

# Invesco Short Duration High Yield Municipal Fund

## Quarterly Performance Commentary

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



### Investment objective

The fund seeks federal tax-exempt current income and taxable capital appreciation.

### Portfolio management

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### Fund facts

|                          |               |                      |
|--------------------------|---------------|----------------------|
| Nasdaq                   | A: ISHAX      | C: ISHCX<br>Y: ISHYX |
| Total Net Assets         | \$481,115,291 |                      |
| Total Number of Holdings | 405           |                      |

### Fund characteristics

|                          |      |
|--------------------------|------|
| WAM (years)              | 9.87 |
| Option Adjusted Duration | 4.55 |

### Investment categories (%)

|                          |       |
|--------------------------|-------|
| Revenue Bonds            | 83.20 |
| General Obligation Bonds | 11.58 |
| Prerefunded/ETM          | 0.15  |
| Cash/Other               | 5.07  |

May not equal 100% due to rounding.

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

|               |       |
|---------------|-------|
| Cash          | -2.03 |
| Prefunded/ETM | 0.15  |
| AAA           | 2.35  |
| AA            | 5.08  |
| A             | 10.91 |
| BBB           | 12.80 |
| BB            | 18.65 |
| B             | 3.85  |
| Other         | 5.03  |
| Not Rated     | 43.20 |

### Market overview

- + Strong market technicals, with a favorable balance of supply and demand, continued to support municipal bond results.
- + We believe tax changes from the Tax Cuts and Jobs Act (TCJA) of 2017 will remain a primary demand driver for municipal bonds. Under the new law, a \$10,000 cap on state and local tax deductions has caused surprisingly larger individual tax bills for people in states with high income taxes (especially states like California, New York and New Jersey). Although the TCJA went into effect on Jan. 1, 2018, many investors did not fully understand the personal impact until they filed tax returns in spring of 2019. Inflows to municipal mutual funds total \$67 billion year-to-date, on pace for a record year. Positive inflows began in January and continued through the third quarter as investors realized the ramifications of the state and local tax deduction cap. High-yield municipals did experience brief outflows in September as a result of a selloff in US Treasuries.
- + During the quarter, positive market performance stemmed, in part, from escalating US/China trade tensions, including the announcement of 10% tariffs on \$300 billion in Chinese imports. This drove investors to bonds, which are perceived as a safe haven.
- + Outperformance in the hospital and tobacco sectors were primary drivers of positive total returns across the municipal bond yield curve. Within the investment grade segment, lower-rated investment grade credits outperformed their higher-quality counterparts.
- + New municipal issuance during the quarter totaled \$103 billion, bringing year-to-date issuance to \$277 billion, 10% higher than the same period last year. Steady issuance is expected to continue through 2019 as issuers take advantage of historically low rates.
- + As expected by market consensus, the Federal Reserve cut interest rates by 0.25% on July 31st and by another 0.25% on September 18th. According to Fed Chairman Powell's comments, these cuts are a mid-cycle adjustment rather than a series of aggressive cuts. However, his comments have not stopped the market from pricing in additional cuts. Meanwhile, lack of consensus among Fed governors regarding rate cuts has trickled into general market sentiment, resulting in increased volatility among risk assets.

### Positioning and outlook

- + We maintain the fund's preference for revenue bonds over general obligation bonds. The largest sector allocations were in the health care and industrial development revenue/pollution control revenue sectors.
- + Approximately 43% of fund holdings are non-rated by the national agencies, but are assigned internal proprietary ratings that allow us to take advantage of pricing anomalies in the high-yield municipal market.
- + Our approach to investing aims to deliver a highly competitive yield while diversifying both sector and individual security risks.
- + Looking ahead, municipal fundamentals should remain strong. We believe the state and local tax deduction limit will continue to drive performance, although not to the same magnitude seen thus far in 2019.

### Performance highlights

- + Invesco Short Duration High Yield Municipal Fund Class A shares at net asset value (NAV) posted a return of 1.46% for the third quarter, compared to its custom style-specific index, which returned 1.83%. (Please see the investment results table on page 2 for fund and index performance).

### Contributors to performance

- + An overweight in life care bonds added to relative return during the quarter, as did security selection among shorter duration bonds (9.00 years and less).
- + On the state level, security selection among Colorado and New Jersey domiciled issues added to relative return during the quarter.

### Detractors from performance

- + An underweight and security selection in the dedicated tax and tobacco sectors detracted from relative return during the quarter.
- + Security selection among longer duration bonds (9.00 years and greater) also detracted.
- + On the state level, security selection among California and New York domiciled bonds detracted from relative return, as did an underweight in Puerto Rico bonds.

| Expense ratios | % net | % total |
|----------------|-------|---------|
| Class A Shares | 0.86  | 1.06    |
| Class C Shares | 1.61  | 1.81    |
| Class Y Shares | 0.61  | 0.81    |

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, 2019. See current prospectus for more information.

## Investment results

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

| Period    | Class A Shares         |                      | Class C Shares         |                      | Class Y Shares         | Style-Specific Index |
|-----------|------------------------|----------------------|------------------------|----------------------|------------------------|----------------------|
|           | Inception:<br>09/30/15 | Max<br>Load<br>2.50% | Inception:<br>09/30/15 | Max<br>CDSC<br>1.00% | Inception:<br>09/30/15 |                      |
| Inception | 4.55                   | NAV                  | 4.43                   | NAV                  | 5.50                   | -                    |
| 3 Years   | 3.32                   | NAV                  | 3.42                   | NAV                  | 4.45                   | 3.72                 |
| 1 Year    | 4.49                   | NAV                  | 5.41                   | NAV                  | 7.46                   | 6.92                 |
| Quarter   | -1.12                  | NAV                  | 0.27                   | NAV                  | 1.52                   | 1.83                 |

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit [invesco.com/performance](http://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. 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 sources: Invesco, FactSet Research Systems Inc.

### For more information you can visit us at [www.invesco.com/us](http://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. 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 the rating methodology, please visit [www.standardandpoors.com](http://www.standardandpoors.com) and select 'Understanding Ratings' under Rating Resources on the homepage; [www.moody.com](http://www.moody.com) and select 'Rating Methodologies' under Research and Ratings on the homepage; [www.fitchratings.com](http://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.

Income may be subject to state and local taxes. There is no guarantee that the fund's income will be exempt from federal income taxes, including the alternative minimum tax. Diversification does not guarantee a profit or eliminate the risk of loss.

The Custom Invesco Short Duration High Yield Municipal Index consists of 60% S&P Municipal Bond High Yield Index, 40% S&P Municipal Bond Short Index. An investment cannot be made directly in an index.

The Bloomberg Barclays Municipal Bond Index is an unmanaged index considered representative of the tax-exempt bond market. An investment cannot be made directly in an index.

The Bloomberg Barclays Municipal High Yield Bond Index is an unmanaged index considered representative of noninvestment-grade bonds. An investment cannot be made directly in an index.

**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. **Weighted average 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.

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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.

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.

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

Securities which are in the medium- and lower grade categories generally offer higher yields than are offered by higher-grade securities of similar maturity, but they also generally involve more volatility and greater risks, such as greater credit risk, market risk, liquidity risk, management risk, and regulatory risk.

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

Municipal securities have the risk that legislative or economic conditions could affect an issuer's ability to make principal and/or interest payments.

The fund is considered non-diversified and may experience greater volatility than a more diversified investment.

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.

**NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE**

*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 advisors 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. Advisors, 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.