Invesco Short Term Bond Fund

Quarterly Performance Commentary

Mutual Fund Retail Share Classes
Data as of Sept. 30, 2019

Investment objective

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

Portfolio management

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Fund facts

Total Net Assets	$1,535,989,538
Total Number of Holdings	351

Fund characteristics

WAM (years)	3.20
Effective Duration	1.97
Distribution Frequency	Monthly

Investment categories (%)

Government Bonds	
US Treasuries	7.01
Corporate Bonds	
US Investment Grade Bonds	49.58
US High Yield Bonds	3.39
Securitized Debt	
US Residential Mortgages	8.34
US CMBS	6.26
US Asset-Backed Securities	8.36
US Dollar Denominated Foreign Debt	
Non-US Investment Grade Bonds	6.10
Non-US High Yield Bonds	1.12
Emerging Markets Debt	3.83
Sovereign Debt	2.12
Cash	3.90

May not equal 100% due to rounding.

Credit quality breakdown (% total)[1]

Cash	3.90
AAA	22.96
AA	2.18
A	16.91
BBB	47.10
BB	4.48
B	1.89
Not Rated	0.59

Market overview

+ US bonds again posted strong nominal results in the third quarter as interest rates fell precipitously amid decelerating global growth and persistent US/China trade conflict. Global risks remained a headwind to growth, especially in Europe given uncertainties of Brexit, auto tariffs and Italy's crisis. The Federal Reserve twice cut the federal funds rate by 0.25%, lowering the target range for the overnight yield to 1.75% - 2.00%.
+ The 1-year Treasury yield fell from 1.92% to 1.75% and the 2-year from 1.75% to 1.63%.
+ Yield spreads between US investment grade credit and comparable duration US Treasuries narrowed during the quarter, slightly rewarding credit investors. Credit issuance was robust, with yield seekers highly receptive to the sector given the low yield environment. Investors maintained their preference for lower-rated investment grade (BBB/Baa) and high-yield credits, despite decelerating global growth.
+ While corporate leverage remained at high levels, free cash flow and interest coverage ratios were positives. Deleveraging remained a central theme for many corporate issuers across sectors, so security selectivity was essential to relative results.
+ The asset-backed (ABS) and commercial mortgage-backed (CMBS) sectors outperformed given the fervor for yield, as these sectors are less affected by declining global growth given underlying US collateral. The Agency mortgage-backed (MBS) sector marginally outperformed comparable Treasuries despite escalating prepayment risks tied to falling interest rates.

Positioning and outlook

+ Growth in Europe and China has been disappointing. More recently, the European Union services sector has softened. US consumer data has also been disappointing. We expect downside momentum to continue. Though we see little evidence for a recession, we believe trade, political and consumer uncertainty will weigh on data in the near term. In Europe, where data have been weakest, many risks remain (Brexit, Italy and auto-tariffs). We expect US growth over the next three to six months will trend closer to potential GDP (1.5%), which would bring 2019 GDP to 2%. If tariffs are not delayed, we could see 1% GDP in the first quarter of 2020.
+ Tariffs have pushed core CPI inflation higher and softening demand is not likely to lower near-term inflation. Therefore, our call for 2019 inflation is around 2.5% and trending lower in 2020. The Fed will likely maintain its focus on inflation expectations rather than the transitory pick-up in inflation. We expect core European inflation to rise to around 1.3% and headline inflation (including food and energy) to decline to 1.2% due to lower oil prices. Excluding tariffs, inflationary pressures will likely remain range bound but expect continued noise in the data.
+ Central banks have largely delivered what markets have expected, though the effectiveness of their easing is still in question (particularly in Europe where many risks loom). As US growth disappoints, we expect two more rate cuts in 2019, particularly if trade uncertainty persists and consumer sentiment weakens further. The bond market is currently pricing in three more Fed rate cuts in total, which is reasonable given slowing growth and inflation expectations.

Performance highlights

+ Invesco Short Term Bond Fund Class A shares at net asset value (NAV) had a positive return for the third 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

+ Security selection among shorter maturity energy, banking, communications and transportation credits added to relative results.
+ Overweights in lower-rated investment grade and opportunistic exposure to high-yield corporate credits proved beneficial to relative results.

Detractors from performance

+ Security selections in basic industry and consumer non-cyclicals dampened relative return.
+ Overweights in banking and transportation had a slight negative affect on relative return.

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.

Investment results

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

	Class A Shares		Class C Shares	Class Y Shares	
	Inception: 04/30/04		Inception: 08/30/02	Inception: 10/03/08	Style-Specific Index
Period	**Max Load 2.50%**	**NAV**	**NAV**	**NAV**	**Bloomberg Barclays 1-3 Year Government / Credit Index**
Inception	1.91	2.08	2.00	2.41	-
10 Years	1.93	2.19	1.85	2.36	1.52
5 Years	1.51	2.02	1.67	2.18	1.59
3 Years	1.31	2.16	1.80	2.28	1.82
1 Year	1.80	4.44	4.20	4.60	4.64
Quarter	-1.72	0.80	0.71	0.84	0.69

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.

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.