Invesco Floating Rate ESG Fund

Q2 2024

Key takeaways

1 ESG integration
The fund actively uses an environmental, social and governance (ESG) overlay in its investment process.

2 Full cycle view
We position the fund for the long term, a full market cycle. We augment our long-term perspective with an active management approach and the application of several proprietary models that are built to help us exploit shorter term relative value opportunities.

3 Hedging interest rate volatility
Due to their floating rate nature, loans effectively have no interest rate risk, a potential diversification benefit when paired with a portfolio of longer duration, interest rate sensitive assets.

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

Fund facts

Fund AUM ($M)	2,741.59

Portfolio managers
Thomas Ewald, Philip Yarrow, Scott Baskind

Manager perspective and outlook

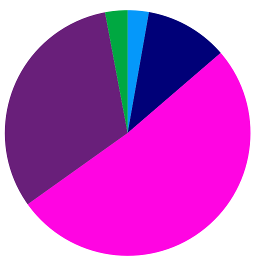
- Loans, as represented by the Credit Suisse Leveraged Loan Index, returned 1.86% in the second quarter.[1]
- During the second quarter, the surge of repricing activity continued; nearly 30% of the asset class has repriced so far this year, extending maturities. While merger & acquisition and leveraged buyout activity was muted during the quarter, the loan market still experienced strong demand from institutional investors and from robust origination of collateralized loan obligations (CLO).
- Healthy balance sheets and limited near-term maturities restricted restructuring activity, ultimately pushing the par-weighted loan LTM default rate down to 0.92% (excluding distressed exchanges). However, the pocket of distress in the market (the percent of loans trading below $80) grew from 3.51% to 4.42%,[2] highlighting the importance of the credit selection process.
- Recent economic data pointed to a higher probability of US Federal Reserve rate cuts in 2024. However, rates are expected to remain above pre-pandemic levels, with a “higher for longer” scenario still in play. To the extent this policy path materializes, loan coupon income stands to benefit from a slower, shallower easing cycle. In our view, this dynamic, in concert with firm economic growth and earnings fundamentals and the tailwind of a persistent shortage of new issue loan supply, creates a favorable backdrop for loan returns in 2024.

Investment categories (%)

Senior Secured Loans	88.4
Corporate Debt	9.0
Domestic Common Stock	2.6
Preferred Securities	0.3
Warrants	0.3
Senior Unsecured Loans	0.0
Int'l Common Stock	0.0
Cash and Cash equivalents	-0.7

May not equal 100% due to rounding.

ESG rating distribution (%)



Average ESG rating: 2.93

Rate	Percent
1.0 to 1.5	0.00
1.5 to 2.0	2.78
2.0 to 2.5	10.91
2.5 to 3.0	51.45
3.0 to 3.5	31.91
3.5 to 4.0	2.95
4.0 to 4.5	0.00

ESG risk:
1 - Negligible
2 - Low
3 - Average
4 - Above average
5 - High

Portfolio positioning

The fund's core investment process is grounded in a fundamental bottom-up risk assessment of each issuer/issue it invests in, coupled with top-down risk positioning tied to broader macroeconomic trends.

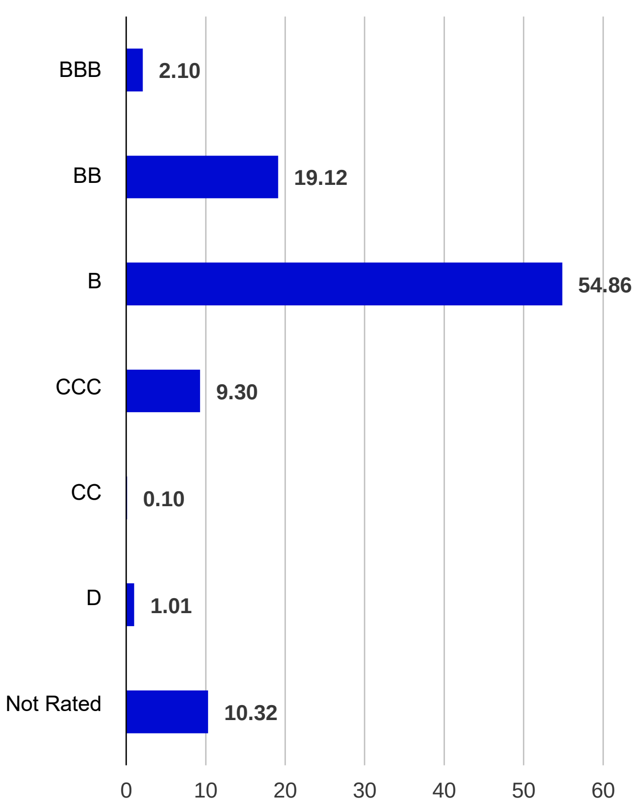
At quarter end, the fund's largest overweights were in chemicals, transportation and manufacturing. During the quarter, the transportation sector replaced telecommunications as one of the fund's top three sector overweights.

