Jones Jeffrey D
Form 4
March 28, 2013

FORM 4

OMB APPROVAL

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Jones Jeffrey D
(Last) (First) (Middle)
12367 CROSTHWAITE CIRCLE
(Street)
POWAY, CA 92064
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
COHU INC [COHU]

3. Date of Earliest Transaction (Month/Day/Year)
03/26/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP Finance & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								33,955 (1)	D	
Restricted Stock Units (2)	03/26/2013		A		20,117	A	$ 0	20,117	D	
Performance Stock Units (3)	03/26/2013		A		14,710	A	$ 0	14,710	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount Underlying Securiti (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amou or Numb of Sha
Employee Stock Option (Right to Buy)	$ 9.44	03/26/2013		A		38,442		03/26/2014 (4)	03/26/2023	Common Stock	38,4

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Jones Jeffrey D 12367 CROSTHWAITE CIRCLE POWAY, CA 92064			VP Finance & CFO	

Signatures

Jeffrey D. Jones (Attorney-in-Fact)	03/28/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Number of shares includes 21,470 Restricted Stock Units (RSU) (excluding the impact of shares that will be withheld to cover tax obligations) previously reported that in the future will be converted on a one-for-one basis into shares of Cohu, Inc. Common Stock, immediately upon vesting which vesting is scheduled to occur in annual installments (assuming continued employment).

(2) Each restricted stock unit (RSU) represents a contingent right to receive one share of Cohu, Inc. Common Stock upon vesting. The RSU vests in four equal annual installments beginning March 26, 2014 (assuming continued employment).

(3) Represents performance shares (restricted stock units) that will be converted on a one-for-one basis into shares of Cohu, Inc. common stock upon vesting. These performance shares will vest only after the achievement of specified performance goals. Provided such goals are achieved, vesting is scheduled to occur no earlier than three equal annual installments beginning March 26, 2014 (subject to continued employment through each vest date). The number of shares shown is the target award level. The actual number of shares that may vest ranges from 0% to 150% of the target amount, depending on achievement of specified performance goals.

(4) The option vests in four equal installments beginning on March 26, 2014 (assuming continued employment).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. which Invesco and its affiliates have investment discretion. Section 28(e) of the Securities Exchange Act of 1934, as amended, provides that Invesco or the Sub-Advisers, under certain circumstances, lawfully may cause an account to pay a higher commission than the lowest available. Under Section 28(e)(1), Invesco or the Sub-Advisers must make a good faith determination that the commissions paid are reasonable in relation to the value of the brokerage and research services provided ... viewed in terms of either that particular transaction or [Invesco s or the Sub-Advisers] overall responsibilities with respect to the accounts as to which [it] exercises investment discretion. The services provided by the Broker also must lawfully and appropriately assist Invesco or the Sub-Adviser in the performance of its investment decision-making responsibilities. Accordingly, a Fund may pay a Broker commissions higher than those available from another Broker in recognition of the Broker s provision of Soft Dollar Products to Invesco or the Sub-Advisers.

Invesco and the Sub-Advisers face a potential conflict of interest when they use client trades to obtain Soft Dollar Products. This conflict exists because Invesco and the Sub-Advisers are able to use the Soft Dollar Products to manage client accounts without paying cash for the Soft Dollar Products, which reduces Invesco s or the Sub-Adviser s expenses to the extent that Invesco or the Sub-Advisers would have purchased such products had they not been provided by Brokers. Section 28(e) permits Invesco or the Sub-Advisers to use Soft Dollar Products for the benefit of any account it manages. Certain Invesco-managed accounts (or accounts managed by the Sub-Advisers) may generate soft dollars used to purchase Soft Dollar Products that ultimately benefit other Invesco Advisers, Inc.-managed accounts (or Sub-Adviser-managed accounts), effectively cross subsidizing the other Invesco-managed accounts (or the other Sub-Adviser-managed accounts) that benefit directly from the product. Invesco or the Sub-Advisers may not use all of the Soft Dollar Products provided by Brokers through which a Fund effects securities transactions in connection with managing the Fund whose trades generated the soft dollars used to purchase such products.

Invesco presently engages in the following instances of cross-subsidization:

Smaller funds that do not generate significant soft dollar commissions may be cross-subsidized by the larger equity Invesco funds in that the smaller equity funds receive the benefit of Soft Dollar Products for which

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they do not pay. Certain other accounts managed by Invesco or certain of its affiliates may benefit from Soft Dollar Products services for which they do not pay.

Invesco and the Sub-Advisers attempt to reduce or eliminate the potential conflicts of interest concerning the use of Soft Dollar Products by directing client trades for Soft Dollar Products only if Invesco or the Sub-Adviser concludes that the Broker supplying the product is capable of providing best execution.

Certain Soft Dollar Products may be available directly from a vendor on a hard dollar basis; other Soft Dollar Products are available only through Brokers in exchange for soft dollars. Invesco and the Sub-Adviser use soft dollars to purchase two types of Soft Dollar Products:

- proprietary research created by the Broker executing the trade, and
- other products created by third parties that are supplied to Invesco or the Sub-Adviser through the Broker executing the trade.

Proprietary research consists primarily of traditional research reports, recommendations and similar materials produced by the in-house research staffs of broker-dealer firms. This research includes evaluations and recommendations of specific companies or industry groups, as well as analyses of general economic and market conditions and trends, market data, contacts and other related information and assistance. Invesco periodically rates the quality of proprietary research produced by various Brokers. Based on the evaluation of the quality of information that Invesco receives from each Broker, Invesco develops an estimate of each Broker s share of Invesco clients commission dollars and attempts to direct trades to these firms to meet these estimates.

Invesco and the Sub-Advisers also use soft dollars to acquire products from third parties that are supplied to Invesco or the Sub-Advisers through Brokers executing the trades or other Brokers who step in to a transaction and receive a portion of the brokerage commission for the trade. Invesco or the Sub-Advisers may from time to time instruct the executing Broker to allocate or step out a portion of a transaction to another Broker. The Broker to which Invesco or the Sub-Advisers have stepped out would then settle and complete the designated portion of the transaction, and the executing Broker would settle and complete the remaining portion of the transaction that has not been stepped out. Each Broker may receive a commission or brokerage fee with respect to that portion of the transaction that it settles and completes.

Soft Dollar Products received from Brokers supplement Invesco s and or the Sub-Advisers own research (and the research of certain of its affiliates), and may include the following types of products and services:

- Database Services comprehensive databases containing current and/or historical information on companies and industries and indices. Examples include historical securities prices, earnings estimates and financial data. These services may include software tools that allow the user to search the database or to prepare value-added analyses related to the investment process (such as forecasts and models used in the portfolio management process).

- Quotation/Trading/News Systems products that provide real time market data information, such as pricing of individual securities and information on current trading, as well as a variety of news services.

- Economic Data/Forecasting Tools various macro-economic forecasting tools, such as economic data or currency and political forecasts for various countries or regions.

- Quantitative/Technical Analysis software tools that assist in quantitative and technical analysis of investment data.

- Fundamental/Industry Analysis industry specific fundamental investment research.

- Other Specialized Tools other specialized products, such as consulting analyses, access to industry experts, and distinct investment expertise such as forensic accounting or custom built investment-analysis software.

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If Invesco or the Sub-Advisers determines that any service or product has a mixed use (i.e., it also serves functions that do not assist the investment decision-making or trading process), Invesco or the Sub-Advisers will allocate the costs of such service or product accordingly in its reasonable discretion. Invesco or the Sub-Advisers will allocate brokerage commissions to Brokers only for the portion of the service or product that Invesco or the Sub-Advisers determines assists it in the investment decision-making or trading process and will pay for the remaining value of the product or service in cash.

Outside research assistance is useful to Invesco or the Sub-Advisers because the Brokers used by Invesco or the Sub-Advisers tend to provide more in-depth analysis of a broader universe of securities and other matters than Invesco s or the Sub-Adviser s staff follows. In addition, such services provide Invesco or the Sub-Advisers with a diverse perspective on financial markets. Some Brokers may indicate that the provision of research services is dependent upon the generation of certain specified levels of commissions and underwriting concessions by Invesco s or the Sub-Adviser s clients, including the Funds. However, the Funds are not under any obligation to deal with any Broker in the execution of transactions in portfolio securities. In some cases, Soft Dollar Products are available only from the Broker providing them. In other cases, Soft Dollar Products may be obtainable from alternative sources in return for cash payments. Invesco and the Sub-Advisers believe that because Broker research supplements rather than replaces Invesco s or the Sub-Adviser s research, the receipt of such research tends to improve the quality of Invesco s or the Sub-Adviser s investment advice. The advisory fee paid by the Funds is not reduced because Invesco or the Sub-Advisers receives such services. To the extent the Funds portfolio transactions are used to obtain Soft Dollar Products, the brokerage commissions obtained by the Funds might exceed those that might otherwise have been paid.

Invesco or the Sub-Advisers may determine target levels of brokerage business with various Brokers on behalf of its clients (including the Funds) over a certain time period. Invesco determines target levels based upon the following factors, among others: (1) the execution services provided by the Broker; and (2) the research services provided by the Broker. Portfolio transactions may be effected through Brokers that recommend the Funds to their clients, or that act as agent in the purchase of a Fund s shares for their clients, provided that Invesco or the Sub-Advisers believes such Brokers provide best execution and such transactions are executed in compliance with Invesco s policy against using directed brokerage to compensate Brokers for promoting or selling Invesco Fund shares. Invesco and the Sub-Advisers will not enter into a binding commitment with Brokers to place trades with such Brokers involving brokerage commissions in precise amounts.

Directed Brokerage (Research Services)

[Directed brokerage (research services) paid by each Fund during its last fiscal year are found in Appendix I to this SAI.]

Regular Brokers

During their last fiscal year, the Funds did not acquire any securities of regular brokers or dealers, as defined in Rule 10b-1 under the 1940 Act.

Allocation of Portfolio Transactions

Invesco and the Sub-Advisers manage numerous Invesco Funds and other accounts. Some of these accounts may have investment objectives similar to the Funds. Occasionally, identical securities will be appropriate for investment by one of the Funds and by another Fund or one or more other accounts. However, the position of each account in the same security and the length of time that each account may hold its investment in the same security may vary. Invesco and the Sub-Adviser will also determine the timing and amount of purchases for an account based on its cash position. If the purchase or sale of securities is consistent with the investment policies of the Fund(s) and one or more other accounts, and is considered at or about the same time, Invesco or the Sub-Adviser will allocate transactions in such securities among the Fund(s) and these accounts on a pro rata basis based on order size or in such other manner believed by Invesco to be fair and equitable. Invesco or the Sub-Adviser may combine transactions in accordance with applicable laws and regulations to obtain the most favorable execution. Simultaneous transactions could, however, adversely affect a Fund s ability to obtain or dispose of the full amount of a security which it seeks to purchase or sell.

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Tax Matters

The following is a general summary of certain additional tax considerations of investing, holding and disposing of Common Shares of the Funds (for purposes of this section, the Fund). It is not intended to be a complete discussion of all such federal income tax consequences, nor does it purport to deal with all categories of investors (including common shareholders with large positions in the Fund). No attempt is made to present a detailed explanation of the tax treatment of the Fund or its shareholders, and the discussion here and in the Prospectus is not intended as a substitute for careful tax planning.

This Tax Matters section is based on the Internal Revenue Code of 1986, as amended (the Code) and applicable regulations in effect on the date of this Statement of Additional Information. Future legislative, regulatory or administrative changes, including provisions of current law that sunset and thereafter no longer apply, or court decisions may significantly change the tax rules applicable to the Fund and its shareholders. Any of these changes or court decisions may have a retroactive effect.

This is for general information only and not tax advice. All investors should consult their own tax advisors as to the federal, state, local and foreign tax provisions applicable to them.

Taxation of the Fund. The Fund has elected and intends to qualify (or, if newly organized, intends to elect and qualify) each year as a regulated investment company (sometimes referred to as a regulated investment company, RIC or fund) under Subchapter M of the Code. If the Fund qualifies, the Fund will not be subject to federal income tax on the portion of its investment company taxable income (i.e., generally, taxable interest, dividends, net short-term capital gains and other taxable ordinary income net of expenses without regard to the deduction for dividends paid) and net capital gain (i.e., the excess of net long-term capital gains over net short-term capital losses) that it distributes to shareholders.

Qualification as a regulated investment company. In order to qualify for treatment as a regulated investment company, the Fund must satisfy the following requirements:

Distribution Requirement the Fund must distribute at least 90% of its investment company taxable income and 90% of its net tax-exempt income, if any, for the tax year (certain distributions made by the Fund after the close of its tax year are considered distributions attributable to the previous tax year for purposes of satisfying this requirement).

Income Requirement the Fund must derive at least 90% of its gross income from dividends, interest, certain payments with respect to securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived from its business of investing in such stock, securities or currencies and net income derived from qualified publicly traded partnerships (QPTPs).

Asset Diversification Test the Fund must satisfy the following asset diversification test at the close of each quarter of the Fund s tax year: (1) at least 50% of the value of the Fund s assets must consist of cash and cash items, U.S. Government securities, securities of other regulated investment companies, and securities of other issuers (as to which the Fund has not invested more than 5% of the value of the Fund s total assets in securities of an issuer and as to which the Fund does not hold more than 10% of the outstanding voting securities of the issuer); and (2) no more than 25% of the value of the Fund s total assets may be invested in the securities of any one issuer (other than U.S. Government securities and securities of other regulated investment companies) or of two or more issuers which the Fund controls and which are engaged in the same or similar trades or businesses, or, collectively, in the securities of QPTPs.

In some circumstances, the character and timing of income realized by the Fund for purposes of the Income Requirement or the identification of the issuer for purposes of the Asset Diversification Test is uncertain under current law with respect to a particular investment, and an adverse determination or future guidance by IRS with respect to such type of investment may adversely affect the Fund s ability to satisfy these requirements. See Tax Treatment of Portfolio Transactions with respect to the application of these requirements to certain types of investments. In other circumstances, the Fund may be required to sell portfolio holdings in order to meet the Income

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Requirement, Distribution Requirement, or Asset Diversification Test, which may have a negative impact on the Fund s income and performance. In lieu of potential disqualification, the Fund is permitted to pay a tax for certain failures to satisfy the Asset Diversification Test or Income Requirement, which, in general, are limited to those due to reasonable cause and not willful neglect, for taxable years of the Fund with respect to which the extended due date of the return is after December 22, 2010.

If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for dividends paid to shareholders, and the dividends would be taxable to the shareholders as ordinary income (or possibly as qualified dividend income) to the extent of the Fund s current and accumulated earnings and profits. Failure to qualify as a regulated investment company thus would have a negative impact on the Fund s income and performance. Subject to savings provisions for certain inadvertent failures to satisfy the Income Requirement or Asset Diversification Test which, in general, are limited to those due to reasonable cause and not willful neglect, it is possible that the Fund will not qualify as a regulated investment company in any given tax year. Even if such savings provisions apply, the Fund may be subject to a monetary sanction of $50,000 or more. Moreover, the Board reserves the right not to maintain the qualification of the Fund as a regulated investment company if it determines such a course of action to be beneficial to shareholders.

Portfolio turnover. For investors that hold their Fund shares in a taxable account, a high portfolio turnover rate (except in a money market fund that maintains a stable net asset value) may result in higher taxes. This is because a Fund with a high turnover rate may accelerate the recognition of capital gains and more of such gains are likely to be taxable as short-term rather than long-term capital gains in contrast to a comparable fund with a low turnover rate. Any such higher taxes would reduce the Fund s after-tax performance. See Taxation of Fund Distributions (All Funds) Capital gain dividends below. For non-U.S. investors, any such acceleration of the recognition of capital gains that results in more short-term and less long-term capital gains being recognized by the Fund may cause such investors to be subject to increased U.S. withholding taxes. See, Foreign Shareholders U.S. withholding tax at the source below.

Capital loss carryovers. The capital losses of the Fund, if any, do not flow through to shareholders. Rather, the Fund may use its capital losses, subject to applicable limitations, to offset its capital gains without being required to pay taxes on or distribute to shareholders such gains that are offset by the losses. Under the Regulated Investment Company Modernization Act of 2010 (RIC Mod Act), if the Fund has a net capital loss (that is, capital losses in excess of capital gains) for a taxable year beginning after December 22, 2010, the excess (if any) of the Fund s net short-term capital losses over its net long-term capital gains is treated as a short-term capital loss arising on the first day of the Fund s next taxable year, and the excess (if any) of the Fund s net long-term capital losses over its net short-term capital gains is treated as a long-term capital loss arising on the first day of the Fund s next taxable year. Any such net capital losses of the Fund that are not used to offset capital gains may be carried forward indefinitely to reduce any future capital gains realized by the Fund in succeeding taxable years. However, for any net capital losses realized in taxable years of the Fund beginning on or before December 22, 2010, the Fund is permitted to carry forward such capital losses for eight years as a short-term capital loss. Under a transition rule, capital losses arising in a taxable year beginning after December 22, 2010 must be used before capital losses realized in a prior taxable year. The amount of capital losses that can be carried forward and used in any single year is subject to an annual limitation if there is a more than 50% change in ownership of the Fund. An ownership change generally results when shareholders owning 5% or more of the Fund increase their aggregate holdings by more than 50% over a three-year look-back period. An ownership change could result in capital loss carryovers being used at a slower rate (or, in the case of those realized in taxable years of the Fund beginning on or before December 22, 2010, to expire), thereby reducing the Fund s ability to offset capital gains with those losses. An increase in the amount of taxable gains distributed to the Fund s shareholders could result from an ownership change. The Fund undertakes no obligation to avoid or prevent an ownership change, which can occur in the normal course of shareholder purchases and redemptions or as a result of engaging in a tax-free reorganization with another fund. Moreover, because of circumstances beyond the Fund s control, there can be no assurance that the Fund will not experience, or has not already experienced, an ownership change.

Deferral of late year losses. The Fund may elect to treat part or all of any qualified late year loss as if it had been incurred in the succeeding taxable year in determining the Fund s taxable income, net capital gain, net short-term

capital gain, and earnings and profits. The effect of this election is to treat any such qualified late year

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loss as if it had been incurred in the succeeding taxable year, which may change the timing, amount, or characterization of Fund distributions (see, Taxation of Fund Distributions (All Funds) Capital gain dividends below). A qualified late year loss includes:

(i) any net capital loss, net long-term capital loss, or net short-term capital loss incurred after October 31 of the current taxable year (post-October losses), and

(ii) the excess, if any, of (1) the sum of (a) specified losses incurred after October 31 of the current taxable year, and (b) other ordinary losses incurred after December 31 of the current taxable year, over (2) the sum of (a) specified gains incurred after October 31 of the current taxable year, and (b) other ordinary gains incurred after December 31 of the current taxable year.

The terms specified losses and specified gains mean ordinary losses and gains from the sale, exchange, or other disposition of property (including the termination of a position with respect to such property), foreign currency losses and gains, and losses and gains resulting from holding stock in a passive foreign investment company (PFIC) for which a mark-to-market election is in effect. The terms ordinary losses and ordinary gains mean other ordinary losses and gains that are not described in the preceding sentence.

Undistributed capital gains. The Fund may retain or distribute to shareholders its net capital gain for each taxable year. The Fund currently intends to distribute net capital gains. If the Fund elects to retain its net capital gain, the Fund will be taxed thereon (except to the extent of any available capital loss carryovers) at the highest corporate tax rate (currently 35%). If the Fund elects to retain its net capital gain, it is expected that the Fund also will elect to have shareholders treated as if each received a distribution of its pro rata share of such gain, with the result that each shareholder will be required to report its pro rata share of such gain on its tax return as long-term capital gain, will receive a refundable tax credit for its pro rata share of tax paid by the Fund on the gain and will increase the tax basis for its shares by an amount equal to the deemed distribution less the tax credit.

Federal excise tax. To avoid a 4% non-deductible excise tax, the Fund must distribute by December 31 of each year an amount equal to: (1) 98% of its ordinary income for the calendar year, (2) 98.2% of capital gain net income (the excess of the gains from sales or exchanges of capital assets over the losses from such sales or exchanges) for the one-year period ended on October 31 of such calendar year (or, at the election of a regulated investment company having a taxable year ending November 30 or December 31, for its taxable year), and (3) any prior year undistributed ordinary income and capital gain net income. Under the RIC Mod Act, the Fund may elect to defer to the following year any net ordinary loss incurred for the portion of the calendar year which is after the beginning of the fund s taxable year. Also, the Fund will defer any specified gain or specified loss which would be properly taken into account for the portion of the calendar after October 31. Any net ordinary loss, specified gain, or specified loss deferred shall be treated as arising on January 1 of the following calendar year. Generally, the Fund intends to make sufficient distributions to avoid any material liability for federal income and excise tax but can give no assurances that all or a portion of such liability will be avoided. In addition, under certain circumstances temporary timing or permanent differences in the realization of income and expense for book and tax purposes can result in the Fund having to pay an excise tax.

Foreign income tax. Investment income received by the Fund from sources within foreign countries may be subject to foreign income tax withheld at the source, and the amount of tax withheld generally will be treated as an expense of the Fund. The United States has entered into tax treaties with many foreign countries that entitle the Fund to a reduced rate of, or exemption from, tax on such income. Some countries require the filing of a tax reclaim to receive the benefit of the reduced tax rate; whether or when the Fund will receive the tax reclaim is within the control of the individual country. Other countries may subject capital gains realized by the Fund on sale or disposition of securities of that country to taxation. It is impossible to determine the effective rate of foreign tax in advance since the amount of the Fund s assets to be invested in various countries is not known. Under certain circumstances, the Fund may elect to pass-through foreign tax credits to shareholders, although it reserves the right not to do so.

