

# Invesco Core Plus Bond Fund

## Q4 2023

## 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 in our view.

### 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 US 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)	4,927.40
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### Portfolio managers

Michael Hyman, Chuck Burge,  
Matthew Brill, Todd Schomberg

## Manager perspective and outlook

- In the fourth quarter, data indicated a bumpy economic landing with a disinflationary trend as inflation slowed and labor market pressures eased. Resilient economic data supported risk assets and the widely expected recession remained a mirage.
- At the beginning of the quarter, yield spreads between Treasuries and non-Treasuries became tighter and bond yields rose, causing valuations to appear stretched and a soft landing more likely. After the Fed's December meeting, yields declined as investors appeared to become more confident that rates had peaked, with futures markets signaling at least one rate cut by early spring.
- Investment grade yields relative to Treasuries moved tighter. Corporate fundamentals appear solid, and most companies have been benefiting from low overall funding costs available before the recent rise in rates. Financials still appear in our view very cheap, while industrials appear very expensive, which means valuing corporate bonds is nuanced. We expect market technicals (supply/demand) to remain strong as issuance should be contained going into 2024, but higher valuations may offset technical support.
- Current yields have remained elevated. Near term, we believe the best risk-adjusted opportunities are in higher quality assets. Longer term, we view the current interest rate level as an attractive entry point.



## Portfolio characteristics\*

	Fund	Index
Effective duration (yrs)	6.18	6.06
Coupon (%)	5.06	3.10
30-day SEC yield (Class A shares)	4.00	-
30-day SEC unsubsidized yields (Class A shares)	3.90	-

## Investment categories (%)

	Portfolio	Index
<b>Securitized</b>	<b>44.51</b>	<b>28.82</b>
MBS	31.43	26.70
ABS	7.41	0.47
CMBS	5.67	1.65
<b>Corporate Bonds</b>	<b>25.31</b>	<b>21.14</b>
US Investment Grade Bonds	21.92	21.13
US High Yield Bonds	3.39	0.01
<b>Non-US Debt</b>	<b>9.74</b>	<b>6.98</b>
Non-US Investment Grade Bonds	3.91	3.60
Emerging Market Debt	3.01	1.18
Non-US High Yield Bonds	1.80	0.00
Sovereign Debt	1.02	2.20
<b>Government Bonds</b>	<b>8.26</b>	<b>41.31</b>
US Treasuries	8.26	41.31
<b>Convertible Bonds</b>	<b>0.45</b>	<b>0.00</b>
<b>Municipal Bonds</b>	<b>0.11</b>	<b>0.78</b>
<b>Cash &amp; Cash Equivalent</b>	<b>11.18</b>	<b>0.00</b>
<b>Derivatives &amp; FX</b>	<b>0.03</b>	<b>0.00</b>
<b>Others</b>	<b>0.41</b>	<b>0.97</b>

## Portfolio positioning

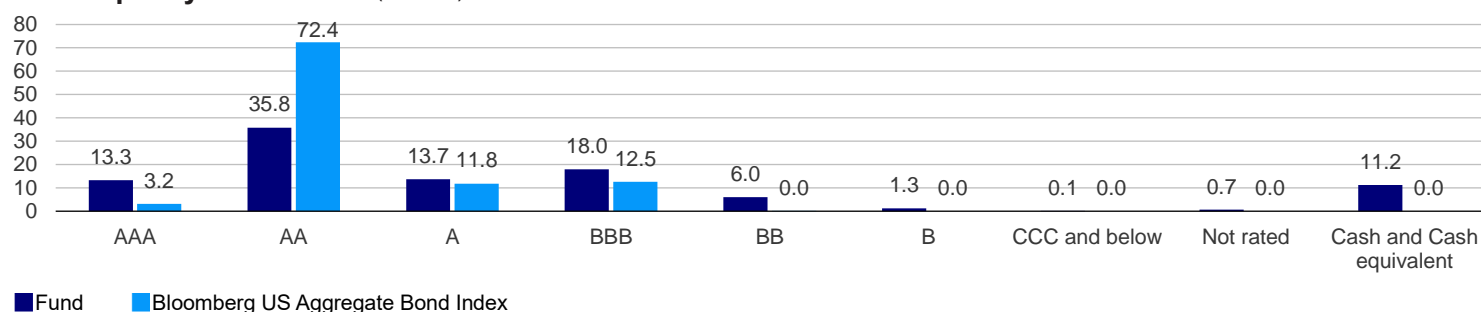
During the quarter, we maintained an overweight in investment grade corporates, which we believe should perform well in a soft landing or recession scenario. In a soft landing, interest rates would come down more slowly and bond investors would continue to earn high yields for longer. In a recession, 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 within the banking sector. After the regional banking crisis last March, 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.

