Invesco Short Term Municipal Fund

Q1 2024

Key takeaways

1 Fund performance
Invesco Short Term Municipal Fund Class A shares at net asset value (NAV) outperformed its style-specific index, the S&P Municipal Bond Short Index.

2 Seeking attractive opportunities through collaborative management
Invesco Municipal Bond team uses a collaborative management approach. Relying on our size and experience, we seek to identify the best opportunities to achieve potentially better outcomes for shareholders.

3 Analysis focused on creditworthiness
Our team uses a bottom-up fundamental credit process focused on creditworthiness of individual issuers with an overlay of macroeconomic factors to capitalize on market inefficiencies. Our process has been time tested over full market cycles.

Investment objective
The fund seeks tax-free income.

Fund facts

Fund AUM ($M)	1,649.28

Portfolio managers
Tim O'Reilly, Julius Williams, Mark Paris, Michael Magee, Rebecca Setcavage

LSEG Lipper Fund Awards 2024 Winner

Class Y shares (ORSYX): Best among 28 Short Municipal Debt Funds for the 10-year period ending November 30, 2023, based on consistently strong risk-adjusted performance.

Manager perspective and outlook

- In the first quarter of 2024, global economic growth was better than expected, largely due to a resilient US economy.
- For the first quarter, municipal bonds again outperformed other fixed income assets, including US Treasuries and investment grade corporate bonds.
- High yield municipals outperformed, returning 1.51% for the quarter, compared to -0.39% for investment grade and 0.10% for taxable municipals.
- The Federal Reserve (Fed) maintained its transitional stance, holding the federal funds rate steady in January and March. The Fed remains committed to a 2% inflation target, while acknowledging progress made thus far.[1]
- After many quarters of outflows, municipal fund inflows were positive, totaling $9.8 billion for the quarter.[2]
- First quarter new issuance was $100 billion, 33% above the first quarter of 2023.[3] Total 2024 new issuance is projected at $400 billion, including $50 billion in taxable municipals.[4]
- Municipal credits are still benefiting from federal pandemic aid and strong tax collections, with credit rating upgrades still outpacing rating downgrades.[5] We believe credit quality will remain stable near term, with fewer upgrades but probably no major increase in downgrades or defaults.
- With rate hikes likely over, we believe high absolute yields, strong fundamentals and investor migration out of cash will present positive opportunities for municipal bonds.

For more information, including prospectus and factsheet, please visit Invesco.com/ORSTX

Top holdings

(% of total net asset)

TIAA Board of Governors 4.09 03/01/2029	1.39
Citizens Property Insurance Inc 5.00 06/01/2025	1.25
New York Transportation Development Corp 5.00 08/01/2031	1.22
Connecticut State Health & Educational Facilities Authority 0.38 07/01/2035	1.20
Southeast Alabama Gas Supply District/The 4.00 06/01/2049	1.00
New Jersey Turnpike Authority 5.00 01/01/2033	0.94
Pennsylvania Higher Educational Facilities Authority 4.41 09/01/2045	0.92
City of New York NY 4.50 06/15/2033	0.91
Illinois State Toll Highway Authority 5.00 01/01/2037	0.91
Tennessee Energy Acquisition Corp 4.00 11/01/2049	0.86

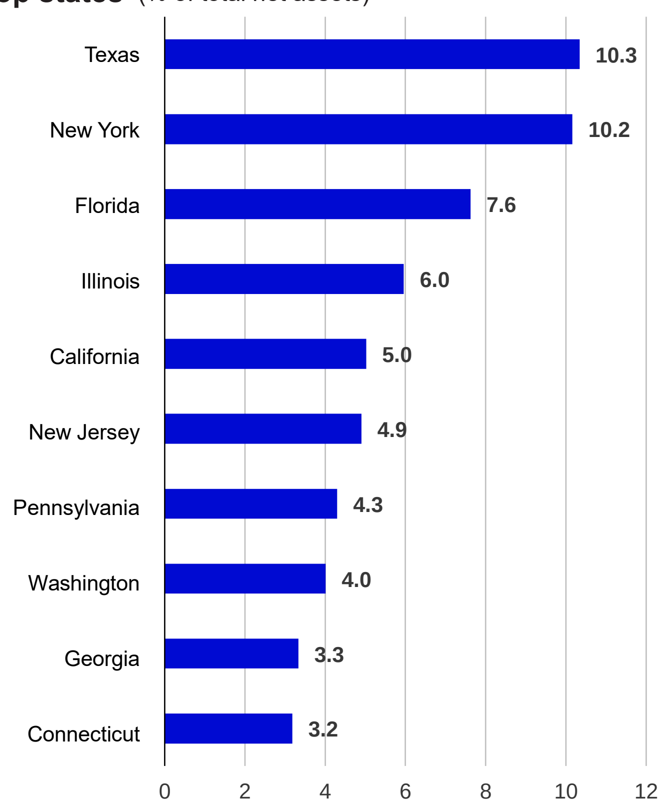
Portfolio positioning

Yield Curve and Duration Positioning: Overall, we maintain a constructive outlook on duration. We continue to look for opportunities to extend duration. We are also using a barbell strategy with variable rate demand notes (VRDNs) on one side and short call premium coupon bonds on the other. The municipal yield curve has remained inverted up through maturities of seven years (shorter maturity bonds yield more than longer maturity bonds) and has been steep in the 10- to 15-year part of the curve.