Taxation of Fund Distributions (All Funds). The Fund anticipates distributing substantially all of its investment company taxable income and net capital gain for each taxable year. Distributions by the Fund will be

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treated in the manner described regardless of whether such distributions are paid in cash or reinvested in additional shares of the Fund (or of another Fund).

Distributions of ordinary income. The Fund receives income generally in the form of dividends and/or interest on its investments. The Fund may also recognize ordinary income from other sources, including, but not limited to, certain gains on foreign currency-related transactions. This income, less expenses incurred in the operation of the Fund, constitutes the Fund s net investment income from which dividends may be paid to you. If you are a taxable investor, distributions of net investment income generally are taxable as ordinary income to the extent of the Fund s earnings and profits. None of the dividends paid by the Fund will qualify for the dividends received deduction in the case of corporate shareholders or as qualified dividend income subject to reduced rates of taxation in the case of noncorporate shareholders.

Capital gain dividends. Taxes on distributions of capital gains are determined by how long the Fund owned the investments that generated them, rather than how long a shareholder has owned his or her shares. In general, the Fund will recognize long-term capital gain or loss on the sale or other disposition of assets it has owned for more than one year, and short-term capital gain or loss on investments it has owned for one year or less. Distributions of net capital gain (the excess of net long-term capital gain over net short-term capital loss) that are properly reported by the Fund to shareholders as capital gain dividends generally will be taxable to a shareholder receiving such distributions as long-term capital gain. Long-term capital gain rates applicable to individuals are taxed at the maximum rate of 15% or 25% (through 2012) depending on the nature of the capital gain. Distributions of net short-term capital gains for a taxable year in excess of net long-term capital losses for such taxable year generally will be taxable to a shareholder receiving such distributions as ordinary income.

Return of capital distributions. Distributions by the Fund that are not paid from earnings and profits will be treated as a return of capital to the extent of (and in reduction of) the shareholder s tax basis in his shares; any excess will be treated as gain from the sale of his shares. Thus, the portion of a distribution that constitutes a return of capital will decrease the shareholder s tax basis in his Fund shares (but not below zero), and will result in an increase in the amount of gain (or decrease in the amount of loss) that will be recognized by the shareholder for tax purposes on the later sale of such Fund shares. Where one or more distributions occur in any taxable year, the available current and accumulated earnings and profits of the Fund will be allocated, first, to the distributions made to the holders of any outstanding Preferred Shares of the Fund, and only thereafter to distributions made to common shareholders of such Fund. As a result, the holders of any outstanding Preferred Shares of the Fund may receive a disproportionate share of the distributions treated as dividends, and the holders of the Common Shares may receive a disproportionate share of the distributions treated as a return of capital.

U.S. Government interest. Income earned on certain U.S. Government obligations is exempt from state and local personal income taxes if earned directly by you. States also grant tax-free status to dividends paid to you from interest earned on direct obligations of the U.S. Government, subject in some states to minimum investment or reporting requirements that must be met by the Fund. Income on investments by the Fund in certain other obligations, such as repurchase agreements collateralized by U.S. Government obligations, commercial paper and federal agency-backed obligations (e.g., Government National Mortgage Association (GNMA) or Federal National Mortgage Association (FNMA) obligations), generally does not qualify for tax-free treatment. The rules on exclusion of this income are different for corporations.

Dividends declared in December and paid in January. Ordinarily, shareholders are required to take distributions by the Fund into account in the year in which the distributions are made. However, dividends declared in October, November or December of any year and payable to shareholders of record on a specified date in such a month will be deemed to have been received by the shareholders (and made by the Fund) on December 31 of such calendar year if such dividends are actually paid in January of the following year.

Medicare tax. The recently enacted Patient Protection and Affordable Care Act of 2010, as amended by the Health Care and Education Affordability Reconciliation Act of 2010, will impose a 3.8% Medicare tax on net investment income earned by certain individuals, estates and trusts for taxable years beginning after December 31, 2012. Net investment income, for these purposes, means investment income, including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund shares,

reduced by the deductions properly allocable to such income. In the case of an individual, the tax will

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be imposed on the lesser of (1) the shareholder s net investment income or (2) the amount by which the shareholder s modified adjusted gross income exceeds $250,000 (if the shareholder is married and filing jointly or a surviving spouse), $125,000 (if the shareholder is married and filing separately) or $200,000 (in any other case).

Reporting to Shareholders. Shareholders will be advised annually as to the U.S. federal income tax consequences of distributions made (or deemed made) during the year in accordance with the guidance that has been provided by the IRS. The IRS s position in a published revenue ruling indicates that the Fund is required to report distributions paid with respect to its Common Shares and its Preferred Shares as consisting of a portion of each type of income distributed by such Fund. The portion of each type of income deemed received by the holders of each class of shares will be equal to the portion of total Fund dividends received by such class. Thus, the Fund intends to report dividends paid as exempt-interest dividends in a manner that allocates such dividends between the holders of the Common Shares and the holders of Preferred Shares in proportion to the total dividends paid to each such class during or with respect to the taxable year, or otherwise as required by applicable law. Capital gain dividends and ordinary income dividends will similarly be allocated between the two classes. To the extent permitted under applicable law, the Fund reserves the right to make special allocations of income, consistent with the objectives of the Fund and any requirements with respect to any Preferred Shares.

Under certain circumstances such as those described in Dividends and Distributions in the prospectus, the Fund will not be allowed to declare a cash dividend or other distribution on its Common Shares. This inability to declare distributions may prevent the Fund from distributing at least an amount equal to the sum of 90% of the sum of its investment company taxable income (determined without regard to the deduction for dividends paid) and its net tax-exempt interest, and may therefore jeopardize the Fund s qualification for taxation as a RIC or cause the Fund to incur a tax liability or a non-deductible 4% excise tax on the undistributed taxable income (including net capital gain) (as described above), or both. Although the Fund may redeem Preferred Shares in order to avoid the adverse consequences to the Fund and its shareholders of failing to qualify as a RIC, there can be no assurance that any such redemption would achieve such objectives.

Taxation of Fund Distributions (Tax-Free Funds). Each of the Tax-Free Funds intends to qualify each year to pay exempt-interest dividends by satisfying the requirement that at the close of each quarter of the Fund s taxable year at least 50% of the Fund s total assets consists of municipal securities, which are exempt from federal income tax. For purposes of this discussion, the Tax-Free Funds include all Funds, except the Invesco Van Kampen High Income Trust II and the Invesco High Yield Investments Fund, Inc.

Exempt-interest dividends. Distributions from the Fund will constitute exempt-interest dividends to the extent of the Fund s tax-exempt interest income (net of allocable expenses and amortized bond premium). Exempt-interest dividends distributed to shareholders of the Fund are excluded from gross income for federal income tax purposes. However, shareholders required to file a federal income tax return will be required to report the receipt of exempt-interest dividends on their returns. Moreover, while exempt-interest dividends are excluded from gross income for federal income tax purposes, they may be subject to alternative minimum tax (AMT) in certain circumstances and may have other collateral tax consequences as discussed below.

Distributions of ordinary income and capital gains. Any gain or loss from the sale or other disposition of a tax-exempt security generally is treated as either long-term or short-term capital gain or loss, depending upon its holding period, and is fully taxable. However, gain recognized from the sale or other disposition of a tax-exempt security purchased after April 30, 1993, will be treated as ordinary income to the extent of the accrued market discount on such security. Distributions by the Fund of ordinary income and capital gains will be taxable to shareholders as discussed under Taxation of Fund Distributions (All Funds).

Alternative minimum tax private activity bonds. AMT is imposed in addition to, but only to the extent it exceeds, the regular tax and is computed at a maximum rate of 28% for non-corporate taxpayers and 20% for corporate taxpayers on the excess of the taxpayer s alternative minimum taxable income (AMTI) over an exemption amount. Exempt-interest dividends derived from certain private activity municipal securities issued after August 7, 1986 generally will constitute an item of tax preference includable in AMTI for both corporate and non-corporate taxpayers. However, tax-exempt interest on private activity bonds issued in 2009 and 2010 is not an item of tax preference for purposes of the AMT. In addition, exempt-interest dividends derived from all municipal securities

regardless of the date of issue must be included in adjusted current earnings that are used in computing an additional

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corporate preference item includable in AMTI. Certain small corporations are wholly exempt from the AMT. Consistent with its stated investment objective, the fund intends to limit its investments in private activity bonds subject to the AMT to no more than 20% of its total assets in any given year.

Effect on taxation of social security benefits; denial of interest deduction; substantial users. Exempt-interest dividends must be taken into account in computing the portion, if any, of social security or railroad retirement benefits that must be included in an individual shareholder s gross income subject to federal income tax. Further, a shareholder of the Fund is denied a deduction for interest on indebtedness incurred or continued to purchase or carry shares of the Fund. Moreover, a shareholder who is (or is related to) a substantial user of a facility financed by industrial development bonds held by the Fund likely will be subject to tax on dividends paid by the Fund that are derived from interest on such bonds. Receipt of exempt-interest dividends may result in other collateral federal income tax consequences to certain taxpayers, including financial institutions, property and casualty insurance companies and foreign corporations engaged in a trade or business in the United States.

Exemption from state tax. To the extent that exempt-interest dividends are derived from interest on obligations of a state or its political subdivisions or from interest on qualifying U.S. territorial obligations (including qualifying obligations of Puerto Rico, the U.S. Virgin Islands, and Guam), they also may be exempt from that state s personal income taxes. Most states, however, do not grant tax-free treatment to interest on state and municipal securities of other states.

Failure of a Municipal Security to qualify to pay exempt-interest. Failure of the issuer of a tax-exempt security to comply with certain legal or contractual requirements relating to a municipal security could cause interest on the municipal security, as well as Fund distributions derived from this interest, to become taxable, perhaps retroactively to the date the municipal security was issued. In such a case, the Fund may be required to report to the IRS and send to shareholders amended Forms 1099 for a prior taxable year in order to report additional taxable income. This in turn could require shareholders to file amended federal and state income tax returns for such prior year to report and pay tax and interest on their pro rata share of the additional amount of taxable income.

Effect of changes in tax rates and policies. The value of the Fund s investments and its net asset value may be adversely affected by changes in tax rates and policies. Because interest income from municipal securities is normally not subject to regular federal income taxation, the attractiveness of municipal securities in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt status of interest income from municipal securities. Any proposed or actual changes in such rates or exempt status, therefore, can significantly affect the demand for and supply, liquidity and marketability of municipal securities. This could in turn affect the Fund s net asset value and ability to acquire and dispose of municipal securities at desirable yield and price levels. Additionally, the Fund is not suitable investments for individual retirement accounts, for other tax-exempt or tax-deferred accounts or for investors who are not sensitive to the federal income tax consequences of their investments.

Distributions paid by the Invesco Van Kampen California Value Municipal Income Trust, Invesco California Municipal Income Trust, Invesco California Quality Municipal Securities, and Invesco California Municipal Securities. Shareholders of the Fund may exclude any exempt interest dividends paid to you by the Fund from your California taxable income for purposes of the California personal income tax if:

the Fund qualifies as a regulated investment company under the Code and at the close of each quarter of its taxable year, at least 50 percent of the value of its total assets consists of obligations the interest on which is exempt from taxation by the State of California when held by an individual;

the dividends are derived from interest on obligations of the State of California and its political subdivisions or qualifying obligations of U.S. territories and possessions that are exempt from state taxation under federal law;

the dividends paid do not exceed the amount of interest (minus certain non-deductible expenses) the Fund receives, during its taxable year, on obligations that, when held by an individual, pay interest exempt from taxation by California; and

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the Fund properly identifies the dividends as California exempt interest dividends in a written notice mailed to the investor.

Any distributions of net short-term and long-term capital gain earned by the Fund and any gain from the sale of shares of the Fund by a shareholder are included in a shareholder s taxable income for purposes of the California personal income tax. Residents of California may be subject to backup withholding at 7% on the proceeds from the sale of Fund shares.

Distributions from the Fund, including exempt-interest dividends, may be taxable to shareholders that are subject to certain provisions of the California Corporation Tax Law.

Distributions paid by the Invesco New York Quality Municipal Securities and the Invesco Van Kampen Trust for Investment Grade New York Municipals. Shareholders of the Fund may exclude any exempt interest dividends paid to you by the Fund from your taxable income for purposes of the New York state income taxes and the New York City income tax, if the dividends can be excluded from your gross income for federal income tax purposes and if the dividends are attributable to interest on:

obligations of the State of New York or its political subdivisions; or

qualifying obligations of possessions of the United States.

Dividends from (or the value of) the Fund, including exempt interest dividends, may be taken into account in determining the New York State and New York City income and franchise taxes on business corporations, banking corporations and insurance companies when paid to (or held by) shareholders subject to such taxes.

Sale or Redemption of Fund Shares. A shareholder will recognize gain or loss on the sale or redemption of shares of the Fund in an amount equal to the difference between the proceeds of the sale or redemption and the shareholder s adjusted tax basis in the shares. If you owned your shares as a capital asset, any gain or loss that you realize will be considered capital gain or loss and will be long-term capital gain or loss if the shares were held for longer than one year. Any redemption fees you incur on shares redeemed will decrease the amount of any capital gain (or increase any capital loss) you realize on the sale. Capital losses in any year are deductible only to the extent of capital gains plus, in the case of a noncorporate taxpayer, $3,000 of ordinary income.

Tax basis information. The Fund will be required to provide shareholders with cost basis information on the redemption of any of the shareholder s shares in the Fund, subject to certain exceptions for exempt recipients. This cost basis reporting requirement is effective for shares purchased in the Fund on or after January 1, 2012 where the cost basis of the shares is known by the Fund and which are disposed of after that date. If you hold your Fund shares through a broker (or other nominee), please contact that broker (nominee) with respect to the reporting of cost basis and available elections for your account. For more information about the cost basis methods offered by Invesco, please refer to the Tax Center located under the Accounts & Services menu of our website at http://www.Invesco.com/us.

Wash sale rule. All or a portion of any loss so recognized may be deferred under the wash sale rules if the shareholder purchases other shares of the Fund within 30 days before or after the sale or redemption.

Sales at a loss within six months of purchase. Any capital loss arising from the sale or redemption of shares held for six months or less will be treated as a long-term capital loss to the extent of the amount of capital gain dividends received on such shares and any such loss will be disallowed to the extent of any exempt-interest dividends that were received within the six-month period.

Tax shelter reporting. Under Treasury regulations, if a shareholder recognizes a loss with respect to the Fund s shares of $2 million or more for an individual shareholder or $10 million or more for a corporate shareholder, the shareholder must file with the IRS a disclosure statement on Form 8886.

Tax Treatment of Portfolio Transactions. Set forth below is a general description of the tax treatment of certain types of securities, investment techniques and transactions that may apply to a fund. This section should be

read in conjunction with the discussion under Investment Strategies and Risks for a detailed description of the various types of securities and investment techniques that apply to the Fund.

In general. In general, gain or loss recognized by a fund on the sale or other disposition of portfolio investments will be a capital gain or loss. Such capital gain and loss may be long-term or short-term depending, in general, upon the length of time a particular investment position is maintained and, in some cases, upon the nature of the transaction. Property held for more than one year generally will be eligible for long-term capital gain or loss treatment. The application of certain rules described below may serve to alter the manner in which the holding period for a security is determined or may otherwise affect the characterization as long-term or short-term, and also the timing of the realization and/or character, of certain gains or losses.

Certain fixed-income investments. Gain recognized on the disposition of a debt obligation purchased by a fund at a market discount (generally, at a price less than its principal amount) will be treated as ordinary income to the extent of the portion of the market discount that accrued during the period of time the fund held the debt obligation unless the fund made a current inclusion election to accrue market discount into income as it accrues. If a fund purchases a debt obligation (such as a zero coupon security or pay-in-kind security) that was originally issued at a discount, the fund generally is required to include in gross income each year the portion of the original issue discount that accrues during such year. Therefore, a fund s investment in such securities may cause the fund to recognize income and make distributions to shareholders before it receives any cash payments on the securities. To generate cash to satisfy those distribution requirements, a fund may have to sell portfolio securities that it otherwise might have continued to hold or to use cash flows from other sources such as the sale of fund shares.

Investments in debt obligations that are at risk of or in default present tax issues for a fund. Tax rules are not entirely clear about issues such as whether and to what extent a fund should recognize market discount on a debt obligation, when a fund may cease to accrue interest, original issue discount or market discount, when and to what extent a fund may take deductions for bad debts or worthless securities and how a fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by a fund in order to ensure that it distributes sufficient income to preserve its status as a regulated investment company.

Options, futures, forward contracts, swap agreements and hedging transactions. In general, option premiums received by a fund are not immediately included in the income of the fund. Instead, the premiums are recognized when the option contract expires, the option is exercised by the holder, or the fund transfers or otherwise terminates the option (e.g., through a closing transaction). If an option written by a fund is exercised and the fund sells or delivers the underlying stock, the fund generally will recognize capital gain or loss equal to (a) sum of the strike price and the option premium received by the fund minus (b) the fund s basis in the stock. Such gain or loss generally will be short-term or long-term depending upon the holding period of the underlying stock. If securities are purchased by a fund pursuant to the exercise of a put option written by it, the fund generally will subtract the premium received from its cost basis in the securities purchased. The gain or loss with respect to any termination of a fund s obligation under an option other than through the exercise of the option and related sale or delivery of the underlying stock generally will be short-term gain or loss depending on whether the premium income received by the fund is greater or less than the amount paid by the fund (if any) in terminating the transaction. Thus, for example, if an option written by a fund expires unexercised, the fund generally will recognize short-term gain equal to the premium received.

The tax treatment of certain futures contracts entered into by a fund as well as listed non-equity options written or purchased by the fund on U.S. exchanges (including options on futures contracts, broad-based equity indices and debt securities) may be governed by section 1256 of the Code (section 1256 contracts). Gains or losses on section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses (60/40), although certain foreign currency gains and losses from such contracts may be treated as ordinary in character. Also, any section 1256 contracts held by a fund at the end of each taxable year (and, for purposes of the 4% excise tax, on certain other dates as prescribed under the Code) are marked to market with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as ordinary or 60/40 gain or loss, as applicable. Section 1256 contracts do not include any interest rate swap, currency swap, basis swap, interest rate cap, interest rate floor, commodity swap, equity swap, equity index swap, credit default swap, or similar agreement.

In addition to the special rules described above in respect of options and futures transactions, a fund s transactions in other derivative instruments (including options, forward contracts and swap agreements) as well as its other hedging, short sale, or similar transactions, may be subject to one or more special tax rules (including the constructive sale, notional principal contract, straddle, wash sale and short sale rules). These rules may affect whether gains and losses recognized by a fund are treated as ordinary or capital or as short-term or long-term, accelerate the recognition of income or gains to the fund, defer losses to the fund, and cause adjustments in the holding periods of the fund s securities. These rules, therefore, could affect the amount, timing and/or character of distributions to shareholders. Moreover, because the tax rules applicable to derivative financial instruments are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules (which determination or guidance could be retroactive) may affect whether a fund has made sufficient distributions and otherwise satisfied the relevant requirements to maintain its qualification as a regulated investment company and avoid a fund-level tax.

Certain of a fund s investments in derivatives and foreign currency-denominated instruments, and the fund s transactions in foreign currencies and hedging activities, may produce a difference between its book income and its taxable income. If a fund s book income is less than the sum of its taxable income and net tax-exempt income (if any), the fund could be required to make distributions exceeding book income to qualify as a regulated investment company. If a fund s book income exceeds the sum of its taxable income and net tax-exempt income (if any), the distribution of any such excess will be treated as (i) a dividend to the extent of the fund s remaining earnings and profits (including current earnings and profits arising from tax-exempt income, reduced by related deductions), (ii) thereafter, as a return of capital to the extent of the recipient s basis in the shares, and (iii) thereafter, as gain from the sale or exchange of a capital asset.

Foreign currency transactions. A fund s transactions in foreign currencies, foreign currency-denominated debt obligations and certain foreign currency options, futures contracts and forward contracts (and similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. This treatment could increase or decrease a fund s ordinary income distributions to you, and may cause some or all of the fund s previously distributed income to be classified as a return of capital. In certain cases, a fund may make an election to treat such gain or loss as capital.

PFIC investments. A fund may invest in securities of foreign companies that may be classified under the Code as PFICs. In general, a foreign company is classified as a PFIC if at least one-half of its assets constitute investment-type assets or 75% or more of its gross income is investment-type income. When investing in PFIC securities, a fund intends to mark-to-market these securities under certain provisions of the Code and recognize any unrealized gains as ordinary income at the end of the fund s fiscal and excise tax years. Deductions for losses are allowable only to the extent of any current or previously recognized gains. These gains (reduced by allowable losses) are treated as ordinary income that a fund is required to distribute, even though it has not sold or received dividends from these securities. You should also be aware that the designation of a foreign security as a PFIC security will cause its income dividends to fall outside of the definition of qualified foreign corporation dividends. These dividends generally will not qualify for the reduced rate of taxation on qualified dividends when distributed to you by a fund. Foreign companies are not required to identify themselves as PFICs. Due to various complexities in identifying PFICs, a fund can give no assurances that it will be able to identity portfolio securities in foreign corporations that are PFICs in time for the fund to make a mark-to-market election. If a fund is unable to identify an investment as a PFIC and thus does not make a mark-to-market election, the fund may be subject to U.S. federal income tax on a portion of any excess distribution or gain from the disposition of such shares even if such income is distributed as a taxable dividend by the fund to its shareholders. Additional charges in the nature of interest may be imposed on a fund in respect of deferred taxes arising from such distributions or gains.

