# Invesco Quality Income Fund

## Quarterly Performance Commentary

Nasdaq: A: VKMGX C: VUSCX Y: VUSIX

**Investment objective**

The fund seeks to provide a high level of current income, with liquidity and safety of principal.

**Portfolio management**

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| Portfolio information | |
|---|---|
| Total Net Assets | $513,217,207 |
| Total Number of Holdings | 647 |

| Fund characteristics | |
|---|---|
| WAM (years) | 6.92 |
| Effective Duration | 3.06 |
| Distribution Frequency | Monthly |

| Investment categories (%) | |
|---|---|
| US Agency MBS | 63.30 |
| US Non-Agency RMBS | 25.93 |
| US CMBS | 5.32 |
| US ABS | 2.51 |
| Cash & Equivalents* | 2.94 |

Data shown as a % of gross assets. Total may not equal 100% due to rounding.

| Credit quality breakdown (% total)[1] | |
|---|---|
| Cash and Cash Equivalents* | 2.94 |
| AAA | 73.92 |
| AA | 7.96 |
| A | 5.67 |
| BBB | 5.71 |
| BB | 2.30 |
| B | 0.56 |
| CCC | 0.73 |
| Not Rated | 0.20 |

## Market overview

- US bond returns were quite robust for the quarter, as decelerating global growth pushed interest rates lower, which boosted valuations. Despite economic uncertainties and trade disputes, credit investors took advantage of risk aversion during the fourth quarter by increasing allocations at attractive values. Global demand for US-based yield escalated as the Fed paused rate hikes for 2019 after a year of steady increases had stymied investors with rising hedging costs, particularly non-US based investors.
- The 2-year Treasury yield fell from 2.48% to 2.27%, the 10-year from 2.69% to 2.41% and the 30-year from 3.02% to 2.81%. The yield curve, as measured by the yield differential between 2- and 30-Treasuries, was unchanged at 0.54 percentage points, despite the notable rally.
- Agency mortgage-backed securities (MBS) posted a positive absolute return and outperformed Treasuries during the quarter despite the sharp rate decline and competition from other sectors. Outperformance was broad-based across all coupon levels as valuations benefited from investors' preference for risk assets strong tone in risk assets, lower interest rate volatility, steady demand from bank and REIT equity raises. 30 -year conventional mortgages modestly outperformed 30-year GNMAs, while 15-year GNMAs outperformed 15-year conventional mortgages.
- Structured credit sectors – commercial mortgage-backed (CMBS), asset-backed (ABS) and residential mortgage backed (RMBS) securities – outperformed as credit sectors bounced back from the fourth quarter selloff.

## Performance highlights

- Invesco Quality Income Fund Class A shares at net asset value (NAV)outperformed its style-specific benchmark, the Bloomberg Barclays US Mortgage Backed Securities Index, for the quarter. (Please see the investment results table on page 2 for fund and index performance.)

### Contributors to performance

- The fund's participation in the dollar roll market through Agency To-Be-Announced (TBA) securities added to relative return.
- Relative results also benefited from exposure to CMBS, which are not in the index.

### Detractors from performance

- The Fund's duration underweight proved to be a detractor as rates fell during the period.
- An overweight in Agency collateralized mortgage obligations (CMOs) was a slight detractor from relative return.

## Positioning and outlook

- The Federal Reserve reiterated a commitment to patience at its March meeting as it awaits evidence of persistent inflation. Though we see no signs of a sharp increase in inflation, we expect it to gradually increase during 2019 and believe global growth will stabilize as China takes steps to stimulate its economy. Rising inflation and upside growth surprises should push US yields higher and steepen the yield curve.
- The fund's allocation to MBS is modestly below that of the benchmark, with an underweight in 30-year fixed rate pass-thru's that is offset by Agency Hybrid ARM (adjustable rate mortgages) and Agency CMOs. MBS valuations remain on the rich side compared to their history as low volatility and generally strong risk markets have raised the comfort level for the sector's typical demand sources. Though we believe the sector has limited upside at these valuations, low volatility and risk asset performance have created a supportive environment. We maintain a defensive posture given tight valuations, potentially higher volatility, higher coupons within TBA pools and further reduction in the Fed's MBS holdings.
- The fund also has allocations to structured security credit sectors, including RMBS, CMBS and ABS, which in our view still offer enhanced yield with supportive fundamentals and healthy supply/demand dynamics.

**Investment results**

Average annual total returns (%) as of March 31, 2019

| Period | Class A Shares Inception: 05/31/84 Max Load 4.25% | Class A Shares NAV | Class C Shares Inception: 08/13/93 Max CDSC 1.00% | Class C Shares NAV | Class Y Shares Inception: 09/25/06 NAV | Style-Specific Index Bloomberg Barclays US Mortgage Backed Securities Index |
|---|---|---|---|---|---|---|
| Inception | 6.02 | 6.15 | 3.82 | 3.82 | 3.44 | - |
| 10 Years | 2.73 | 3.18 | 2.40 | 2.40 | 3.42 | 3.11 |
| 5 Years | 1.65 | 2.54 | 1.76 | 1.76 | 2.78 | 2.65 |
| 3 Years | 0.06 | 1.53 | 0.77 | 0.77 | 1.75 | 1.77 |
| 1 Year | -0.78 | 3.65 | 1.87 | 2.87 | 3.81 | 4.42 |
| Quarter | -2.09 | 2.26 | 1.08 | 2.08 | 2.23 | 2.17 |

*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. No contingent deferred sales charge (CDSC) will be imposed on redemptions of Class C shares following one year from the date shares were purchased. Performance shown at NAV does not include applicable CDSC or front-end sales charges, which would have reduced the performance. Class Y shares have no sales charge; therefore, performance is at NAV. Performance includes litigation proceeds. Had these proceeds not been received, total return would have been lower. 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 | 0.96 | 0.96 |
| Class C Shares | 1.72 | 1.72 |
| Class Y Shares | 0.72 | 0.72 |

Per the current prospectus

**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 middle of three or lower of two rating is applied. Not Rated indicates the debtor was not rated and should not be interpreted as indicating low quality. 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. Data shown as a % of gross assets.

* Excludes the effect of unsettled TBA mortgage trades on Cash.

Cash and cash equivalents refer to the value of assets that are cash or can be converted into cash immediately. These include bank accounts, certificates of deposit with a maturity date of one year or less, commercial paper, marketable securities, money market mutual funds, Treasury bills and short-term government bonds with a maturity date of three months or less. TBA mortgages are mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae that trade on a forward commitment basis.

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

Asset allocation/diversification does not guarantee a profit or eliminate the risk of loss.

The Bloomberg Barclays U.S. Mortgage Backed Securities Index represents mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). 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

The Fund may use leverage to seek to enhance income, which creates the likelihood of greater volatility of the Fund's shares and may also impair the ability to maintain its qualification for federal income tax purposes as a regulated investment company.

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.

Dollar roll transactions involve the risk that the market value and yield may decline below the price of the mortgage-related securities that have been sold and are required to be repurchased.

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.