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# Municipal Bond Investing

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A Closer Look at Tax-Exempt Debt

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## 1

## Municipal bonds 101

Municipal bonds are the **building blocks** of a community.

## Investing in America through municipal bonds

Municipal bonds have financed vital infrastructure throughout the United States for over 200 years.

### Financing America's infrastructure

Municipal bonds are essentially the building blocks of a community. They have played a pivotal role in building the framework for America's modern infrastructure. As illustrated in the timeline below, municipal bonds were a major source of financing for canals, roads, and railroads during the country's westward expansion in the 1800s. Today, the proceeds from municipal debt continue to fund these projects, as well as a wide range of state and local infrastructure components, including schools, hospitals, universities, airports, bridges, highways, and water and sewer systems.

Municipal bonds are debt obligations issued by states, cities, counties and other governmental entities. When you purchase a municipal bond, you lend to build schools, highways, hospitals, sewer systems, and many other projects for the public good. In return, the government entity promises to pay a specified amount of interest — usually paid semiannually — and return the principal to you on a specific maturity date.

### The importance of municipal bonds in the development of US infrastructure

Notable events in history for the municipal bond market

1776	The Declaration of Independence is signed
1807	Municipal bonds finance building canals, roads, and railroads in westward expansion
1812	New York City issues the first general obligation bond
1820	New York State Bonds are used to finance the Erie Canal project
1900	Rapid population growth begins 25-year infrastructure boom
1913	Inception of the federal income tax
1926	New York State Port Authority issues first revenue bond
1927	Municipal market size reaches \$14.9 billion
1950	Most states in the US enact legislation allowing for the issuance of revenue bonds
1969	Tax Reform Act of 1969 introduces the Minimum Tax, known today at the Alternative Minimum Tax
1975	Municipal Securities Rulemaking Board is established
2018	TCJA changes go into effect, including elimination of advance refunding bonds
2022	Municipal market size stands at \$3.8 trillion <sup>1</sup>

1. Source: Federal Reserve, as of June 30, 2022.

Source: "The Handbook of Municipal Bonds" by Feldstein and Fabozzi, copyright 2008.

# 2

## Tax advantages and historical default rates of municipal bonds

The taxable equivalent yields of municipal bonds can make them **more appealing** than taxable bonds.

1. Some income and interest on out-of-state bonds may be subject to state and local taxes and to the federal alternative minimum tax (AMT). Capital gains, if any, are subject to tax.
2. Based on 2023 federal tax rates. For illustrative purposes only. Taxable equivalent = (tax-deferred interest rate) x [1 / (1 - your tax bracket)]. These numbers are for illustrative purposes only and are not a representation of future yields. Actual yields may be lower or higher than the example. Income exempt from regular federal income tax may be subject to the US federal alternative minimum tax, as well as state and local taxes. It is important to note that the tax advantages of municipal bonds affect only the interest they pay. Gains or losses from the sale of these bonds are taxed as capital gains or losses.

## Weighing the tax benefits of investing in municipal securities

Tax advantages are among the many reasons to consider investing in municipal bonds. Interest income from municipal bonds is often exempt from federal taxes. Additionally, bonds issued from entities within a certain state are often exempt from taxation to residents in that state. Occasionally, bonds issued from entities within a certain municipality or region are exempt from taxes in that municipality, possibly providing triple tax exemption — federal, state, and local.<sup>1</sup>

### Earning tax-free income

One of the best ways to gauge the tax-exempt advantage of a municipal bond is to compare its yield to that of a comparable taxable investment. The table below shows the tax-equivalent yield based on the individual federal income tax rates for municipal bonds.

### Municipal bonds offer attractive taxable equivalent yields<sup>2</sup>

Federal tax rate (%)	Regular federal tax-exempt yield (%)		
	3.0	4.0	5.0
10	3.3	4.4	5.6
12	3.4	4.5	5.7
22	3.8	5.1	6.4
24	3.9	5.3	6.6
32	4.4	5.9	7.4
35	4.6	6.2	7.7
37	4.8	6.3	7.9

### Historical default rates

Municipal debt financing tends to utilize relatively secure debt structures compared to other fixed income asset classes. The result is that municipal default rates are exceptionally low, especially when compared with US corporate bonds.