Investments in non-U.S. Real Estate Investment Trusts (REITs). While non-U.S. REITs often use complex acquisition structures that seek to minimize taxation in the source country, an investment by a fund in a non-U.S. REIT may subject the fund, directly or indirectly, to corporate taxes, withholding taxes, transfer taxes and other indirect taxes in the country in which the real estate acquired by the non-U.S. REIT is located. The fund s pro rata share of any such taxes will reduce the fund s return on its investment. A fund s investment in a non-U.S. REIT may be

considered an investment in a PFIC, as discussed above in Tax Treatment of Portfolio Transactions PFIC investments. Additionally, foreign withholding taxes on distributions from the non-U.S. REIT may be reduced or eliminated under certain tax treaties, as discussed above in Taxation of the Fund Foreign income

tax. Also, the fund in certain limited circumstances may be required to file an income tax return in the source country and pay tax on any gain realized from its investment in the non-U.S. REIT under rules similar to those in the United States which tax foreign persons on gain realized from dispositions of interests in U.S. real estate.

Investments in U.S. REITs. A U.S. REIT is not subject to federal income tax on the income and gains it distributes to shareholders. Dividends paid by a U.S. REIT, other than capital gain distributions, will be taxable as ordinary income up to the amount of the U.S. REIT s current and accumulated earnings and profits. Capital gain dividends paid by a U.S. REIT to the fund will be treated as long term capital gains by the fund and, in turn, may be distributed by the fund to its shareholders as a capital gain distribution. Because of certain noncash expenses, such as property depreciation, an equity U.S. REIT s cash flow may exceed its taxable income. The equity U.S. REIT, and in turn a fund, may distribute this excess cash to shareholders in the form of a return of capital distribution. However, if a U.S. REIT is operated in a manner that fails to qualify as a REIT, an investment in the U.S. REIT would become subject to double taxation, meaning the taxable income of the U.S. REIT would be subject to federal income tax at regular corporate rates without any deduction for dividends paid to shareholders and the dividends would be taxable to shareholders as ordinary income (or possibly as qualified dividend income) to the extent of the U.S. REIT s current and accumulated earnings and profits. Also, see Tax Treatment of Portfolio Transactions Investment in taxable mortgage pools (excess inclusion income) and Foreign Shareholders U.S. withholding tax at the source with respect to certain other tax aspects of investing in U.S. REITs.

Investment in taxable mortgage pools (excess inclusion income). Under a Notice issued by the IRS, the Code and Treasury regulations to be issued, a portion of a fund s income from a U.S. REIT that is attributable to the REIT s residual interest in a real estate mortgage investment conduits (REMICs) or equity interests in a taxable mortgage pool (referred to in the Code as an excess inclusion) will be subject to federal income tax in all events. The excess inclusion income of a regulated investment company, such as a fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest or, if applicable, taxable mortgage pool directly. In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income (UBTI) to entities (including qualified pension plans, individual retirement accounts, 401(k) plans, Keogh plans or other tax-exempt entities) subject to tax on UBTI, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a tax return, to file a tax return and pay tax on such income, and (iii) in the case of a foreign stockholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a disqualified organization (which generally includes certain cooperatives, governmental entities, and tax-exempt organizations not subject to UBTI) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. The Notice imposes certain reporting requirements upon regulated investment companies that have excess inclusion income. There can be no assurance that a fund will not allocate to shareholders excess inclusion income.

These rules are potentially applicable to a fund with respect to any income it receives from the equity interests of certain mortgage pooling vehicles, either directly or, as is more likely, through an investment in a U.S. REIT. It is unlikely that these rules will apply to a fund that has a non-REIT strategy.

Investments in partnerships and qualified publicly traded partnerships (QPTP). For purposes of the Income Requirement, income derived by a fund from a partnership that is not a QPTP will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership that would be qualifying income if realized directly by the fund. For purposes of testing whether the fund satisfies the Asset Diversification Test, the fund generally is treated as owning a pro rata share of the underlying assets of a partnership. See Taxation of the Fund Qualification as a regulated investment company. In contrast, different rules apply to a partnership that is a QPTP. A QPTP is a partnership (a) the interests in which are traded on an established securities market, (b) that is treated as a partnership for federal income tax purposes, and (c) that derives less than 90% of its income from sources that satisfy the Income Requirement (i.e., because it invests in commodities). All of the net income derived by a fund from an

interest in a QPTP will be treated as qualifying income but the fund may not invest more than 25% of its total assets in one or more QPTPs. However, there can be no assurance that a partnership classified as a QPTP in one year will qualify as a QPTP in the next year. Any such failure to annually qualify as a QPTP might, in

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turn, cause a fund to fail to qualify as a regulated investment company. Although, in general, the passive loss rules of the Code do not apply to RICs, such rules do apply to a fund with respect to items attributable to an interest in a QPTP. Fund investments in partnerships, including in QPTPs, may result in the fund s being subject to state, local or foreign income, franchise or withholding tax liabilities.

Investments in commodities structured notes, corporate subsidiary and certain ETFs. Gains from the disposition of commodities, including precious metals, will neither be considered qualifying income for purposes of satisfying the Income Requirement nor qualifying assets for purposes of satisfying the Asset Diversification Test. See Taxation of the Fund Qualification as a regulated investment company. Also, the IRS has issued a Revenue Ruling which holds that income derived from commodity-linked swaps is not qualifying income for purposes of the Income Requirement. However, in a subsequent Revenue Ruling, as well as in a number of follow-on private letter rulings, the IRS provides that income from certain alternative investments which create commodity exposure, such as certain commodity index-linked or structured notes or a corporate subsidiary that invests in commodities, may be considered qualifying income under the Code. However, as of the date of this Statement of Additional Information, the IRS has suspended the issuance of any further private letter rulings pending a review of its position. Should the IRS issue guidance that adversely affects the tax treatment of a fund s use of commodity-linked notes, or a corporate subsidiary, the fund may no longer be able to utilize commodity index-linked notes or a corporate subsidiary to gain commodity exposure. In addition, a fund may gain exposure to commodities through investment in QPTPs such as an exchange traded fund or ETF that is classified as a partnership and which invests in commodities. Accordingly, the extent to which a fund invests in commodities or commodity-linked derivatives may be limited by the Income Requirement and the Asset Diversification Test, which the fund must continue to satisfy to maintain its status as a regulated investment company. A fund also may be limited in its ability to sell its investments in commodities, commodity-linked derivatives, and certain ETFs or be forced to sell other investments to generate income due to the Income Requirement. In lieu of potential disqualification, a fund is permitted to pay a tax for certain failures to satisfy the Asset Diversification Test or Income Requirement, which, in general, are limited to those due to reasonable cause and not willful neglect, for taxable years of a fund with respect to which the extended due date of the return is after December 22, 2010.

Securities lending. While securities are loaned out by a fund, the fund generally will receive from the borrower amounts equal to any dividends or interest paid on the borrowed securities. For federal income tax purposes, payments made in lieu of dividends are not considered dividend income. These distributions will neither qualify for the reduced rate of taxation for individuals on qualified dividends nor the 70% dividends received deduction for corporations. Also, any foreign tax withheld on payments made in lieu of dividends or interest will not qualify for the pass-through of foreign tax credits to shareholders. Additionally, in the case of a fund with a strategy of investing in tax-exempt securities, any payments made in lieu of tax-exempt interest will be considered taxable income to the fund, and thus, to the investors, even though such interest may be tax-exempt when paid to the borrower.

Investments in convertible securities. Convertible debt is ordinarily treated as a single property consisting of a pure debt interest until conversion, after which the investment becomes an equity interest. If the security is issued at a premium (i.e., for cash in excess of the face amount payable on retirement), the creditor-holder may amortize the premium over the life of the bond. If the security is issued for cash at a price below its face amount, the creditor-holder must accrue original issue discount in income over the life of the debt. The creditor-holder s exercise of the conversion privilege is treated as a nontaxable event. Mandatorily convertible debt (e.g., an exchange traded note or ETN issued in the form of an unsecured obligation that pays a return based on the performance of a specified market index, exchange currency, or commodity) is often, but not always, treated as a contract to buy or sell the reference property rather than debt. Similarly, convertible preferred stock with a mandatory conversion feature is ordinarily, but not always, treated as equity rather than debt. Dividends received generally are qualified dividend income and eligible for the corporate dividends received deduction. In general, conversion of preferred stock for common stock of the same corporation is tax-free. Conversion of preferred stock for cash is a taxable redemption. Any redemption premium for preferred stock that is redeemable by the issuing company might be required to be amortized under original issue discount (OID) principles.

Tax Certification and Backup Withholding. Tax certification and backup withholding tax laws may require that you certify your tax information when you become an investor in the Fund. For U.S. citizens and

resident aliens, this certification is made on IRS Form W-9. Under these laws, the Fund must withhold a portion of your taxable distributions and sales proceeds unless you:

- provide your correct Social Security or taxpayer identification number,
- certify that this number is correct,
- certify that you are not subject to backup withholding, and
- certify that you are a U.S. person (including a U.S. resident alien).

The Fund also must withhold if the IRS instructs it to do so. When withholding is required, the amount will be 28% of any distributions or proceeds paid. This rate will expire and the backup withholding rate will be 31% for amounts paid after December 31, 2012, unless Congress enacts tax legislation providing otherwise. Backup withholding is not an additional tax. Any amounts withheld may be credited against the shareholder s U.S. federal income tax liability, provided the appropriate information is furnished to the IRS. Certain payees and payments are exempt from backup withholding and information reporting.

Non-U.S. investors have special U.S. tax certification requirements. See Foreign Shareholders Tax certification and backup withholding.

Foreign Shareholders. Shareholders who, as to the United States, are nonresident alien individuals, foreign trusts or estates, foreign corporations, or foreign partnerships (foreign shareholder), may be subject to U.S. withholding and estate tax and are subject to special U.S. tax certification requirements.

Taxation of a foreign shareholder depends on whether the income from the Fund is effectively connected with a U.S. trade or business carried on by such shareholder.

U.S. withholding tax at the source. If the income from the Fund is not effectively connected with a U.S. trade or business carried on by a foreign shareholder, distributions to such shareholder will be subject to U.S. withholding tax at the rate of 30% (or lower treaty rate) upon the gross amount of the distribution, subject to certain exemptions including those for dividends reported by the Fund to shareholders as:

- exempt-interest dividends paid by the Fund from its net interest income earned on municipal securities;
- capital gain dividends paid by the Fund from its net long-term capital gains (other than those from disposition of a U.S. real property interest), unless you are a nonresident alien present in the United States for a period or periods aggregating 183 days or more during the calendar year; and
- with respect to taxable years of the Fund beginning before January 1, 2012 (unless such sunset date is extended, possibly retroactively to January 1, 2012, or made permanent), interest-related dividends paid by the Fund from its qualified net interest income from U.S. sources and short-term capital gains dividends. After such sunset date, short-term capital gains are taxable to Non-U.S. investors as ordinary dividends subject to U.S. withholding tax at a 30% or lower treaty rate.

However, the Fund does not intend to utilize the exemptions for interest-related dividends paid and short-term capital gain dividends paid. Moreover, notwithstanding such exemptions from U.S. withholding at the source, any dividends and distributions of income and capital gains, including the proceeds from the sale of your Fund shares, will be subject to backup withholding at a rate of 28% if you fail to properly certify that you are not a U.S. person. This rate will expire and the backup withholding tax rate will be 31% for amounts paid after December 31, 2012, unless Congress enacts tax legislation providing otherwise.

Foreign shareholders may be subject to U.S. withholding tax at a rate of 30% on the income resulting from an election to pass-through foreign tax credits to shareholders, but may not be able to claim a credit or deduction with respect to the withholding tax for the foreign tax treated as having been paid by them.

Amounts reported by the Fund to shareholders as capital gain dividends (a) that are attributable to certain capital gain dividends received from a qualified investment entity (QIE) (generally defined as either (i) a U.S. REIT

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or (ii) a RIC classified as a U.S. real property holding corporation or which would be if the exceptions for holding 5% or less of a class of publicly traded shares or an interest in a domestically controlled QIE did not apply) or (b) that are realized by the Fund on the sale of a U.S. real property interest (including gain realized on sale of shares in a QIE other than one that is a domestically controlled), will not be exempt from U.S. federal income tax and may be subject to U.S. withholding tax at the rate of 30% (or lower treaty rate) if the Fund by reason of having a REIT strategy is classified as a QIE. If the Fund is so classified, foreign shareholders owning more than 5% of the Fund s shares may be treated as realizing gain from the disposition of a U.S. real property interest, causing Fund distributions to be subject to U.S. withholding tax at a rate of 35%, and requiring the filing of a nonresident U.S. income tax return. In addition, if the Fund is classified as a QIE, anti-avoidance rules apply to certain wash sale transactions. Namely, if the Fund is a QIE and a foreign shareholder disposes of the Fund s shares prior to the Fund paying a distribution attributable to the disposition of a U.S. real property interest and the foreign shareholder later acquires an identical stock interest in a wash sale transaction, the foreign shareholder may still be required to pay U.S. tax on the Fund s distribution. Also, the sale of shares of the Fund, if classified as a U.S. real property holding corporation, could also be considered a sale of a U.S. real property interest with any resulting gain from such sale being subject to U.S. tax as income effectively connected with a U.S. trade or business. These rules generally apply to dividends paid by the Fund before January 1, 2012 (unless such sunset date is extended, possibly retroactively to January 1, 2012, or made permanent). After such sunset date, Fund distributions from a U.S. REIT (whether or not domestically controlled) attributable to gain from the disposition of a U.S. real property interest will continue to be subject to the withholding rules described above provided the Fund is classified as a QIE.

Income effectively connected with a U.S. trade or business. If the income from the Fund is effectively connected with a U.S. trade or business carried on by a foreign shareholder, then ordinary income dividends, capital gain dividends and any gains realized upon the sale or redemption of shares of the Fund will be subject to U.S. federal income tax at the rates applicable to U.S. citizens or domestic corporations and require the filing of a nonresident U.S. income tax return.

Tax certification and backup withholding. Foreign shareholders may have special U.S. tax certification requirements to avoid backup withholding (at a rate of 28%, subject to increase to 31% as described above), and if applicable, to obtain the benefit of any income tax treaty between the foreign shareholder s country of residence and the United States. To claim these tax benefits, the foreign shareholder must provide a properly completed Form W-8BEN (or other Form W-8, where applicable, or their substitute forms) to establish his or her status as a non- U.S. investor, to claim beneficial ownership over the assets in the account, and to claim, if applicable, a reduced rate of or exemption from withholding tax under the applicable treaty. A Form W-8BEN provided without a U.S. taxpayer identification number remains in effect for a period of three years beginning on the date that it is signed and ending on the last day of the third succeeding calendar year. However, non-U.S. investors must advise the Fund of any changes of circumstances that would render the information given on the form incorrect, and must then provide a new W-8BEN to avoid the prospective application of backup withholding. Forms W-8BEN with U.S. taxpayer identification numbers remain valid indefinitely, or until the investor has a change of circumstances that renders the form incorrect and necessitates a new form and tax certification. Certain payees and payments are exempt from backup withholding.

Foreign Account Tax Compliance Act. Under the Foreign Account Tax Compliance Act, the relevant withholding agent may be required to withhold 30% of: (a) income dividends paid after December 31, 2013 and (b) certain capital gains distributions and the proceeds of a sale of shares paid after December 31, 2014 to (i) a foreign financial institution unless such foreign financial institution agrees to verify, report and disclose certain of its U.S. accountholders and meets certain other specified requirements or (ii) a non-financial foreign entity that is the beneficial owner of the payment unless such entity certifies that it does not have any substantial U.S. owners or provides the name, address and taxpayer identification number of each substantial U.S. owner and such entity meets certain other specified requirements. These requirements are different from, and in addition to, the U.S. tax certification rules described above. The scope of these requirements remains unclear, and shareholders are urged to consult their tax advisors regarding the application of these requirements to their own situation.

Local Tax Considerations. Rules of state and local taxation of ordinary income, qualified dividend income and capital gain dividends may differ from the rules for U.S. federal income taxation described above. Distributions may also be subject to additional state, local and foreign taxes depending on each shareholder s particular situation.

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Financial Statements and *Pro Forma* Financial Information

Each Fund s financial statements for the fiscal year ended February 20, 2012 are incorporated into this SAI by reference to the Fund s most recent Annual Report to Shareholders. The accession numbers for these documents, along with the dates they were filed via EDGAR, are listed on page 2 of this SAI.

The portions of such Annual Reports to Shareholders that are not specifically referenced above are not incorporated into this SAI.

Invesco Value Municipal Bond Trust, Invesco Value Municipal Securities, and Invesco Value Municipal Trust into Invesco Value Municipal Income Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco Value Municipal Bond Trust (IMC)	Invesco Value Municipal Income Trust (IIM)	February 29, 2012
Invesco Value Municipal Securities (IMS)		
Invesco Value Municipal Trust (IMT)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of a merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
IMC	3,778,375	IIM
IMS	6,113,633	
IMT	16,603,710	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the

Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Fund and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
IMC (Target Fund)	$ 61,626,757
IMS (Target Fund)	99,510,631
IMT (Target Fund)	270,271,617
IIM (Acquiring Fund)	336,854,000
IIM (Pro Forma Combined)	768,083,005

Pro Forma combined net assets have been adjusted for expenses expected to be incurred by the Target Funds and the Acquiring Fund in connection with the mergers.

Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 3,114,076
Administrative services fees (2)	(125,032)
Professional fees (3)	(875,456)
Listing fees (4)	(25,459)
Investment-related expenses (5)	2,043,730
Fee waiver and/or expense reimbursements (1)	(3,362,736)

(1) Advisory fees were adjusted to reflect the proposed increase in advisory fee rate from 0.27% to 0.55% of average weekly managed assets for the Acquiring Fund based on pro forma combined managed assets. In addition, upon closing of all of the Mergers, the Adviser has contractually agreed for at least two years following the closing of all of the Mergers to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.46%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the mergers.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering three funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

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(5) Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based on investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the mergers, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuation Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

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During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	Level 2	Level 3	Total
IMC (Target Fund)	Municipal Obligations	$	$ 92,272,104	$	$ 92,272,104
IMS (Target Fund)	Municipal Obligations		105,987,970		105,987,970
IMT (Target Fund)	Municipal Obligations		396,913,641		396,913,641
IIM (Acquiring Fund)	Municipal Obligations		493,626,653		493,626,653
IIM (Pro Forma Combined)	Municipal Obligations	$	$ 1,088,800,368	$	$ 1,088,800,368

Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
IMC (Target Fund)	$ 110,000	$ 110,000
IMS (Target Fund)	110,000	0
IMT (Target Fund)	130,000	0
IIM (Acquiring Fund)	70,000	70,000

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012, the Target Funds, including IMC, IMS, and IMT had capital loss carryforwards of approximately $816,183, $2,928,967, and $6,428,975, respectively. At February 29, 2012, the Acquiring Fund, IIM, had a capital loss carryforward of approximately $8,099,679. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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Invesco Municipal Income Opportunities Trust II and Invesco Municipal Income Opportunities Trust III into Invesco Municipal Income Opportunities Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco Municipal Income Opportunities Trust II (OIB)	Invesco Municipal Income Opportunities Trust (OIA)	February 29, 2012
Invesco Municipal Income Opportunities Trust III (OIC)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of a merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
OIB	17,839,095	OIA
OIC	10,132,449	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Funds and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
OIB (Target Fund)	$127,304,962
OIC (Target Fund)	72,320,207
OIA (Acquiring Fund)	140,079,673
OIA (Pro Forma Combined)	339,704,842

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Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 279,561
Administrative services fees (2)	(76,524)
Professional fees (3)	(74,432)
Listing fees (4)	(28,726)
Investment-related expenses (5)	(54,943)
Fee waiver and/or expense reimbursements (1)	(283,619)

(1) Advisory fees were adjusted to reflect the proposed increase in advisory fee rate from 0.50% to 0.55% of average weekly managed assets for the Acquiring Fund based on pro forma combined managed assets. In addition, upon closing of all of the mergers, the Adviser has contractually agreed for at least two years following the closing of all of the Mergers to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.67%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the mergers.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering two funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the mergers, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuation Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit

risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

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Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	**Level 2**	**Level 3**	**Total**
OIB (Target Fund)	Municipal Obligations	$	$133,881,977	$	$133,881,977
OIC (Target Fund)	Municipal Obligations		76,435,853		76,435,853
OIA (Acquiring Fund)	Municipal Obligations		146,205,354		146,205,354
OIA (Pro Forma Combined)	Municipal Obligations	$	$356,523,184	$	$356,523,184

Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

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	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
OIB (Target Fund)	$ 140,000	$ 0
OIC (Target Fund)	130,000	0
OIA (Acquiring Fund)	90,000	0

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012, the Target Funds, including OIB, and OIC had capital loss carryforwards of approximately $16,977,149 and $9,748,142, respectively. At February 29, 2012, the Acquiring Fund OIA had a capital loss carryforward of approximately $28,756,283. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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Invesco Quality Municipal Investment Trust and Invesco Quality Municipal Securities into Invesco Quality Municipal Income Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco Quality Municipal Investment Trust (IQT)	Invesco Quality Municipal Income Trust (IQI)	February 29, 2012
Invesco Quality Municipal Securities (IQM)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of a merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
IQT	14,584,614	IQI
IQM	15,092,321	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Funds and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
IQT (Target Fund)	$202,475,282
IQM (Target Fund)	209,425,189
IQI (Acquiring Fund)	326,271,421
IQI (Pro Forma Combined)	738,071,892

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Pro Forma combined net assets have been adjusted for expenses expected to be incurred by the Acquiring Fund in connection with the mergers.

Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and have been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 3,318,714
Administrative services fees (2)	(52,124)
Professional fees (3)	(1,521,365)
Listing fees (4)	(10,823)
Investment-related expenses (5)	3,358,155
Fee waiver and/or expense reimbursements (1)	(3,500,145)

(1) Advisory fees were adjusted to reflect the proposed increase in advisory fee rate from 0.27% to 0.55% of average weekly managed assets for the Acquiring Fund based on pro forma combined managed assets. In addition, upon closing of all of the mergers, the Adviser has contractually agreed, through at least two years from the closing date of the mergers, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.50%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the mergers.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering two funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based on investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the mergers, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuations Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted

prices and may reflect appropriate factors such as institution-size trading in similar groups of securities,

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yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	**Level 2**	**Level 3**	**Total**
IQT (Target Fund)	Municipal Obligations	$	$ 303,942,785	$	$ 303,942,785
IQM (Target Fund)	Municipal Obligations		304,788,226		304,788,226

IQI (Acquiring Fund)	Municipal Obligations		518,985,470		518,985,470
IQI (Pro Forma Combined)	Municipal Obligations	$	$1,127,716,481	$	$1,127,716,481

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Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
IQT (Target Fund)	$ 140,000	$ 0
IQM (Target Fund)	140,000	0
IQI (Acquiring Fund)	100,000	100,000

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012 the Target Funds, including IQT and IQM, had capital loss carryforwards of approximately $18,149,887 and $16,658,564, respectively. At February 29, 2012, the Acquiring Fund, IQI, had a capital loss carryforward of approximately $41,102,394. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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Invesco California Municipal Income Trust, Invesco California Quality Municipal Securities, and Invesco California Municipal Securities into Invesco Van Kampen California Value Municipal Income Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco California Municipal Income Trust (IIC)	Invesco Van Kampen California Value Municipal Income Trust (VCV)	February 29, 2012
Invesco California Quality Municipal Securities (IQC)		
Invesco California Municipal Securities (ICS)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of the merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
IIC	12,650,930	VCV
IQC	9,757,222	
ICS	3,980,750	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Funds and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

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Fund	Net Assets
IIC (Target Fund)	$167,342,758
IQC (Target Fund)	129,094,753
ICS (Target Fund)	52,673,929
VCV (Acquiring Fund)	293,012,026
VCV (Pro Forma Combined)	642,123,466

Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 1,945,199
Administrative services fees (2)	(106,090)
Professional fees (3)	(161,009)
Listing fees (4)	(39,127)
Investment-related expenses (5)	3,413,758
Fee waiver and/or expense reimbursements (1)	(3,231,090)

(1) Under the terms of the investment advisory contract of the Acquiring Fund, the advisory fees have been adjusted to reflect the advisory fee rates in effect for the Acquiring Fund based on pro forma combined managed assets. Upon closing of all of the mergers, the Adviser has contractually agreed for at least two years following the closing of the Mergers to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.52%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the mergers.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering three funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based on investment strategies of the Acquiring Fund

No significant accounting policies will change as a result of the merger, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuations Policy

Securities, including restricted securities, are valued according to the following policy.

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Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.
Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.
Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.
During the twelve months ended February 29, 2012 there were no significant transfers between investment levels.

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		Level 1	Level 2	Level 3	*Total*
IIC (Target Fund)	Municipal Obligations	$	$232,889,601	$	$232,889,601
IQC (Target Fund)	Municipal Obligations		189,795,945		189,795,945
ICS (Target Fund)	Municipal Obligations		58,787,878		58,787,878
VCV (Acquiring Fund)	Municipal Obligations		504,362,717		504,362,717
VCV (Pro Forma Combined)	Municipal Obligations	$	$985,836,141	$	$985,836,141

Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
IIC (Target Fund)	$ 140,000	$ 0
IQC (Target Fund)	140,000	0
ICS (Target Fund)	130,000	0
VCV (Acquiring Fund)	110,000	0

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds**.**

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012, the Target Funds, including IIC, IQC, and ICS, had capital loss carryforwards of approximately $2,291,975, $12,302,990, and $499,669, respectively. At February 29, 2012, the Acquiring Fund, VCV, had a capital loss carryforward of approximately $71,798,228. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

Invesco High Yield Investment Fund Inc. into Invesco Van Kampen High Income Trust II

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the merger had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Fund and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Fund and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Merger

Note 1 Merger

The unaudited pro forma information has been prepared to give effect to the proposed merger of the Target Fund into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco High Yield Investment Fund, Inc. (MSY)	Invesco Van Kampen High Income Trust II (VLT)	February 29, 2012

Basis of Pro Forma

The merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by the Acquiring Fund or its shareholders as a result of the merger. The Target Fund and the Acquiring Fund are both registered closed-end management investment companies. The merger would be accomplished by a statutory merger of the Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
MSY	4,409,461	VLT

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Fund comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Fund and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
MSY (Target Fund)	$ 72,277,840
VLT (Acquiring Fund)	61,755,099
VLT (Pro Forma Combined)	133,912,939

Pro Forma combined net assets have been adjusted for expenses expected to be incurred by the Acquiring Fund in connection with the merger.

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Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the merger had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Fund and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 193,392
Administrative services fees (2)	(50,000)
Professional fees (3)	(296,139)
Listing fees (4)	(21,250)
Investment-related expenses (5)	(51,577)
Fee waiver and/or expense reimbursements (1)	(266,632)

(1) Under the terms of the investment advisory contract of the Acquiring Fund, the advisory fees have been adjusted to reflect the advisory fee rates in effect for the Acquiring Fund based on pro forma combined managed assets including bank borrowings entered into to retire preferred shares. Upon closing of the Merger, the Adviser has contractually agreed for at least two years following the closing of the Merger to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 1.07%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the merger.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering one fund pursuant to the Master Administrative Services Agreement for the Target Fund and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the merger, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuation Policy

Securities, including restricted securities, are valued according to the following policy.

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on prices furnished by independent pricing services or market makers. When such securities are valued by an independent pricing service they may be considered

fair valued. Futures contracts are valued at the final settlement price set by an exchange on which they are principally traded. Listed options are valued at the mean between the last bid and ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent

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source at the mean between the last bid and ask prices. For purposes of determining net asset value per share, futures and option contracts generally are valued 15 minutes after the close of the customary trading session of the New York Stock Exchange (NYSE).

Investments in open-end and closed-end registered investment companies that do not trade on an exchange are valued at the end of day net asset value per share. Investments in open-end and closed-end registered investment companies that trade on an exchange are valued at the last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded.

Debt obligations (including convertible bonds) and unlisted equities are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and/or principal payments.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the NYSE. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the NYSE, closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and make the closing price unreliable, the Trust may fair value the security. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trade is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, American Depositary Receipts and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and economic upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources. The last bid price may be used to value equity securities. The mean between the last bid and asked prices is used to value debt obligations, including Corporate Loans.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security s fair value.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the

valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	Level 2	Level 3	Total
MSY (Target Fund)	Equity Securities	$4,472,775	$ 433,875	$	$ 4,906,650
MSY (Target Fund)	Corporate Debt Securities		93,874,047	7,015	93,881,062
MSY (Target Fund)	Foreign Currency Contracts*		(80,533)		(80,533)
MSY (Target Fund)	**Total**	**$4,472,775**	**$ 94,227,389**	**$ 7,015**	**$ 98,707,179**
VLT (Acquiring Fund)	Equity Securities	$2,418,131	$ 355,777	$ 0	$ 2,773,908
VLT (Acquiring Fund)	Corporate Debt Securities		73,681,275	6,600	73,687,875
VLT (Acquiring Fund)	Foreign Debt Securities		7,997,805		7,997,805
VLT (Acquiring Fund)	Foreign Currency Contracts*		(63,567)		(63,567)
VLT (Acquiring Fund)	**Total**	**$2,418,131**	**$ 81,971,290**	**$ 6,600**	**$ 84,396,021**
	Total	**$6,890,906**	**$176,198,679**	**$13,615**	**$183,103,200**

VLT (Pro Forma Combined)

* Unrealized appreciation (depreciation).

Note 6 Merger Costs

The estimated total costs of the merger for the Target Fund and the Acquiring Fund are set forth in the table below.

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	Estimated Total Merger	Estimated Portion of Total Merger Costs to be Paid by the Funds
MSY (Target Fund)	$ 190,000	$ 0
VLT (Acquiring Fund)	120,000	120,000

These costs represent the estimated non recurring expenses of the Target Fund and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed merger. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012 the Target Fund, MSY had a capital loss carryforward of approximately $20,413,038. At February 29, 2012 the Acquiring Fund, VLT had a capital loss carryforward of approximately $32,142,797. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Merger in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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Invesco Municipal Premium Income Trust, Invesco Van Kampen Select Sector Municipal Trust, and Invesco Van Kampen Trust for Value Municipals into Invesco Van Kampen Municipal Opportunity Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco Municipal Premium Income Trust (PIA)	Invesco Van Kampen Municipal Opportunity Trust (VMO)	February 29, 2012
Invesco Van Kampen Select Sector Municipal Trust (VKL)		
Invesco Van Kampen Trust for Value Municipals (VIM)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of a merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
PIA	10,629,685	
VKL	13,488,584	VMO
VIM	9,670,718	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

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Note 2 Net Assets

The table below shows the net assets of the Target Funds and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
PIA (Target Fund)	$150,776,682
VKL (Target Fund)	191,469,377
VIM (Target Fund)	137,210,808
VMO(Acquiring Fund)	480,291,241
VMO (Pro Forma Combined)	959,748,108

Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 523,725
Administrative services fees (2)	(97,639)
Professional fees (3)	(1,174,440)
Listing fees (4)	(38,290)
Investment-related expenses (5)	5,258,674
Fee waiver and/or expense reimbursements (1)	(1,428,591)

(1) Under the terms of the investment advisory contract of the Acquiring Fund, the advisory fees have been adjusted to reflect the advisory fee rates in effect for the Acquiring Fund based on pro forma combined managed assets. Upon closing of all of the mergers, the Adviser has contractually agreed, through at least two years from the closing date of the mergers, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.89%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the mergers.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering three funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5)

Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based on investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the mergers, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

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Note 4 Security Valuation Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

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		Level 1	Level 2	Level 3	Total
PIA (Target Fund)	Municipal Obligations	$	$ 251,237,032	$	$ 251,237,032
VKL (Target Fund)	Municipal Obligations		318,886,580		318,886,580
VIM (Target Fund)	Municipal Obligations		219,743,307		219,743,307
VMO (Acquiring Fund)	Municipal Obligations		822,193,743		822,193,743
VMO (Pro Forma Combined)	Municipal Obligations	$	$1,612,060,662	$	$1,612,060,662

Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
PIA (Target Fund)	$ 140,000	$ 0
VKL (Target Fund)	150,000	0
VIM (Target Fund)	150,000	0
VMO (Acquiring Fund)	130,000	0

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012, the Target Funds, including PIA, VKL, and VIM, had capital loss carryforwards of approximately $26,648,849, $33,274,131, and $21,435,223, respectively. At February 29, 2012, the Acquiring Fund, VMO, had a capital loss carryforward of approximately $85,677,970. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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Invesco New York Quality Municipal Securities into Invesco Van Kampen Trust for Investment Grade New York Municipals

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the merger had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Fund and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Fund and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Merger

Note 1 Merger

The unaudited pro forma information has been prepared to give effect to the proposed merger of the Target Fund into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco New York Quality Municipal Securities (IQN)	Invesco Van Kampen Trust for Investment Grade New York Municipals (VTN)	February 29, 2012

Basis of Pro Forma

The merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by the Acquiring Fund or its shareholders as a result of the merger. The Target Fund and the Acquiring Fund are both registered closed-end management investment companies. The merger would be accomplished by a statutory merger of the Target Fund with and into the Acquiring Fund in exchange for shares of the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
IQN	4,247,296	VTN

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Fund comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Fund and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

Fund	Net Assets
IQN (Target Fund)	$ 66,265,649
VTN (Acquiring Fund)	237,814,947
VTN (Pro Forma Combined)	304,080,596

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Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the merger had taken place on March 2, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Fund and Acquiring Fund and have been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 348,799
Administrative services fees (2)	(55,803)
Professional fees (3)	(170,717)
Listing fees (4)	(15,808)
Investment-related expenses (5)	1,358,644
Fee waiver and/or expense reimbursements (1)	(943,634)

(1) Under the terms of the investment advisory contract of the Acquiring Fund, the advisory fees have been adjusted to reflect the advisory fee rates in effect for the Acquiring Fund based on pro forma combined managed assets. Upon closing of the merger, the Adviser has contractually agreed, through at least two years from the closing date of the merger, to waive advisory fees and/or reimburse expenses to the extent necessary to limit total annual fund operating expenses (excluding certain items discussed below) to 0.69%. In determining the Adviser s obligation to waive advisory fees and/or reimburse expenses, the following expenses are not taken into account, and could cause the total annual fund operating expenses after fee waiver to exceed the limit reflected above: (1) interest, facilities and maintenance fees; (2) taxes; (3) dividend on short sales; (4) extraordinary or non-routine items, including litigation expenses; and (5) expenses that the Acquiring Fund has incurred but did not actually pay because of an expense offset arrangement. Correspondingly, the fee waiver and/or expense reimbursements have been adjusted to reflect the contractual agreement by the Adviser. Unless the Board of Trustees and the Adviser mutually agree to amend or continue the fee waiver agreement, it will terminate two years after the closing of the merger.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering one fund pursuant to the Master Administrative Services Agreement for the Target Fund and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based on investment strategies of the Acquiring Fund

No significant accounting policies will change as a result of the merger, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuations Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand

feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

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Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	**Level 2**	**Level 3**	**Total**
IQN (Target Fund)	Municipal Obligations	$	$ 89,991,149	$	$ 89,991,149
VTN (Acquiring Fund)	Municipal Obligations		384,870,041		384,870,041
VTN (Pro Forma Combined)	Municipal Obligations	$	$474,861,190	$	$474,861,190

Note 6 Merger Costs

The estimated total costs of the merger for the Target Fund and the Acquiring Fund are set forth in the table below.

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	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
IQN (Target Fund)	$ 180,000	$ 0
VTN (Acquiring Fund)	120,000	0

These costs represent the estimated non recurring expenses of the Target Fund and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed merger. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012 the Target Fund, IQN, had a capital loss carryforward of approximately $683,607. At February 29, 2012, the Acquiring Fund, VTN, had a capital loss carryforward of approximately $27,163,307. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Merger in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

Invesco Van Kampen Massachusetts Value Municipal Income Trust, Invesco Van Kampen Ohio Quality Municipal Trust, and Invesco Van Kampen Trust for Investment Grade New Jersey Municipals into Invesco Van Kampen Municipal Trust

The unaudited *pro forma* financial information set forth below is for informational purposes only and does not purport to be indicative of the financial condition that actually would have resulted if the mergers had been consummated. These *pro forma* numbers have been estimated in good faith based on information regarding the Target Funds and the Acquiring Fund, each as identified below, for the twelve month period ended February 29, 2012. The unaudited *pro forma* financial information should be read in conjunction with the historical financial statements of the Target Funds and Acquiring Fund, which are available in their respective annual and semi-annual shareholder reports.

Narrative Description of the Pro Forma Effects of the Mergers

Note 1 Mergers

The unaudited pro forma information has been prepared to give effect to the proposed merger of each of the Target Funds into the Acquiring Fund pursuant to an agreement and Plan of Merger (the Plan) as of the beginning of the period as indicated below in the table. No merger is contingent upon any other merger.

Target Fund	Acquiring Fund	12 Month Period Ended
Invesco Van Kampen Massachusetts Value Municipal Income Trust (VMV)	Invesco Van Kampen Municipal Trust (VKQ)	February 29, 2012
Invesco Van Kampen Ohio Quality Municipal Trust (VOQ)		
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals (VTJ)		

Basis of Pro Forma

Each merger will be accounted for as a tax-free reorganization of investment companies; therefore, no gain or loss will be recognized by a Fund or its shareholders as a result of a merger. The Target Funds and the Acquiring Fund are registered closed-end management investment companies. Each merger would be accomplished by a statutory merger of the applicable Target Fund with and into the Acquiring Fund. The table below shows the Acquiring Fund shares that Target Fund shareholders would have received if the merger were to have taken place on February 29, 2012.

Target Fund	Shares Converted	Acquiring Fund
VMV	2,565,907	VKQ
VOQ	6,545,852	
VTJ	7,332,519	

Under accounting principles generally accepted in the United States of America, the historical cost of investment securities will be carried forward to the surviving entity, the Acquiring Fund, and the results of operations of the Acquiring Fund for pre-merger periods will not be restated. All securities held by the Target Funds comply with investment objectives, strategies and restrictions of the Acquiring Fund at February 29, 2012.

Note 2 Net Assets

The table below shows the net assets of the Target Funds and the Acquiring Fund and Pro Forma combined net assets as of February 29, 2012.

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Fund	Net Assets
VMV (Target Fund)	$ 36,508,342
VOQ (Target Fund)	93,158,210
VTJ (Target Fund)	104,337,789
VKQ (Acquiring Fund)	556,183,964
VKQ (Pro Forma Combined)	790,188,305

Note 3 Pro Forma Adjustments

The table below reflects adjustments to expenses needed to the pro forma combined Fund as if the mergers had taken place on March 1, 2011. The pro forma information has been derived from the books and records used in calculating daily net asset values of the Target Funds and Acquiring Fund and has been prepared in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect this information. Actual results could differ from those estimates.

Expense Category	Increase (decrease) in expense
Advisory fees (1)	$ 29,804
Administrative services fees (2)	(140,653)
Investment-related expenses (3)	3,666,462
Listing fees (4)	(20,696)
Professional fees (5)	(587,919)
Fee waiver and/or expense reimbursements (1)	716,695

(1) Under the terms of the investment advisory contract of the Acquiring Fund, the advisory fees have been adjusted to reflect the advisory fee rates in effect for the Acquiring Fund based on pro forma combined managed assets. Correspondingly, fee waivers and/or expense reimbursements have been adjusted to reflect such agreements.

(2) Administrative services fees were adjusted to eliminate the duplicative costs of administering three funds pursuant to the Master Administrative Services Agreement for the Target Funds and the Acquiring Fund.

(3) Professional fees were reduced to eliminate the effects of duplicative fees for audit and legal services.

(4) Listing fees were adjusted to reflect the per share listing rate based on pro forma combined shares.

(5) Investment-related expenses were adjusted to reflect financing costs related to the anticipated issuance of Variable Rate Muni Term Preferred Shares and other financing costs based investment strategies of the Acquiring Fund.

No significant accounting policies will change as a result of the mergers, specifically policies regarding security valuation or compliance with Subchapter M of the Internal Revenue Code.

Note 4 Security Valuation Policy

Securities, including restricted securities, are valued according to the following policy.

Securities are fair valued using an evaluated quote provided by an independent pricing service approved by the Board of Trustees. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices and may reflect appropriate factors such as institution-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, individual trading characteristics and other market data. Securities with a demand feature exercisable within one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and principal payments.

Securities for which market quotations either are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust s officers following procedures approved by the

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Board of Trustees. Some of the factors which may be considered in determining fair value are fundamental analytical data relating to the investment; the nature and duration of any restrictions on transferability or disposition; trading in similar securities by the same issuer or comparable companies; relevant political, economic or issuer specific news; and other relevant factors under the circumstances.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer s assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

Note 5 Additional Valuation Information

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment s assigned level:

Level 1 Prices are determined using quoted prices in an active market for identical assets.

Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund s own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The following is a summary of the tiered valuation input levels, as of February 29, 2012. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

During the twelve months ended February 29, 2012, there were no significant transfers between investment levels.

		Level 1	Level 2	Level 3	Total
VMV (Target Fund)	Municipal Obligations	$	$ 60,051,351	$	$ 60,051,351
VOQ (Target Fund)	Municipal Obligations		151,209,363		151,209,363
VTJ (Target Fund)	Municipal Obligations		167,177,069		167,177,069
VKQ (Acquiring Fund)	Municipal Obligations		892,390,655		892,390,655

VKQ (Pro Forma Combined)	Municipal Obligations	$	$1,270,828,438	$	$1,270,828,438

Note 6 Merger Costs

The estimated total costs of the merger for each Target Fund and the Acquiring Fund are set forth in the table below.

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	Estimated Total Merger Costs	Estimated Portion of Total Merger Costs to be Paid by the Funds
VMV (Target Fund)	$ 140,000	$ 0
VOQ (Target Fund)	140,000	0
VTJ (Target Fund)	140,000	0
VKQ (Acquiring Fund)	140,000	0

These costs represent the estimated non recurring expenses of the Target Funds and the Acquiring Fund carrying out their obligations under the Plan and consistent of management s estimate of professional services fees, printing costs and mailing charges related to the proposed mergers. The Adviser will bear all costs not borne by the Funds.

