Quarterly Fund Update

Invesco Sterling Bond Fund

Covering Q1 2025

This marketing communication is for professional investors. Investors should read the legal documents prior to investing.

Michael Matthews
Fund Manager

Tom Hemmant
Fund Manager

Performance (% growth) ***Cumulative***
Past performance does not predict future returns.

	Fund	Peer group average*	Quartile Rank
3m	0.5	0.7	2
6m	-0.2	0.0	3
YTD	0.5	0.7	2
1y	2.0	2.4	3
3y	5.1	-2.8	1
5y	11.7	0.3	1

Source: Invesco, as of 31 March 2025.
The 10-year rolling performance figures, can be found on page three of the document. Fund's peer group is the EAA Fund GBP Diversified Bond sector. More information on the peer groups can be found at www.morningstar.com
Returns may increase or decrease as a result of currency fluctuations.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested. Debt instruments are exposed to credit risk which is the ability of the borrower to repay the interest and capital on the redemption date. Changes in interest rates will result in fluctuations in the value of the fund. The fund uses derivatives (complex instruments) for investment purposes, which may result in the fund being significantly leveraged and may result in large fluctuations in the value of the fund. Investments in debt instruments which are of lower credit quality may result in large fluctuations in the value of the fund. The fund may invest in distressed securities which carry a significant risk of capital loss. The fund may invest extensively in contingent convertible bonds which may result in significant risk of capital loss based on certain trigger events.

For complete information on risks, refer to the legal documents.

Executive summary

- Positive quarter for sterling bond markets.
- Bank of England cuts rates in February with markets expecting two further rates this year.
- Fund modestly underperforms the benchmark.

Market review

- The Bank of England (BoE) lowered interest rates by 0.25% to 4.50% in February and kept them unchanged in March reiterating its 'gradual and careful approach' to further interest rate cuts, while warning that economic uncertainty had intensified. Markets expect two or three further cuts by the end of the year.
- ONS figures showed that UK inflation fell to 2.5% in December, before rising to 3.0% in January. It then slowed to 2.8% in February. Services inflation remained stubbornly high, unchanged at 5.0% month-on-month in February. Core inflation, which excludes energy and food prices, fell modestly from 3.7% to 3.5%.
- UK economic growth was 0.1% in the fourth quarter of 2024, with expansion of 0.4% in December the main contributor as a dominant services sector drove growth. Economic growth then unexpectedly contracted by 0.1% in January, as weakness in the production sector dragged growth down.
- In the Chancellor's Spring statement, there were cuts to welfare and departmental spending and an increase to defence spending (funded by cuts to the overseas aid budget rather than tax rises or changes to fiscal rules). The Office for Budget Responsibility (OBR) forecast economic growth to be 1% in 2025 (half of the 2% forecast in October). However, the OBR upgraded growth for 2026 to 1.9%.
- Gilts returned 0.5%, outperforming Bunds which returned -1.8%, but behind a strong quarter for US Treasuries which returned 3.0%.
- Sterling investment grade spreads widened from 91bps to 106 bps. The ICE BofA Sterling Corporate index returned 0.4%. High yield bonds outperformed investment grade bonds returning 1.9%.
- Contingent convertibles returned positive with the ICE BofA Contingent Capital Index returning 1.6%. Global Non-Financial Hybrid Bonds returned 0.7%.

Bond market performance

	Yield		Spread		
Sector	**Mar 25**	**3 Month Change**	**Mar 25**	**3 Month Change**	**Total Return %**
Governments					
Gilts	4.60	0.01	-	-	0.5
Bunds	2.44	0.22	-	-	-1.8
US Treasuries	4.12	-0.35	-	-	3.0
£ Inv Grade Corporate	5.67	0.09	106	15	0.4
£ AAA	4.97	0.07	53	14	0.2
£ AA	5.08	0.10	59	14	0.0
£ A	5.44	0.07	93	16	0.3
£ BBB	5.97	0.11	127	15	0.6
£ High Yield	8.59	0.32	409	45	1.9
£ BB	7.22	0.13	270	30	0.9
€ Inv Grade Corporate	3.34	0.07	95	-6	0.2
€ AAA	3.12	0.29	61	1	-1.3
€ AA	2.91	0.09	60	-5	-0.1
CoCos	7.56	-0.17	295	18	1.6
Global Non-Financial Hybrid Bonds	5.79	0.77	187	10	0.7

Source: Bloomberg LP, Merrill Lynch data (local currency returns).
Spread is the Option Adjusted Spread. Bps is basis points (each unit is 1/100th of a 1%).
Data as of 31 March 2025.

