

Invesco Short Term Bond Fund

Q1 2024

Key takeaways

1 Potential to lock in yields

Bond yields, while down from their highs, are still in our view at attractive levels compared to the last 10 years. Investors have an opportunity to potentially lock in these yields for years to come by investing in high grade bonds before interest rates come down further.

2 Picking your spots

Yield spreads between Treasuries and non-Treasury sectors in our observation have been tight, which makes our credit underwriting and security selection even more important.

3 Beating the crowd

Investors have amassed large overweights in cash and money markets (Source: St. Louis Fed. Data as of 12/31/23). When the Federal Reserve (Fed) cuts interest rates, we believe a “wall of cash” will likely move to risk assets, pushing bond prices up and yields down. Timing a move is hard, but for now in our view investors are being paid to wait in fixed income.

Investment objective

The fund seeks total return, comprised of current income and capital appreciation.

Fund facts

Fund AUM (\$M)	2,075.16
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Portfolio managers

Michael Hyman, Chuck Burge,
Matthew Brill, Todd Schomberg

Manager perspective and outlook

- First quarter global growth was better than expected, largely driven by a resilient US economy. A tight US labor market appeared to help support consumer strength. Fixed income returns for the quarter were in our view disappointing as changing expectations about Fed interest rate policy appeared to spur volatility.
- US inflation news was mixed, with January and February inflation higher than expected. However, overall inflation still shows a disinflationary trend. The Fed’s messaging indicates possible interest rate cuts in the near future. Global economies appear to be at different stages of taming inflation, with potential for 2024 interest rate cuts.
- The yield spread between investment grade bonds and Treasuries moved tighter and may narrow further as supply/demand balance appears positive. Measured rate cuts by global central banks are likely to create a favorable environment for credit and should we believe bolster demand for investment grade bonds. Corporate fundamentals appear solid and most companies have still been benefiting from the low overall funding costs available before the recent rise in rates. The financials sector still appears in our view very cheap, while industrials appear very expensive, which means valuing corporate bonds is nuanced.



Portfolio characteristics*

	Fund	Index
Effective duration (yrs)	2.10	1.78
Coupon (%)	4.89	2.77
30-day SEC yield (Class C shares)	4.55	-
30-day SEC unsubsidized yields (Class C shares)	N/A	-

Investment categories (%)

	Portfolio	Index
Corporate Bonds	46.48	20.19
US Investment Grade Bonds	43.43	20.19
US High Yield Bonds	3.06	0.00
Securitized	29.17	0.00
MBS	12.49	0.00
ABS	11.18	0.00
CMBS	5.49	0.00
Non-US Debt	18.06	10.16
Non-US Investment Grade Bonds	15.81	4.90
Emerging Market Debt	1.39	0.73
Sovereign Debt	0.72	4.53
Non-US High Yield Bonds	0.15	0.00
Government Bonds	3.21	66.66
US Treasuries	3.21	66.66
Convertible Bonds	0.00	0.00
Municipal Bonds	0.00	0.36
Cash & Cash Equivalent	1.83	0.00
Others	0.32	2.63

Portfolio positioning

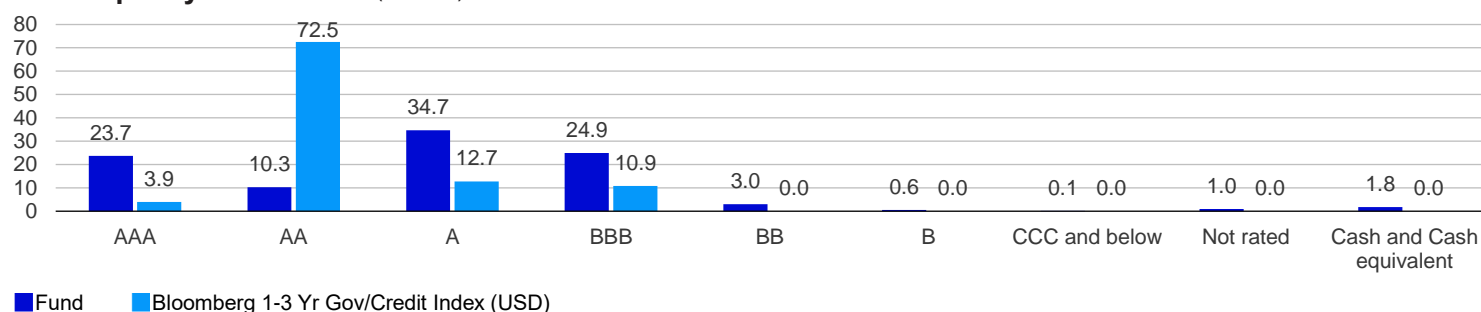
During the quarter, we maintained an overweight in investment grade corporates, which we believe should perform well in a soft landing or recession scenario. In a soft landing, interest rates would come down more slowly and bond investors would continue to earn high yields for longer. In a recession, the Fed is likely to cut rates faster thus accelerating bond returns via duration exposure. Plus, investment grade bonds should outperform growth-sensitive assets like equities in a recession scenario. We also believe the credit market seems “under-invested,” with significant cash on the sidelines or in money markets. As investors turn positive, we believe entrance of this cash into the market will boost demand, providing a technical tailwind for credit assets over coming quarters.

