Invesco

Fund Research
Collective Trusts 101
Available exclusively to qualified retirement plans

Summary of Key Differences

Collective trusts are designed exclusively for qualified retirement plans. Only available through banks and trust companies

Regulated by the Office of the Comptroller of the Currency (OCC)Do not produce a prospectus

Functional equivalent of mutual funds but not required to register as investment companies as they only accept investments from qualified retirement plansDo not advertising to the public

Do not produce a prospectus

Relatively low cash balances due to more stable investor cash flows

Operating expenses charged daily

Management Fees outside the NAV & are negotiable

Dividends & Capital Gains are not paid out. All earnings reinvested back into the fund and any profit or loss to the fund is reflected in the daily share price

Important Information

This is not an offer to buy or sell any securities. As with all investments, you should read all applicable fund information carefully before making a decision.

[1] May include a 401(k) feature.

Investment Products offered are: NOT FDIC-Insured, May Lose Value, Not Bank Guaranteed.

www.invesconationaltrust.com

Overview

Collective or commingled trusts represent an alternative investment vehicle to mutual funds. Both are investment vehicles comprised of pooled assets invested in securities according to a predetermined strategy to meet a specified objective. Needs and investment objectives vary from one client to the next. Some clients' needs can best be met through investment in a mutual fund, while other clients will best be served by investing in a collective trust. The information contained here is intended to illustrate the differences between the two investment vehicles so that an informed choice can be made as to which option will best serve your investment objectives. None of this information should be construed as an offer to buy or sell any financial instruments. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

Collective Trust Regulations

Collective trust products are sponsored and maintained by a bank trust department or a trust company. The primary regulator for collective trusts is the Department of Treasury / Office of the Comptroller of the Currency (OCC) pursuant to OCC Regulation 9.18 rather than the Securities and Exchange Commission (SEC). The Department of Labor also has oversight for the funds through its oversight of ERISA Plans.

How do Collective Trusts Differ From Mutual Funds?

Unlike mutual funds, collective trusts are exempt from the investment company registration requirements of the Investment Company Act of 1940 and the securities registration requirements of the Securities Act of 1933. Collective trusts are therefore not subject to the same fund registration fees and expenses as mutual funds, such as the requirement to produce a prospectus. In order to qualify for this exemption, the collective trust must be maintained by a bank and investors must be limited to certain qualified retirement plans. As a result, collective trusts are not available or advertised to the general public.

Because collective trust funds are only available to qualified retirement plans, they generally keep much lower cash balances than retail mutual funds since retirement plan participants usually leave their money where it is longer and tolerate market fluctuations better than retail investors. This allows collective trust managers to reduce cash flow volatility because they do not have to raise cash to meet redemptions as often. Since cash balances are generally very low, more of an investor's contributions remain fully invested in the market.

There is no prospectus or statement of additional information for the Institutional Retirement Trust collective trust funds. Instead, the offering documents for the funds is the Declaration of Trust, which contains a description of each of the funds and the provisions governing their operation. Each investing plan executes a standard Participation Agreement prior to investing in which the plan represents that it is eligible to invest in the collective trust. The Participation Agreement also contains the fee schedule for the plan's fund investments.

Registration Exemption

The key difference between collective trusts and mutual funds is that collective trusts are exempt from the investment company registration requirements of the Investment Company Act of 1940 and the securities registration requirements of the Securities Act of 1933. These exemptions are available because collective trust funds are not available to the general public. They can only be offered by a bank to certain qualified employee retirement plans. The reasoning is that qualified plans do not require the protection of registration because individual investors / plan participants are already protected through other fiduciaries. In addition to the trustee for the collective trust funds who acts as fiduciary for all fund investors, individual plan participants investing in the funds are also protected by an independent plan fiduciary, usually the plan sponsor.

Who Can Invest in Collective Trusts?

Collective trust funds are only available to investors in qualified retirement plans. Qualified retirement plans include any and all employee benefit plans as defined under section 401(a) of the Internal Revenue Code, certain governmental plans and insurance separate accounts consisting solely of assets in qualified retirement plans. This includes the following defined contribution and defined benefit plans:

Defined Contribution
- 401(k) Plans
- Profit Sharing Plans [1]
- Stock Bonus Plans [1]
- Thrift Plans
- Money Purchase Plans
- Target Benefit Plans
- Taft Hartley Plans
- Certain 403(b)(9) Church plans

Defined Benefit
- Pension Plans
- 457 Plans
- Cash Balance Plans
- Master Trusts
- Insurance Separate Accounts

Examples of Ineligible Investors include health and welfare plans, IRAs and 403(b) plans and plans with self employed investors.

Operating Expenses

Fund operating expenses such as audit, custody, fund accounting, and transfer agency fees are accrued and posted daily to the total fund assets. Fund operating expenses are deducted daily from each fund prior to striking the daily net asset value for the fund and prior to calculating performance. Fund operating expenses are expressed as a ratio of total assets. The most recent audited expense ratios for the Invesco Collective Trust funds can be found in the annual report. Quarterly unaudited expense ratios can be found on the quarterly Fund Overviews / Fact Sheets at www.invesconationaltrust.com. The expenses on the funds are generally lower than those for mutual funds and decrease as fund assets grow.

Management Fees

One of the more well-known features of collective trust funds is their ability to charge negotiable fees to their clients. The Invesco Collective Trust Funds charge according to an asset-based fee structure allowing clients with greater assets invested to pay a lower fee through consecutive breakpoints. Management fees are specific to each account. They accrue daily based on the account's market value and are redeemed from the account monthly. Management Fees cover the administrative services provided by the Trust Company, the sub-advisor to the fund and the marketing costs assumed by the distribution channels selling the funds.

Dividends and Capital Gains

Collective trust funds generally do not pay out dividends or capital gains. All income and earnings from the sale of securities are reinvested back into the fund with a resulting increase/decrease in share price. In other words, any profit or loss to the fund is reflected in the share price daily. The exception to this is the Invesco Stable Value Trust. In order to maintain a stable share price of $1 per share, all dividends for this fund accrue daily and are reinvested back into investor accounts on the last business day of the month as dividends.

Net Asset Values and Performance

Net asset value (NAV) and performance for collective trust funds is calculated differently from that of mutual funds. Unlike mutual funds, the NAV of a collective trust fund generally does not reflect the deduction of investment management fees, although it does include fund expenses. Note, however, that some funds within the Institutional Retirement Trust offer multiple share classes, some of which have NAVs reflecting the deduction of the management fees for that class of shares.

Returns for trusts are calculated gross of fees or standard net of fees. Gross of fees fund performance is calculated before the deduction of management fees but after the deduction of fund operating expenses. Standard net of fees fund performance is calculated after the deduction of fund operating expenses and after the deduction of the standard investment management fee applicable to the fund. Individual Plan performance will vary depending upon the timing of contributions and withdrawals and upon the individual Plan's fee schedule. The monthly-adjusted returns are compounded and then annualized to compute the long-term returns.

Net of fees returns, as provided by the Trust Company, are net of our standard management fee, which does not include any client service fees and may not be the actual fee paid by the Plan. The actual investment management fee varies for each Plan based on the fee negotiated with the Plan. This negotiated fee can fluctuate daily based on the various asset level breakpoints reached at the time the daily fee accrual is calculated for each Plan.