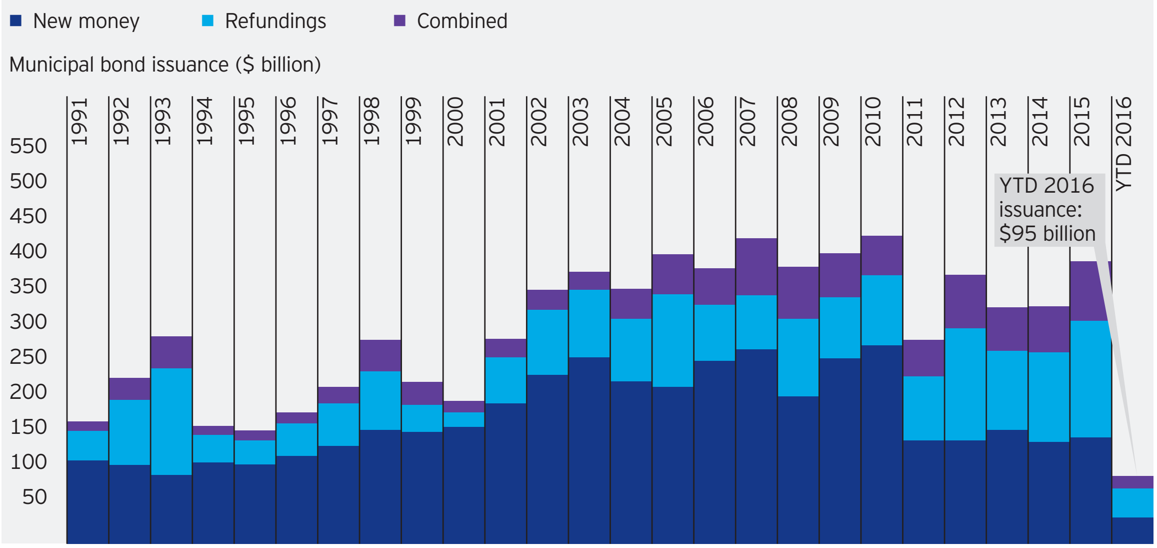
Supply

Issuance for the first quarter was $95 billion,[9] a 12% year-over-year decline from first quarter 2015, when $108 billion came to market. While issuance continues to be primarily driven by refundings,[10] the absolute level of refundings declined by 25% from the same period in 2015. Low interest rates have fueled new money supply, which increased 33.3% year-over-year for the first quarter.

Based on current low interest rates and robust issuance of a decade ago, we anticipate increased call activity as the year progresses. Given that the majority of municipals are issued with a 10-year call feature, a significant amount of the municipal bonds sold in 2006[11] will become callable this year. Should issuers decide to utilize the call feature, it is likely that the duration of municipal portfolios will decrease given that opportunities to reinvest will be difficult to find as a result of the scarce new issue market.

Figure 4: YTD 2016 supply ended lower than the first quarter of 2015, driven by a decrease in refunding volume

Municipal bond issuance



Source: The Bond Buyer, as of March 31, 2016

News of note

High-quality liquid assets and municipals

On April 1, 2016, the Federal Reserve Board finalized a rule to include certain US general obligation state and municipal securities among the assets large banking organizations may use to satisfy regulatory requirements designed to ensure that banks have the capacity to meet their liquidity needs during a period of financial stress.

The recent financial crisis highlighted the need for enhanced liquidity risk management at the largest financial institutions, including having sufficient liquidity reserves to mitigate the risk of creditor and counterparty runs. The liquidity coverage ratio (LCR) requirement adopted by the federal banking agencies in September 2014 requires large banking organizations to hold a minimum amount of high-quality liquid assets (HQLA) that can be readily converted into cash during a 30-day period of financial stress.

While the LCR requirement did not initially include US municipal securities as HQLA, subsequent analysis by the Federal Reserve suggested that certain US municipal securities should qualify as HQLA because they have liquidity characteristics similar to other HQLA classes, such as corporate debt securities.