### Municipal default rates have historically been lower than those of corporate bonds

10-year average cumulative default rates

Rating categories	Municipal bonds (%)	Corporate bonds (%)
Aaa	0.00	0.35
Aa	0.02	0.76
A	0.10	1.96
Baa	1.06	3.45
Ba	3.40	14.78
B	16.70	33.42
Caa-C	23.71	49.04
All investment grade	0.09	2.17
All high yield	6.94	28.92
All rated securities	0.15	10.36

All rated municipal bonds have a lower 10-year cumulative default rate than AAA-rated corporate bonds.

Source: Moody's Investor Services ("Moody's"), as of April 21, 2022 (latest available data). Past default rates are no assurance of future default rates. Data shown for the time period 1970 through 2021 is the most recent data available. 2022 data may increase cumulative default rates for both municipal and corporate bonds. A credit rating is an assessment provided by a nationally recognized statistical rating organization 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 C (lowest); ratings are subject to change without notice. For more information on rating methodologies, please visit moodys.com and select 'Rating Methodologies' under "Research & Ratings" on the homepage.

# 3

## The Invesco Municipal Bond team

Invesco is among the **Top 5** municipal bond managers by assets.<sup>1</sup>

## Dynamic municipal capabilities to meet investors' evolving needs

Our management philosophy is based on the belief that creating long-term value through comprehensive, forward-looking research is the key to providing clients with investment strategies that are both consistent and successful.

### Our investment process

Proprietary credit research and risk management are the foundations of our investment process, supported by a deep and experienced team of investment professionals with expertise that spans the entire municipal investment universe. We maintain an integrated, team-based investment process that combines the strength of our fundamental credit research staff with the market knowledge and investment experience of our portfolio managers.

Our position among the top 5 municipal managers<sup>1</sup> allows us the ability to access preferred market opportunities and gain valuable market insight. The Invesco Municipal Bond team has established relationships with over 120 national and regional tax-exempt debt dealers. These established relationships, as well as our size, allow us to achieve superior execution in daily transactions. Our ability to aggregate trades across multiple funds allows us to obtain lower institutional pricing, which can be additive to fund performance. This value-oriented combination of proprietary research and integrated risk management allows us to create highly diversified portfolios that aim to maximize risk-adjusted returns.

## The four pillars of our philosophy

# 1

### Hands-on team approach

Finding exceptional investment opportunities requires exceptional research. To that end, the Invesco Municipal Bond team performs its own hands-on credit analysis, reviewing and rating each and every credit owned.

# 2

### Specialists

Our Invesco Municipal Bond team of dedicated investment professionals has more than 20 years of average industry experience.<sup>2</sup>

# 3

### Market leaders

As of March 31, 2023, the Invesco Municipal Bond team manages \$63.4 billion on behalf of our clients and is ranked the fifth largest municipal bond manager by assets.<sup>1</sup>

# 4

### Active investing

Our investment experts make informed decisions by combining experience-based knowledge with market trends to discover and exploit relative value opportunities.

1. Source: Strategic Insight Simfund/MF Desktop, based on assets under management as of March 31, 2023.

2. As of March 31, 2023.

# 4

## Invesco's municipal investment strategies

Invesco has **\$63.4 billion** in municipal assets under management.<sup>1</sup>

## Invesco offers municipal investment strategies that span the risk spectrum

Just as planning and funding infrastructure was essential to growing the nation, selecting the right municipal bond investment is essential to achieving your portfolio objective.

### Choosing the right municipal bond investment

At Invesco, we understand that investors need a variety of choices to meet their financial goals within their risk tolerance. That's why we offer a suite of mutual funds that invest in municipal bonds and provide a wide range of:



#### Credit qualities

From investment grade to high yield



#### Maturities

From short term to long term



#### Geographies

From national to state-specific

### Invesco offers various strategies that invest primarily in municipal bonds

Strategies designed to meet a variety of objectives

Category	Ticker	Fund name
High yield	ACTHX	Invesco High Yield Municipal Fund
	ORNAX	Invesco Rochester® Municipal Opportunities Fund
Short duration high yield	ISHAX	Invesco Short Duration High Yield Municipal Fund
Long term	VKMMX	Invesco Municipal Income Fund
Intermediate term	VKLMX	Invesco Intermediate Term Municipal Income Fund
AMT-free	OPTAX	Invesco AMT-Free Municipal Income Fund
	OPNYX	Invesco Rochester® AMT-Free New York Municipal Fund
	ATFAX	Invesco Limited Term Municipal Income Fund
Short term	ORSTX	Invesco Short Term Municipal Fund
State-specific	LTNYX	Invesco Rochester® Limited Term New York Municipal Fund
	RMUNX	Invesco Rochester® New York Municipals Fund
	ONJAX	Invesco New Jersey Municipal Fund
	OPATX	Invesco Pennsylvania Municipal Fund
	OPCAX	Invesco California Municipal Fund
	OLCAX	Invesco Limited Term California Municipal Fund
Environmental focus	OPAMX	Invesco Environmental Focus Municipal Fund

1. Data as of March 31, 2023.

# 5

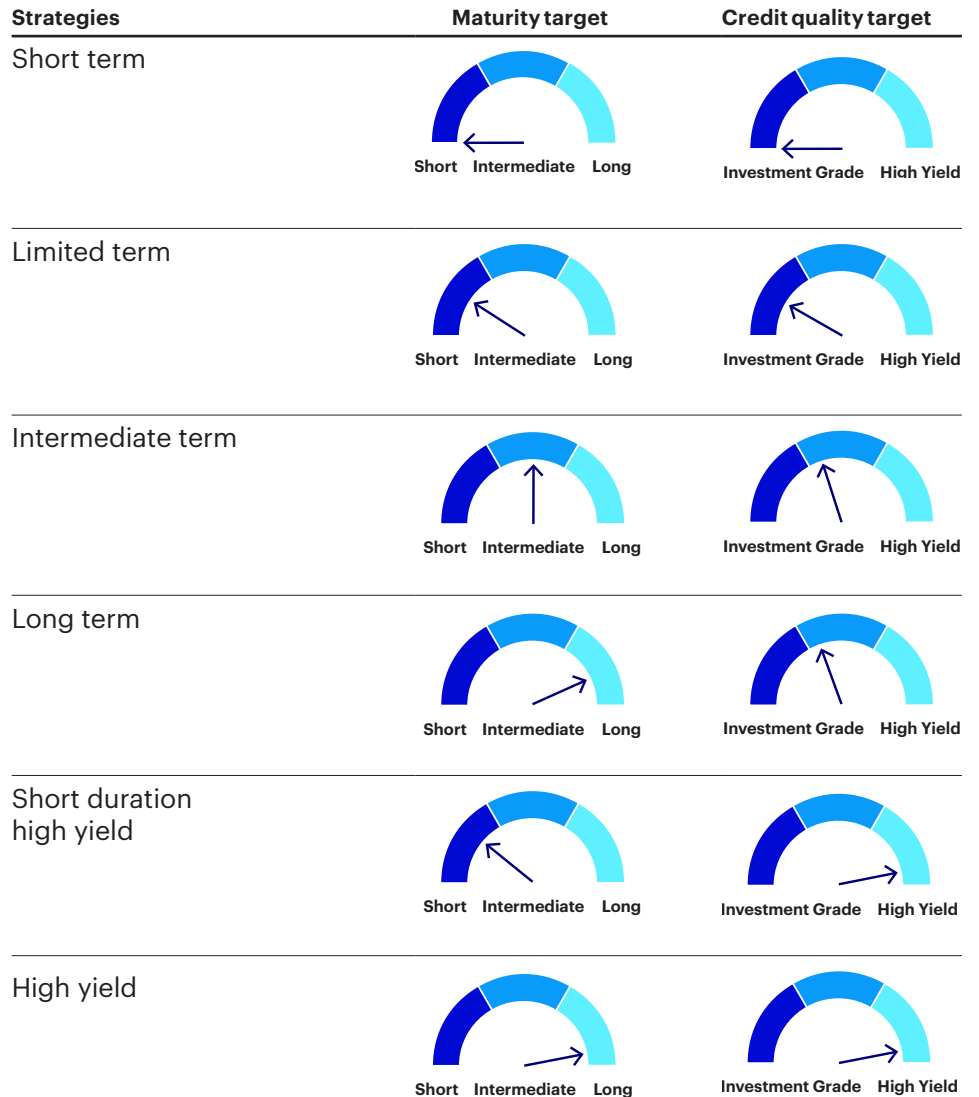
## Invesco's municipal bond suite positioning

### Invesco's municipal strategies target various maturities and credit ratings

Investors have varied financial objectives and needs when seeking tax-free income. Invesco's Municipal bond suite offers investment vehicles across the risk spectrum.