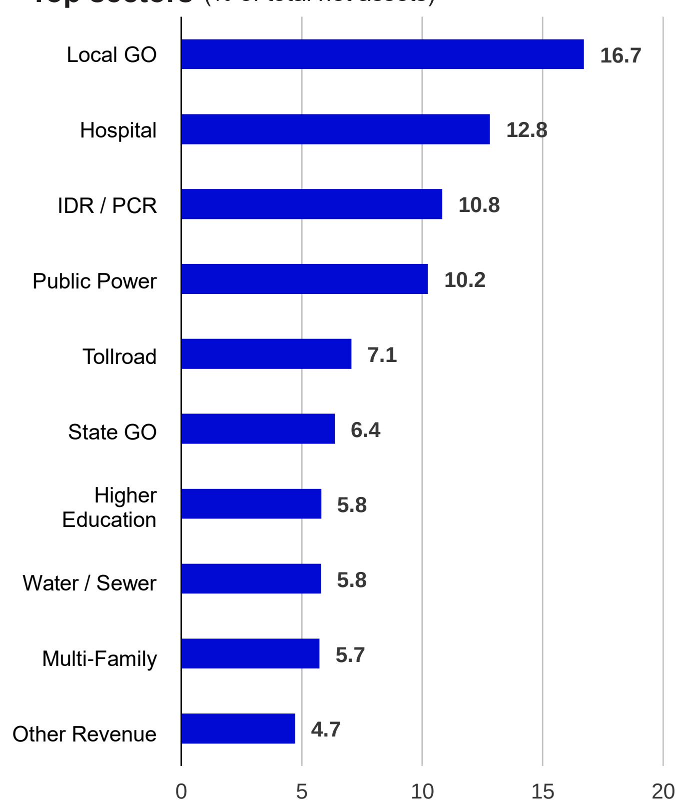
Sector Allocations: We maintain an overweight position in revenue bonds relative to state and local general obligation bonds. Within the revenue bond segment, the fund's largest exposures are in the hospital, industrial development revenue/pollution control revenue (IDR/PCR) and public power sectors. In our view, the SIFMA (Securities Industry Financial Market Association) rate, which measures the average interest rate payable on tax-exempt variable rate demand obligations, remains attractive compared to short dated, fixed-rate debt, making VRDNs attractive investments.

Credit Conditions: We maintain a positive view on fundamentals in the municipal market as upgrades of credit ratings continue to outpace downgrades. The health care sector has been affected most by higher inflation and labor costs. However, we have relied on our extensive bottom-up research capabilities to find pockets of opportunity in the sector.

Top states (% of total net assets)



Top sectors (% of total net assets)



Portfolio characteristics*

	Fund	BM
Option adjusted duration (years)	1.64	1.72
Average effective maturity (years)	1.76	-
30-day SEC yield (Class A shares)	2.87	-
Tax equivalent 30-day SEC yield (Class A shares)	4.85	-
30-day SEC unsubsidized yields (Class A shares)	N/A	-
Number of positions	623	3,649
Alternative min. tax exposure (%)	5.06	-

Quality breakdown (% total)

Net cash & equiv.	-0.2
Prere/ETM	1.5
AAA	15.7
AA	45.3
A	28.0
BBB	3.8
BB	3.6
Below B	0.2
Not Rated	2.1

Performance highlights

The first quarter was marked by rising interest rates due to economic strength and persistent inflation, which caused yields in the 2-year and 5-year segments of the municipal yield curve to rise by 0.45% and 0.26%, respectively.[3] Lower credit quality municipals generally outperformed. The fund's shorter duration and emphasis on the shorter maturity segment of the yield curve was advantageous as rates rose during the quarter.

Contributors to performance

Contributors to relative return this quarter included the following:

The fund's security selection within the hospital and public power sectors added to relative return during the quarter. The fund's overweight exposure in the industrial development revenue/pollution control revenue (IDR/PCR) sector added to relative performance as the sector outperformed during the quarter.