The chemicals sector weathered the severe inflationary environment of 2021 and 2022 remarkably well in our view, despite exposure to commodity prices, demonstrating it could pass price increases through to maintain profit margins. The sector had a more challenging year in 2023 due to inventory destocking, end market softness across many verticals and geographies, and margin compression as higher cost inventory was sold into a deflationary environment. In the second half of 2024, many issuers have seen sequential improvements as customer destocking has subsided, and we expect earnings trends to broadly stabilize as destocking ends and prices and costs of inventory better align. Though our earnings growth outlook for the sector is somewhat cautious, the fund's exposure is weighted towards companies with ample balance sheet cushion that may help to withstand such an environment.

The fund's largest underweights were in health care, information technology (IT) and, to a much lesser extent, food/tobacco. During the quarter, the food/tobacco sector replaced financial as one of the fund's three largest sector underweights.

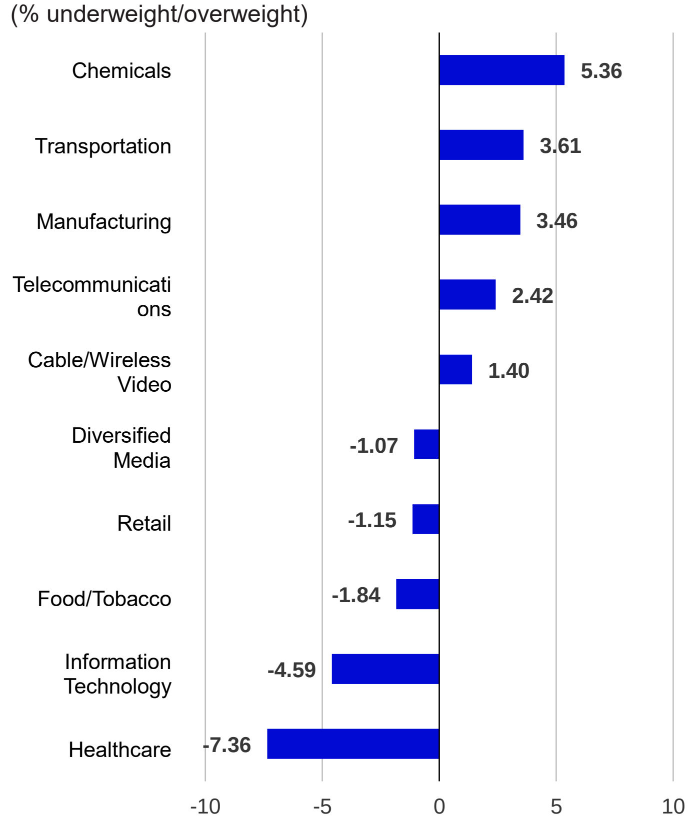
The fund's persistent underweight in health care reflects our belief that investors are not being adequately compensated for the risks facing health care providers in the current operating environment. The sector, in our view, has been persistently under pressure from the shift toward health care consumerism and pressure on reimbursement rates from Medicare and other payors. Over the past two years, many health care sub-sectors appear to have been negatively affected by proposed "surprise billing" legislation that garnered substantial attention, a focus expected to continue under the Biden administration. At the same time, rising wages and labor shortages have compressed margins, negatively affecting operators. In our view, the highly politicized nature of the health care sector adds meaningful downside risk, and we have been highly selective in the sector.

Quality breakdown (% total)



The fund's positioning versus Index

(% underweight/overweight)



Portfolio characteristics*

	Fund	Index
Weighted average price	93.68	95.68
Average maturity (years)	4.41	4.24
Weighted average coupon (%)	8.99	9.19
30-day SEC yield (%)	8.48	-
No. of holdings	560	1,497

Performance highlights

The fund's Class Y shares at net asset value returned 1.63% for the second quarter, outperforming the 1.61% return of the Lipper Loan Participation Funds Classification Average but underperforming the Credit Suisse Leveraged Loan Index, which returned 1.86% during the quarter.

The fund's underperformance of its benchmark was driven by holdings of non-benchmark assets. Among the non-benchmark assets, holdings of reorganized equities detracted from relative return.

This underperformance was partly offset by individual loan credit selection, which added to relative results. The fund's sector rotation had a relatively neutral effect.

Loan selection within the chemicals, transportation and manufacturing sectors added the most to relative return, while selection in the health care, IT and financial sectors had the largest negative effect on relative return.

Contributors to performance
The following issuers were the largest individual contributors to relative return:

Keter provides resin-based household and garden consumer goods, including garden sheds, furniture, toolboxes, household storage, playhouses and dog houses. The company has a large global footprint, selling in more than 100 countries.
My Alarm Center provides residential security alarm monitoring and smart home services in the US, operating under a family of regional brands; My Alarm Center, Alarm Monitoring Service of Atlanta, Hawk Security Services, ACS Security and LIV Secure.
MLN US is a global provider of business communications and collaboration software, services and solutions for the small and medium-sized business (SMB)/small and medium-sized enterprise (SME) markets worldwide, with particular strength in North America and the UK.

These issuers represent 0.67%, 0.57% and 0.56% of total net assets, respectively.

