



Investment Perspective

Invesco Cash Management

Strategy and Outlook as of June 30, 2011

Money Market Overview

Greece is the word that dominated money markets this month as concern grew over the country's unfolding debt situation and its potential impact on U.S. money market funds. Against a backdrop of waning political support within Greece and renewed public protest against continued austerity measures, the International Monetary Fund and the European Union resumed discussions on a second bailout package. What riled money markets was an announcement by Moody's Investor Services on June 15 that it would review the long-term ratings for French banks BNP Paribas, Societe Generale and Credit Agricole S.A. because of their exposure to Greece. In the same announcement Moody's reaffirmed its highest P-1 rating on the short-term debt of these banks. BNP Paribas, Societe Generale and Credit Agricole S.A. are among the largest banks in the world. These entities are well-capitalized universal banks with significant domestic retail franchises and deposits, and - notably - direct access to the European Central Bank window. We believe exposure to Greece for these banks is manageable relative to earnings and tangible capital.

Meanwhile, the Federal Open Market Committee (FOMC) confirmed, in the statement following its June 22 meeting, what market participants have been suspecting for a while - that the economic recovery was proceeding at a slower pace than anticipated as the U.S. housing market continues to be depressed due to the impact of higher oil and food prices on U.S. consumer spending. The FOMC statement reaffirmed that the Federal Reserve funds rate would remain at 0-0.25%, and that due to the slow pace of recovery these rates would be maintained for "an extended period." The Fed also confirmed it would be wrapping up its asset purchase program (QEII) at the end of June.

During the second half of June, front-end rates came under pressure in part due to a flight to quality on European jitters, mid-June tax day and quarter-end technicals. One-month Treasury Bills (T-Bills) and overnight repurchase agreements (repo) rates traded close to or at zero for much of the week of June 20, as more money seeking safe harbor continued to chase fewer short-term assets. One- and three-month T-Bills ended the month at 0.005% and 0.010%, respectively, while overnight repo ended June at 0.015%. LIBOR continued to edge lower, setting record lows on its way down with one-month LIBOR trading in the high-teens for most of June, settling at 0.1855% during the last week of the month, and the three-month LIBOR falling below 25 bps ending June at 0.24575%. True, rates did not fall by much, but with an average yield of 0.0083%, 0.026%, and 0.091%, respectively, on the one-, three-, and six-month treasuries in June, there wasn't a lot of room for compression to begin with.

Total U.S. money market fund assets declined to \$2.68 trillion for the week ended Wednesday, June 29, falling by \$43.5 billion for the month. Government funds were up \$45.8 billion in June at the expense of prime funds

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which fell by \$83.8 billion on the back of Greek debt headlines. Month-end June levels of U.S. Commercial Paper (USCP) outstanding also reflected European bank concerns as USCP was down \$52.5 billion in June, with declines across the corporate, financial and Asset-Backed Commercial Paper (ABCP) categories.

Outlook and Strategy

While it is important to reiterate that U.S. money market funds hold no direct exposure to Greek sovereign debt, the industry has managed and continues to manage any indirect exposure, including reducing their exposure to certain European sectors and names, even before the latest round in the crisis played out in the headlines. In the weeks since the crisis reasserted itself, recognizing the possible headline risk money market funds have reacted by shortening maturities to certain European bank holdings. At Invesco Global Cash Management, we continue to monitor developments as they unfold. We are actively managing our maturities and exposures to these institutions and all of our approved issuers.

The current macroeconomic environment requires an in-depth understanding of global economic and business fundamentals. Our credit team has developed and strictly adheres to a rigorous set of criteria for evaluating credit risk and identifying high-quality securities while our portfolio management team has constructed 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.

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