9 Source: The Bond Buyer, as of March 31, 2016
10 Source: The Bond Buyer Refundings accounted for 42% of 1Q16 issuance.
11 Source: Bond Buyer. Issuance in 2006 was $389 billion.

The final rule allows investment grade, US general obligation state and municipal securities to be counted as HQLA up to certain levels if they meet the same liquidity criteria that currently apply to corporate debt securities. The limits on the amount of a state's or municipality's securities that could qualify are based on the liquidity characteristics of the securities.

The final rule applies only to institutions supervised by the Federal Reserve and subject to the LCR requirement, include the following:

- Bank holding companies, certain savings and loan holding companies, and state member banks with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure.
- State member banks with $10 billion or more in total consolidated assets that are subsidiaries of the above entities.
- Non-bank financial companies designated by the Financial Stability Oversight Council for Board supervision, to which the Board has applied the LCR requirement by separate rule or order.
- Bank holding companies and certain savings and loan holding companies with $50 billion or more in total consolidated assets, to which a less stringent LCR applies.
- Community banks are not subject to the LCR requirement.

The final rule will be effective on July 1, 2016.

Puerto Rico

On April 6, 2016, Puerto Rico Governor Alejandro García Padilla signed into law a measure that would enable him to declare a moratorium on the commonwealth's debt payments, mere hours after the House of Representatives passed the legislation in a divided vote. The newly signed Puerto Rico Emergency Moratorium & Financial Rehabilitation Act also seeks to provide a new receivership process to deal with the financially-battered Government Development Bank (GDB), which according to the bill, only had around $560 million in liquidity as of April 1, 2016.

Acting under the Puerto Rico Constitution's police powers, the legislation seeks to empower the governor to declare a moratorium on all of the commonwealth's debt, as well as a stay against litigation that may result from triggering the mechanism. The measure would amend, or "modernize," the receivership process not only of the GDB, but also that of the Economic Development Bank. If the GDB is placed under the new receivership process, a temporary "bridge" bank could be created to carry out some of the GDB's functions and honor deposits, the bill reads.

The measure would create a new entity called the Puerto Rico Fiscal Agency & Financial Authority which would take over the GDB's roles as the island's fiscal agent and financial adviser.

State of the states

State and local tax revenues continued to grow over the fourth quarter of 2015 (latest data available), with an increase of 4.2% from the same quarter of 2014 for the four largest tax categories.[12] Individual income tax collections showed the largest growth, with revenue up 5.6% from the same quarter of 2014, property taxes increased 5.3%, general sales tax by 2.0%, and corporate net income tax declined by 6.9%. At the state level, 34 states reported increases in personal income tax collections, with nine reporting declines.[13] State tax revenues have resumed growth since a weak first half of 2014 calendar year. Fluctuations in state tax collections have been due primarily to the response of taxpayers anticipation of policy changes at the federal level, which were mostly completed by the second quarter of 2015, along with recent fluctuations in the stock market and a significant drop in oil prices.

12 Source: United Census Bureau, fourth quarter data as of March 22, 2016
13 Source: Rockefeller Institute, State Revenue Report, as of March 2016

