

# Invesco Short Term Municipal Fund

## Q4 2025

## Key takeaways

**1 Fund performance**  
Invesco Short Term Municipal Fund Class A shares at net asset value (NAV) outperformed its style-specific index, the S&P Municipal Bond Short Index.

**2 Seeking attractive opportunities through collaborative management**  
Invesco Municipal Bond team uses a collaborative management approach. Relying on our size and experience, we seek to identify the best opportunities to achieve potentially better outcomes for shareholders.

**3 Analysis focused on creditworthiness**  
Our team uses a bottom-up fundamental credit process focused on creditworthiness of individual issuers with an overlay of macroeconomic factors to capitalize on market inefficiencies. Our process has been time tested over full market cycles.

### Investment objective

The fund seeks tax-free income.

### Fund facts

Fund AUM (\$M) 1,583.13

### Portfolio managers

Timothy O'Reilly, Julius Williams, Mark Paris, Michael Magee, Rebecca Setcavage



Class Y shares (ORSYX): Best among 28 Short Municipal Debt Funds for the 10-year period ending November 30, 2024, based on consistently strong risk-adjusted performance.

## Manager perspective and outlook

- In the fourth quarter, investment grade, high yield and taxable municipals delivered positive returns of 1.42%, 1.11% and 1.05%, with annual returns of 4.25%, 2.46% and 7.89%, respectively.<sup>1</sup> Despite a lengthy federal government shutdown, long-duration municipal bonds performed well during the quarter, bolstering market strength.<sup>1</sup>
- New municipal issuance reached \$143 billion for the quarter and a record \$584 billion for the year, surpassing last year's record \$509 billion. Shifting interest rate policies, higher costs and political uncertainty likely encouraged more issuers to come to market.<sup>1</sup>
- Net flows for municipal mutual funds and exchange-traded funds (ETFs) were strong, totaling approximately \$17.5 billion for the quarter and \$52.4 billion for the year.<sup>2</sup>
- The US Federal Reserve (Fed) cut the federal funds rate twice, by 0.25% in October and 0.25% in December. The Fed reiterated its commitment to balancing maximum employment and a 2% inflation target.<sup>3</sup>
- We believe state and local municipal budgets remain healthy. While credit rating upgrades have moderated, upgrades outpaced downgrades in 2025, demonstrating to us strong fundamentals.<sup>4</sup>
- Our experienced credit research team continues to seek out market dislocations, uncovering opportunities to add value for shareholders.
- Looking ahead, we see attractive opportunities in municipals. With prospects for more Fed interest rate cuts, steady issuance and ongoing demand for tax-exempt income, we believe high absolute yields and solid fundamentals make municipals a compelling choice.

## Top holdings

(% of total market value)

PEFA Inc 5.00 09/01/2049	1.27
New York Transportation Development Corp 5.00 08/01/2031	1.22
City of New York NY 2.75 04/01/2042	1.02
Miami-Dade County Expressway Authority 5.00 07/01/2040	0.88
City of New York NY 2.75 04/01/2042	0.82
Bristol Warren Regional School District 5.00 06/04/2026	0.80
New York City Housing Development Corp 3.40 11/01/2062	0.80
Main Street Natural Gas Inc 4.00 08/01/2052	0.78
Tender Option Bond Trust Receipts/Certificates 2.82 05/01/2031	0.74
Southeast Energy Authority A Cooperative District 5.00 10/01/2030	0.69