Note 7 Accounting Survivor

The Acquiring Fund will be the accounting survivor. The surviving fund will have the portfolio management team, portfolio composition strategies, investment objective, expense structure, and policies/ restrictions of the Acquiring Fund.

Note 8 Capital Loss Carryforward

The Fund intends to comply with the requirements of Subchapter M of the Internal Revenue Code necessary to qualify as a regulated investment company and to distribute substantially all of the Fund s taxable earnings to shareholders. As such, the Fund will not be subject to federal income taxes on otherwise taxable income (including net realized capital gain) that is distributed to shareholders.

At February 29, 2012, the Target Funds, including VMV, VOQ, and VTJ, had capital loss carryforwards of approximately $6,262,814, $7,165,379, and $6,711,297, respectively. At February 29, 2012, the Acquiring Fund, VKQ, had a capital loss carryforward of approximately $88,181,515. For additional information regarding capital loss limitations, please see the section entitled Federal Income Tax Considerations of the Mergers in the Proxy Statement/Prospectus filed on Form N-14 with the Securities and Exchange Commission.

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APPENDIX A
SPECIAL STATE-SPECIFIC INVESTMENT CONSIDERATIONS

Special Risk Considerations Regarding California Municipal Securities. Funds that invest in California municipal securities are susceptible to political, economic, regulatory or other factors affecting issuers of California municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of California municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of California municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of California municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Funds and the Funds assume no responsibility for the completeness or accuracy of such information.

The summary below does not include all of the information pertaining to the economy, budget, receipts and disbursements of the State that would ordinarily be included in various public documents, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. The creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation on the part of the State to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within California, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. The information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of California municipal securities.

Economic condition and outlook. California s economy, the largest among the 50 states and one of the largest in the world, has major components in high technology, trade, entertainment, agriculture, manufacturing, tourism, construction and services. Beginning in the first quarter of 2008 and ending in the second half of 2009, California, as the rest of the nation, experienced the most significant economic downturn since the Great Depression of the 1930s, marked in California by high unemployment, steep contraction in housing construction and home values, a drop in statewide assessed valuation of property for the first time on record, a year-over-year decline in personal income in the State for the first time in 60 years, and a sharp drop in taxable sales. The continuing weakness in the State economy has caused State tax revenues to decline precipitously, resulting in large budget gaps and cash shortfalls. The State is slowly emerging from the recession, but economic growth is modest and the level of unemployment is still very high.

California is by far the most populous state in the nation, with its April 2010 population representing over 12 percent of the total United States population.

The unemployment rate in the State reached a high of 12.5 percent in late 2010. The rate improved thereafter, falling to 11.7 percent in May 2011, but rising to 12.0 percent for July 2011. The U.S. unemployment rate for July 2011 was 9.1 percent. Personal income increased in the State for the sixth consecutive quarter in the first quarter of 2011. After falling for six consecutive quarters, taxable sales grew in the third and fourth quarters of 2009 and continued to improve through the first quarter of 2011.

California s housing sector began a meager recovery during 2009 and the early months of 2010. Existing home sales stabilized around the half-million unit rate and the median sales price rose by 10% in 2010. Unsold inventory trended downward in 2009, as did the number of days needed to sell a home. However, the housing market indicators worsened during the middle of 2010 after the expiration of the federal home buyers tax credit. Housing market indicators again appeared to stabilize during the early months of 2011.

Made-in-California exports grew by 19% in 2010 and 13% during the first half of 2011, led by strong growth in computer and electronic products, machinery and manufactured commodities.

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Revenues and expenditures. The economic downturn of the last few years adversely affected the State s budget situation. To exacerbate the problem, as California entered the recession, annual revenues generally were less than annual expenses, resulting in a structural budget deficit.

The State s revenue estimates utilized in connection with the 2011 Budget Act assumed slow but positive economic growth, and the 2011 Budget Act projected that most of California s major revenue sources will grow in fiscal 2011-12. The 2011 Budget Act also takes into account the end of federal stimulus funds which provided $4.2 billion to the State to offset General Fund costs in fiscal year 2010-11, and the expiration on June 30, 2011 of temporary surcharges on personal income taxes, sales taxes and vehicle license fees which provided $7.1 billion in the last fiscal year. The 2011 Budget act closed a projected $26.6 billion budget gap for the two fiscal years 2010-11 and 2011-12 and made substantial progress in addressing the State s long term structural budget deficit. Despite eliminating a significant portion of the structural deficit in the 2011 Budget Act, the State continues to face major long-term challenges and must address the remaining structural budget deficit and the consequences of budget balancing actions taken in the past.

Budget process. The State s fiscal year begins on July 1st and ends on June 30th of the following year. Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure is the annual Budget Act as approved by the Legislature and signed by the Governor. Appropriations also may be included in legislation other than the Budget Act.

The Balanced Budget Amendment (Proposition 58) requires the State to enact a balanced budget, establishes a special reserve in the General Fund, restricts future borrowings to cover budget deficits, and provides for mid-year budget adjustments in the event that the budget falls out of balance. The Legislature may not pass a budget bill in which General Fund expenditures exceed estimated General Fund revenues and fund balances at the time of passage and as set forth in the budget bill. As a result of the requirements of Proposition 58, the State would, in some cases, have to take more immediate actions to correct budgetary shortfalls. These restrictions apply to general obligation bonds, revenue bonds and certain other forms of long-term borrowings, but do not apply to certain short-term and inter-fund borrowings.

In addition to Proposition 58, a number of other laws and constitutional amendments have been enacted over the years, often through voter initiatives, which have made it more difficult to raise State taxes, have restricted the use of State General Fund or special fund revenues, or have otherwise limited the Legislature and Governor s discretion in enacting budgets.

Current State budget. The 2011-12 budget was approved on June 30, 2011. The 2011 Budget Act was projected to end fiscal year 2011-12 with a $543 million reserve, however, it also included tiered trigger cuts to take effect if revenues for 2011-12 were forecast to be less than the amount assumed in the budget package by $1 billion or more.

The California Legislative Analyst s Office (LAO), in its November 2011 California Fiscal Outlook, estimates that 2011-12 will end with a $3 billion General Fund deficit. The outlook assumes lower projected revenues, the implementation of $2 billion in trigger cuts to various state programs and the expected inability of the State to achieve about $1.2 billion of other budget actions.

Obligations of the State of California. The State Treasurer is responsible for the sale of most debt obligations of the State and its various authorities and agencies. Current State debt obligations include:

General Obligation Bonds. General obligation bond acts provide that debt service on general obligation bonds shall be appropriated annually from the General Fund and all debt service on general obligation bonds is paid from the General Fund. Under the State Constitution, debt service on general obligation bonds is the second charge to the General Fund after the application of moneys in the General Fund to the support of the public school system and public institutions of higher education. As of August 1, 2011, the State had outstanding $71.1 billion aggregate principal amount of long-term general obligation bonds.

Commercial Paper Notes Program. Voter-approved general obligation indebtedness may, in some cases, be issued as commercial paper notes. Commercial paper notes may be renewed or refunded by the issuance of long-

term bonds. Pursuant to the terms of the bank credit agreement presently in effect, the general obligation commercial paper program may have up to $1.57 billion in aggregate principal amount outstanding at any time. The issuance of general obligation bonds on September 28, 2011 provided funds which, together with certain additional funds, have retired all of the $1.29 billion aggregate principal amount of general obligation commercial paper notes which had been outstanding. The State plans to terminate its existing bank credit agreement and restructure the commercial paper notes program.

Lease-Revenue Obligations. The State builds and acquires facilities through the use of lease revenue borrowing, in addition to general obligation bonds. Under these arrangements, the State Public Works Board, another State or local agency or a joint powers authority issues bonds to pay for the construction of facilities, such as office buildings, university buildings or correctional institutions. These facilities are leased to a State agency, the California State University, the Judicial Council or the University of California under a long-term lease that provides the source of payment of the debt service on the lease-purchase bonds. The State had approximately $9.4 billion in lease-revenue obligations outstanding as of August 1, 2011.

Cash Flow Borrowings. As part of its cash management program, the State has regularly issued short-term obligations to meet cash flow needs. The State has issued revenue anticipation notes (RANs) in all but one fiscal year since the mid-1980 s to partially fund timing differences between receipts and disbursements. By law, RANs must mature prior to the end of the fiscal year of issuance. If additional external cash flow borrowings are required, the State has issued revenue anticipation warrants (RAWs), which can mature in a subsequent fiscal year. RANs and RAWs are both payable from any Unapplied Money in the General Fund on their maturity date, subject to the prior application of such money in the General Fund to pay priority payments.

Other issuers of California municipal obligations. There are a number of State agencies, instrumentalities, and political subdivisions of the State that issue municipal obligations, some of which may be conduit revenue obligations payable from payments from private borrowers. These entities are subject to various economic risks and uncertainties, and the credit quality of the securities issued may vary considerably from the credit quality of the obligations backed by the full faith and credit of the State. The State of California has no obligation with respect to any obligations or securities of a county or any of the other participating entities, although under existing legal precedents, the State may be obligated to ensure that school districts have sufficient funds to operate. State agencies and authorities had approximately $59 billion aggregate principal amount of revenue bonds and notes which are non-recourse to the General Fund outstanding as of June 30, 2011.

Bond ratings. The State s general obligation bonds are currently rated A- (with a stable outlook) by S&P and A1 by Moody s (with a stable outlook) (ratings confirmed as of December 8, 2011). There can be no assurance that such ratings will be maintained in the future. It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Legal proceedings. The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings (described in the State s recent financial statements) that, if decided against the State might require the State to make significant future expenditures or substantially impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the outcome of such litigation, estimate the potential impact on the ability of the State to pay debt service costs on its obligations, or determine what impact, if any, such proceedings may have on the Tax-Free California Fund.

Other considerations. Substantially all of California is within an active geologic region subject to major seismic activity. Northern California, in 1989, and Southern California, in 1994, experienced major earthquakes causing billions of dollars in damages. The State s and any other municipal issuers outstanding obligations could be affected by an interruption of revenues because of damaged facilities, or, consequently, income tax deductions for casualty losses or property tax assessment reductions due to earthquakes. Compensatory financial assistance could be constrained by the inability of (i) an issuer to have obtained earthquake insurance coverage; (ii) an insurer to perform on its contracts of insurance in the event of widespread losses; or (iii) the federal or State government to appropriate sufficient funds within their respective budget limitations**.**

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The Tax-Free California Fund is susceptible to political, economic or regulatory factors affecting issuers of California municipal obligations. These include the possible adverse effects of certain California constitutional amendments, legislative measures, voter initiatives and other matters. The information provided is only a brief summary of the complex factors affecting the financial situation in California and is derived from sources that are generally available to investors and are believed to be accurate. It is based in part on information obtained from various State and local agencies in California or contained in Official Statements for various California municipal obligations. No independent verification has been made of the accuracy or completeness of any of the preceding information.

Special Investment Considerations Regarding Massachusetts Municipal Securities. A Fund that invests in Massachusetts (referred to herein as the Commonwealth or Massachusetts) municipal securities are susceptible to political, economic, regulatory or other factors affecting issuers of Massachusetts municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of Massachusetts municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of Massachusetts municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of Massachusetts municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Fund and the Fund assumes no responsibility for the completeness or accuracy of such information.

The summary below does not include all of the information pertaining to the economy, budget, receipts and disbursements of the Commonwealth that would ordinarily be included in various public documents, such as an official statement prepared in connection with the issuance of general obligation bonds of the Commonwealth. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. The creditworthiness of obligations issued by local Massachusetts issuers may be unrelated to the creditworthiness of obligations issued by the Commonwealth, and there is no obligation on the part of the Commonwealth to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within Massachusetts, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. The information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of Massachusetts municipal securities.

Economic condition and outlook. Massachusetts is a densely populated state with a well-educated population and comparatively high income levels. The Commonwealth s economy remains diversified, but its strongest component is its knowledge-based technology and service sectors. The four largest sectors of the economy, real estate and rental and leasing, professional and technical services, finance and insurance, and health care and social assistance, contributed 47.2% of the 2010 Massachusetts gross domestic product.

Following significant declines in 2002 and 2003, total non-agricultural employment in the Commonwealth eventually increased 0.5% in 2005 and continued to increase through 2008. Employment declined 3.3% in 2009 and grew 0.2% in 2010. Since the beginning of the recession in December 2007 there has been a net loss of approximately 46,000 jobs in Massachusetts. The job losses were not spread evenly across all sectors. The construction and manufacturing sectors were the hardest hit with losses of 26.2% and 21.6%, respectively. However, the education and health sector and the leisure and hospitality sector have seen growth of 7.2% and 8.6%, respectively.

The Commonwealth s economy has outperformed the nation s economy as a whole during and following the most recent recession. Home prices in Massachusetts have fallen by less than in the U.S. as a whole. The Commonwealth s unemployment rate rose from 5.2% in July 2008 to a high of 9.5% in February 2011, but has since declined, and in November 2011 was 7.0%. This decline is greater than in the nation as a whole, where unemployment rose from 5.8% in July 2008 to a high of 10.1% in October 2009, and declined to 8.6% in November 2011.

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Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2010, Massachusetts received almost $82.5 billion, a 1.7% decrease from 2009, and ranked ninth among the states in per capita distribution of federal funds, with total spending of $12,593 per person, excluding loans and insurance.

Revenues and expenditures. The Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. Total primary government revenues increased by $2.7 billion in fiscal year 2011 or 5.4% over fiscal year 2010. Tax revenues increased by $2.0 billion, or 10.7%, primarily as the result of the growth in individual income tax.

The major components of state tax revenue are the income tax, the sales and use tax, and the corporations and other business and excise taxes which were projected to account for approximately 55.2%, 24.8%, and 11.3%, respectively, of total tax revenues in fiscal 2011. Dedicated portions of the Commonwealth s sales tax revenues are pledged to provide financial support for the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local options taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropririations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition $2^1/2$, local governments have become increasingly reliant on distribution of revenues from the Commonwealth to support local programs and services, although the amount of aid received varies significantly among municipalities. As a result of comprehensive education reform legislation enacted in June 1993, a large portion of local aid general revenue sharing funds is earmarked for public education and distributed through a formula designed to provide more aid to the Commonwealth s poorer communities. There are also several specific local aid programs, such as public libraries, police education incentives, and property tax abatement for certain elderly or disabled residents.

Total expenses of the primary government increased by $1.2 billion in fiscal year 2011, or 2.3% over fiscal year 2010. This included a $1.45 billion increase in Medicaid spending and a decline of $1.05 billion in unemployment insurance compensation expenses.

At the end of fiscal year 2011 the liabilities of the primary government exceeded assets by almost $18.5 billion, a reduction of $137 million from the fiscal year 2010 deficit.

Fiscal 2011 budgeted fund total revenues and other financing sources exceeded fiscal 2011 budgeted fund total expenditures and other uses by $998 million, and fiscal 2011 ended with a budgeted fund balance of $1.901 billion. Of that amount, $1.379 billion was reserved in the Stabilization Fund, $400 million was reserved for continuing appropriations and debt service and $122 million was undesignated. The Stabilization Fund balance at the end of fiscal 2011 represents a $709 million increase from the close of fiscal 2010.

Budget process. The House of Representatives generally approves its version of the budget in late April, and the Senate generally approves its version in late May. The differences are then reconciled by legislatively conference committee in June, so that a final version can be enacted by Legislature and sent to the Governor for his approval prior to the start of the new fiscal year on July 1.

Current Commonwealth budget. Total spending in the final fiscal 2012 budget amounts to approximately $30.6 billion. The current budget assumes tax revenues of $21.010 billion, enhanced tax enforcement initiatives (an additional $61.5 million) and the impact of a two-day sales tax holiday held on August 13-14, 2011 (reduction of $20.6 million).

On November 16, 1991, the Governor approved legislation containing pension reforms, including increasing the retirement ages, eliminating early retirement subsidies and increasing the period for average earnings from the highest three years to the highest five years for all new state employees who join a retirement system on or

after April 2, 2012. The legislation is expected to generate savings of more than $3 billion to the Commonwealth and $2 billion for municipalities over the next 30 years.

Obligations of the Commonwealth of Massachusetts. The Commonwealth incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. The Commonwealth periodically makes several cash flow borrowings for operating purposes. All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by state finance law to be paid not later than June 30 of such year.

The Commonwealth is authorized to issue three types of long-term debt directly general obligation debt, special obligation debt, and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund or with a pledge of receipts credited to the Convention Center Fund. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. As of June 30, 2011, the amount of Commonwealth long-term debt was approximately $20.9 billion, consisting of approximately $18.5 billion of general obligation debt, $1.6 billion of special obligation debt, and $767 million of federal grant anticipation notes. Based on the United States census resident population estimate for Massachusetts for 2011, the per capita amount of such debt as of the end of fiscal year 2011 was approximately $3,720.

In addition to the long-term liabilities described above, the Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as general obligation contract assistance liabilities, budgetary contractual assistance liabilities or contingent liabilities. General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth s credit for which a two-thirds vote of the Legislature is required. Budgetary contractual assistance liabilities arise from statutory requirements for payments by the Commonwealth under certain capital leases. Such liabilities do not constitute a pledge of the Commonwealth s credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize.

Massachusetts statutes limit the Commonwealth s ability to issue direct debt. The direct debt limit for fiscal year 2011 was approximately $18.0 billion. Outstanding debt subject to the limit at fiscal year end was approximately $16.3 billion. The limit increases by 5% each year. Pursuant to legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit. The limit for fiscal year 2012 is approximately $18.9 billion.

Legislation enacted in 1999 also provides that no more than 10% of the appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. Debt service relating to bonds that are excluded from the debt limit on direct debt is not included in the limit on debt service appropriations.

During the 2009 fiscal year, the Commonwealth announced an administrative policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 8% of budgeted revenues. The debt management policy also limits future annual growth in the bond cap to not more than $125 million through fiscal 2012.

Bond ratings. The State s general obligation bonds are rated AA+ by S&P and Aa1 by Moody s (ratings confirmed as of March 1, 2012). There can be no assurance that such ratings will be maintained in the future. It should be noted that the creditworthiness of obligations issued by local Massachusetts issuers may be unrelated to the creditworthiness of obligations issued by the Commonwealth, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Legal proceedings. The Commonwealth is a defendant in numerous legal proceedings pertaining to matters

incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of potential judgment can be reasonably be estimated or a settlement or judgment has been reached but not paid, the Attorney General estimates fiscal year 2012 liability at $20 million.

Other considerations. The Fund is susceptible to political, economic or regulatory factors affecting issuers of Massachusetts municipal obligations. The information provided is only a brief summary of the complex factors affecting the financial situation in Massachusetts and is derived from sources that are generally available to investors and are believed to be accurate. It is based in part on information obtained from various State agencies in Massachusetts or contained in Official Statements for various Massachusetts municipal obligations. No independent verification has been made of the accuracy or completeness of any of the preceding information.

Special Investment Considerations Regarding New Jersey Municipal Securities. A Fund that invests in New Jersey (referred to herein as the State or New Jersey) municipal securities is susceptible to political, economic, regulatory or other factors affecting issuers of New Jersey municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of New Jersey municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of New Jersey municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of New Jersey municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Fund and the Fund assumes no responsibility for the completeness or accuracy of such information.

The summary below does not include all of the information pertaining to the economy, budget, receipts and disbursements of the State that would ordinarily be included in various public documents, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. The creditworthiness of obligations issued by local New Jersey issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation on the part of the State to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within New Jersey, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. The information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of New Jersey municipal securities.

Economic condition and outlook. New Jersey is the eleventh largest state in population and the fifth smallest in land area. According to the United States Bureau of the Census, the population of New Jersey was 8,414,350 in 2000 and 8,791,894 in 2010. With an average of 1,196 persons per square mile, it is the most densely populated of all the states. Centrally located in the Northeast, New Jersey is near many major cities such as New York, Boston, Washington D.C., and Philadelphia. The State s favorable location is bolstered by an extensive highway system, as well as other major land, air, and water transportation systems and facilities. The Port of Newark-Elizabeth Marine Terminal is the East Coast s largest seaport and handles about one-third of the nation s ocean going trade. Various commercial and industrial businesses have headquarters or regional offices within New Jersey s borders, including substantial construction, pharmaceutical, manufacturing, chemical, financial and service industries. Since 1978, casino gambling in Atlantic City has been an important State tourist attraction.

New Jersey has a diversified economic base, consisting of a variety of manufacturing, constructions and service industries, supplemented by rural areas with selective commercial agriculture. The construction, manufacturing and mining sectors experienced the largest job losses over the recession. Since the beginning of 2010, the greatest employment increases have been in the other services, education and health services, and professional and business services sectors. Layoffs of government employees due to the State s persistent budget issues and the re-entry of formerly discouraged jobseekers into the job market have contributed to the State s high unemployment which still exceeded the national average by .7% as of January 2012.

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The State s economic indicators (not seasonally adjusted), showed that total private dwelling units authorized by building permits in January 2012, were 950, up from 922 the prior year, the unemployment rate for January, 2012 was 9.0%, which is down from 9.4% the prior year and non-farm payroll employment in January, 2012 was approximately 3,807,300, up from approximately 3,756,300 the prior year. Real per capital personal income in New Jersey was approximately $45,233 in the third quarter of 2011, up from $45, 232 in the third quarter of 2009. New Jersey unemployment still exceeds the national average as of January 2012 by .7%.