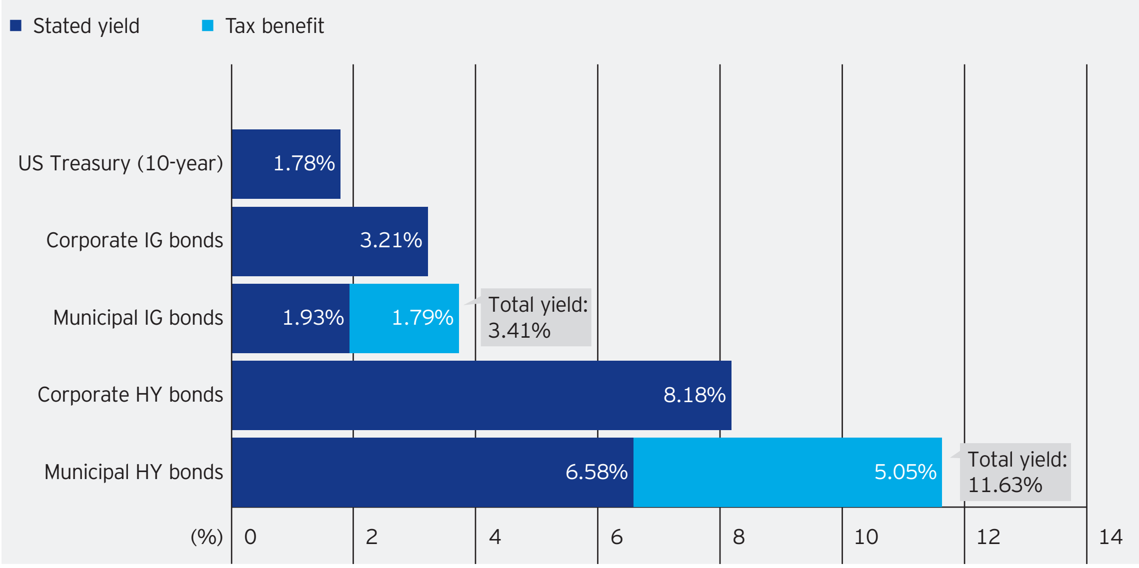
Outlook

We remain constructive on the municipal market. Demand remains robust and supply levels have yet to materialize. Credit outlook remains positive for most state and local governments. Unemployment is declining and state tax collections, which have tended to trend with economic activity, are trending upwards. With no recession expected, tax revenues are forecasted to grow in 2016. Rising home prices also mean higher property tax revenues for local government, which are expected to continue to grow in 2016.

Four reasons to consider municipal bonds

1. **Tax advantage:** New laws, as well as tax provisions that expired at the end of 2013, have led to larger tax bills for many high-income earners. Some of the significant changes to tax law include a top marginal rate of 39.6%, up from 35%; a 20% tax on long-term capital gains and dividends, up from 15%; and a new 3.8% tax on investment income from which municipal income is exempt. We believe that these higher tax rates will increase the incentive for taxpayers to seek tax-exempt income via municipal bonds. Municipals have the potential to offer a broad range of investment options that are exempt from federal income tax and can be exempt from state and local income taxes. However, income may be subject to the alternative minimum tax (AMT).

Figure 5: Municipal bonds can potentially provide attractive taxable equivalent yield



Source: Barclays and Bloomberg L.P., as of March 31, 2016. High yield corporate bonds are represented by the Barclays U.S. Corporate High Yield Index; high yield municipal bonds by the Barclays High Yield Municipal Bond Index; investment grade municipal bonds by the Barclays Municipal Bond Index; and investment grade corporate bonds by the Barclays U.S. Corporate Investment Grade Index. The tax-adjusted calculation uses a tax rate of 43.4%, which is the top federal tax bracket of 39.6% + the net investment income tax of 3.8%. Past performance is not a guarantee of future results. An investment cannot be made directly into an index.

2. **Diversification potential:** We believe diversification can potentially increase opportunities for growth and reduce overall portfolio risk. Because municipal bonds have historically had very low correlation to other asset classes, including equities and Treasuries, they can be effective portfolio diversifiers. As shown in Figure 6, the Barclays Municipal Bond and Barclays High Yield Municipal Bond indexes have exhibited low correlations of 9% and 27%, respectively, to the S&P 500 Index. This is in contrast to the Barclays U.S. Corporate Investment Grade Index and Barclays U.S. Corporate High Yield Index with correlations of 36% and 73%, respectively, to the S&P 500 Index over the same time period.