Within investment grade corporates, we maintain an overweight in financials, particularly in the banking sector. After the regional banking crisis in March of 2023, we saw a unique buying opportunity in financial credits where yield spreads compared to Treasuries were elevated. We believe the “Big 6” banks (Bank of America, Wells Fargo, Goldman Sachs, Citi, JP Morgan and Morgan Stanley), as well as super-regional and high-quality regional banks, offer attractive opportunities given that they have still been trading with wide spreads. We believe the outlook for lower interest rates going forward will continue to benefit banking fundamentals, with valuations still at historically cheap levels.

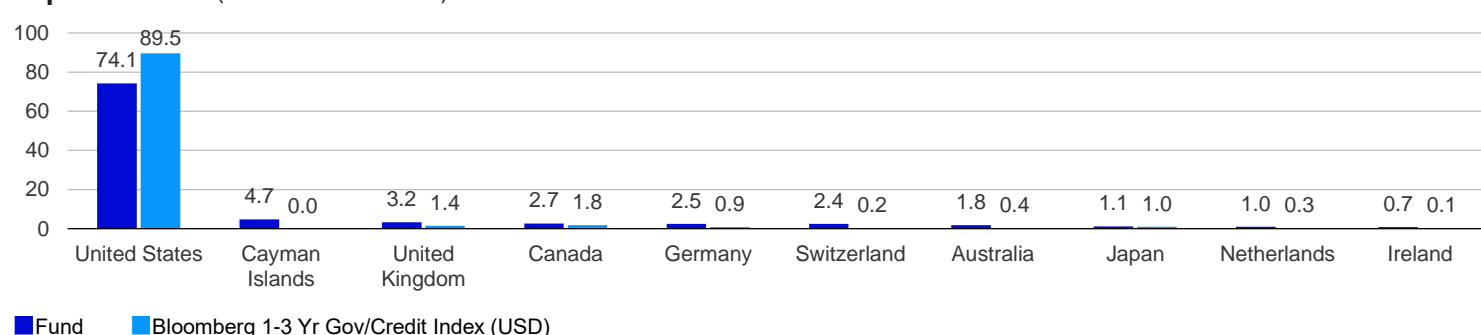
We increased the fund’s overweights in high-yield corporates and emerging market debt, favoring increased risk exposure, given the positive macroeconomic backdrop. However, we favor keeping a tight control on risk because we believe very high valuations limit the potential upside for risky assets. We maintained an overweight in residential mortgages because we believe they should benefit from an expected decrease in interest rate volatility now that the Fed has indicated its hiking cycle is likely over. We increased the fund’s allocation to Treasuries to take advantage of the large new issuance calendar.

We kept the fund’s duration fairly neutral compared to the benchmark, extending duration due to the anticipation of interest rate cuts in the near future and a supportive economic backdrop.

Credit quality breakdown (% total)



Top countries (% of total net assets)



Top contributors (bps)		
Issuer	Return	Contrib. to return
GOLDMAN SACHS GROUP INC/THE	293.17	2.16
PIEDMONT OFFICE REALTY TRUST INC	302.02	1.99
OFFICE PROPERTIES INCOME TRUST	316.95	1.91
CITIGROUP INC	153.07	1.52
UBS GROUP AG	103.82	1.26

Top detractors (bps)		
Issuer	Return	Contrib. to return
APOLLO MANAGEMENT HOLDINGS LP	-168.79	-0.53
BHP BILLITON FINANCE (USA) LTD	-32.10	-0.25
CATERPILLAR FINANCIAL SERVICES COR	6.52	-0.23
BANK OF AMERICA CORP	76.22	-0.19
JOHN DEERE CAPITAL CORP	32.30	-0.19

Performance highlights

Invesco Short Term Bond Fund Class A shares at net asset value (NAV) had a positive return for the quarter and outperformed its benchmark, the Bloomberg US Govt/Credit 1-3Yr Index.

Contributors to performance

Security selection: The fund benefited from security selection in the REITs and energy sub-sectors.

Sector allocation: Overweights in the banking and consumer cyclical sub-sectors positively affected relative performance.

Securitized assets: An overweight in securitized assets, particularly asset-backed

securities (ABS), commercial mortgage-backed securities (CMBS) and collateralized mortgage obligations (CMOs) positively affected relative performance.