Revenues and expenditures. The primary government s assets and deferred outflows for fiscal year 2011 *total* $36.9 billion, an increase of $925.5 million from the prior fiscal year. As of June 30, 2011, liabilities exceed assets and deferred outflows by $34.2 billion. The State s unrestricted net assets, which represent net assets that have no statutory commitments and are available for discretionary use, totaled a negative $45.1 billion. The negative balance was primarily a result of under funding the annual pension costs to the State s retirement system and the State s recognition of other postemployment benefits. Financing activities that have contributed to the State s negative unrestricted net asst amount include liabilities from pension bonds, the funding of a portion of local elementary and high school construction, and the securitization of a major portion of annual tobacco master settlement agreement receipts, with no corresponding assets.

The economic slowdown caused a falloff in State revenues. During fiscal 2011 the State implemented tax increases, expenditure reductions (including layoffs of State employees), expenditure deferrals, and draw-downs of reserves, as well as using federal stimulus money. The State and its political subdivisions also face increasing financial pressure from costs relating to pensions and other post-employment benefits for government employees.

Budget process. The State Constitution has a balanced budget measure which provides that no money shall be drawn from the State Treasury but for appropriations made by law and that no law appropriating money for any state purpose shall be enacted if the appropriations contained therein, together with all prior appropriations made for the same fiscal period, shall exceed the total amount of revenue on hand and anticipated to be available to meet such appropriations during such fiscal period, as certified by the Governor.

In addition, the State Constitution has a debt limitation clause which provides that the State Legislature shall not, in any manner, create in any fiscal year a debt or liability of the State, which, together with any previous debts or liabilities, shall exceed at any time 1% of the total amount appropriated by the general appropriation law for such year, unless the same shall be authorized by a law for some single object or work distinctly specified therein, or shall have been approved by the voters. The debt limitation clause was amended in 2008 and currently prohibits the State Legislature from enacting any law that creates or authorizes the creation of a debt or liability of an autonomous State corporate entity, which debt or liability has a pledge of an annual appropriation as the means to pay the principal of and interest on such debt or liability, unless approved by the voters.

Current State budget. Total budgeted revenues for fiscal 2012 are $29.6 billion, which is approximately 4% above fiscal 2011 levels. Total budgeted appropriations for fiscal 2012 are $29.7 billion, which is approximately 1.2% above fiscal 2011 levels.

Obligations of the State of New Jersey. For the year ended June 20, 2011, New Jersey s long-term debt obligations increased 12.3%, to $65.1 billion, which includes a net increase in bonded debt of $7.1 billion. During the fiscal year, the State issued $4.9 billion in bonds. New money issuances represented $1.6 billion, primarily for transportation and education system improvements, while $3.3 billion represented five refunding transactions that provided the State with $30.9 million in net present value savings. During fiscal year 2011, the State paid $2.4 billion in debt service on its long-term obligations.

Non-bonded portions of the State s long-term debt total $27.0 billion. This amount represents a $6.0 billion increase from the prior fiscal year and is mainly attributable to increases in net pension obligations as well as the State s other postemployment benefits obligations.

New Jersey s debt burden has increased substantially in the past decade and is high by any number of measurements, which may reduce financial flexibility in the future. New Jersey now has the fourth highest per capita debt burden among the states.

Bond ratings. Bond ratings. The State s general obligation bonds are rated AA- by S&P and Aa3 by Moody s (ratings confirmed as of March 1, 2012. There can be no assurance that such ratings will be maintained in the future. It should be noted that the creditworthiness of obligations issued by local New Jersey issuers may be unrelated to the creditworthiness of obligations issued by the State of New Jersey, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Other issuers of New Jersey municipal obligations. The New Jersey Local Bond Law (N.J.S.A. Section 40A:2-1 et seq.) (Local Bond Law) governs the issuance of bonds and notes by local units (including counties). The statute provides that (i) the power and obligation of a local unit to pay any and all bonds and notes issued by it pursuant to the Local Bond Law shall be unlimited, (ii) the county or municipality shall levy ad valorem taxes upon all taxable property therein for the payment of the principal of and interest on such bonds and notes, without limitation as to rate or amount, (iii) no local unit shall authorize obligations for any improvement or purpose having a period of usefulness of less than five years, and (iv) after issuance, all obligations shall be conclusively presumed to be fully authorized and issued under all of the laws of the State, and any person shall be estopped from questioning their sale, execution or delivery by the local unit.

No bond ordinance will be finally adopted if it appears from the supplemental debt statement required by the Local Bond Law that the percentage of net debt as stated therein exceeds 2%, in the case of a county, or 3 1/2%, in the case of a municipality. The Local Bond Law sets forth certain exceptions to the foregoing debt limitation.

A local government may seek a waiver from the Local Finance Board from the debt limitation for a bond ordinance authorizing obligations solely for the exceptions set forth in the Local Bond Law. Approval of bond and note financing in excess of the debt limit in certain instances require the applicant to justify and demonstrate the existence of extraordinary conditions. The Local Finance Board is a functional area within the Division of Local Government Services. It is statutorily responsible for promulgating rules and regulations on the fiscal obligations, fiscal reporting and overseeing the fiscal condition of all New Jersey municipalities, counties, local authorities and special districts.

In 2010, New Jersey enacted a property tax cap that placed a 2% limit on annual property-tax increases, which may put additional financial pressure local governments. Costs associated with debt service are not subject to the property tax cap.

Legal proceedings. The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings (described in the State s recent financial statements) that, if decided against the State might require the State to make significant future expenditures or substantially impair future revenue sources. Because of the prospective nature of these proceedings, it is not presently possible to predict the outcome of such litigation, estimate the potential impact on the ability of the State to pay debt service costs on its obligations, or determine what impact, if any, such proceedings may have on the Fund.

Other considerations. The Fund is susceptible to political, economic or regulatory factors affecting issuers of New Jersey municipal obligations. The information provided is only a brief summary of the complex factors affecting the financial situation in New Jersey and is derived from sources that are generally available to investors and are believed to be accurate. It is based in part on information obtained from various State agencies in New Jersey or contained in Official Statements for various New Jersey municipal obligations. No independent verification has been made of the accuracy or completeness of any of the preceding information.

Special Investment Considerations Regarding New York Municipal Securities. Funds that invest in New York municipal securities are susceptible to political, economic, regulatory or other factors affecting issuers of New York municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of New York municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of New York municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of New York municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Funds, and the Funds assume no responsibility for the completeness or accuracy of such information.

The summary below does not include all of the information pertaining to the budget, receipts and disbursements of the State of New York (New York or the State) that would ordinarily be included in various public documents issued thereby, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Such an official statement, together with any updates or supplements thereto, may generally be obtained upon request to the Division of Budget of the State of New York (DOB) of the State. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within New York, and it is possible a Fund will invest in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of New York municipal securities.

Economic condition and outlook. New York is the third most populous state in the nation and has a relatively high level of personal wealth. The State s economy is diverse, with a comparatively large share of the nation s financial activities, information, education, and health services employment, and a very small share of the nation s farming and mining activity. The State s location and its air transport facilities and natural harbors have made it an important link in international commerce. Travel and tourism constitute an important part of the economy.

During 2010, economic conditions began to improve for both the nation and New York State. Private sector employment slowly started to increase, although gains were partially offset by rising job losses in government. While the State as a whole outperformed the nation, the recovery in the State was still slow by historical standards, and not all regions of the State benefitted equally. At the beginning of 2011, the recovery continued to be weak, with consumers buffeted by rising energy prices and renewed declines in home values.

Although job growth resumed in 2010, unemployment rates remain high. During the recession, the unemployment rate more than doubled for the nation (rising from 4.4% in May 2007 to 10.1% in October 2009) and for New York State (rising from 4.3% in March 2007 to 8.9% in September 2009). By December 2010 the rate had only eased to 9.4% for the nation and 8.2% for New York.

Personal income rebounded in 2010 following declines in 2009. Nationally, personal income increased by 3%, while New York s gain of 4.1% was the second-highest growth rate among all the states. Wages, the largest component of personal income, increased in New York in 2010 after falling by 7.2% in 2009. The rebound in personal income and wages reflects Wall Street s continued recovery from the financial crisis. During 2010, the broker/dealer operations of New York Stock Exchange member firms earned $27.6 billion, second only to the record profits of $61.4 billion earned in 2009 (during the previous two years, the industry had combined losses of $53.8 billion). The rapid return to profitability was driven by government bailouts, the Federal Reserve s low interest rate polices and other government actions.

Although the securities industry accounted for less than 3% of all jobs in the State it comprised 12.5% of all wages in 2010 and accounted for more than one-third of the statewide increase in total wages in 2010.

General government results. An operating surplus of $1.5 billion is reported in the New York State General Fund for fiscal year ended March 31, 2011. This results in an accumulated General Fund deficit of $2 billion. The State completed its fiscal year ended March 31, 2011, with a combined Governmental Funds operating surplus of $1.9 billion as compared to a combined Governmental Funds operating surplus for the preceding fiscal year of $123 million. The combined operating surplus of $1.9 billion included an operating surplus in the General Fund of $1.5 billion as well as in the Federal Special Reserve Fund of $2 million, in the General Debt Service Fund of $276 million and in the Other Governmental Funds of $94 million.

The State s financial position as shown in its Governmental Funds Balance Sheet as of March 31, 2011, includes a fund balance of $5.8 billion comprised of $34 billion of assets available to liquidate liabilities of $28.2 billion. The Governmental Funds fund balance includes a $2 billion accumulated deficit in the General Fund.

Budget process. New York s budget process begins with the Governor s submission of the Executive Budget to the Legislature each January, in preparation for the start of the fiscal year on April 1. New York s Constitution requires the Governor to submit an Executive Budget that is balanced on a cash basis in the General Fund the Fund that receives the majority of State taxes, and all income not earmarked for a particular program or

activity. In acting on the bills submitted by the Governor, the Legislature has certain powers to alter the recommended appropriations and proposed changes to existing law. Once the appropriation bills and other bills become law, the Division of Budget of the State of New York (DOB) revises the State Financial Plan to reflect the Legislature s actions, and begins the process of implementing the budget.

State budgetary outlook. The DOB currently projects that the State will end the 2011-12 fiscal year with a General Fund balance of $1.7 billion, which consists of $1.0 billion in the Tax Stabilization Reserve, $275 million in the Rainy Day Reserve, $275 million in the Contingency Reserve Fund, and $13 million in undesignated fund balance. The estimated closing balance reflects the assumption that the estimated current year shortfall of $350 million is closed through administrative or legislative actions or both..

General Fund disbursements, including transfers to other funds, are expected to total $56.8 billion in 2011-12, an increase of $1.4 billion (2.4%) over preliminary 2010-11 results. General Fund spending is projected to grow at an average annual rate of 12.8% from 2010-11 through 2013-14. State Operating Funds disbursements for 2011-12 are estimated to total $86.9 billion, and increase of $2.4 billion (2.9%) over preliminary 2010-11 results. For both the General Fund and State Operating Funds, spending growth is driven by Medicaid, education, pension costs, employee and retiree health benefits, social services programs and debt service.

In the most recent State annual report, it was noted that the enacted 2011-12 budget made significant progress in addressing the State s structural deficit primarily through spending reductions and without relying heavily on non-recurring or temporary revenue. The State also needs to do a better job of monitoring its debt levels. Debt service is one of the fastest growing categories of the budget and much of this debt has been issued by public authorities without voter approval.

The budget gap for 2012-13, which the Governor must address in his Executive Budget due on February 1, 2012, is now projected at $3.25 billion. In the General Fund, the projected budget gaps total approximately $3.25 billion in 2012-13, $3.3 billion in 2013-14 and $4.8 billion in 2013-14.

Debt and other financing activities. The State has obtained long-term financing in the form of voter-approved general obligation debt (voter-approved debt) and other obligations that are authorized by legislation but not approved by the voters (non-voter approved debt), including lease-purchase contractual obligations where the State s legal obligation to make payments is subject to and paid from annual appropriations made by the Legislature or from assignment of revenue in the case of Tobacco Settlement Revenue Bonds. The indebtedness of the State may be classified as State-supported debt and State-related debt.

State-supported debt. State-supported debt includes general obligation debt, to which the full faith and credit of the State has been pledged, and lease-purchase and contractual obligations of public authorities and municipalities, where the State s legal obligation to make payments to those public authorities and municipalities is subject to and paid from annual appropriations made by the Legislature. These include the State Personal Income Tax (PIT) Revenue Bond Program and the New York Local Government Assistance Program bonds.

The Debt Reform Act of 2000 (the Act) imposes statutory limitations which restrict the issuance of State-supported debt to capital purposes only and establishes a maximum term of 30 years for such debt. The Act also imposed phased-in caps that ultimately limit the amount of new State-supported debt (issued on or after April 1, 2000) to 4% of State personal income, and new State-supported debt service (on debt issued on and after April 1, 2000) to 5% of total governmental funds receipts. For the fiscal year ended March 31, 2011, the cumulative debt outstanding and debt service caps were 4.00% and 4.32%, respectively. The Act does not apply to debt which is not considered State-supported and therefore does not encompass State-guaranteed debt, moral obligation debt, and contingent-contractual obligations financing such as the bonds issued by the Tobacco Settlement Financing Corporation.

General obligation debt. General obligation debt is debt to which the full faith and credit of the State has been pledged. Under New York s Constitution, the State may not, with limited exceptions for emergencies, undertake long-term general obligation borrowing (i.e., borrowing for more than one year) unless the borrowing is authorized in a specific amount for a single work or purpose by the Legislature and approved by the voters. Under the State Constitution, the State may undertake short-term general obligation borrowings without voter approval (i)

in anticipation of the receipt of taxes and revenues, by issuing general obligation tax and revenue anticipation notes, and (ii) in anticipation of the receipt of proceeds from the sale of duly authorized but unissued general obligation bonds, by issuing bond anticipation notes. General obligation debt is currently authorized for transportation, environment and housing purposes. The State had $3.625 billion in general obligation bonds outstanding at 2011 fiscal year-end. During the year the State issued $500 million in general obligation bonds. The total amount of general obligation bonded debt authorized but not yet issued at 2010 2011 year-end was $1.7 billion. At March 31, 2011 the State had $56.1 billion in bonds, notes and other financing agreements outstanding compared with $55.3 billion last year, an increase of $842 million. New York has never defaulted on any of its general obligation debt.

State-supported lease-purchase and contractual-obligation financings. Prior to the commencement of the State PIT Revenue issuances in 2002, public authorities or municipalities issued other long-term, lease-purchase and contractual-obligation debt. This type of debt, where debt service is payable from monies received from the State and is subject to annual State appropriation, not general obligations of the State. Under this financing structure bonds were issued to finance various capital programs, including those which finance the State s highway and bridge projects, State University of New York and City University of New York educational facilities, health and mental hygiene facilities, prison construction and rehabilitation, economic development projects, State buildings and housing programs, and equipment acquisitions. Debt service payable to certain public authorities from State appropriations for such lease-purchase and contractual obligation financings may be paid from general resources of the State or from dedicated tax and other sources (i.e., State personal income taxes, motor vehicle and motor fuel related-taxes, dormitory facility rentals, and patient charges). Although these financing arrangements involve a contractual agreement by the State to make payments to a public authority, municipality or other entity, the State s obligation to make such payments is expressly made subject to appropriation by the Legislature and the actual availability of money to the State for making the payments. New York has never defaulted on any of its obligations under lease purchase or contractual obligation financing arrangements. As of March 31, 2011, the State had long-term debt obligations of $40.4 billion under lease/purchase and other financing arrangements (nonvoter approved), a decrease from $40.7 billion for fiscal 2010.

State-related debt. State-related debt is a broader measure of State debt that includes the State-supported debt referenced above, as well as State-guaranteed debt (to which the full faith and credit of the State has been pledged), moral obligation financings and certain contingent-contractual obligation financings.

Contingent contractual-obligation financing. New York may also enter into statutorily authorized contingent contractual-obligation via a service contracts obligating it to pay debt service on bonds, subject to annual appropriation, in the event there are shortfalls in revenues from other non-State resources pledged, or otherwise available, to pay the debt service on the bonds. New York has never been required to make any payments under this financing arrangement, but the bankruptcy of certain hospitals in the secured hospitals program may require the State to make payments in the future.

Moral obligation financings. Moral obligation financing generally involves the issuance of debt by a public authority to finance a revenue-producing project or other activity. The debt is secured by project revenues and includes statutory provisions requiring the State, subject to appropriation by the Legislature, to make up any deficiencies which may occur in the issuer s debt service reserve fund. There has never been a payment default on any moral obligation debt of any public authority. The DOB does not expect the State to increase statutory authorizations for moral obligation bond programs. The State has not been called upon to make any payments pursuant to any moral obligations since the 1986-87 fiscal year and no such requirements are anticipated during the 2011-12 fiscal year.

State-guaranteed financings. Pursuant to specific constitutional authorization, New York may also directly guarantee certain public authority obligations. Payments of debt service on State-guaranteed bonds and notes are legally enforceable obligations of the State. The only current authorization provides for the State guarantee of the repayment of certain borrowings for designated projects of the New York State Job Development Authority. The State has never been called upon to make any direct payments pursuant to any such guarantees and does not anticipate that it will be called upon to make any payments pursuant to the State guarantee in the 2011-12 fiscal year.

Public authorities. Public authorities refer to certain public benefit corporations, created pursuant to State

law. Public authorities are not subject to the constitutional restrictions on the incurrence of debt that apply to the State itself and may issue bonds and notes within the amounts and restrictions set forth in legislative authorization. The State s access to the public credit markets could be impaired and the market price of its outstanding debt may be materially and adversely affected if any of its public authorities were to default on their respective obligations, particularly those using State-supported or State-related debt. As of December 31, 2010, there were 17 public authorities that had outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, of these State public authorities was approximately $161 billion, only a portion of which constitutes State-supported or State-related debt.

New York City (the City). The fiscal demands on New York may be affected by the fiscal condition of the City, which relies in part on State aid to balance its budget and meet its cash requirements. It is also possible that the State s finances may be affected by the ability of the City, and certain entities issuing debt for the benefit of the City, to market securities successfully in the public credit markets.

Other Localities. Certain localities outside the City have experienced financial problems and have requested and received additional State assistance during the last several State fiscal years. Between 2004 and July 2010, the New York Legislature authorized 21 bond issuances to finance local government operating deficits. Like the State, local governments must respond to changing political, economic and financial influences over which they have little or no control. Such changes may adversely affect the financial condition of certain local governments. For example, the State or federal government may reduce (or in some cases eliminate) funding of some local programs or disallow certain claims which, in turn, may require local governments to fund these expenditures from their own resources. It is also possible that localities or local public authorities may suffer serious financial difficulties that could jeopardize local access to the public credit markets, which may adversely affect the marketability of notes and bonds issued by localities within the State. Localities may also face unanticipated problems resulting from certain pending litigation, judicial decisions and long-range economic trends. Other large-scale potential problems, such as declining urban populations, increasing expenditures, and the loss of skilled manufacturing jobs, may also adversely affect localities and necessitate State assistance.

Bond ratings. The State s general obligation bonds are rated AA (with a stable outlook) by S&P and Aa2 (with a stable outlook) by Moody s (ratings confirmed as of December 12, 2011 and December 8, 2011, respectively). There can be no assurance that such ratings will be maintained in the future. It should be noted that the creditworthiness of obligations issued by local New York issuers may be unrelated to the creditworthiness of obligations issued by the State of New York, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Risk management. New York State does not insure its buildings or their contents against theft, fire or other risks and does not insure its automobiles against the possibility of bodily injury and property damages. The State does, however, have fidelity insurance on State employees. Workers compensation coverage is provided on a self-insurance basis.

Legal proceedings. The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and federal laws.

Included in the State s outstanding litigation are a number of cases challenging the legality or the adequacy of a variety of significant social welfare programs primarily involving the State s Medicaid and mental health programs. Adverse judgments in these matters generally could result in injunctive relief coupled with prospective changes in patient care that could require substantial increased financing of the litigated programs in the future.

With respect to pending and threatened litigation, the State has reported liabilities of $538 million for awarded and anticipated unfavorable judgments. In addition, the State is party to other claims and litigation that its legal counsel has advised may result in possible adverse court decisions with estimated potential losses of approximately $379 million.

Other considerations. The Tax-Free New York Fund is susceptible to political, economic or regulatory

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factors affecting issuers of New York municipal obligations. The information provided is only a brief summary of the complex factors affecting the financial situation in New York and is derived from sources that are generally available to investors and are believed to be accurate. It is based in part on information obtained from various State agencies in New York or contained in Official Statements for various New York municipal obligations. No independent verification has been made of the accuracy or completeness of any of the preceding information.

Special Investment Considerations Regarding Ohio Municipal Securities. A Fund that invests in Ohio (referred to herein as the State or New Jersey) municipal securities is susceptible to political, economic, regulatory or other factors affecting issuers of Ohio municipal securities. The following information constitutes only a brief summary of a number of the complex factors which may impact issuers of Ohio municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which issuers of Ohio municipal securities may be subject. Such information is derived from official statements utilized in connection with the issuance of Ohio municipal securities, as well as from other publicly available documents. Such information has not been independently verified by the Fund and the Fund assumes no responsibility for the completeness or accuracy of such information.

