



Investment Perspective

Invesco Global Cash Management

Monthly Commentary

Overview and Outlook as of September 2011

Money market overview

As we head into fall and the final quarter of the year, financial markets continue to reel from the impact of this past summer's headlines. With the ongoing debt crisis in Europe and the possibility of a global economic slowdown, banks in Europe and the U.S. have come under the increased scrutiny of rating agencies. On Sept. 14, Moody's concluded its review of French banks BNP Paribas, Societe Generale and Credit Agricole S.A., resulting in a downgrade of Credit Agricole's long-term rating to Aa2 from Aa1, and Societe General's long-term rating to Aa3 from Aa2 due to - among other things - the exposure of these banks to Greek debt. Moody's maintained the rating of BNP Paribas at Aa2, but is keeping it under review. The P-1 short-term rating of all these banks, which is the one that matters to money market funds, has been affirmed.¹

Since Moody's first put these banks on review in June, the U.S. money market fund industry has steadily reduced the scope and maturity of its exposures to European financial institutions. According to Fitch Ratings (Fitch), U.S. prime money market fund holdings in European financial institutions decreased by \$284.6 billion to 42.1% of total money market fund assets at the end of August down from 47.2% in July.² The maturity of these exposures has also declined, with the average maturity of European bank corporate paper, for example, falling to 62 days at the end of August from 73 day end of July.³

As risk-averse investors began withholding and withdrawing short-term funding from European banks, particularly in France, concern grew of a potential shortage in short-term U.S. dollar funding. In an effort to shore up dollar liquidity, the European Central Bank announced on Sept. 15 that in coordination with the U.S. Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, it will conduct three U.S. Dollar liquidity operations, with three-month maturities, beginning in October through year-end. The operations will all take the form of repurchases against eligible collateral at a fixed rate with full allotment.¹

Meanwhile, in the U.S., Moody's concluded its review of Bank of America (BAC), Citigroup (C), and Wells Fargo & Co. (WFC) on Sept. 21, resulting in the following long-term and short-term rating downgrades:

	Bank of America		Citigroup		Wells Fargo Co.	
Rating	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
Holding company	Downgrade to P-2 from P-1	Downgrade to Baa1 from A2	Downgrade to P-2 from P-1	Affirmed A3	Affirmed P-1	Downgrade to A2 from A1
Depository Institution Or Bank	Affirmed P-1	Downgrade to A2 from Aa3	Affirmed P-1	Affirmed A1	Affirmed P-1	Downgrade to Aa3 from Aa2

All issuers remain First-Tier, per Securities and Exchange Commission (SEC) definition, since they maintain their 'A-1' and 'F1+' ratings at Standard & Poor's and Fitch, respectively. Moody's rationale for the reviews and ultimate downgrades was "a decrease in the probability that the U.S. government would support the bank(s),

(Continued)

1 Bloomberg, LP.

2 Fitch Ratings, "U.S. Money Funds and European Banks: Exposures and Maturities Decline Further." Sept. 23, 2011.

3 JPMorgan, "U.S. Fixed Income Markets Weekly," Sept. 9, 2011.

if needed.”⁴ That is, the U.S. government is less likely to bail out these financial institutions going forward. In the same announcement Moody’s emphasized that “the downgrades do not reflect a weakening of the intrinsic credit quality” of these entities.⁴ These downgrades had no meaningful impact on money markets.

With policy makers appearing unable to respond to increasingly negative economic news attention again turned to the Federal Reserve (the Fed). On September 21, the Federal Open Market Committee (FOMC) announced a shift in the composition of the Fed’s balance sheet by extending the average maturity of portfolio holdings, which involves moving \$400 billion in securities maturing in three years or less into securities maturing in between six and 30 years. The hope is that lower long-term rates might boost borrowing and provide an impetus for stronger economic growth. For money markets, this could translate into a slight - less than \$20 billion - pickup in supply, with a minimal impact on yields.

Total U.S. money market assets were down \$8 billion (0.3%) in September, although there were strong flows of \$22.3 billion (2.6%) into government funds during the period. Bill supply continued to shrink, down another 1% since the end of August, keeping yields low.⁵ Additionally, flight to quality and reductions in dealer repurchase agreement positions for quarter-end further depressed yields, with one- and two-month Treasury bills trading in negative territory.

LIBOR⁶ rates rose in September with one- and three-month LIBOR rates setting at 0.239% and 0.372%, respectively, as of Sept. 29. The latter revisiting highs not seen since Aug. 3, 2010. There was encouraging news out of Europe at month-end, as the German parliament approved expanding the authority of the €440 billion European Financial Stabilization Facility (EFSF) to include buying bonds and recapitalize banks as necessary to resolve the Eurozone debt crisis. However, much work remains, leading to expectations of continued high LIBOR levels.

Strategies for Invesco’s money market funds

Invesco continues to actively manage portfolios to reflect our market views, consistent with our commitment to preserving the safety and liquidity of the portfolios. While we are confident in the quality of our portfolio holdings, we are also sensitive to investor concerns and have reduced our exposure to European banks without negatively impacting our portfolios.

Since June 2011, Invesco has opportunistically reduced its exposure to European banks across our prime funds. In terms of maturity, the largest concentration of our European bank investments matures in 7 days or less and our investment team continues to build up our overnight and weekly liquidity levels.

This continues to be an evolving environment for money market funds. We believe Invesco Global Cash Management is positioned to help our clients navigate these dynamic events with our judicious investment philosophy and rigorous investment process. Our credit team has developed and strictly adheres to a comprehensive set of criteria for evaluating credit risk and identifying high-quality securities while our portfolio management team constructs and manages the money market portfolios, keeping in mind our commitment to the preservation of principal, liquidity and our ability to respond quickly to ongoing economic developments.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a Fund.

4 Moody’s Investors Service, “Rating Action: Moody’s downgrades Bank of America Corp. to Baa1/P-2; Bank of America N.A. to A2, P-1 affirmed”, Sept. 21, 2011.

5 ICI, Investment Company Institute

6 LIBOR is the world’s most widely followed benchmark for short-term interest rates. Fixed daily, the LIBOR is the interest rate at which banks in the London interbank market can borrow overnight funds from one another. It serves as a base when determining interest rates for corporations and other large borrowers.

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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 subject to change without notice. Short-term credit ratings are measured on a scale that generally ranges from A-1 (highest) to SP-3 (lowest) for Standard & Poor’s and from P-1 (highest) to NP (lowest) for Moody’s. S&P ratings will also denote those securities that possess extremely strong safety characteristics with a plus sign (+) designation. Long-term credit ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). For more information on rating methodologies, please visit the following NRSRO websites: www.standardandpoors.com and select ‘Understanding Ratings’ under Rating Resources on the homepage; www.moody.com and select ‘Rating Methodologies’ under Research and Ratings on the homepage; www.fitchratings.com and select ‘Ratings Definitions’ on the homepage. Unless otherwise noted statistics are from The Federal Reserve. All other data provided by Invesco.

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