Detractors from performance

Detractors from relative return this quarter included the following:

The fund's overweight exposure in bonds with effective durations longer than eight years detracted from relative performance during the quarter.

Standardized performance (%) as of March 31, 2024

		Quarter	YTD	1 Year	3 Years	5 Years	10 Years	Since inception
Class A shares inception: 12/06/10	NAV	0.27	0.27	2.27	0.91	1.46	1.69	1.93
	Max. Load 0%	0.27	0.27	2.27	0.91	1.46	1.69	1.93
Class R6 shares inception: 05/24/19	NAV	0.62	0.62	2.87	1.33	1.88	1.90	-
Class Y shares inception: 12/06/10	NAV	0.33	0.33	2.53	1.17	1.71	1.94	2.18
S&P Municipal Bond Short Index (USD)		0.05	0.05	2.19	0.53	1.20	1.20	-
Total return ranking vs. Morningstar Muni National Short category (Class A shares at NAV)		-	-	73% (173 of 225)	33% (50 of 210)	23% (39 of 198)	11% (19 of 143)	-

Expense ratios per the current prospectus: Class A: Net: 0.74%, Total: 0.74%; Class R6: Net: 0.42%, Total: 0.42%; Class Y: Net: 0.49%, Total: 0.49%.

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. Class R6, and Class Y shares have no sales charge; therefore, performance is at NAV. 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. As the result of a reorganization on May 24, 2019, the returns of the fund for periods on or prior to May 24, 2019 reflect performance of the Oppenheimer predecessor fund. Share class returns will differ from the predecessor fund due to a change in expenses and sales charges. Index source: FactSet Research Systems Inc. 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	3.59	1.67	0.63	2.35	1.41	2.69	2.74	-0.06	-0.34	3.11
Class R6 shares at NAV	3.59	1.67	0.63	2.35	1.41	3.13	3.06	0.53	-0.28	3.44
Class Y shares at NAV	3.85	1.92	0.88	2.61	1.66	2.95	2.98	0.46	-0.35	3.37
S&P Municipal Bond Short Index (USD)	1.02	0.88	0.37	1.16	1.78	3.11	2.32	0.41	-2.02	3.34

Unless otherwise specified, all information is as of 03/31/24. Unless stated otherwise, Index refers to S&P Municipal Bond Short Index (USD).

S&P Municipal Bond Short Index consists of bonds in the S&P Municipal Bond Index with a minimum maturity of 6 months and a maximum maturity of 4 years. An investment cannot be made directly in an index.

The Global Industry Classification Standard was developed by and is the exclusive property and service mark of MSCI, Inc. and Standard & Poor's.

About risk

All or a portion of the fund's otherwise tax-exempt income may be subject to the federal alternative minimum tax.

If interest rates fall, callable security issuers may call or prepay their securities before maturity, causing the fund to reinvest proceeds in securities with lower interest rates and reducing fund income and distributions.

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.

Economic problems in certain US states increase the risk of investing in municipal obligations, such as California, New York or Texas, including the risk of potential issuer default, heightens the risk that the prices of municipal obligations, and the fund's net asset value, will experience greater volatility. See the prospectus for more information.

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

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

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

The Fund will invest in bonds with short- or intermediate-term (five years or less) maturity which may have additional risks, including interest rate changes over the life of the bond. The average maturity of the Fund's investments will affect the volatility of the Fund's share price.

There is no guarantee that the Fund's income will be exempt from federal and state income taxes.

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.

The investment techniques and risk analysis used by the portfolio managers may not produce the desired results.

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, 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. 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 rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select 'Understanding Credit Ratings' under Rating Resources 'About Ratings' on the homepage; www.ratings.moodys.com and select 'Rating Methodologies' under Research and Ratings on the homepage; www.fitchratings.com and select 'Ratings Definitions Criteria' under 'Resources' on the homepage. Then select 'Rating Definitions' under 'Resources' on the 'Contents' menu.
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. **30-day SEC unsubsidized yield** reflects the 30-day yield if the investment adviser were not waiving all or part of its fee or reimbursing the fund for part of its expenses. Total return would have also been lower in the absence of these temporary reimbursements or waivers. **Effective duration** is the managers' estimate of a bond fund's price sensitivity to changes in interest rates. This measure takes into account mortgage prepayments, puts, adjustable coupons and potential call dates. **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. **Tax equivalent 30-day SEC yield** quoted above is based on the 2023 top federal tax rate of 40.8%, including the 3.8% tax on earned income under the Patient Protection and Affordable Care Act, as applicable. Had fees not been waived and/or expenses reimbursed, the yield would have been lower.

1. Source: US Federal Reserve
2. Source: Lipper
3. Source: Bloomberg L.P.
4. Source: JP Morgan
5. Source: Bank of America

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.