

# Invesco Conservative Income Fund

## Quarterly Performance Commentary

Mutual Fund Retail Share Classes  
Data as of Dec. 31, 2023



### Investment objective

The fund seeks to provide capital preservation and current income while maintaining liquidity. The fund seeks to achieve its investment objective by investing in a diversified portfolio of short duration, investment grade money market and fixed income securities.

### Portfolio management

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### Fund facts

Total Net Assets	\$2,040,254,741
Total Number of Holdings	183
Nasdaq	R6: ICIRX A: ICIVX Y: ICIYX Inst: ICIFX

### Fund characteristics

Effective Duration	0.64
Spread Duration (years)	0.89
Weighted average life (WAL) (years)	1.03

### Credit quality breakdown (% total)<sup>1</sup>

A-1+ or A-1	15.82
A-2 or A-3	12.69
AAA	16.82
AA	17.51
A	28.01
BBB	9.15

### Market overview

- + Long-term US Treasury yields declined and yield spreads between Treasury and non-Treasury sectors improved in the fourth quarter as the US Federal Reserve (Fed) held the range for the effective federal funds rate steady at 5.25% to 5.50%.
- + After last raising policy rates at the Fed's July 2023 meeting, Fed Chairman Powell seemed to indicate the tightening cycle could be over and the Fed's median projection for the federal funds rate for 2024 signaled three 0.25% rate cuts. However, the Fed also seemed to remain data dependent, acknowledging that monetary policy is restrictive, providing conditional guidance that rates would remain higher for longer, and restating its commitment to bring inflation down to its 2% target. On the economic front, labor markets moderated but remained resilient as jobless claims lingered at low levels. Inflation overall was on a slow downward trajectory but remained above the Fed's 2% target as core services inflation stayed elevated.
- + The Fed's shift in tone, falling inflation and a seemingly resilient economic backdrop appeared to create a euphoric fixed income environment where long-term yields declined and credit spreads improved. The 2-year Treasury yield, a key market barometer for future Fed policy expectations, fell by 0.79% to 4.25%. The yield spread between Treasuries and short-term US corporate credit (1 to 3-year maturities) improved, that is tightened, by about 0.15%, near the low levels seen immediately before the banking crisis early in 2023.
- + During the quarter, the fund's duration was little changed at 0.64 years, down from 0.66 years. The fund's allocation to asset backed securities (ABS) and investment grade corporate bonds increased as we reduced allocations to money market securities and government obligations. Money market securities decreased to 28.5% from 31.7% and government exposure ended at zero. Investment grade corporate bond exposure increased to 56.4% from 51.6% and ABS increased to 15.0% from 14.2%.
- + Financial institutions made up 39.5% of the investment grade corporate allocation. The ABS allocation was predominantly auto related at 5.3% and equipment-backed deals at 5.4%. The fund had 16.8% in AAA-rated securities, while its allocation to BBB-rated investment grade corporate bonds was 9.1%.

### Positioning and outlook

- + Our baseline view is a scenario with an economic soft landing and no recession but below-trend economic growth and a softening labor market. This outcome should in our view allow the Fed to start cutting interest rates, most likely in the second quarter of 2024. Though inflation would likely still be above the Fed's target at that time, lower inflation and moderating growth would likely mean the Fed's current monetary policy is too tight for an economy slowing in both nominal and real terms. If our expectation for a soft landing plays out, risk assets would likely perform well, household and corporate borrowing rates would likely decline from peak levels, and lending conditions would likely begin to improve.

### Performance highlights

- + Invesco Conservative Income Fund (ICIFX) returned 1.84% for the fourth quarter, outperforming its benchmark, the ICE BofAML US Treasury Bill Index, which returned 1.40%.
- + For 2023, the fund returned 5.52% compared to the benchmark return of 5.08%.

### Contributors to performance

- + Duration and yield curve positioning had the largest positive effect on the fund's performance relative to its benchmark during the quarter. The return from sector and security selection was also positive relative to the benchmark.
- + In terms of sector allocations, investment grade corporate bonds, especially financial institutions, added the most to relative return.
- + Holdings of financial corporate bonds, industrial corporate bonds, auto-related ABS and money market securities longer than 150 days had the largest positive effect on the fund's return from sector and security selection.

### Detractors from performance

- + The fund's holdings in certain ABS had a negative effect on the fund's security and sector return relative to the benchmark, as did holdings of US Treasury securities.

Expense ratios	% net	% total
Class A Shares	0.40	0.44
Class Y Shares	0.30	0.34
Class Institutional Shares	0.27	0.27
Class R6 Shares	0.29	0.29

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 Dec. 31, 2023. See current prospectus for more information.

#### Investment categories (%)

Corporate Bonds	56.44
Commercial Paper	24.10
Asset-Backed Securities	15.05
Certified Deposits	2.92
Repurchase Agreements	1.47
Cash	0.03

May not equal 100% due to rounding.

## Investment results

Average annual total returns (%) as of Dec. 31, 2023

	Class A Shares	Class Y Shares	Class Institutional Shares	Class R6 Shares	Style-Specific Index
	Inception: 04/02/18	Inception: 12/10/19	Inception: 07/01/14	Inception: 05/15/20	
					<b>ICE BofA U.S. Treasury Bill Index</b>
Period	NAV	NAV	NAV	NAV	
Inception	1.52	1.62	1.63	1.65	-
5 Years	1.94	2.08	2.09	2.12	1.90
3 Years	1.76	1.87	1.90	1.91	2.13
1 Year	5.28	5.49	5.52	5.49	5.08
Quarter	1.80	1.83	1.84	1.93	1.40

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit [invesco.com/performance](https://www.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. 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. Class A shares, Class Y shares, and Institutional Class shares have no sales charges; therefore, performance is at NAV. Invesco Conservative Income Fund Class A inceptioned on 04/02/18 and Class Y inceptioned on 12/10/19. Performance shown prior to that date is that of Invesco Conservative Income Fund Institutional Class, restated to reflect the higher 12b-1 fees applicable to Invesco Conservative Income Fund Class A.

For more information you can visit us at [www.invesco.com/us](https://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](https://www.standardandpoors.com) and select 'Understanding Ratings' under Rating Resources on the homepage; [www.moodys.com](https://www.moodys.com) and select 'Rating Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](https://www.fitchratings.com) and select 'Ratings Definitions' on the homepage.

**Effective duration** is a modified duration calculation which incorporates the expected duration-shortening effect of an issuer's embedded call provision. **Spread duration** measures the sensitivity of a security's price to a 100 basis point change in its OAS (Option Adjusted Spread is a methodology using option pricing techniques to value the imbedded options risk component of a bond's total spread. Imbedded options are call, put or sink features of bonds.). Often used to quantify the sensitivity of a portfolio to changes in spreads. The spread duration of a portfolio is the market weighted average of the spread duration of all of its securities. **Weighted average life (WAL)** calculates a fund's average time to maturity for all of the securities held in the portfolio, weighted to their percentage of assets in the fund. In contrast to WAL, the WAL calculation takes into account the final maturity date for each security held in the portfolio. This is a way to measure a fund's potential sensitivity to credit spread changes.

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### 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 profitability of businesses in the financial services sector depends on the availability and cost of money and may fluctuate significantly in response to changes in government regulation, interest rates and general economic conditions. These businesses often operate with substantial financial leverage.

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

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.

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.

***Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their financial professionals for a prospectus/summary prospectus or visit [invesco.com/fundprospectus](https://www.invesco.com/fundprospectus).***

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.

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. Holdings are subject to change and are not buy/sell recommendations.

All data provided by Invesco unless otherwise noted.