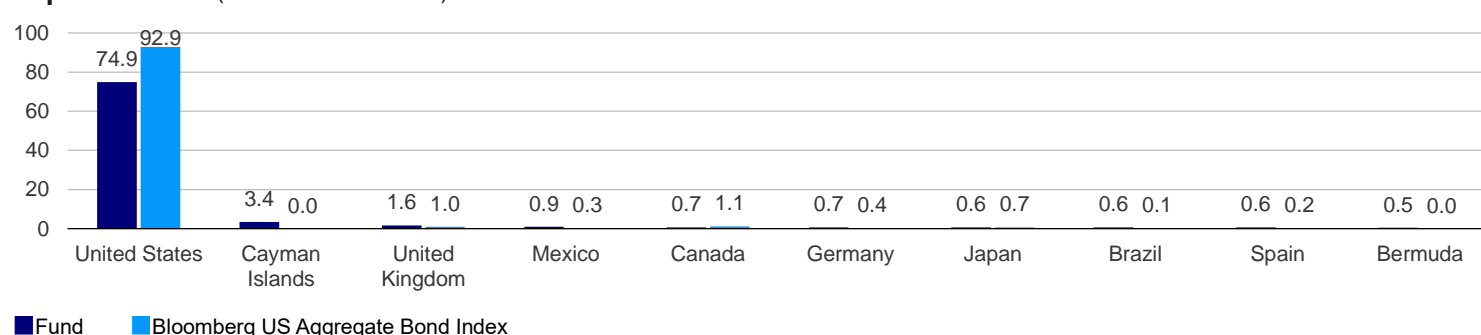
We decreased the fund's overweights in high-yield corporates and emerging market debt, favoring high-quality assets in this environment. We moved from an overweight to an overweight in residential mortgages because we believe they should benefit from an expected decrease in rate volatility as the Fed has indicated its hiking cycle is likely over. We increased the allocation to Treasuries to take advantage of heavy issuance in the new year.

We have seen increased demand for short duration assets given elevated yields; however, insurance and pension funds have in our view begun to show an appetite for extending duration on their assets. This may provide a favorable backdrop for longer maturity, low-leveraged industrial and non-cyclical credits.

## Credit quality breakdown (% total)



## Top countries (% of total net assets)



Top contributors (bps)		
Issuer	Return	Contrib. to return
BANCO SANTANDER SA	1041.44	3.50
PETROLEOS MEXICANOS	1336.50	3.25
CITIGROUP INC	619.41	2.79
NEW FORTRESS ENERGY INC.	733.70	2.50
PHILIP MORRIS INTERNATIONAL INC	741.63	2.40

Top detractors (bps)		
Issuer	Return	Contrib. to return
MAG MUTUAL HOLDING COMPANY	167.92	-3.90
PETROFAC LTD	-2759.24	-2.44
BRASKEM IDESA SAPI	-978.45	-2.18
BRASKEM NETHERLANDS FINANCE BV	-757.35	-1.15
GABON BLUE BOND MASTER TRUST SERIE	95.73	-1.14

## Performance highlights

Invesco Core Plus Bond Fund Class A shares at net asset value (NAV) had a positive return for the quarter and outperformed its benchmark, the Bloomberg US Aggregate Bond Index.