Fund performance

The fund returned 0.55% (net) over the first quarter of 2025 compared to 0.71% for the average return for the fund's peer group, the EAA GBP Fund Diversified Bond sector. The fund's reference benchmark, the ICE BofA Sterling Corporate Bond Index returned 0.42%. This placed the fund in the second quartile of its peer group. The fund remains first quartile over 3,5 and 10-year periods.

Supported by the likelihood of further interest rate reductions this year in the UK, amid fallout from US tariffs, duration was the main driver of performance. However, with spreads widening as concerns rise over a global economic downturn, credit risk had a negative impact on returns with investment grade corporate bonds the largest detractor.

The biggest individual positive contributors were long-dated gilts (conventional and inflation-linked) and Legal & General, The largest detractors were an inflation-linked gilt, Vodafone, and sage.

Top contributors (before fees return in bps)	
Duration & Yield Curve	97
Currency	0
Credit	-33
Subordinated Financials	5
Corporate Hybrids	-1
High Yield	-4
Banks-Senior Debt	-5
Investment Grade	-28

Top 5 contributors	Coupon	*Maturity	BPS
UK I/L Gilt	1.250	2054	3.3
Legal & General	5.500	2064	3.0
UK Gilt	1.625	2054	2.6
JP Morgan	0.991	2026	2.5
Lloyds Bank	2.707	2035	2.3
Bottom 5 contributors	**Coupon**	***Maturity**	**BPS**
UK I/L Gilt	0.125	2051	-3.1
Vodafone	3.000	2056	-3.0
Sage	5.625	2037	-2.7
London Power	5.875	2040	-1.8
Vodafone	5.125	2052	-1.7

Past performance does not predict future returns.
Contribution returns are gross.
*Lack of maturity date represents perpetual bond.
The contribution figures are estimates and should be used for indicative purposes only.
Data cleansing and retrospective information availability may cause changes.

Strategy

Current investment themes (%)	Dec 24	Jan 25	Feb 25	Mar 25
Liquidity	**19.0**	**18.2**	**13.7**	**15.7**
Cash	4.2	5.1	2.4	3.2
Bonds maturing within 1 year*	7.0	4.6	3.5	4.5
Government**	7.8	8.4	7.7	7.9
Defensive	**62.0**	**62.9**	**67.8**	**65.7**
Investment grade	42.9	43.8	47.5	46.1
Senior banks	19.0	19.1	20.2	19.6
Credit risk	**19.2**	**19.1**	**18.6**	**18.7**
Subordinated banks	12.8	12.7	12.2	12.0
Subordinated insurers	4.8	4.9	4.9	5.4
Corporate high yield	0.9	0.9	0.9	0.7
Hybrids	0.7	0.7	0.7	0.7

Source: Invesco as of 31 March 2025.
Excludes derivatives and therefore may add to more or less than 100%.
*Bonds with less than a year to maturity are excluded from other categories to prevent double counting.
**Government includes agency & supranational. Figures may not sum due to rounding.

Given tight valuations across broad parts of the sterling bond market, the fund's positioning remains relatively defensive Around two-thirds of the fund is invested in investment grade corporate bonds and senior bank debt. We are comfortable holding high-quality credit, where the balance of return to risk seems good.

Without taking much in the way of credit risk (avoiding problematic companies), we have been adding new issues with coupons around the 4.5 to 6% range over recent times.

Modified duration started the period at 6.1 and rose modestly to 6.2. For the broader sterling market, modified duration fell from 6.0 to 5.8.