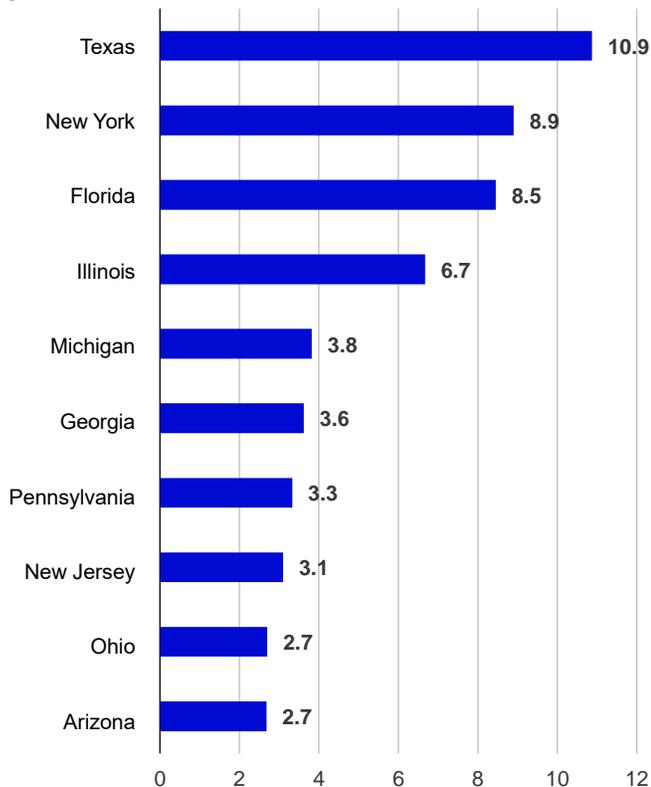
## Portfolio positioning

**Yield Curve and Duration Positioning:** Overall, we maintain a constructive outlook on duration. We continue to look for opportunities to extend duration when appropriate and according to prospectus guidelines. We are also using a barbell strategy with variable rate demand notes (VRDNs) on one side and short call premium coupon bonds on the other. The short end of the municipal yield curve has remained inverted through maturities of three years (shorter maturity bonds yield more than longer maturity bonds) and has been steep in the five- to 20-year part of the curve.

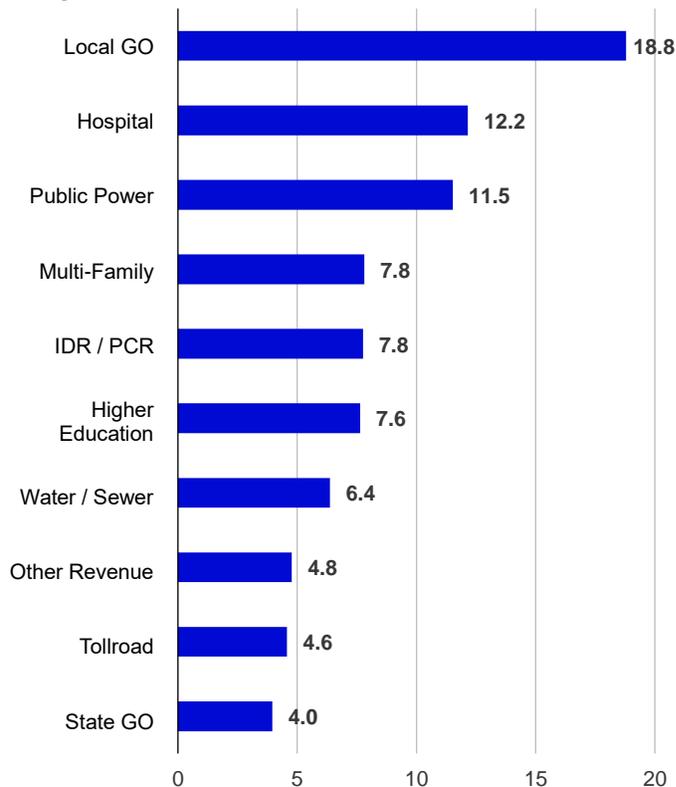
**Sector Allocations:** We maintain an overweight in revenue bonds relative to state and local general obligation bonds, though we note that pension risks historically associated with general obligation bonds have generally been mitigated over the past several years. Within the revenue bond segment, the fund's largest exposures are in the hospital, public power and multi-family housing sectors. In our view, the SIFMA (Securities Industry Financial Market Association) rate, which measures the average interest rate payable on tax-exempt variable rate demand obligations, remained attractive compared to short dated, fixed-rate debt, making VRDNs attractive investments.