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

Figure 6: Municipals have offered equity investors higher diversification benefits than corporates
10-year asset class correlations

		1	2	3	4	5	6	7	8	9	10
1	Barclays Municipal Bond Index	1.00	0.64	0.52	0.55	0.34	0.30	0.09	0.09	0.13	0.13
2	Barclays HY Municipal Bond Index	0.64	1.00	0.19	0.35	0.47	-0.08	0.27	0.27	0.31	0.19
3	Barclays U.S. Aggregate Bond Index	0.52	0.19	1.00	0.80	0.24	0.86	0.04	0.16	0.14	-0.02
4	Barclays U.S. Corporate IG Index	0.55	0.35	0.80	1.00	0.63	0.44	0.36	0.49	0.48	0.29
5	Barclays U.S. Corporate High Yield Index	0.34	0.47	0.24	0.63	1.00	-0.23	0.73	0.76	0.77	0.71
6	Barclays U.S. Government Index	0.30	-0.08	0.86	0.44	-0.23	1.00	-0.30	-0.20	-0.23	-0.34
7	S&P 500 Index	0.09	0.27	0.04	0.36	0.73	-0.30	1.00	0.79	0.90	0.92
8	MSCI Emerging Markets Index	0.13	0.31	0.16	0.49	0.76	-0.20	0.79	1.00	0.89	0.73
9	MSCI EAFE Index	0.13	0.27	0.14	0.48	0.77	-0.23	0.90	0.89	1.00	0.80
10	Russell 2000 Index	0.05	0.19	-0.02	0.29	0.71	-0.34	0.92	0.73	0.80	1.00

Source: Morningstar, for the period April 1, 2006 to March 31, 2016. An investment cannot be made directly into an index.

This lower correlation illustrates that investment grade and high yield municipal bonds have not moved to the same degree as their corporate counterparts when the equity market has risen or fallen. We believe that this low correlation has the potential to enhance a portfolio's diversification benefits.

3. **Relatively lower default risk:** Contrary to popular belief, the vast majority of municipal bond issuers remain creditworthy and municipal default rates have remained relatively low, especially when compared with US corporate bonds. As shown in the chart below, when the credit structure decreases the odds of a default rise. However, they are much higher for investment grade corporates compared with municipals. Since 1986, there has never been an AAA-rated municipal bond default. Similarly, in the same time frame, only 0.03% has defaulted with an AA-rating. By contrast, AA-rated corporate issuances have had a nearly 1% default rate since 1981.

Figure 7: Municipals have offered equity investors higher diversification benefits than corporates
10-year average cumulative default rate

Rating categories	(1986-2015) Municipal bonds %	(1981-2015) Corporate bonds %
AAA	0.00	0.72
AA	0.03	0.79
A	0.11	1.48
BBB	0.45	3.89
BB	4.73	13.45
B	11.77	25.37
CCC-C	38.49	50.6
All S&P investment grade	0.15	2.17
All S&P non-investment grade	8.96	21.61
All S&P rated securities	0.25	9.09

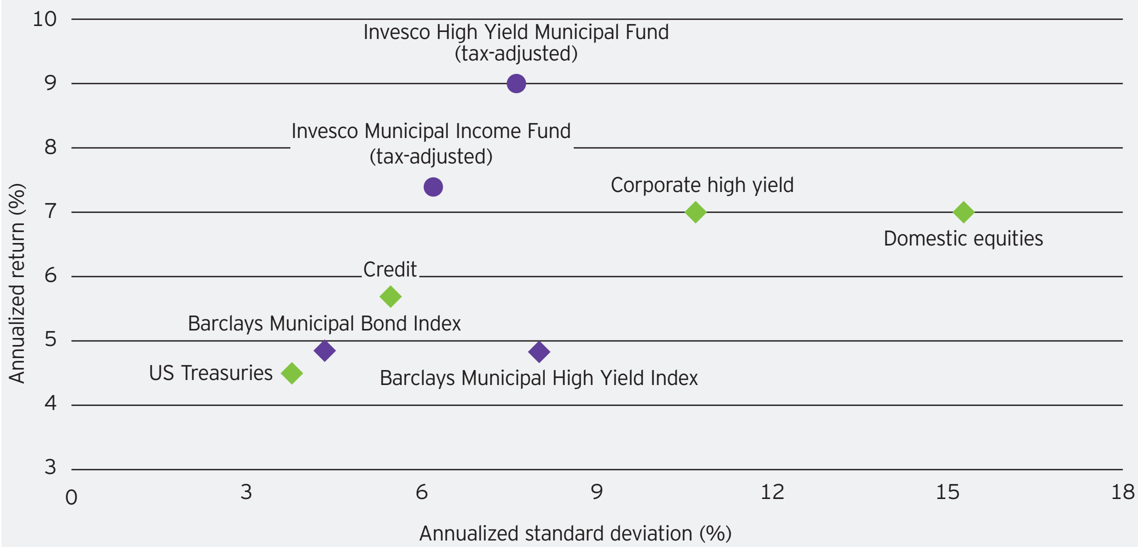
All rated municipal bonds have a lower 10-year cumulative default rate than Aaa-rated corporate bonds.

