# Invesco Quality Income Fund

Quarterly Performance Commentary

Mutual Fund Retail Share Classes
Data as of Sept. 30, 2020

**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**

| | |
|---|---|
| Total Net Assets | $1,190,724,491 |
| Total Number of Holdings | 981 |

**Fund characteristics**

| | |
|---|---|
| WAM (years) | 5.77 |
| Effective Duration | 2.91 |

**Investment categories (%)**

| | |
|---|---|
| US Agency MBS | 82.76 |
| Non-Agency MBS | 6.21 |
| CMBS | 4.96 |
| ABS | 2.67 |
| US Agencies | 2.14 |
| Cash & Cash Equivalents* | 1.25 |

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

**Credit quality breakdown (% total)[1]**

| | |
|---|---|
| Cash & cash equivalents* | 1.25 |
| AAA | 88.88 |
| AA | 1.64 |
| A | 3.28 |
| BBB | 3.86 |
| BB | 0.55 |
| B | 0.43 |
| CCC and below | 0.10 |
| Not Rated | 0.01 |



## Market overview

+ US bond returns were positive for the quarter, despite a modest increase in longer maturity rates. The US corporate credit market boosted its results, following the second quarter's unprecedented volatility and historically wide yield spreads relative to Treasuries. Bond markets have performed in an orderly manner since March, enabling credit-related sectors to deliver attractive total returns and excess returns over Treasuries.
+ US interest rate moves were a slight drag on fixed income valuations for the quarter. The 2-year US Treasury yield fell from 0.15% to 0.13%, while the 10- and 30-year Treasury yields rose from 0.66% to 0.68% and from 1.41% to 1.46%, respectively. The yield curve, as measured by the yield differential between 2-year and 30-year Treasuries, steepened further during the quarter.
+ Agency mortgage-backed securities (MBS) modestly underperformed duration-matched Treasuries during the quarter. Low coupon mortgages performed well as a result of consistent demand from the Federal Reserve and commercial banks, while high coupon mortgages benefited from initial signs that prepayment speeds for higher coupon mortgages may peak. However, 30-year 3% coupons underperformed dramatically due to a sharp increase in prepayment speeds and a material deterioration in To-Be-Announced (TBA) dollar roll financing rates. GNMA securities also underperformed dramatically due to a large amount of delinquent loan buyouts during the quarter.
+ Structured credit sectors – commercial mortgage-backed (CMBS), asset-backed (ABS) and residential mortgage backed (RMBS) securities – experienced tightening of their yield spreads relative to Treasuries amid a rebound in credit-oriented segments.

## Positioning and outlook

+ The fund's overall allocation to Agency MBS remains overweight relative to the benchmark, with an underweight in higher coupon 30-year fixed rate pass-throughs that is offset by an overweight in both 15-year and 30-year coupons with the most new originations.
+ Mortgage valuations no longer appear attractive but should remain near current levels given strong demand from the Fed and commercial banks, in addition to attractive income available from lower coupon To-Be-Announced mortgages as Fed purchases improve prices of the lowest value securities that meet the terms of TBA trades. Investors in the Agency MBS segment are focused primarily on prepayment speeds and the attractive income available via the TBA mortgage segment. Prepayment speeds are expected to remain high as further normalization in the rate difference between primary and secondary mortgage markets will lead to lower primary mortgage rates in the coming months. Concern about prepayment speeds should support higher coupon specified pool pay-ups, while the attractive income from lower coupon TBA mortgages will likely remain intact given strong support from the Fed.
+ The fund also has allocations to high quality RMBS, CMBS and ABS. In our view, these high-quality structured security credit sectors still offer enhanced yield for bonds in the senior portion of the capital structure.

## Performance highlights

+ Invesco Quality Income Fund Class A shares at net asset value (NAV) outperformed 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 benefited primarily from its allocation to lower coupon 30-year fixed rate MBS.
+ The fund's relative performance also benefited from its allocation to high quality RMBS, CMBS and ABS, which are not represented in the benchmark.

**Detractors from performance**

+ The fund's duration and yield curve positioning toward the short end of the yield curve was a modest detractor from relative performance for the quarter.

| Expense ratios | % net | % total |
|---|---|---|
| Class A Shares | 0.81 | 0.85 |
| Class C Shares | 1.61 | 1.61 |
| Class Y Shares | 0.51 | 0.61 |

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 May 31, 2021. See current prospectus for more information.

## Investment results

Average annual total returns (%) as of Sept. 30, 2020

| | 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 | 6.00 | 6.13 | 3.92 | 3.92 | 3.70 | - |
| 10 Years | 2.65 | 3.10 | 2.32 | 2.32 | 3.35 | 3.01 |
| 5 Years | 2.05 | 2.94 | 2.16 | 2.16 | 3.18 | 2.98 |
| 3 Years | 2.00 | 3.48 | 2.72 | 2.72 | 3.73 | 3.68 |
| 1 Year | 0.80 | 5.25 | 3.38 | 4.38 | 5.41 | 4.36 |
| Quarter | -2.83 | 1.51 | 0.24 | 1.24 | 1.49 | 0.11 |

*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.

*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.*

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.

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.