Quarterly Fund Update

Invesco Sterling Bond Fund

Covering Q1 2024

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	-0.4	1
6m	10.1	6.7	1
YTD	0.5	-0.4	1
1y	9.5	3.5	1
3y	-0.2	-12.4	1
5y	11.1	-6.9	1

Source: Invesco, as of 31 March 2024.
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

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

- Narrowing credit spreads offset rising government bond yields.
- Bank of England indicates interest rate cuts are coming but not imminent.
- Fund outperforms the peer group and benchmark with the fund being first quartile over 3 and 6-month as well as 1,3, 5 and 10-year periods.

Market review

- Negative quarter for gilts with markets pushing back the expected timing for the first rate cut and reducing the amount of easing expected during the year. Gilts underperformed relative to US Treasuries and eurozone government bonds.
- UK inflation rose unexpectedly to 4% in December, up from 3.9% in November. It remained unchanged in January before falling to 3.4% in February, the lowest level since September 2021. Core inflation, which excludes energy and food prices, fell from 5.1% in January to 4.5% in November.
- The Bank of England (BoE) twice held interest rates at 5.25%, a 15-year high and the fifth meeting in a row they were unchanged. The BoE now expects inflation to fall slightly below its 2% target in the second quarter of the year. Markets are pricing in three 0.25% interest rate cuts this year, which they expect to begin by June, as Governor Andrew Bailey said things were 'moving in the right direction'.
- The Office for National Statistics (ONS) figures showed the UK fell into a recession at the end of 2023, as UK gross domestic product (GDP) fell by 0.3% in the final quarter of the year. However, the UK economy showed its resilience by returning to growth in January, as GDP rose 0.2%.
- High yield bonds outperformed investment grade bonds, which are more sensitive to interest rate movements. The ICE BofA Sterling Corporate Index returned 0.2%. In comparison, the ICE BofA Sterling High Yield Index returned 2.8%. Spreads tightened for both investment grade and high yield.
- Contingent convertibles had a strong quarter with the ICE BofA Contingent Capital Index returning 3.6%. Global Non-Financial Hybrid Bonds returned 2.3%. Spreads tightened for both Contingent Capital and Global Non-Financial Hybrid Bonds.

Bond market performance

	Yield		Spread		
Sector	**Mar 24**	**3 Month Change**	**Mar 24**	**3 Month Change**	**Total Return**
Governments					
Gilts	4.12	0.34	-	-	-1.8%
Bunds	2.47	0.34	-	-	-1.4%
US Treasuries	4.45	0.34	-	-	-0.9%
£ Inv Grade Corporate	5.37	0.19	114	-20	0.2%
£ AAA	4.54	0.25	40	-16	-1.3%
£ AA	4.75	0.31	61	-10	-0.7%
£ A	5.14	0.21	95	-15	-0.2%
£ BBB	5.70	0.15	143	-24	0.7%
£ High Yield	8.84	-0.29	451	-75	2.8%
£ BB	7.27	-0.13	282	-60	2.9%
€ Inv Grade Corporate	3.75	0.14	113	-23	0.4%
€ AAA	3.03	0.27	63	-7	-0.7%
€ AA	3.29	0.19	76	-19	-0.1%
CoCos	8.01	0.05	325	-53	3.6%
Global Non-Financial Hybrid Bonds	5.52	0.08	204	-46	2.3%

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 2024.

Fund performance

The fund returned 0.54% (net) over the period compared to -0.36% 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 0.17%. This placed the fund in the first quartile of its peer group.

Supported by a narrowing in spreads, credit was the main driver of performance with subordinated financials and investment grade bonds the biggest contributors. There was also positive input from senior bank debt and corporate hybrids. Duration detracted from performance as the timing of expected rate cuts in 2024 from central banks was pushed back. The largest individual bond contributors were two long-dated UK gilts and Nationwide. The biggest detractors were EDF, Wellcome Trust and University of Oxford.

In terms of relative performance, both duration and credit selection had a positive impact on returns.

