Invesco Short Term Bond Fund

Quarterly Performance Commentary

Nasdaq: A: STBAX C: STBCX Y: STBYX

Investment objective

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

Portfolio management

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Portfolio information	
Total Net Assets	$1,544,888,673
Total Number of Holdings	358

Fund characteristics	
WAM (years)	3.26
Effective Duration	1.95
Distribution Frequency	Monthly

Investment categories (%)	
Government Bonds	
US Treasuries	4.17
Corporate Bonds	
US Investment Grade Bonds	52.99
US High Yield Bonds	3.18
Securitized Debt	
US Residential Mortgages	9.42
US CMBS	6.47
US Asset-Backed Securities	7.91
US Dollar Denominated Foreign Debt	
Non-US Investment Grade Bonds	6.26
Non-US High Yield Bonds	1.55
Emerging Markets Debt	4.23
Sovereign Debt	2.59
Cash	1.23

May not equal 100% due to rounding.

Credit quality breakdown (% total)[1]	
Cash	1.23
AAA	19.97
AA	2.59
A	18.69
BBB	49.17
BB	5.03
B	2.01
CCC and below	0.11
Not Rated	1.20

Market overview

- US bonds posted positive results for the quarter, as interest rates fell amid decelerating global growth and trade uncertainties. Investors enthusiastically sought yield in the corporate credit market, despite elevated risk. Global demand for US-based yield strategies vacillated during the quarter, but gained traction with the Federal Reserve poised for a 2019 rate cut. The shorter maturity portion of the US bond market had a positive return as short-term interest rates fell during the quarter, with the Bloomberg Barclays US 1-3 Year Government/Credit Index returning 1.48%.
- The 2-year Treasury yield fell from 2.27% to 1.75%. At quarter end, positioning in the shorter end of the yield curve suggests further interest rate cuts are on the horizon.
- The yield spread between US investment grade credit and comparable duration US Treasuries narrowed, with the segment significantly outperforming for the quarter. Investors' demand for risk assets was strong, with a bias toward lower-rated investment grade and high-yield credits.
- Structured credit outperformed for the quarter. Collateral quality in the commercial mortgage-backed securities (CMBS) and asset-backed (ABS) securities sectors remained strong, but slumping auto activity and subprime lending were growing concerns. The Agency mortgage-backed securities (MBS) sector also performed well, despite the sharp decline in mortgage rates, which can boost prepayments and make competing sectors more attractive to investors.

Performance highlights

- Invesco Short Term Bond Fund Class A shares at net asset value (NAV) had a positive return for the second quarter and outperformed its benchmark, the Bloomberg Barclays 1-3 Year Government/Credit Index. (Please see the investment results table on page 2 for fund and index performance.)

Contributors to performance

- An overweight in investment grade credits and positions in securitized securities that are not represented in the index were primary drivers of outperformance.
- Opportunistic exposure to short maturity high-yield credits added to relative results due to the notable extra income and demand spurred by investors' escalating risk appetites.

Detractors from performance

- The fund's yield curve positioning detracted from relative return due to an underweight in the 0- to 3-year maturity bucket.
- Allocations to the technology, restaurant and retailer subsectors of the high-yield market modestly detracted from relative return.

Positioning and outlook

- US growth is expected to be about 2%, supported by consumers but slowing due to the industrial sector. In Europe, where growth is forecast at 1.2%, we do not anticipate global trade to return, but the domestic economy is steady. China's growth should be in the low to mid-6% range as its central bank is expected to combat growth concerns with fiscal spending. Current data and accommodative central bank policies suggest only modest growth deterioration.
- Tariffs add noise to US inflation data making it more difficult for the Federal Reserve to determine persistent inflation trends. However, we expect the underlying trend to remain benign. We expect Europe's core inflation to rise to about 1.3% and headline inflation (including food and energy) to decline to 1.4% due to lower oil prices, with a demand pick-up necessary for a structural shift in inflation to occur. We expect China's inflation to be about 2.5%, above the 2.2% consensus forecast due to food price pressures. Overall, excluding tariffs, we believe inflationary pressures will remain range bound, but there could be "noise" in the data.
- We expect the Fed to cut interest rates in July and to lean toward easier monetary policy given lackluster inflation. The European Central Bank is expected to relaunch its quantitative easing and cut interest rates in the third quarter, with fiscal policy off the table for the near term given Italy's deficit. China's central bank has been easing and is expected to focus more on fiscal policy into year end. Overall, near-term central bank moves appear to be already priced into bond markets.

Investment results

Average annual total returns (%) as of June 30, 2019

Period	Class A Shares Inception: 04/30/04 Max Load 2.50%	Class A Shares NAV	Class C Shares Inception: 08/30/02 NAV	Class Y Shares Inception: 10/03/08 NAV	Style-Specific Index Bloomberg Barclays 1-3 Year Government / Credit Index
Inception	1.89	2.06	1.99	2.39	-
10 Years	2.10	2.37	2.03	2.54	1.59
5 Years	1.34	1.85	1.52	2.00	1.46
3 Years	1.22	2.08	1.72	2.23	1.59
1 Year	1.71	4.35	3.99	4.51	4.27
Quarter	-1.04	1.52	1.55	1.55	1.48

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, and you may have a gain or a loss when you sell shares. Performance shown at NAV does not include applicable contingent deferred sales charges (CDSC) or front-end sales charges, which would have reduced the performance. Class C shares are sold without initial sales charge and are not subject to a CDSC; however, they are subject to other fees and expenses described in the fund prospectus. Because Class C shares have no sales charge; performance is at NAV. Class Y shares have no sales charge; therefore, performance is at NAV. Returns less than one year are cumulative; all others are annualized. Fund performance reflects any applicable fee waivers and/or expense reimbursements. Had the adviser not waived fees and/or reimbursed expenses currently or in the past, returns would have been lower. See current prospectus for more information. Index returns do not reflect any fees, expenses, or sales charges.

Index source: FactSet Research Systems Inc.

Expense ratios	% net	% total
Class A Shares	0.65	0.66
Class C Shares	1.00	1.16
Class Y Shares	0.50	0.51

Per the current prospectus
Net = Total annual operating expenses less any contractual fee waivers and/or expense reimbursements by the adviser in effect through at least June 30, 2020. See current prospectus for more information.

For more information you can visit us at www.invesco.com/us

1 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. If securities are rated differently by the rating agencies, the higher rating is applied. 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 the rating methodology, please visit 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.

Class Y shares are available only to certain investors. See the prospectus for more information.

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.

Effective duration is a modified duration calculation which incorporates the expected duration-shortening effect of an issuer's embedded call provision. **Weighted average effective maturity (WAM)** is a measure, as estimated by the fund's portfolio managers, of the length of time the average security in a bond fund will mature or be redeemed by its issuer. It takes into account mortgage prepayments, puts, adjustable coupons and potential call dates.

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.

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.

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.

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

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.

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.