**Credit Conditions:** We maintain a positive view on fundamentals in the municipal market, as credit rating upgrades have continued to outpace downgrades. While various sectors have come under pressure due to reduced federal support, inflation-driven cost pressures and negative political headlines, we continue to rely on our extensive bottom-up research capabilities to identify strong credits with attractive yields.

## Top states (% of total market value)



## Top sectors (% of total market value)



## Portfolio characteristics\*

	Fund	BM
Option adjusted duration (years)	1.75	1.64
Average effective maturity (years)	1.85	-
30-day SEC yield (Class A shares)	2.46	-
Tax equivalent 30-day SEC yield (Class A shares)	4.16	-
30-day SEC unsubsidized yields (Class A shares)	N/A	-
Number of positions	623	-
Alternative min. tax exposure (%)	4.04	-

## Quality breakdown (% total)

Net cash & equiv.	1.3
Prere/ETM	0.5
AAA	13.6
AA	49.0
A	24.3
BBB	5.4
BB	2.6
B	0.3
Below B	0.1
Not Rated	2.8

## Performance highlights

The fourth quarter began on a strong note despite record levels of new issuance and the longest federal government shutdown in history. Economic signals were mixed, with solid Gross Domestic Product (GDP) growth alongside persistent inflation and a weakening employment outlook. The Fed cut the federal funds target rate by 0.25% in both October and December, for a total of three rate cuts in 2025. Municipals rallied in October and delivered steady, positive returns through the end of the quarter. Yields on the short end of the municipal yield curve rose, with two- and five-year bond yields rising by 0.17% and 0.08%, respectively.<sup>5</sup> Higher quality municipal credits generally outperformed for the quarter.

### Contributors to performance

Contributors to relative return this quarter included the following:

The fund's overweight in bonds with durations under one year boosted relative performance, as did security selection among bonds with durations between one and four years. Security selection in local general obligation, hospital and multi-family housing bonds also added to relative return.

### Detractors from performance

Detractors from relative return this quarter included the following:

Security selection in zero-coupon bonds slightly detracted from relative performance during the quarter. Additionally, holdings of tobacco and industrial development revenue/pollution control revenue (IDR/PCR) bonds were marginal detractors.

## Standardized performance (%) as of December 31, 2025

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception
Class A shares inception: 12/06/10	NAV	0.73	3.38	3.38	2.98	1.69	1.83	2.07
	Max. Load 0%	0.73	3.38	3.38	2.98	1.69	1.83	2.07
Class R6 shares inception: 05/24/19	NAV	0.81	3.72	3.72	3.31	2.03	2.07	-
Class Y shares inception: 12/06/10	NAV	0.79	3.64	3.64	3.24	1.95	2.08	2.32
S&P Municipal Bond Short Index (USD)		0.49	3.64	3.64	3.20	1.58	1.66	-
Total return ranking vs. Morningstar Muni National Short category (Class A shares at NAV)		-	-	76% (175 of 215)	81% (170 of 199)	39% (57 of 186)	20% (34 of 145)	-

Expense ratios per the current prospectus: Class A: Net: 0.76%, Total: 0.76%; Class R6: Net: 0.43%, Total: 0.43%; Class Y: Net: 0.51%, Total: 0.51%.

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. Class R6, and Class Y shares have no sales charge; therefore, performance is at NAV. Performance shown prior to the inception date of Class R6 shares is that of Class A shares and includes the 12b-1 fees applicable to Class A shares. As the result of a reorganization on May 24, 2019, the returns of the fund for periods on or prior to May 24, 2019 reflect performance of the Oppenheimer predecessor fund. Share class returns will differ from the predecessor fund due to a change in expenses and sales charges. Index source: FactSet Research Systems Inc. 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.

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## Performance highlights (cont'd)

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### Calendar year total returns (%)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class A shares at NAV	0.63	2.35	1.41	2.69	2.74	-0.06	-0.34	3.11	2.44	3.38
Class R6 shares at NAV	0.63	2.35	1.41	3.13	3.06	0.53	-0.28	3.44	2.79	3.72
Class Y shares at NAV	0.88	2.61	1.66	2.95	2.98	0.46	-0.35	3.37	2.70	3.64
S&P Municipal Bond Short Index (USD)	0.37	1.16	1.78	3.11	2.32	0.41	-2.02	3.34	2.62	3.64

Unless otherwise specified, all information is as of 12/31/25. Unless stated otherwise, Index refers to S&P Municipal Bond Short Index (USD).