Top contributors (before fees return in bps)		
Credit		**162**
Subordinated Financials	83	
Investment Grade	42	
Banks-Senior Debt	23	
Corporate Hybrids	8	
High Yield	6	
Currency		**-1**
Duration & Yield Curve		**-97**

Top 5 contributors	Coupon	*Maturity	BPS
UK Tsy I/L Gilt	0.125	2051	15.7
UK Tsy Gilt	0.500	2061	10.1
Nationwide	7.859		4.5
Lloyds	2.707	2035	3.4
Intesa Sanpaolo	8.505	2032	3.4
Bottom 5 contributors	**Coupon**	***Maturity**	**BPS**
EDF	5.500	2041	-6.6
Wellcome Trust	2.517	2118	-4.5
Oxford University	2.544	2117	-4.2
Amazon	3.950	2052	-4.1
Shell	1.750	2052	-3.5

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 23	Jan 24	Feb 24	Mar 24
Liquidity	**9.3**	**14.7**	**16.2**	**19.6**
Cash	3.0	4.4	0.9	3.0
Bonds maturing within 1 year*	2.9	8.4	9.2	10.3
Government**	3.4	1.9	6.2	6.3
Defensive	**62.1**	**58.6**	**58.1**	**56.9**
Investment grade	47.9	44.3	42.2	41.2
Senior banks	14.1	14.3	15.9	15.7
Credit risk	**28.7**	**26.9**	**25.7**	**23.5**
Subordinated banks	16.7	16.9	16.0	15.3
Subordinated insurers	9.4	7.7	7.8	6.3
Corporate high yield	0.0	0.0	0.0	0.0
Hybrids	2.5	2.3	2.0	1.9

Source: Invesco as of 31 March 2024.
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.

The majority of the fund is invested in investment grade corporate bonds and senior bank debt. We also have exposure to subordinated bonds, both financial and non-financial. As weaker economic growth is likely to be felt most in riskier credit, the fund no longer holds corporate high yield bonds.

Most of the yield the fund is earning comes from underlying rates. This increases our comfort with high-quality credit, where the balance of return to risk seems good. Without taking much in the way of credit risk, we have been adding new issues with coupons in the 5-6% range. A part of the fund is held in US dollar denominated bonds. The majority of this is hedged back to sterling.

Interest rate risk in the fund remains near multi-year highs. Modified duration was 6.2 at the end of December before rising to 6.6 at the end of February. It was then reduced back down to 6.3 at the end of March. For the broader sterling market, modified duration fell from 6.3 to 6.2.

Outlook

We believe that it's still a bond-friendly backdrop and a good time to hold high-quality fixed income assets. Inflation is falling in Europe and interest rate cuts are expected. Despite this more dovish backdrop, the economy in Europe is proving resilient and likely to pick up in 2024.

The fund continues to take advantage of attractively priced new issues, although the opportunity to buy new bonds at attractive coupons is lessening. While we need to consider the relatively low credit spread the market is trading on, bond market yields are attractive and there are favourable headwinds from falling inflation and the prospect of rate cuts.

The fund's duration risk is still higher today than for much of the past decade. We think the level of yield is attractive and anticipate potential price upside if rate expectations soften.

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

	31.03.14 31.03.15	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
Invesco £ Bond Fund	5.9	1.0	7.0	2.6	2.2	1.4	9.7	-3.1	-5.9	9.5
EAA Fund £ Diversified Bond	11.0	0.0	7.7	0.9	2.6	3.3	3.0	-4.9	-11.0	3.5
ICE BofA £ Corporate	13.7	-0.1	11.0	1.7	4.0	0.7	9.8	-5.8	-11.6	7.4

Calendar year performance

	2019	2020	2021	2022	2023
Invesco £ Bond Fund	8.4	8.1	-0.9	-11.3	11.0
EAA Fund £ Diversified Bond	7.3	6.9	-3.2	-17.8	5.8
ICE BofA £ Corporate	11.4	9.3	-3.3	-19.9	9.8

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

Data as of 31 March 2024. 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: © 2023 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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