Source: Standard and Poor's, as of May 2016. Past default rates are no assurance of future default rates. The data presented is the most recent data available from the various bond rating agencies. 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. For more information on rating methodologies, please visit the following NRSRO website: www.standardandpoors.com and select 'Understanding Ratings' under Rating Resources on the homepage.

4. Return per unit of risk: Looking at after-tax returns over the last 10-years, both high yield and investment grade municipals have outperformed most asset classes and some, including equities, with significantly less volatility.

Figure 8: Municipals have offered most return per unit of risk on tax-adjusted basis

10-year annualized asset returns vs. volatility



Source: Barclays, as of March 31, 2016. Invesco fund performance shown is Class A shares at NAV. Credit represented by the Barclays U.S. Credit Index; corporate high yield by the Barclays U.S. Corporate High Yield Index; domestic equities by the S&P 500 Index; and US Treasuries by Barclays U.S. Government Index. The tax-adjusted calculation uses a tax rate of 43.4%, which is the top federal tax bracket of 39.6% + the net investment income tax of 3.8%. Volatility is measured by standard deviation. Past performance is not a guarantee of future results. An investment cannot be made directly into an index.

Invesco Municipal Bond team

The Invesco Municipal Bond team's management philosophy is based on the belief that creating long-term value through comprehensive, forward-looking research is the key to providing clients with highly diversified portfolios that aim to maximize risk-adjusted returns. 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 managers by assets[14] allows us the ability to access preferred market opportunities and gain valuable market insight. Our team has established relationships with more than 120 national and regional tax-exempt debt dealers. These established relationships, as well as our size, allows us to achieve superior execution in daily transactions. Our ability to aggregate trades across multiple funds enables us to obtain lower, institutional pricing, which can contribute to fund performance.

14 Alpha Strategic Insight Simfund/MF Desktop, based on assets under management as of March 31, 2016.

Average annual total returns (%) as of March 31, 2016

Class A shares	Symbol	Max load	1-year		3-year		5-year		10-year		Since inception	
			NAV	Load	NAV	Load	NAV	Load	NAV	Load	NAV	Load
Invesco Limited Term Municipal Income Fund	ATFAX	**2.50**	1.72	-0.85	1.73	0.89	3.82	3.30	4.02	3.76	3.54	3.34
Invesco Intermediate Term Municipal Income Fund	VKLMX	**2.50**	3.48	0.88	3.22	2.35	4.90	4.37	4.36	4.09	4.86	4.74
Invesco High Yield Municipal Fund	ACTHX	**4.25**	6.03	1.50	5.62	4.10	8.81	7.86	5.08	4.62	6.20	6.04
Invesco Municipal Income Fund	VKMMX	**4.25**	4.32	-0.11	4.02	2.51	6.52	5.61	4.18	3.72	5.23	5.05
Invesco Short Duration High Yield Municipal Fund	ISHAX	**2.50**	-	-	-	-	-	-	-	-	3.73	-0.64

