Invesco Quality Income Fund

Quarterly Performance Commentary

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

Investment objective

The fund seeks to provide a high level of current income, with liquidity and safety of principal.

Portfolio management

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Fund facts

Nasdaq	A: VKMGX	C: VUSCX Y: VUSIX
Total Net Assets		$491,768,857
Total Number of Holdings		568

Fund characteristics

WAM (years)	5.23
Effective Duration	2.55
Distribution Frequency	Monthly

Investment categories (%)

U.S. Agency Mortgage-Backed Securities	66.14
U.S. Non-Agency Mortgage-Backed Securities	25.26
U.S. Comm. Mortgage-Backed Securities	5.82
U.S. Asset-Backed Securities	0.63
Cash & Equivalents*	2.16

Data shown as a % of gross assets. Total may not equal 100% due to rounding.

Credit quality breakdown (% total)[1]

Cash	2.16
AAA	75.88
AA	6.60
A	7.70
BBB	4.54
BB	1.71
B	0.54
CCC and below	0.30
Not Rated	0.56

Market overview

+ US bonds posted strong nominal results for the quarter as rates fell precipitously amid a decelerating global economy and persistent trade disputes between the US and China. Global risks remained a headwind to growth, especially in Europe given uncertainties of Brexit, auto tariffs and Italy's ongoing crisis. China's growth continued to slump even as policy makers were actively easing monetary policy. Despite heightened volatility and escalating recession fears, credit investors were generally rewarded during the quarter. US-based yield strategies remained competitive from a global perspective as negative yields increased across non-US regions. The Federal Reserve cut the federal funds rate by 0.25% twice during the quarter, lowering the overnight yield's target range to 1.75% – 2.00%. Bond markets responded well to these policy actions and, at quarter end, US markets were still pricing in additional Fed rate cuts.
+ Changes in US interest rates were the primary valuation driver for fixed income during the quarter. The 2-year Treasury yield declined from 1.75% to 1.63%, the 10-year Treasury yield dropped from 2.00% to 1.68% and the 30-year Treasury yield fell from 2.52% to 2.12%. The yield curve, as measured by the yield differential between 2-year and 30-year Treasuries, flattened notably, driven by investor concerns about global growth and modest inflation risks.
+ The Agency mortgage-backed securities (MBS) sector marginally outperformed comparable Treasuries, even as falling interest rates escalated prepayment risks. The 30-year conventional mortgages outperformed both 30-year GNMA and 15-year conventional mortgages during the quarter, contributing to the sector's outperformance of Treasuries, while GNMAs and 15-year conventional mortgages detracted.
+ Structured credit sectors – commercial mortgage-backed (CMBS), asset-backed (ABS) and residential mortgage backed (RMBS) securities – posted positive returns amid the fervor for yield, as these sectors are less affected by declining global growth due to their underlying US collateral.

Positioning and outlook

+ We do not foresee a significant slowdown in US growth, but downside risks loom. US manufacturing data has slowed, and consumption data likely peaked in the second quarter. Though this backdrop is positive for US Treasuries, valuations appear to be high and currently reflect expectations for one more Fed rate cut in 2019.
+ The fund's overall allocation to MBS is modestly below that of the benchmark, with an underweight in 30-year fixed rate pass-thru securities that is offset by Agency CMO and Agency Hybrid ARM holdings. Current coupon valuations in the MBS segment remain attractive on an historical basis and also relative to investment grade alternatives in the corporate and CMBS sectors, given continued outperformance in those sectors. However, fundamental and technical conditions are challenging, which we believe warrants a more conservative stance.
+ The fund also holds allocations to structured security credit sectors, including RMBS, CMBS and ABS, which in our view, still offer enhanced yield with supportive fundamentals and healthy supply/demand dynamics.

Performance highlights

+ Invesco Quality Income Fund Class A shares at net asset value (NAV) underperformed its style-specific benchmark, the Bloomberg Barclays US Mortgage Backed Securities Index, for the quarter. (Please see the investment results table on page 2 for fund and index performance.)

Contributors to performance

+ The fund primarily benefited from security selection among lower coupon 30-year MBS pass thru securities.
+ The fund's exposure to CMBS, which are not represented in the benchmark, also added slightly to relative performance.

Detractors from performance

+ The fund's duration and yield curve positioning detracted from relative return for the quarter.
+ The fund's exposure to collateralized mortgage obligations (CMOs), which are not represented in the index, was a slight detractor for the quarter.

Expense ratios	% net	% total
Class A Shares	0.94	0.94
Class C Shares	1.70	1.70
Class Y Shares	0.70	0.70

Per the current prospectus

Investment results

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

	Class A Shares		Class C Shares		Class Y Shares	
	Inception: 05/31/84		Inception: 08/13/93		Inception: 09/25/06	Style-Specific Index
Period	**Max Load 4.25%**	**NAV**	**Max CDSC 1.00%**	**NAV**	**NAV**	**Bloomberg Barclays US Mortgage Backed Securities Index**
Inception	6.02	6.15	3.87	3.87	3.57	-
10 Years	2.72	3.16	2.40	2.40	3.42	3.14
5 Years	1.69	2.57	1.82	1.82	2.82	2.80
3 Years	0.24	1.70	0.97	0.97	1.98	2.32
1 Year	2.29	6.85	5.15	6.15	7.18	7.80
Quarter	-3.10	1.19	0.09	1.09	1.25	1.37

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be lower or higher. Visit 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. Performance includes litigation proceeds. Had these proceeds not been received, total return would have been lower. 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 source: FactSet Research Systems Inc.

For more information you can visit us at 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 middle of three or lower of two rating is applied. Not Rated indicates the debtor was not rated and should not be interpreted as indicating low quality. For more information on the rating methodology, please visit www.standardandpoors.com and select 'Understanding Ratings' under Rating Resources on the homepage; www.moodys.com and select 'Rating Methodologies' under Research and Ratings on the homepage; www.fitchratings.com and select 'Ratings Definitions' on the homepage. Data shown as a % of gross assets.
* Excludes the effect of unsettled TBA mortgage trades on Cash.
Cash and cash equivalents refer to the value of assets that are cash or can be converted into cash immediately. These include bank accounts, certificates of deposit with a maturity date of one year or less, commercial paper, marketable securities, money market mutual funds, Treasury bills and short-term government bonds with a maturity date of three months or less. TBA mortgages are mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae that trade on a forward commitment basis.
Class Y shares are available only to certain investors. See the prospectus for more information.
Asset allocation/diversification does not guarantee a profit or eliminate the risk of loss.
The Bloomberg Barclays U.S. Mortgage Backed Securities Index represents mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). An investment cannot be made directly in an index.
Effective duration is a modified duration calculation which incorporates the expected duration-shortening effect of an issuer's embedded call provision. **Weighted average effective 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.

About risk

The Fund may use leverage to seek to enhance income, which creates the likelihood of greater volatility of the Fund's shares and may also impair the ability to maintain its qualification for federal income tax purposes as a regulated investment company.

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.

Dollar roll transactions involve the risk that the market value and yield may decline below the price of the mortgage-related securities that have been sold and are required to be repurchased.

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

Mortgage- and asset-backed securities are subject to prepayment or call risk, which is the risk that the borrower's payments may be received earlier or later than expected due to changes in prepayment rates on underlying loans. Securities may be prepaid at a price less than the original purchase value.

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.