S&P Municipal Bond Short Index consists of bonds in the S&P Municipal Bond Index with a minimum maturity of 6 months and a maximum maturity of 4 years. An investment cannot be made directly in an index.

The Global Industry Classification Standard was developed by and is the exclusive property and service mark of MSCI, Inc. and Standard & Poor's.

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#### About Risk

All or a portion of the Fund's otherwise tax-exempt income may be subject to the federal alternative minimum tax.

If interest rates fall, callable security issuers may call or prepay their securities before maturity, causing the fund to reinvest proceeds in securities with lower interest rates and reducing fund income and distributions.

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.

Economic problems in certain US states increase the risk of investing in municipal obligations, such as California, New York or Texas, including the risk of potential issuer default, heightens the risk that the prices of municipal obligations, and the fund's net asset value, will experience greater volatility. See the prospectus for more information.

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

The investment techniques and risk analysis used by the portfolio managers may not produce the desired results.

The Fund invests in obligations, exempt from regular federal individual income taxes, of the governments of U.S. territories, commonwealths and possessions such as Puerto Rico, the U.S. Virgin Islands, Guam and the Northern Mariana Islands. As result, the Fund may be adversely affected by local political, economic, social and environmental conditions and developments, including natural disasters affecting such obligations. Certain municipalities the Fund invests in, such as Puerto Rico, have significant financial difficulties, including risk of default, insolvency or bankruptcy; and may be subject to credit rating downgrades affecting the payment of principal and interest, the market values and marketability of such municipal obligations.

The Fund may invest in municipal securities issued by entities having similar characteristics, which may make the fund more susceptible to fluctuation.

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.

The Fund will invest in bonds with short- or intermediate-term (five years or less) maturity which may have additional risks, including interest rate changes over the life of the bond. The average maturity of the Fund's investments will affect the volatility of the Fund's share price.

There is no guarantee that the Fund's income will be exempt from federal and state income taxes.

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 (NR) 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. Pre-Refunded/Escrowed to Maturity (Prerefunded/ETM) bonds are issues backed by an escrow account, invested in US Treasuries, which is used to pay bondholders. Other includes bonds rated below single B and bonds currently not paying a coupon. For more information on rating methodologies, please visit the following NRSRO websites: [www.standardandpoors.com](http://www.standardandpoors.com) and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; <https://ratings.moodys.io/ratings> and select 'Understanding Ratings' on the homepage; [www.fitchratings.com](http://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.

\* **30-day SEC yield** is based on a 30-day period and is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. **30-day SEC unsubsidized yield** reflects the 30-day yield if the investment adviser were not waiving all or part of its fee or reimbursing the fund for part of its expenses. Total return would have also been lower in the absence of these temporary reimbursements or waivers. **Option adjusted duration** is a measure, as estimated by the fund's portfolio managers, of a bond fund's price sensitivity to changes in interest rates. It takes into account mortgage prepayments, puts, adjustable coupons and potential call dates. **Tax equivalent 30-day SEC yield** quoted above is based on the 2025 top federal tax rate of 40.8%, including the 3.8% tax on earned income under the Patient Protection and Affordable Care Act, as applicable. Had fees not been waived and/or expenses reimbursed, the yield would have been lower. **Average effective maturity** is a weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security. It takes into account mortgage prepayments, puts, adjustable coupons and potential call dates.

1. Source: Bloomberg L.P., as of December 31, 2025.
2. Source: Lipper, as of January 5, 2026.
3. Source: US Federal Reserve, as of December 10, 2025.
4. Source: Standard and Poor's, September 30, 2025, latest data available.
5. Source: Thomson Reuters, as of December 31, 2025.

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#### Morningstar

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**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.**