#### Investing across duration and quality

Investors have a choice of various maturity and credit quality targets to help them build wealth.





Winner of **18 Lipper Awards** based on consistently strong risk-adjusted performance ending November 30, 2022.

## Invesco's award-winning municipal investment strategies

Fund name	Class	Year	Lipper rating
Invesco California Municipal Fund <i>California Municipal Debt Funds</i>	R6 shares	3 years	among 32 funds
	Y shares	5 years	among 30 funds
	Y shares	10 years	among 28 funds
Invesco AMT-Free Municipal Income Funds <i>General &amp; Insured Municipal Debt Funds</i>	Y shares	5 years	among 81 funds
	Y shares	10 years	among 66 funds
Invesco Rochester Municipal Opportunities Fund <i>High Yield Municipal Debt Funds</i>	Y shares	5 years	among 46 funds
	Y shares	10 years	among 32 funds
Invesco New Jersey Municipal Fund <i>New Jersey Municipal Debt Funds</i>	R6 shares	3 years	among 15 funds
	Y shares	5 years	among 15 funds
Invesco Rochester New York Municipal Funds <i>New York Municipal Debt Funds</i>	Y shares	5 years	among 25 funds
	Y shares	10 years	among 25 funds
Invesco Pennsylvania Municipal Fund <i>Pennsylvania Municipal Debt Funds</i>	R6 shares	3 years	among 16 funds
	Y shares	5 years	among 16 funds
	Y shares	10 years	among 16 funds
Invesco Short Term Municipal Fund <i>Short Municipal Debt Funds</i>	R6 shares	3 years	among 39 funds
	Y shares	5 years	among 36 funds
	Y shares	10 years	among 27 funds
Invesco Limited Term Municipal Income Fund <i>Short-Intermediate Municipal Debt Funds</i>	R6 shares	5 years	among 22 funds

Lipper Fund Awards from Refinitiv, ©2023 Refinitiv. All rights reserved. Used under license. The 2023 Lipper Fund Award winners are selected based on the highest risk-adjusted performance among funds within a given category. The calculation periods extend over 36, 60, and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five or 10 years. A high Lipper rating does not necessarily imply that a fund had the best total performance or that the fund achieved positive results for that period. Lipper Inc. is a major independent mutual fund tracking organization. Other share classes may have different performance characteristics. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited. **Past performance is no guarantee of future results.**

Invesco California Municipal Fund R6 shares were named best-in-class among 32 California Municipal Debt Funds for the 3-year period ended November 30, 2022. Invesco California Municipal Fund Y shares were named best-in-class among 30 and 28 California Municipal Debt Funds, respectively, for the 5- and 10-year periods ended November 30, 2022. Invesco AMT-Free Municipal Income Fund Y shares were named best-in-class among 81 and 66 General & Insured Municipal Debt Funds, respectively, for the 5- and 10-year periods ended November 30, 2022. Invesco Rochester® Municipal Opportunities Fund Y shares were named best-in-class among 46 and 32 High Yield Municipal Debt Funds, respectively, for the 5- and 10-year periods ended November 30, 2022. Invesco New Jersey Municipal Fund R6 shares were named best-in-class among 15 New Jersey Municipal Debt Funds for the 3-year period ended November 30, 2022. Invesco New Jersey Municipal Fund Y shares were named best-in-class among 15 New Jersey Municipal Debt Funds for the 5-year period ended November 30, 2022. Invesco Rochester® New York Municipals Fund Y shares were named best-in-class among 25 and 25 New York Municipal Debt Funds, respectively, for the 5- and 10-year periods ended November 30, 2022. Invesco Pennsylvania Municipal Fund R6 shares were named best-in-class among 16 Pennsylvania Municipal Debt Funds for the 3-year period ended November 30, 2022. Invesco Pennsylvania Municipal Fund Y shares were named best-in-class among 16 and 16 Pennsylvania Municipal Debt Funds, respectively, for the 5- and 10-year periods ended November 30, 2022. Invesco Short Term Municipal Fund R6 shares were named best-in-class among 39 Short Municipal Debt Funds for the 3-year period ended November 30, 2022. Invesco Short Term Municipal Fund Y shares were named best-in-class among 36 and 27 Short Municipal Debt Funds, respectively, for the 5- and 10-year period ended November 30, 2022. Invesco Limited Term Municipal Income Fund R6 shares were named best-in-class among 22 Short-Intermediate Municipal Debt Funds for the 5-year period ended November 30, 2022.