The summary below does not include all of the information pertaining to the economy, budget, receipts and disbursements of the State that would ordinarily be included in various public documents, such as an official statement prepared in connection with the issuance of general obligation bonds of the State. Additionally, many factors, including national, economic, social and environmental policies and conditions, which are not within the control of such issuers, could have an adverse impact on the financial condition of such issuers. The creditworthiness of obligations issued by local Ohio issuers may be unrelated to the creditworthiness of obligations issued by the State, and there is no obligation on the part of the State to make payments on such local obligations. There may be specific factors that are applicable in connection with investment in the obligations of particular issuers located within Ohio, and it is possible the Fund will invest in obligations of particular issuers as to which such specific factors are applicable. The information set forth below is intended only as a general summary and not as a discussion of any specific factors that may affect any particular issuer of Ohio municipal securities.

Economic condition and outlook. Although manufacturing (including auto-related manufacturing) in Ohio remains an integral part of the State s economy, the greatest growth in recent years has been in the non-manufacturing sectors. In 2009, Ohio s economic output as measured by gross state product totaled $462.0 billion, 3.30% of the national gross product and eighth largest among the states. Ohio ranks fifth within the manufacturing sector as a whole ($73.2 billion) and third in durable goods ($42.0 billion). Ohio is the seventh largest exporting state with 2009 merchandise exports totaling $34.1 billion.

The State s overall unemployment rate is commonly somewhat higher than the national figure. For example, the reported average monthly State unemployment rates for 2007, 2008, 2009, and 2010 were 5.6%, 6.6%, 10.2%, and 10.1%, respectively, compared to national rates of 4.6%, 5.8%, 9.3%, and 9.6% , respectively. In 2011 the State s monthly rates fluctuated above and below the national rates, and in December 2011, the State unemployment rate was 8.1% compared to the national rate of 8.5%.

Payroll employment in Ohio increased in 2004 through 2006 and decreased in 2007 through 2010. Employment is shifting toward the service industry, with manufacturing employment decreasing. The non-manufacturing sector employs approximately 88% of all non-farm payroll workers in the State. While diversifying more into the service and other non-manufacturing areas, the Ohio economy continues to rely in part on durable goods manufacturing largely concentrated in motor vehicles and machinery, including electrical machinery. As a result, general economic activity, as in many other industrially developed states, tends to be more cyclical than in some other states and in the nation as a whole. Agriculture is an important segment of the economy, with over half the State s area devoted to farming and a significant portion of total employment in agribusiness.

Ohio is the seventh most populous state. The Census count for 2010 was 11,536,504, up from 11,353,140 in 2000.

Revenues and expenditures. Most State operations are financed through the General Revenue Fund (GRF). Personal income and sales-use taxes are the major sources of GRF tax revenue.

The Ohio Office of Budget and Management (OBM) continually monitors and analyzes revenues and expenditures developments (including pending litigation) affecting both, and prepares a financial report summarizing its analysis at the end of each month.

The 2010-11 biennial appropriations Act (the 2010-11 Act) was approved on July 17, 2009. All necessary debt service and lease-rental payments related to State obligations for the entire 2010-11 biennium were fully appropriated for the three week interim period and under the final 2010-11 Act. Reflecting the final implementation of the restructuring of State taxes commenced in 2006-07 and a conservative underlying economic forecast, the 2010-11 Act provided for total GRF biennial appropriations of approximately $50.5 billion (a 3.8% decrease from the 2008-09 biennial expenditures) and total GRF biennial revenues of approximately $51.1 billion (a 4.2% decrease from the 2008-09 biennial revenues). Appropriations for major program categories compared to 2008-09 actual spending reflected increases of 3.4% for Medicaid (excluding American Recovery and Reinvestment Act of 2009 (ARRA) funding) and 0.7% for corrections and youth services; and decreases of 13.8% for mental health and development disabilities, 8.3% for higher education, and 5.15% for elementary and secondary education. The 2010-11 Act also included the restructuring of $736 million of fiscal years 2010 and 2011 GRF fund debt service into fiscal years 2012 through 2025.

During fiscal year 2011, net assets of the State s primary government increased by $2.6 billion and ended fiscal year 2011 with a balance of $22.8 billion. Net assets of the State s component units increased by $1.4 billion and ended fiscal year 2011 with a balance of $13.8 billion.

As of June 30, 2011, the General Fund s fund balance was approximately $2.2 billion. The General Fund s fund balance increased by $606.9 million (exclusive of a $3.8 million increase in inventories) or 37.6% during fiscal year 2011. The General Fund includes the State s GRF as well as other funds, such as the budget stabilization fund and certain reimbursement-supported funds used for activities administered by State agencies and departments.

Budget process. Consistent with the Ohio Constitution provision that no State appropriation may be made for a period longer than two years, the State operates on the basis of a fiscal biennium for its appropriations and expenditures, and is effectively precluded by law from ending its July 1 to June 30 fiscal year or fiscal biennium in a deficit position. Most State operations are financed through the GRF, for which the personal income and sales use taxes are the major sources.

Current State budget. The 2012-13 biennial appropriations Act (the 2012-13 Act) was approved on June 30, 2011. To address the use of non-recurring funding sources in the 2010-11 biennium including amounts received under ARRA, the 2012-13 Act includes targeted spending cuts across most State agencies and major new Medicaid reform and cost containment measures. Reflecting tax law changes and a conservative underlying economic forecast, the 2012-13 Act provides for total GRF biennial appropriations of approximately $55.78 billion (an 11% increase from 2010-11 GRF biennial expenditures) and total GRF biennial estimated revenues of approximately $56.07 billion (a 6% increase from 2010-11 GRF revenues). GRF appropriations include a 30% increase for Medicaid (due in part to the absence of ARRA funding in the current biennium) and 3% for elementary an secondary educations; decreases of 9% for higher education and 8% for mental health and developmental disabilities; and flat funding for corrections and youth services. The 2012-13 Act also reflects the restructuring of $440 million of fiscal year 2012 general revenue fund debt service into fiscal years 2013 through 2025.

Major new sources of revenues or expenditure savings reflected in the 2012-13 Act include:

Transfer of the States liquor sales system to JobsOhio, a nonprofit corporation created to promote economic development, job creation and retention, job training and the recruitment of business to the State. In consideration of this transfer, the 2012-13 Act reflects that the State anticipates receiving a $500 million one-time payment from JobsOhio in fiscal year 2012. With that transfer, the State will forgo annual deposits to the GRF from net liquor profits (those deposits totaled $153.0 million in fiscal year 2011). In 2011, a complaint was filed claiming the law authorizing the creation of JobsOhio, as amended by the 2012-13 Act, is an improper special act conferring corporate powers and that the State may not lend its aid and credit to JobsOhio. The

court granted the State s motions to dismiss the complaint based on lack of standing. On December 23, 2011, plaintiffs appealed the trial court s ruling and the parties are awaiting a decision from the Court of Appeals.

Sale of a State-owned prison facility to private operators.

Reducing local government fund allocations by $111 million in fiscal year 2012 and $340 million in fiscal year 2013.

Reducing public library fund allocations resulting in expenditure reductions of $52.3 million in fiscal year 2012 and $102.8 million in fiscal year 2013.

Accelerated phase-out of reimbursement payments to local governments and school districts in connection with the elimination of the tangible personal property tax resulting in an increased share of the Commercial Activity Tax being deposited into the GRF (estimated at $293.5 million in fiscal year 2012 and $597.7 million in fiscal year 2013).

Accelerated phase-out of reimbursement payments to local governments and school districts for electric power generation deregulation and the entire natural gas deregulation resulting in a larger share of the kilowatt-hour tax and natural gas consumption tax being relocated to the GRF (estimated at $141.6 million in fiscal year 2012 and $147.4 million in fiscal year 2013).

$235 million from transfers to the GRF of unclaimed funds and from other non-GRF funds and $12 million from a tax amnesty program.

Obligations of the State of Ohio. The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by the State Constitution. The State may incur debt to cover casual deficits or to address failures in revenues or to meet expenses not otherwise provided for, but limited in amount to $750,000. The Constitution expressly precludes the State from assuming the debts of any county, city, town or township, or of any corporation. (An exception in both cases is for debts incurred to repel invasion, suppress insurrection, or defend the State in war.) The Constitution provides that Except the debts above specified . . . no debt whatever shall hereafter be created by, or on behalf of the state.

By 19 constitutional amendments approved from 1921 to present, Ohio voters have authorized the incurrence of State general obligation debt and the pledge of taxes or excises to its payment, all related to the financing of capital facilities, except for four that funded bonuses for veterans, one that funded coal technology research and development, and one for research and development activities. Currently, tax supported general obligation debt of the State is authorized to be incurred for the following purposes: highways, local infrastructure, coal development, natural resources, higher education, common schools, conservation, research and development, site development, and veterans compensation. Although supported by the general obligation pledge, highway debt is also backed by a pledge of and has always been paid from the State s motor fuel taxes and other highway user receipts that are constitutionally restricted in use to highway related purposes.

A 1999 constitutional amendment provides an annual debt service cap applicable to future issuances of State direct obligations payable from the GRF or net State lottery proceeds. Generally, new obligations may not be issued if future fiscal year debt service on those new and the then outstanding bonds of those categories would exceed 5% of the total estimated GRF revenues plus net State lottery proceeds during the fiscal year of issuance. Application of the cap may be waived in a particular instance by a three-fifths vote of each house of the Ohio General Assembly and may be changed by future constitutional amendments.

In addition to its issuance of highway bonds, the State has financed selected highway infrastructure projects by issuing bonds and entering into agreements that call for debt service payments to be made from federal transportation funds allocated to the State, subject to biennial appropriations by the General Assembly. The highest annual State

payment under those agreements in the current or any future fiscal year is $173.1 million in fiscal year

2012. In the event of any insufficiency in the anticipated federal allocations to make payments on State bonds, the payments are to be made from any lawfully available moneys appropriated to Ohio Department of Transportation for the purpose.

State agencies also have participated in buildings and equipment, information systems and non-highway transportation projects that have local as well as State use and benefit, in connection with which the State has entered into lease-purchase agreements with terms ranging from 7 to 20 years. Certificates of Participation (COPs) have been issued in connection with those agreements that represent fractionalized interests in and are payable from the State s anticipated lease payments. The maximum annual payment from GRF appropriations under those existing agreements is $30.5 in fiscal year 2013 and the total GRF-supported principal amount outstanding is $186.4 million. Payments by the State are subject to biennial appropriations by the General Assembly with the lease terms subject to renewal if appropriations are made. The approval of the OBM Director and either the General Assembly or the state controlling board is required if COPs are to be publicly-offered in connection with those agreements.

A statewide economic development program assists the financing of facilities and equipment for industry, commerce, research and distribution, including technology innovation, by providing loans and loan guarantees. The law authorizes the issuance of State bonds and notes secured by a pledge of portions of the State profits from liquor sales. The General Assembly has authorized the issuance of these obligations with a maximum of $630 million to be outstanding at any one time, of which not more than $84 million may be issued for eligible advanced energy projects and not more than $100 million may be issued for eligible logistics and distribution projects. The aggregate amount from the net liquor profit to be used in any fiscal year to pay debt service on these bonds may not exceed $63 million. Pursuant to constitutional authority, the State has issued $250 million of bonds or notes for revitalization purposes that are also payable from a separate, subordinate pledge of State liquor profits. The maximum annual debt service on all State bonds payable from State liquor profits is $51.1 million in fiscal year 2016.

Certain State agencies issue revenue bonds that are payable from revenues from or relating to revenue producing facilities, such as those issued by the Ohio Turnpike Commission. By judicial interpretation, such revenue bonds do not constitute debt under the constitutional provisions described above. The Constitution authorizes State bonds for certain housing purposes (issued by the Ohio Housing Finance Agency) to which tax moneys may not be obligated or pledged.

As of June 30, 2011, the State had $7.87 billion in general obligation bonds outstanding.

Other issuers of Ohio municipal obligations. Legislation was enacted in 1996 to address school districts in financial straits. It is similar to similar legislation adopted in 1979 for municipal fiscal emergencies and fiscal watch, but is particularly tailored to certain school districts and their then existing or potential fiscal problems. There are currently eight school districts in fiscal emergency status and five in fiscal watch status. New legislation created a third, more preliminary, category of fiscal caution.

For those municipalities that have faced significant financial problems, there are statutory procedures for a commission composed of State and local officials, and private sector members experienced in business and finance appointed by the Governor to monitor the fiscal affairs of the municipality. The municipality is required to develop a financial plan, subject to the approval of the commission, to eliminate deficits and cure any defaults. As of March 2012, twenty-three municipalities, including one county and two townships, are in fiscal emergency status, three municipalities are in fiscal watch status and three in fiscal caution status.

At present the State itself does not levy ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes on particular property, without a vote of the electors or municipal charter provision, to 1% of true value in money, and statutes limit the amount of that aggregate levy without a vote or charter provision to 10 mills per $1 of assessed valuation commonly referred to in the context of Ohio local government finance as the ten-mill limitation.

Bond ratings. The State s general obligation bonds are rated AA+ by S&P and Aa1 by Moody s (ratings confirmed as of March 1, 2012. There can be no assurance that such ratings will be maintained in the future. It

should be noted that the creditworthiness of obligations issued by local Ohio issuers may be unrelated to the creditworthiness of obligations issued by the State of Ohio, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Legal proceedings. The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings affecting the Department of Commerce, the Department of Transportation, and the Bureau of Workers Compensation. (described in the State s recent financial statements). As of June 30, 2011, $26.8 million remains payable to the defendant in the Department of Transportation case and has been recorded as a liability in the State s financial statements. Because of the prospective nature of the other proceedings, it is not presently possible to predict the outcome of such litigation, estimate the potential impact on the State s financial position, or determine what impact, if any, such proceedings may have on the Fund.

Other considerations. The Fund is susceptible to political, economic or regulatory factors affecting issuers of Ohio municipal obligations. The information provided is only a brief summary of the complex factors affecting the financial situation in Ohio and is derived from sources that are generally available to investors and are believed to be accurate. It is based in part on information obtained from various State agencies in Ohio or contained in Official Statements for various Ohio municipal obligations. No independent verification has been made of the accuracy or completeness of any of the preceding information.

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APPENDIX B
RATINGS OF DEBT SECURITIES

The following is a description of the factors underlying the debt ratings of Moody s, S&P and Fitch.

Moody s Long-Term Debt Ratings

Aaa: Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk. Aa: Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. A: Obligations rated A are considered upper-medium grade and are subject to low credit risk.

Baa: Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.

Ba: Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.

B: Obligations rated B are considered speculative and are subject to high credit risk.

Caa: Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.

Ca: Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C: Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody s applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Moody s Short-Term Prime Rating System

P-1

Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2

Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

P-3

Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

NP (Not Prime)

Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

Note: In addition, in certain countries the prime rating may be modified by the issuer s or guarantor s senior unsecured long-term debt rating.

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Moody s MIG/VMIG US Short-Term Ratings

In municipal debt issuance, there are three rating categories for short-term obligations that are considered investment grade. These ratings are designated as Moody s Investment Grade (MIG) and are divided into three levels MIG 1 through MIG 3.

In addition, those short-term obligations that are of speculative quality are designated SG, or speculative grade.

In the case of variable rate demand obligations (VRDOs), a two-component rating is assigned. The first element represents Moody s evaluation of the degree of risk associated with scheduled principal and interest payments. The second element represents Moody s evaluation of the degree of risk associated with the demand feature, using the MIG rating scale.

The short-term rating assigned to the demand feature of VRDOs is designated as VMIG. When either the long- or short-term aspect of a VRDO is not rated, that piece is designated NR, e.g., Aaa/NR or NR/VMIG 1.

MIG ratings expire at note maturity. By contrast, VMIG rating expirations will be a function of each issue s specific structural or credit features.

Gradations of investment quality are indicated by rating symbols, with each symbol representing a group in which the quality characteristics are broadly the same.

MIG 1/VMIG 1: This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support or demonstrated broad-based access to the market for refinancing.

MIG 2/VMIG 2: This designation denotes strong credit quality. Margins of protection are ample although not as large as in the preceding group.

MIG 3/VMIG 3: This designation denotes acceptable credit quality. Liquidity and cash flow protection may be narrow and market access for refinancing is likely to be less well established.

SG: This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Standard & Poor s Long-Term Issue Credit Ratings

Issue credit ratings are based, in varying degrees, on Standard & Poor s analysis of the following considerations:

Likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;

Nature of and provisions of the obligation;

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

AAA

An obligation rated AAA has the highest rating assigned by Standard & Poor s. The obligor s capacity to meet its financial commitment on the obligation is extremely strong.

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AA
An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor s capacity to meet its financial commitment on the obligation is very strong.
A
An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor s capacity to meet its financial commitment on the obligation is still strong.
BBB
An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB, B, CCC, CC and C
Obligations rated BB , B , CCC , CC , and C are regarded as having significant speculative characteristics. BB i the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB
An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor s inadequate capacity to meet its financial commitment on the obligation.
B
An obligation rated B is more vulnerable to nonpayment than obligations rated BB , but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor s capacity or willingness to meet its financial commitment on the obligation.
CCC
An obligation rated CCC is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.
CC
An obligation rated CC is currently highly vulnerable to nonpayment.
C
A C rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the C rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument s terms or when preferred stock is the subject of a distressed exchange

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offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D

An obligation rated D is in payment default. The D rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor s believes that such payments will be made during such grace period. The D rating also will be used upon the filing of bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation s rating is lowered to D upon completion of distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

Plus (+) or minus (-)

The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

NR

This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor s does not rate a particular obligation as a matter of policy.

Standard & Poor s Short-Term Issue Credit Ratings

A-1

A short-term obligation rated A-1 is rated in the highest category by Standard & Poor s. The obligor s capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor s capacity to meet its financial commitment on these obligations is extremely strong.

A-2

A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor s capacity to meet its financial commitment on the obligation is satisfactory.

A-3

A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead a weakened capacity of the obligor to meet its financial commitment on the obligation.

B

A short-term obligation rated B is regarded as having significant speculative characteristics. Ratings of B-1 , B-2 , and B-3 may be assigned to indicate finer distinctions within the B category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor s inadequate capacity to meet its financial commitment on the obligation.

B-1

A short-term obligation rated B-1 is regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

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B-2

A short-term obligation rated B-2 is regarded as having significant speculative characteristics, and the obligor has an average speculative-grade capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

B-3

A short-term obligation rated B-3 is regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.

C

A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.

D

A short-term obligation rated D is in payment default. The D rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor s believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized.

Standard & Poor s Municipal Short-Term Note Ratings Definitions

A Standard & Poor s U.S. municipal note rating reflects Standard & Poor s opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, Standard & Poor s analysis will review the following considerations:

Amortization schedule the larger final maturity relative to other maturities, the more likely it will be treated as a note; and

Source of payment the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

Note rating symbols are as follows:

SP-1

Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.

SP-2

Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.

SP-3

Speculative capacity to pay principal and interest.

Standard & Poor s Dual Ratings

Standard & Poor s assigns dual ratings to all debt issues that have a put option or demand feature as part of their structure. The first rating addresses the likelihood of repayment of principal and interest as due, and the second rating addresses only the demand feature. The long-term rating symbols are used for bonds to denote the long-term maturity and the short-term rating symbols for the put option (for example, AAA/A-1+). With U.S. municipal short-term demand debt, note rating symbols are used with the short-term issue credit rating symbols (for example, SP-1+/A-1+)

The ratings and other credit related opinions of Standard & Poor s and its affiliates are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities or make any investment decisions. Standard & Poor s assumes no obligation to update any information following publication. Users of ratings and credit related opinions should not rely on them in making any investment decision. Standard & Poor s opinions and analysis do not address the suitability of any security. Standard & Poor s Financial Services LLC does not act as a fiduciary or an investment advisor. While Standard & Poor s has obtained information from sources it believes to be reliable, Standard & Poor s does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Ratings and credit related opinions may be changed, suspended, or withdrawn at any time.

Fitch Credit Rating Scales

Fitch Ratings credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, repayment of principal, insurance claims or counterparty obligations. Credit ratings are used by investors as indications of the likelihood of receiving the money owed to them in accordance with the terms on which they invested. The agency s credit ratings cover the global spectrum of corporate, sovereign (including supranational and sub-national), financial, bank, insurance, municipal and other public finance entities and the securities or other obligations they issue, as well as structured finance securities backed by receivables or other financial assets.

The terms investment grade and speculative grade have established themselves over time as shorthand to describe the categories AAA to BBB (investment grade) and BB to D (speculative grade). The terms investment grade and speculative grade are market conventions, and do not imply any recommendation or endorsement of a specific security for investment purposes. Investment grade categories indicate relatively low to moderate credit risk, while ratings in the speculative categories either signal a higher level of credit risk or that a default has already occurred.

A designation of Not Rated or NR is used to denote securities not rated by Fitch where Fitch has rated some, but not all, securities comprising an issuance capital structure.

Credit ratings express risk in relative rank order, which is to say they are ordinal measures of credit risk and are not predictive of a specific frequency of default or loss.

Fitch Ratings credit ratings do not directly address any risk other than credit risk. In particular, ratings do not deal with the risk of a market value loss on a rated security due to changes in interest rates, liquidity and other market considerations. However, in terms of payment obligation on the rated liability, market risk may be considered to the extent that it influences the ability of an issuer to pay upon a commitment. Ratings nonetheless do not reflect market risk to the extent that they influence the size or other conditionality of the obligation to pay upon a commitment (for example, in the case of index-linked bonds).