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit invesco.com/performance for the most recent month-end performance. Performance figures reflect reinvested distributions and changes in net asset value (NAV). Investment return and principal value will vary so that you may have a gain or a loss when you sell shares. Performance shown at NAV does not include applicable front-end sales charges, which would have reduced the performance. Class A share performance reflects any applicable fee waivers or expense reimbursements. Had fees not been waived and/or expenses reimbursed in the past, returns would have been lower. Returns less than one year are cumulative, all others are annualized. The gross expense ratio on Class A shares for Invesco Limited Term Municipal Income Fund is 0.63%, Invesco Intermediate Term Municipal Income Fund is 0.90%, Invesco Municipal Income Fund is 0.93%, Invesco High Yield Municipal Fund is 0.93%, and Invesco Short Duration High Yield Municipal Fund is 1.77%. Expenses are as of the fund's fiscal year end as outlined in the fund's current prospectus. Inception date for Invesco Limited Term Municipal Income Fund is Oct. 31, 2002; Invesco Intermediate Term Municipal Income Fund is May 28, 1993; Invesco High Yield Municipal Fund is Jan. 2, 1986; Invesco Municipal Income Fund is Aug. 1, 1990; and Invesco Short Duration High Yield Municipal Fund is Sept. 30, 2015.

About risk

Fixed income investments are subject to credit risk of the issuer and the effects of changing interest rates. 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.

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.

Treasury securities are backed by the full faith and credit of the US government as to the timely payment of principal and interest.

Income may be subject to state and local taxes and to the alternative minimum tax (AMT).

Puerto Rico's economic problems increase the risk of investing in Puerto Rican municipal obligations, including the risk of potential issuer default, heightens the risk that the prices of Puerto Rican municipal obligations, and may experience greater volatility.

An investment in emerging market countries carries greater risks compared to more developed economies.

Smaller companies offer the potential to grow quickly, but can be more volatile than larger-company stocks, particularly over the short-term.

Returns of large capitalization companies could trail the returns of smaller companies.

Corporate bonds may offer a higher yield than government bonds, but are often considered riskier because they're not issued by the government. The interest of these bonds is taxable.

The funds are subject to certain specific risks. Please see each fund's prospectus for more information regarding the risks associated with an investment in the funds.

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.

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

The opinions expressed are those of the portfolio managers, are based on current market conditions and are subject to change without notice. There is no guarantee the outlooks mentioned will come to pass. These opinions may differ from those of other Invesco investment professionals.

Barclays High Yield Municipal Bond Index is an unmanaged index considered representative of non-investment grade bonds. **Barclays Municipal Bond Index** is an unmanaged index considered representative of the tax-exempt bond market. **Barclays U.S. Aggregate Bond Index** in an unmanaged index considered representative of the US investment grade, fixed-rate bond market. **Barclays U.S. Corporate Index** is an unmanaged index considered representative of fixed-rate, investment-grade taxable bond debt. **Barclays U.S. Corporate High Yield Index** is an unmanaged index considered representative of fixed-rate, non-investment grade debt. **Barclays U.S. Corporate Investment Grade Index** is an unmanaged index considered representative of publicly issued, fixed-rate, nonconvertible, investment grade debt securities. **Barclays U.S. Credit Index** is an unmanaged index considered representative of publicly issued, SEC-registered US corporate and specified foreign debentures and secured notes. **Barclays U.S. Government Index** is an index that measures the performance of all public US government obligations with remaining maturities of one year or more. **MSCI EAFE Index** is an unmanaged index considered representative of stocks of Europe, Australasia and the Far East. The index is computed using the net return, which withholds applicable taxes for non-resident investors. **MSCI Emerging Markets Index** is an unmanaged index considered representative of stocks of developing countries. The index is computed using the net return, which withholds applicable taxes for non-resident investors. **Russell 2000 Index** is an unmanaged index considered representative of small-cap stocks. The Russell 2000 Index is a trademark/service mark of the Frank Russell Co. Russell® is a trademark of the Frank Russell Co. **S&P 500 Index** is an unmanaged index considered representative of the US stock market.Past performance is no guarantee of future results. An investment cannot be made directly in an index.

Fed Funds Rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight. **Correlation** indicates the degree to which two investments have historically moved in the same direction and magnitude. **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. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. **Standard deviation** measures a fund's range of total returns and identifies the spread of a fund's short-term fluctuations. A **basis point** is a unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed income security. The **municipal-to-Treasury (M/T) ratio** is a comparion of the current yield of the 30 year AAA GO municipal bond to the 30 year US Treasury bond.