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# Talk to your financial professional

Like all investments, municipal bonds need to fit into the strategy you and your financial professional map out to help you reach your financial goals. Talk with your financial professional about what types of municipal bonds may work for you.

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## About risk

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

The funds may invest in municipal securities issued by entities having similar characteristics. The issuers may be located in the same geographic area or may pay their interest obligations from revenue of similar projects. This may make the fund's investments more susceptible to similar social, economic, political or regulatory occurrences. As the similarity in issuers increases, the potential for fluctuation in the fund's net asset value also increases.

Junk bonds involve a greater risk of default or price changes due to changes in the issuer's credit quality. The values of junk bonds fluctuate more than those of high-quality bonds and can decline significantly over short time periods.

Market prices of municipal securities with intermediate lives generally fluctuate more in response to changes in interest rates than do market prices of municipal securities with shorter lives but generally fluctuate less than market prices of municipal securities with longer lives.

The income you receive from the fund is based primarily on prevailing interest rates, which can vary widely over the short and long term. If interest rates drop, your income may drop as well.

ESG considerations may vary across investments and issuers, and not every ESG factor may be identified or evaluated for investment. The fund will not be solely based on ESG considerations; therefore, issuers may not be considered ESG-focused companies. ESG factors may affect the fund's exposure to certain companies or industries and may not work as intended. The fund may underperform other funds that do not assess ESG factors or that use a different methodology to identify and/or incorporate ESG factors. ESG is not a uniformly defined characteristic and as a result, information used by the fund to evaluate such factors may not be readily available, complete or accurate, and may vary across providers and issuers. There is no guarantee that ESG considerations will enhance fund performance.

All fixed income securities are subject to two types of risk: credit risk and interest rate risk. Credit risk refers to the possibility that the issuer of a security will be unable to make interest payments and/or repay the principal on its debt. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa.

The funds' distributions primarily are exempt from regular federal income tax. A portion of these distributions, however, may be subject to the federal alternative minimum tax and state and local taxes.

The fund may also make distributions that are taxable to you as ordinary income or capital gains.

Please see the "Principal Risks of Investing in the Funds" section of the prospectuses available at [www.invesco.com/fundprospectus](http://www.invesco.com/fundprospectus) for a detailed description of specific risks associated with the funds.

Based on a Master Settlement Agreement ("MSA") with 46 states and six other US jurisdictions, large US tobacco manufacturers have agreed to make annual payments to government entities in exchange for the release of all litigation claims. Several states have sold bonds backed by those future payments, including (i) bonds that make payments only from a state's interest in the MSA and (ii) bonds that make payments from both the MSA revenue and from an "appropriation pledge" by the state which requires the state to pass a specific periodic appropriation to make the payments and is generally not an unconditional guarantee of payment by a state. Settlement payments are based on factors, including, but not limited to, annual domestic cigarette shipments, cigarette consumption, inflation and the financial capability of participating tobacco companies. Payments could be reduced if consumption decreases, if market share is lost to non-MSA manufacturers, or if there is a negative outcome in litigation regarding the MSA, including challenges by participating tobacco manufacturers regarding the amount of annual payments owed under the MSA.

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**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](http://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, materials or services available at all firms. Financial professionals, please contact your home office.

Diversification does not guarantee a profit or eliminate the risk of loss.

Invesco does not offer tax advice. Please consult your tax professional for information regarding your own personal tax situation.