### Contributors to performance

**Security selection:** The fund benefited from security selection in the banking and technology sub-sectors.

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

**Treasuries:** An underweight in Treasuries positively affected relative performance.

### Detractors from performance

**Security selection:** Security selection in the energy and basic industry sub-sectors detracted from relative performance.

**Sector allocation:** An overweight to the finance companies sub-sector detracted from relative performance.

**Securitized assets:** An overweight in securitized assets, particularly mortgage-backed securities (MBS) and asset-backed securities (ABS), negatively affected relative performance.

## Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 06/03/09	NAV	7.34	6.07	6.07	-3.46	1.87	2.36	3.36
	Max. Load 4.25%	2.75	1.62	1.62	-4.86	0.98	1.92	3.06
Class R6 shares inception: 09/24/12	NAV	7.30	6.39	6.39	-3.20	2.16	2.68	2.45
Class Y shares inception: 06/03/09	NAV	7.40	6.34	6.34	-3.21	2.12	2.62	3.63
Bloomberg US Aggregate Bond Index		6.82	5.53	5.53	-3.31	1.10	1.81	-
Total return ranking vs. Morningstar Intermediate Core-Plus Bond category (Class A shares at NAV)		-	-	58% (346 of 635)	68% (336 of 571)	28% (137 of 539)	21% (69 of 375)	-

Expense ratios per the current prospectus: Class A\*\*: Net: 0.75%, Total: 0.84%; Class R6: Net: 0.46%, Total: 0.47%; Class Y\*\*: Net: 0.50%, Total: 0.59%.

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 A shares at NAV	7.01	0.28	5.02	5.01	-2.71	11.27	9.57	-0.59	-14.68	6.07
Class R6 shares at NAV	7.32	0.61	5.40	5.33	-2.32	11.50	10.01	-0.36	-14.44	6.39
Class Y shares at NAV	7.17	0.53	5.28	5.37	-2.46	11.54	9.84	-0.34	-14.44	6.34
Bloomberg US Aggregate Bond Index	5.97	0.55	2.65	3.54	0.01	8.72	7.51	-1.54	-13.01	5.53

\*\* Net = Total annual operating expenses less any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least Dec 31, 2024 and contractual management fee waivers in effect through at least Jun 30, 2025.

Unless otherwise specified, all information is as of 12/31/23. Unless stated otherwise, Index refers to Bloomberg US Aggregate Bond Index.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged index considered representative of the US investment grade, fixed-rate bond market. An investment cannot be made directly in an index.

### About risk

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.

Environmental, Social and Governance (ESG) considerations may vary across investments and issuers, and not every ESG factor may be identified or evaluated for investment. The Fund will not be solely based on ESG considerations; therefore, issuers may not be considered ESG-focused companies. ESG factors may affect the Fund's exposure to certain companies or industries and may not work as intended. The Fund may underperform other funds that do not assess ESG factors or that use a different methodology to identify and/or incorporate ESG factors. ESG is not a uniformly defined characteristic and as a result, information used by the Fund to evaluate such factors may not be readily available, complete or accurate, and may vary across providers and issuers. There is no guarantee that ESG considerations will enhance Fund performance.

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.

The Fund invests in financial instruments that use the London Interbank Offered Rate ("LIBOR") as a reference or benchmark rate for variable interest rate calculations. LIBOR will be phased out by the end of 2021, and it's anticipated that LIBOR will cease to be published after that time. To assist with the transition, US dollar LIBOR rates will continue to be published until June 2023. There is uncertainty on the effects of the LIBOR transition process, therefore any impact of the LIBOR transition on the Fund or its investments cannot yet be determined. There is no assurance an alternative rate will be similar to, produce the same value or economic equivalence or instruments using the rate will have the same volume or liquidity as LIBOR. Any effects of LIBOR transition and the adoption of alternative rates could result in losses to the Fund.

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.

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.

The investment techniques and risk analysis used by the portfolio managers may not produce the desired results.

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](http://www.standardandpoors.com) and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; [www.ratings.moodys.com](http://www.ratings.moodys.com) and select 'Rating Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](http://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](http://invesco.com/fundprospectus) for a prospectus/summary prospectus containing this information. Read it carefully before investing.**