Outlook

Policy uncertainty to the UK's government response to the imposition of US tariffs is likely to weigh on economic activity, putting pressure on the Bank of England to cut interest rates further. The longer these high tariffs are in force, the risk of recession increases. In the near term we expect market volatility to remain a feature.

Despite these uncertainties, we believe that it's still a good time to hold high-quality fixed income assets. On the credit side, fundamentals remain relatively healthy. Issuance of investment grade corporate bonds has been strong and company balance sheets are robust. We are still finding some opportunities in the primary market. Although spreads have widened markedly in recent days there is no evidence of widespread selling.

Investment Team

Michael Matthews: Based in Henley-on-Thames, Michael is responsible for the management of a number of government and corporate investment grade portfolios. Michael began his investment career in 1995, joining the co-heads of Invesco's (formerly Perpetual) Fixed Interest team, Paul Read and Paul Causer, upon the team's foundation. He initially specialised in the team's money and foreign exchange market activities before predominantly focusing on government and investment grade credit markets. Michael has passed the associate examinations of the Association for Investment Management and Research (AIMR).

Tom Hemmant: Tom began his career with PricewaterhouseCoopers in 2002 where he worked in their financial services tax practice and trained as a chartered accountant. In 2005 he joined the Corporate Finance team of International Power plc working on the acquisition and project financing of power generation assets, and corporate funding projects. Tom joined Invesco in 2011 as a Credit Analyst. In August 2020 his responsibilities expanded to become Co-fund manager on the fund. He is an ACA qualified Chartered Accountant and holds a BSc in Economics from the University of Southampton.

Standardised rolling 12-month performance (% growth) *

Past performance does not predict future returns. Returns may increase or decrease as a result of currency fluctuations.

	31.03.15 31.03.16	31.03.16 31.03.17	31.03.17 31.03.18	31.03.18 31.03.19	31.03.19 31.03.20	31.03.20 31.03.21	31.03.21 31.03.22	31.03.22 31.03.23	31.03.23 31.03.24	31.03.24 31.03.25
Invesco £ Bond Fund	1.0	7.0	2.6	2.2	1.4	9.7	-3.1	-5.9	9.5	2.0
EAA Fund £ Diversified Bond	-0.5	9.4	1.5	3.1	0.7	8.7	-5.1	-11.3	7.1	2.4
ICE BofA £ Corporate	-0.1	11.0	1.7	4.0	0.7	9.8	-5.8	-11.6	7.4	2.3

Calendar year performance

	2019	2020	2021	2022	2024
Invesco £ Bond Fund	8.1	-0.9	-11.3	11.0	2.0
EAA Fund £ Diversified Bond	6.9	-3.2	-17.8	5.8	0.4
ICE BofA £ Corporate	9.3	-3.3	-19.9	9.8	2.1

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invesco.com/uk

Data as of 31 March 2025. Sourced from Invesco unless otherwise stated.

The performance data shown does not take account of the commissions and costs incurred on the issue and redemption of units. The investment concerns the acquisition of units in a fund and not in a given underlying asset. Fund performance figures are shown in sterling, for Z (accumulation GBP) class shares, inclusive of gross reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis.

* Source: © 2024 Morningstar. The performance shown in the chart above up to 5 October 2018 relates to the performance of the Irish-domiciled fund, which was merged into the Luxembourg-domiciled fund on that date. Gross income re-invested to 30 June 2022 unless otherwise stated. All performance data on this factsheet is in the currency of the share class. Reference Benchmark Source: RIMES. As the fund is actively managed, it is not intended that the performance of the Share Class will track the performance of ICE BofA Sterling Corporate Index (Total Return) (the "Benchmark"). The sector is shown for performance comparison purposes only. The fund does not track the sector. Morningstar 2024. All rights reserved. Use of this content requires expert knowledge. It is to be used by specialist institutions only. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied, adapted or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information, except where such damages or losses cannot be limited or excluded by law in your jurisdiction. Past financial performance is no guarantee of future results.

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