

Invesco Short Term 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)	2,116.61
----------------	----------

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 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)	1.89	1.86
Coupon (%)	4.85	2.70
30-day SEC yield (Class C shares)	4.67	-
30-day SEC unsubsidized yields (Class C shares)	N/A	-

Investment categories (%)

	Portfolio	Index
Corporate Bonds	52.39	19.87
US Investment Grade Bonds	49.93	19.85
US High Yield Bonds	2.46	0.01
Securitized	28.75	0.00
MBS	12.38	0.00
ABS	10.42	0.00
CMBS	5.95	0.00
Non-US Debt	17.42	10.56
Non-US Investment Grade Bonds	16.28	5.15
Sovereign Debt	0.53	4.72
Emerging Market Debt	0.48	0.69
Non-US High Yield Bonds	0.14	0.00
Government Bonds	0.37	66.23
US Treasuries	0.37	66.23
Municipal Bonds	0.00	0.42
Convertible Bonds	0.00	0.00
Cash & Cash Equivalent	0.73	0.00
Others	0.34	2.92

Portfolio positioning

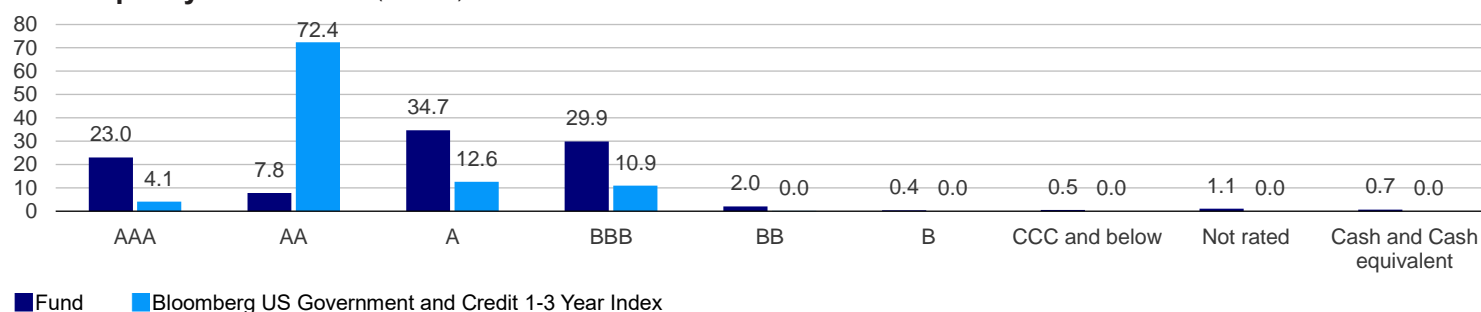
During the quarter, we maintained an overweight in investment grade corporates, which we believe should perform well in a soft landing or recession scenario. In a soft landing, interest rates would come down more slowly and bond investors would continue to earn high yields for longer. In a recession,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

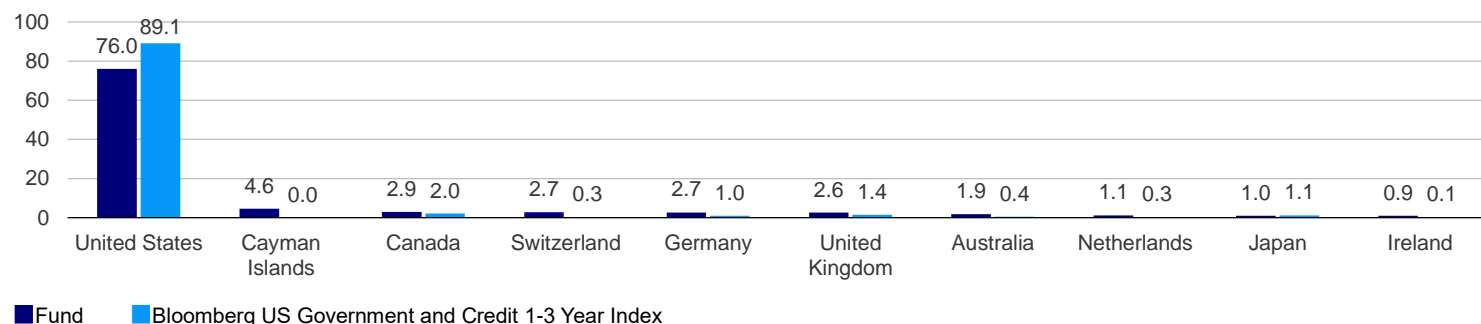
We decreased the fund’s overweights in high-yield corporates and emerging market debt, favoring high-quality assets in this environment.

We 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
UBS GROUP AG	347.21	2.15
POLARIS INC	840.28	1.93
BHP BILLITON FINANCE (USA) LTD	485.40	1.75
PIEDMONT OFFICE REALTY TRUST INC	679.37	1.72
ENERGY TRANSFER LP	415.90	1.55

Top detractors (bps)		
Issuer	Return	Contrib. to return
OFFICE PROPERTIES INCOME TRUST	5.76	-0.73
ENERFLEX LTD	-155.94	-0.52
CAIXABANK SA	-49.83	-0.25
SOUTHERN COMPANY (THE)	163.22	-0.25
PACIFIC LIFE GLOBAL FUNDING II	242.29	-0.24

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 banking and consumer non-cyclical sub-sectors.

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

Securitized assets: Overweights in collateralized mortgage obligations (CMOs) and asset-backed securities (ABS) positively affected relative performance.

Detractors from performance

Security selection: Security selection in the communications sub-sector detracted from relative performance.

Securitized assets: An overweight in commercial mortgage-backed securities (CMBS) negatively affected relative performance.

Standardized performance (%) as of December 31, 2023

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class C shares inception: 08/30/02	NAV	2.98	5.35	5.35	-0.15	1.39	1.27	1.84
Class A shares inception: 04/30/04	NAV	3.07	5.71	5.71	0.20	1.75	1.56	1.85
	Max. Load 2.5%	0.53	3.12	3.12	-0.64	1.23	1.31	1.72
Class R6 shares inception: 09/24/12	NAV	3.13	5.84	5.84	0.41	1.99	1.81	1.78
Class Y shares inception: 10/03/08	NAV	3.11	5.86	5.86	0.35	1.91	1.71	2.07
Bloomberg US Government and Credit 1-3 Year Index		2.69	4.61	4.61	0.09	1.51	1.27	-
Total return ranking vs. Morningstar Short-Term Bond category (Class C shares at NAV)		-	-	64% (329 of 574)	61% (309 of 535)	80% (369 of 495)	77% (252 of 357)	-

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 US Government and Credit 1-3 Year Index	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 12/31/23. Unless stated otherwise, Index refers to Bloomberg US Government and Credit 1-3 Year Index.

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.

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.

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.moodys.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

Source: ©2023 Morningstar Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers. It may not be copied or distributed and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Open-end mutual funds and exchange-traded funds are considered a single population for comparison purposes. Had fees not been waived and/or expenses reimbursed currently or in the past, the ranking would have been lower. Rankings for other share classes may differ due to different performance characteristics.

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.