Detractors from performance
The following issuers were the largest individual detractors from relative return:

NewLife Forest Restoration is a vertically integrated forest products company. The company thins and restores ponderosa pine forests in Northern Arizona and processes the trees. The company manufactures a wide variety of timber products, including non-structural lumber, engineered wood, bulk residuals and bagged residuals.
Hurtigruten is an expedition travel company focused on sustainable cruising, particularly unique "expedition" experiences.
GoTo Group (LogMeIn) is one of the world's largest software-as-a-service (SaaS) companies offering a broad selection of solutions including collaboration, communication, customer engagement and Identity/Access Management.

These issuers represent 0.76%, 0.18% and 0.76% of total net assets, respectively.

Standardized performance (%) as of June 30, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 05/01/97	NAV	1.57	3.82	9.43	4.70	4.42	3.76	4.16
	Max. Load 2.5%	-0.90	1.29	6.75	3.82	3.90	3.51	4.06
Class R6 shares inception: 09/24/12	NAV	1.51	3.98	9.62	5.05	4.74	4.09	4.36
Class Y shares inception: 10/03/08	NAV	1.63	3.94	9.69	4.96	4.68	4.03	5.14
Credit Suisse Leveraged Loan Index		1.86	4.44	11.04	5.96	5.36	4.61	-
Total return ranking vs. Morningstar Bank Loan category (Class A shares at NAV)		-	-	76% (162 of 225)	60% (126 of 212)	45% (83 of 207)	38% (64 of 167)	-

Expense ratios per the current prospectus: Class A: Net: 1.10%, Total: 1.10%; Class R6: Net: 0.75%, Total: 0.75%; Class Y: Net: 0.85%, Total: 0.85%.

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit 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. 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. On April 13, 2006, the fund reorganized from a closed-end fund to an open-end fund. Class A share returns prior to that date are the historical performance of the closed-end fund's Class B and include the management and 12b-1 fees applicable to B shares. Index source: Bloomberg L.P. 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.

Calendar year total returns (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class A shares at NAV	0.86	-2.85	11.12	3.94	-0.20	7.22	1.53	6.23	-2.49	11.67
Class R6 shares at NAV	1.21	-2.50	11.36	4.30	0.13	7.61	1.88	6.41	-2.18	12.05
Class Y shares at NAV	1.10	-2.61	11.41	4.20	0.04	7.49	1.78	6.50	-2.26	11.95
Credit Suisse Leveraged Loan Index	2.06	-0.38	9.88	4.25	1.14	8.17	2.78	5.40	-1.06	13.04

Unless otherwise specified, all information is as of 06/30/24. Unless stated otherwise, Index refers to Credit Suisse Leveraged Loan Index.

The fund may invest all its assets in securities that are determined to be below investment grade quality.

• Effective August 19, 2020, the Invesco Floating Rate Fund was renamed Invesco Floating Rate ESG Fund. The Fund's strategy has also changed Please see the prospectus for additional information.

The Credit Suisse Leveraged Loan Index represents tradable, senior-secured, U.S.-dollar-denominated non-investment-grade loans. 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.

The values of junk bonds fluctuate more than those of high quality bonds and can decline significantly over short time periods.

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.

In general, stock values fluctuate, sometimes widely, in response to activities specific to the company as well as general market, economic and political conditions.

There is a risk that the value of the collateral required on investments in senior secured floating rate loans and debt securities may not be sufficient to cover the amount owed, may be found invalid, may be used to pay other outstanding obligations of the borrower or may be difficult to liquidate.

The risks of investing in securities of foreign issuers 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.

Most senior loans are made to corporations with below investment-grade credit ratings and are subject to significant credit, valuation, and liquidity risk. The value of the collateral securing a loan may not be sufficient to cover the amount owed, may be found invalid or may be used to pay other outstanding obligations of the borrower under applicable law. There is also the risk that the collateral may be difficult to liquidate, or that a majority of the collateral may be illiquid.

The Fund uses an Environmental, Social and Governance (ESG) scoring methodology to evaluate securities and may forego some market opportunities available to funds that do not use ESG factors. As a result, the Fund may underperform funds that do not screen or score companies based on ESG factors or that use a different methodology. Information used by the Fund to evaluate ESG factors may not be readily available, complete or accurate, which could negatively impact the Fund's ability to apply its methodology, and in turn its performance. Companies eligible for inclusion in the Fund may not reflect the beliefs or values of certain investors or exhibit positive/favorable ESG factors if different metrics were used to evaluate them.

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. 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 Standard and Poor's rating methodology, please visit www.standardandpoors.com and select 'Understanding Credit Ratings' under 'About Ratings' on the homepage.
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. **Weighted Average Price** is the sum of each holding's price multiplied by its weight.

1. Source: Credit Suisse Leveraged Loan Index, total returns in USD, as of June 30, 2024.
2. Source: Pitchbook Data Inc. as of June 30, 2024.

Morningstar

Before investing, consider the Fund's investment objectives, risks, charges and expenses. Visit invesco.com/fundprospectus for a prospectus/summary prospectus containing this information. Read it carefully before investing.