Detractors from performance

Security selection: Security selection in the brokerage/asset managers/exchanges and consumer non-cyclical sub-sectors detracted from relative performance.

Government-related: An underweight in government-related assets, particularly government agencies, negatively affected relative performance.

Standardized performance (%) as of March 31, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class C shares inception: 08/30/02	NAV	0.83	0.83	4.94	0.10	1.21	1.31	1.86
Class A shares inception: 04/30/04	NAV	0.92	0.92	5.30	0.45	1.54	1.60	1.88
	Max. Load 2.5%	-1.65	-1.65	2.73	-0.39	1.03	1.34	1.75
Class R6 shares inception: 09/24/12	NAV	1.11	1.11	5.70	0.70	1.81	1.87	1.84
Class Y shares inception: 10/03/08	NAV	0.96	0.96	5.46	0.60	1.70	1.75	2.10
Bloomberg 1-3 Yr Gov/Credit Index (USD)		0.42	0.42	3.49	0.25	1.36	1.29	-
Total return ranking vs. Morningstar Short-Term Bond category (Class C shares at NAV)		-	-	44% (217 of 567)	69% (335 of 534)	74% (352 of 494)	77% (248 of 359)	-

Expense ratios per the current prospectus: Class C**: Net: 0.99%, Total: 1.14%; Class A: Net: 0.64%, Total: 0.64%; Class R6: Net: 0.39%, Total: 0.39%; Class Y: Net: 0.49%, Total: 0.49%.

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit [invesco.com](https://www.invesco.com) 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. Returns less than one year are cumulative; all others are annualized. Index source: RIMES Technologies Corp. Had fees not been waived and/or expenses reimbursed in the past, returns would have been lower. Performance shown at NAV does not include the applicable front-end sales charge, which would have reduced the performance.

Class Y and R6 shares have no sales charge; therefore performance is at NAV. Class Y shares are available only to certain investors. Class R6 shares are closed to most investors. Please see the prospectus for more details.

Performance highlights (cont'd)

Calendar year total returns (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class C shares at NAV	0.65	0.21	2.49	1.39	0.35	4.56	2.94	-0.49	-5.02	5.35
Class A shares at NAV	1.00	0.56	2.85	1.74	0.70	5.05	3.22	-0.17	-4.69	5.71
Class Y shares at NAV	1.15	0.72	3.00	1.90	0.86	5.21	3.39	-0.02	-4.54	5.86
Bloomberg 1-3 Yr Gov/Credit Index (USD)	0.77	0.65	1.28	0.84	1.60	4.03	3.33	-0.47	-3.69	4.61

** Net = Total annual operating expenses less any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least June 30, 2024.

Unless otherwise specified, all information is as of 03/31/24. Unless stated otherwise, Index refers to Bloomberg 1-3 Yr Gov/Credit Index (USD).

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

About risk

Risks of collateralized loan obligations include the possibility that the collateral securities' distributions won't be adequate to make interest or other payments, the collateral quality may decline in value or default, the collateralized loan obligations may be subordinate to other classes, values may be volatile, and issuer disputes may produce unexpected investment results.

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.

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, including emerging markets, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

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

Junk bonds have greater risk of default or price changes due to changes in the issuer's credit quality. Junk bond values fluctuate more than high quality bonds and can decline significantly over a short time.

Mortgage- and asset-backed securities 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. Securities may be prepaid at a price less than the original purchase value.

Municipal securities are subject to the risk that legislative or economic conditions could affect an issuer's ability to make principal and/or interest payments.

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.

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.

The opinions expressed are those of the fund's portfolio management, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

Note: Not all products available at all firms. Financial professionals, please contact your home office.

Ratings source: Standard & Poor's, Moody's or Fitch, as applicable. 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. Not Rated indicates the debtor was not rated and should not be interpreted as indicating low quality. A negative in Cash indicates fund activity that has accrued or is pending settlement. For more information on rating methodologies, please visit the following NRSRO websites:

www.standardandpoors.com and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; www.ratings.moody's.com and select 'Rating Methodologies' under Research and Ratings on the homepage; www.fitchratings.com and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.

The fund holdings are organized according to the Global Industry Classification Standard, which was developed by and is the exclusive property and service mark of MSCI Inc. and Standard & Poor's.

* **Effective duration** is the managers' estimate of a bond fund's price sensitivity to changes in interest rates. This measure takes into account mortgage prepayments, puts, adjustable coupons and potential call dates. **Contribution to Return** measures the performance impact from portfolio holdings over a defined time period. It takes into account both weight and performance of the portfolio holdings. Contribution to Return is calculated at security level.

Morningstar

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Before investing, consider the Fund's investment objectives, risks, charges and expenses. Visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus) for a prospectus/summary prospectus containing this information. Read it carefully before investing.