In the default components of ratings assigned to individual obligations or instruments, the agency typically rates to the likelihood of non-payment or default in accordance with the terms of that instrument s documentation. In limited cases, Fitch Ratings may include additional considerations (i.e. rate to a higher or lower standard than that implied in the obligation s documentation). In such cases, the agency will make clear the assumptions underlying the agency s opinion in the accompanying rating commentary.

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Fitch Long-Term Rating Scales

Issuer Credit Rating Scales

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns and insurance companies, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity s relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency s view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default. For historical information on the default experience of Fitch-rated issuers, please consult the transition and default performance studies available from the Fitch Ratings website.

AAA: Highest credit quality.

AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality.

AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality.

A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality.

BBB ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB: Speculative.

BB ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

B: Highly speculative.

B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC: Substantial credit risk.

Default is a real possibility.

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CC: Very high levels of credit risk.

Default of some kind appears probable.

C: Exceptionally high levels of credit risk

Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a C category rating for an issuer include:

a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation;

b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or

c. Fitch Ratings otherwise believes a condition of RD or D to be imminent or inevitable, including through the formal announcement of a coercive debt exchange.

RD: Restricted default.

RD ratings indicate an issuer that in Fitch Ratings opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business. This would include:

a. the selective payment default on a specific class or currency of debt;

b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;

c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or

d. execution of a coercive debt exchange on one or more material financial obligations.

D: Default.

D ratings indicate an issuer that in Fitch Ratings opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a coercive debt exchange.

Imminent default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a coercive debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency s opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer s financial obligations or local commercial practice.

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Note:
The modifiers + or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA Long-Term IDR category, or to Long-Term IDR categories below B .

Fitch Short-Term Rating Scales

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as short term based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

F1: Highest short-term credit quality.

Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.

F2: Good short-term credit quality.

Good intrinsic capacity for timely payment of financial commitments.

F3: Fair short-term credit quality.

The intrinsic capacity for timely payment of financial commitments is adequate.

B: Speculative short-term credit quality.

Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

C: High short-term default risk.

Default is a real possibility.

RD: Restricted default.

Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.

D: Default.

Indicates a broad-based default event for an entity, or the default of a short-term obligation.

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APPENDIX C
STRATEGIC TRANSACTIONS; OPTIONS AND FUTURES

This appendix provides additional information about the investment policies and restrictions for some of the Funds. Capitalized terms not otherwise defined herein are used as defined in the Fund s original prospectus, as amended. References herein to the Prospectus should be read as references to the Fund s original prospectus, as amended.

Invesco Van Kampen California Value Municipal Income Trust (VCV), Invesco Van Kampen Select Sector Municipal Trust (VKL) and Invesco Van Kampen Massachusetts Value Municipal Income Trust (VMV)

Strategic Transactions

The Fund may purchase and sell exchange-listed and over-the-counter put and call options on securities, financial futures, fixed-income indices and other financial instruments, purchase and sell financial futures contracts and enter into various interest rate transactions such as swaps, caps, floors or collars. Collectively, all the above are referred to as Strategic Transactions. Strategic Transactions may be used to attempt to protect against possible changes in the market value of securities held in or to be purchased for the Fund s portfolio resulting from securities markets fluctuations, to protect the Fund s unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes, to manage the effective maturity or duration of the Fund s portfolio, or to establish a position in the derivatives markets as a temporary substitute for purchasing or selling particular securities. Strategic Transactions, other than Strategic Transactions involving financial futures and options thereon, may also be used to enhance potential gain. Any or all of these investment techniques may be used at any time and there is no particular strategy that dictates the use of one technique rather than another, as use of any Strategic Transaction is a function of numerous variables including market conditions. The ability of the Fund to utilize these Strategic Transactions successfully will depend on the Adviser s ability to predict pertinent market movements, which cannot be assured. The Fund will comply with applicable regulatory requirements when implementing these strategies, techniques and instruments. Strategic Transactions involving financial futures and options thereon will be purchased, sold or entered into only for bona fide hedging, risk management or portfolio management purposes and not for speculative purposes.

Strategic Transactions have risks associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Adviser s view as to certain market movements is incorrect, the risk that the use of such Strategic Transactions could result in losses greater than if they had not been used. Use of put and call options may result in losses to the Fund, force the sale of portfolio securities at inopportune times or for prices other than at current market values, limit the amount of appreciation the Fund can realize on its investments or cause the Fund to hold a security it might otherwise sell. The use of options and futures transactions entails certain other risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio position of the Fund creates the possibility that losses on the hedging instrument may be greater than gains in the value of the Fund s position. In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter options may have no markets. As a result, in certain markets, the Fund might not be able to close out a transaction without incurring substantial losses, if at all. Although the contemplated use of these futures contracts and options thereon should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time they tend to limit any potential gain which might result from an increase in value of such position. Finally, the daily variation margin requirements for futures contracts and the sale of options thereon would create a greater ongoing potential financial risk than would purchases of options, where the exposure is limited to the cost of the initial premium. Losses resulting from the use of Strategic Transactions would reduce net asset value, and possibly income, and such losses can be greater than if the Strategic Transactions had not been utilized. Income earned or gains realized or deemed to be earned or realized, if any, by the Fund from engaging in Strategic Transactions generally will be taxable income of the Fund. Such income will be allocated to both the Common Shares and the Preferred Shares on a pro rata basis. The Strategic Transactions that the Fund may use and some of their risks are described more fully below.

The Fund may, but is not required to, utilize various other investment strategies as described below to hedge various market risks (such as interest rates), to manage the effective maturity or duration of securities or

portfolios or to enhance potential gain. Such strategies are generally accepted by modern portfolio managers and are regularly utilized by many mutual funds and other institutional investors. Techniques and instruments may change over time as new instruments and strategies are developed or regulatory changes occur.

Strategic Transactions. In the course of pursuing these investment strategies, the Fund may purchase and sell exchange-listed and over-the-counter put and call options on securities, financial futures, interest rate indices and other financial instruments, purchase and sell financial futures contracts and enter into various interest rate transactions such as swaps, caps, floors or collars (collectively, all the above are called Strategic Transactions). Presently, options on municipal securities are traded exclusively over-the-counter, although if options on municipal securities were to be listed for trading on a national securities exchange the Fund might trade in such exchange-listed options. Strategic Transactions may be used to attempt to protect against possible changes in the market value of securities held in or to be purchased for the Fund s portfolio resulting from securities markets fluctuations, to protect the Fund s unrealized gains in the value of its portfolio securities, to facilitate the sale of such securities for investment purposes, to manage the effective maturity or duration of the Fund s portfolio, or to establish a position as a temporary substitute for purchasing or selling particular securities. Some Strategic Transactions may also be used to enhance potential gain although no more than 5% of the Fund s assets will be committed to Strategic Transactions entered into for non-hedging or risk management purposes. Any or all of these investment techniques may be used at any time and there is no particular strategy that dictates the use of one technique rather than another, as the use of any Strategic Transaction is a function of numerous variables including market conditions. The ability of the Fund to utilize these Strategic Transactions successfully will depend on the Adviser s ability to predict pertinent market movements, which cannot be assured. The Fund will comply with applicable regulatory requirements when implementing these strategies, techniques and instruments. Strategic Transactions involving financial futures and options thereon will be purchased, sold or entered into only for bona fide hedging, risk management or portfolio management purposes and not for speculative purposes.

Strategic Transactions have risks associated with them including possible default by the other party to the transaction, illiquidity and, to the extent the Adviser s view as to certain market movements is incorrect, the risk that the use of such Strategic Transactions could result in losses greater than if they had not been used. Use of put and call options may result in losses to the Fund, force the sale of portfolio securities at inopportune times or for prices other than current market values, limit the amount of appreciation the Fund can realize on its investments or cause the Fund to hold a security it might otherwise sell. The use of options and futures transactions entails certain other risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio position of the Fund creates the possibility that losses on the hedging instrument may be greater than gains in the value of the Fund s position. In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter options may have no markets. As a result, in certain markets, the Fund might not be able to close out a transaction without incurring substantial losses, if at all. Although the contemplated use of these futures contracts and options thereon should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time they tend to limit any potential gain which might result from an increase in value of such position. Finally, the daily variation margin requirements for futures contracts and the sale of options thereon would create a greater ongoing potential financial risk than would purchases of options, where the exposure is limited to the cost of the initial premium. Losses resulting from the use of Strategic Transactions would reduce net asset value, and possibly income, and such losses can be greater than if the Strategic Transactions had not been utilized. Income earned or gains realized or deemed to be earned or realized, if any, by the Fund from engaging in Strategic Transactions generally will be taxable income of the Fund. Such income will be allocated to both the Common Shares and the Preferred Shares on a pro rata basis.

General Characteristics of Options. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. Thus, the following general discussion relates to each of the particular types of options discussed in greater detail below. In addition, many Strategic Transactions involving options require segregation of Fund assets in special accounts, as described below under Use of Segregated and Other Special Accounts.

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index or other instrument at the exercise price. For instance, the Fund s purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by

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giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. The Fund s purchase of a call option on a security, financial future, index or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument. An American style put or call option may be exercised at any time during the option period while a European style put or call option may be exercised only upon expiration or during a fixed period prior thereto. The Fund is authorized to purchase and sell exchange listed options and over-the-counter options (OTC options). Exchange listed options are issued by a regulated intermediary such as the Options Clearing Corporation (OCC), which guarantees the performance of the obligations of the parties to such options. The discussion below uses the OCC as a paradigm, but is also applicable to other financial intermediaries.

With certain exceptions, OCC issued and exchange listed options generally settle by physical delivery of the underlying security, although in the future cash settlement may become available. Index options and Eurodollar instruments are cash settled for the net amount, if any, to the extent the option is in-the-money (i.e., where the value of the underlying instrument exceeds in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option.

The Fund s ability to close out its position as a purchaser or seller of an OCC or exchange listed put or call option is dependent, in part, upon the liquidity of the option market. Among the possible reasons for the absence of a liquid option market on an exchange are: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to the particular classes or series of options or underlying securities including reaching daily price limits; (iv) interruption of the normal operations of the OCC or an exchange; (v) inadequacy of the facilities of an exchange or OCC to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or series of options), in which event the relevant market for that option on that exchange would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms.

The hours of trading for listed options may not coincide with the hours during which the underlying financial instruments are traded. To the extent that the option markets close before the markets for the underlying financial instruments, significant price movements can take place in the underlying markets that cannot be reflected in the option markets.

OTC options are purchased from or sold to securities dealers, financial institutions or other parties (Counterparties) through direct bilateral agreements with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guaranties and security, are set by negotiation of the parties. The Fund will only enter into OTC options that have a buy-back provision permitting the Fund to require the Counterparty to buy back the option at a formula price within seven days. The Fund expects generally to enter into OTC options that have cash settlement provisions, although it is not required to do so.

Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the Counterparty fails to make or take delivery of the security or other instrument underlying an OTC option it has entered into with the Fund or fails to make a cash settlement payment due in accordance with the terms of the option, the Fund will lose any premium it paid for the option as well as any anticipated benefit of the transaction. Accordingly, the Adviser must access the creditworthiness of each such Counterparty or any guarantor or credit enhancement of the Counterparty s credit to determine the likelihood that the terms of the OTC option will be satisfied. The Fund will engage in OTC option transactions only with United States government securities dealers recognized by the Federal Reserve Bank in New York as primary dealers , broker-dealers, domestic or foreign banks or other financial institutions which have received a short-term credit rating of A-l from S&P or P-l from Moody s Investor Services (Moody s) or any equivalent rating from any other nationally recognized statistical rating organization

(NRSRO). The staff of the Securities and Exchange Commission currently takes the

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position that assets used as cover or segregated in connection with the amount of the Fund s obligation pursuant to certain OTC options are illiquid.

If the Fund sells a call option, the premium that it receives may serve as a partial hedge, to the extent of the option premium, against a decrease in the value of the underlying securities or instruments in its portfolio or will increase the Fund s income. The sale of put options can also provide income.

The Fund may purchase and sell call options on municipal securities and other financial instruments that the adviser believes have a high degree of correlation to the municipal securities which the Fund may purchase, including U.S. Treasury and agency securities, mortgage-backed securities and Eurodollar instruments that are traded on U.S. securities exchanges and in the over-the-counter markets and related futures on such securities. All calls sold by the Fund must be covered or must meet the asset segregation requirements described below as long as the call is outstanding (i.e., the Fund must own the securities or futures contract subject to the call). Even though the Fund will receive the option premium to help protect it against loss, a call sold by the Fund exposes the Fund during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security and may require the Fund to hold a security which it might otherwise have sold.

The Fund may purchase and sell put options that relate to municipal securities and other financial instruments that the Adviser believes have a high degree of correlation to the municipal securities which the Fund may purchase, including U.S. Government Securities, mortgage-backed securities, and Eurodollar instruments (whether or not it holds the above securities in its portfolio) or futures on such securities. The Fund will not sell put options if, as a result, more than 50% of the Fund s assets would be required to be segregated to cover its potential obligations under its hedging, duration management, risk management, and other Strategic Transactions other than those with respect to futures and options thereon. In selling put options, there is a risk that the Fund may be required to buy the underlying security at a disadvantageous price above the market price.

General Characteristics of Futures. The Fund may purchase and sell financial futures contracts or purchase put and call options on such futures as a hedge against anticipated interest rate movements for duration management and for risk management purposes. Futures are generally bought and sold on the commodities exchanges where they are listed with payment of initial and variation margin as described below. The sale of a futures contract creates a firm obligation by the Fund, as seller, to deliver the specific type of financial instrument called for in the contract at a specific future time for a specified price (or, with respect to index futures and Eurodollar instruments, the net cash amount). Options on futures contracts are similar to options on securities except that an option on a futures contract gives the purchaser the right in return for the premium paid to assume a position in a futures contract.

The Fund s use of financial futures and options thereon will in all cases be consistent with applicable regulatory requirements and in particular the rules and regulations of the Commodity Futures Trading Commission and will be entered into for bona fide hedging (including duration management), risk management or other portfolio management purposes. Typically, maintaining a futures contract or selling an option thereon requires the Fund to deposit with a financial intermediary as security for its obligations an amount of cash or other specified assets (initial margin) which initially is typically 1% to 5% of the face amount of the contract (but may be higher in some circumstances). Additional cash or assets (variation margin) may be required to be deposited thereafter on a daily basis as the mark to market value of the contract fluctuates. The purchase of options on financial futures involves payment of a premium for the option without any further obligation on the part of the Fund. If the Fund exercises an option on a futures contract it will be obligated to post initial margin (and potential subsequent variation margin) for the resulting futures position just as it would for any position. Futures contracts and options thereon are generally settled by entering into an offsetting transaction but there can be no assurance that the position will be offset prior to settlement and that delivery will not occur.

The Fund will not enter into a futures contract or related option (except for closing transactions) for other than bona fide hedging purposes if, immediately thereafter, the sum of the amount of its initial margin and premiums on open futures contracts and options thereon would exceed 5% of the Fund s net assets (taken at current value); however, in the case of an option that is in-the-money at the time of the purchase, the in-the-money amount may be excluded in calculating the 5% limitation. Certain state securities laws to which the Fund may be subject may

further restrict the Fund s ability to engage in transactions in futures contracts and related options. The segregation requirements with respect to futures and options thereon are described below.

Options on Securities Indices and Other Financial Indices. The Fund also may purchase and sell call and put options on securities indices and other financial indices, including indices based upon municipal securities to the extent that an active market exists or develops, and, in so doing can achieve many of the same objectives it would achieve through the sale or purchase of options on individual securities or other instruments. Options on securities indices and other financial indices are similar to options on a security or other instrument except that, rather than settling by physical delivery of the underlying instrument, they settle by cash settlement, i.e., an option on an index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the index upon which the option is based exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option (except if, in the case of an OTC option, physical delivery is specified). This amount of cash is equal to the excess of the closing price of the index over the exercise price of the option, which also may be multiplied by a formula value. The seller of the option is obligated, in return for the premium received, to make delivery of this amount. The gain or loss on an option on an index depends on price movements in the instruments making up the market, market segment, industry or other composite on which the underlying index is based, rather than price movements in individual securities, as is the case with respect to options on securities.

Combined Transactions. The Fund may enter into multiple transactions, including multiple options transactions, multiple futures transactions and any combination of futures and options transactions (component transactions), instead of a single Strategic Transaction, as part of a single or combined strategy when, in the opinion of the Adviser, it is in the best interests of the Fund to do so. A combined transaction will usually contain elements of risk that are present in each of its component transactions. Although combined transactions are normally entered into based on the Adviser s judgment that the combined strategies will reduce risk or otherwise more effectively achieve the desired portfolio management goal, it is possible that the combination will instead increase such risks or hinder achievement of the portfolio management objective.

Swaps, Caps, Floors and Collars. Among the Strategic Transactions into which the Fund may enter are interest rate and index swaps and the purchase or sale of related caps, floors and collars. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio, to protect against currency fluctuations, as a duration management technique or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as hedges and not as speculative investments and will not sell interest rate caps or floors where it does not own securities or other instruments providing the income stream the Fund may be obligated to pay. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. An index swap is an agreement to swap cash flows on a notional amount based on changes in the values of the reference indices. The purchase of a cap entitles the purchaser to receive payments on a notional principal amount from the party selling such cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of a floor entitles the purchaser to receive payments on a notional principal amount from the party selling such floor to the extent that a specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates or values.

The Fund may enter into swaps, caps, floors or collars on either an asset-based or liability-based basis, depending on whether it is hedging its assets or its liabilities, and will usually enter into swaps on a net basis, i.e., the two payment streams are netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as these swaps, caps, floors and collars are entered into for good faith hedging purposes, the Adviser and the Fund believe such obligations do not constitute senior securities under the 1940 Act and, accordingly, will not treat them as being subject to its borrowing restrictions. The Fund will not enter into any swap, cap, floor or collar transaction unless, at the time of entering into such transaction, the unsecured long-term debt of the Counterparty, combined with any credit enhancements, is rated at least A by S&P or Moody s or has an equivalent rating from an NRSRO or is determined to be of equivalent credit quality by the Adviser. If there is a default by the Counterparty, the Fund will have contractual

remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals

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and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, accordingly, they are less liquid than swaps.

Eurodollar Instruments. The Fund may make investments in Eurodollar instruments. Eurodollar instruments are U.S. dollar-denominated futures contracts or options thereon which are linked to the London Interbank Offered Rate (LIBOR). Eurodollar futures contracts enable purchasers to obtain a fixed rate for the lending of funds and sellers to obtain a fixed rate for borrowings. The Fund might use Eurodollar futures contracts and options thereon to hedge against changes in LIBOR, to which many interest rate swaps and fixed income instruments are linked.

Use of Segregated and Other Special Accounts. Many Strategic Transactions, in addition to other requirements, require that the Fund segregate liquid high grade assets with its custodian to the extent Fund obligations are not otherwise covered through ownership of the underlying security or financial instrument. In general, either the full amount of any obligation by the Fund to pay or deliver securities or assets must be covered at all times by the securities or instruments required to be delivered, or an amount of cash or liquid high grade securities at least equal to the current amount of the obligation must be segregated with the Fund s custodian. The segregated assets cannot be sold or transferred unless equivalent assets are substituted in their place or it is no longer necessary to segregate them. For example, a call option written by the Fund will require the Fund to hold the securities subject to the call (or securities convertible into the underlying securities without additional consideration) or to segregate liquid high grade assets sufficient to purchase and deliver the securities if the call is exercised. A call option sold by the Fund on an index will require the Fund to own portfolio securities which correlate with the index or to segregate liquid high grade assets equal to the excess of the index value over the exercise price on a current basis. A put option written by the Fund requires the Fund to segregate liquid, high grade assets equal to the exercise price.

OTC options entered into by the Fund, including those on securities, financial instruments or indices, OCC issued and exchange listed index options, swaps, caps, floors and collars will generally provide for cash settlement. As a result, with respect to these instruments the Fund will only segregate an amount of assets equal to its accrued net obligations, as there is no requirement for payment or delivery of amounts in excess of the net amount. These amounts generally will equal 100% of the exercise price in the case of a put, or the in-the-money amount in the case of a call. In addition, when the Fund sells a call option on an index at a time when the in-the-money amount exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash or cash equivalents equal in value to such excess. OCC issued and exchange listed options sold by the Fund other than those above generally settle with physical delivery, and the Fund will segregate an amount of assets equal to the full value of the option. OTC options settling with physical delivery, if any, will be treated the same as other options settling with physical delivery.

In the case of a futures contract or an option thereon, the Fund must deposit initial margin and possible daily variation margin in addition to segregating assets sufficient to meet its obligation to purchase or provide securities or to pay the amount owed at the expiration of an index-based futures contract. Such assets may consist of cash, cash equivalents, liquid debt or other acceptable assets.

With respect to swaps entered into on a net basis, the Fund will accrue the net amount of the excess, if any, of its obligations over its entitlements with respect to each swap on a daily basis and will segregate an amount of cash or liquid high grade securities having a value equal to the accrued excess. Caps, floors and collars require segregation of assets with a value equal to the Fund s net obligation, if any.

Strategic Transactions may be covered by other means when consistent with applicable regulatory policies. The Fund may also enter into offsetting transactions so that its combined position, coupled with any segregated assets, equals its net outstanding obligation in related options and Strategic Transactions. For example, the Fund could purchase a put option if the strike price of that option is the same or higher than the strike price of a put option sold by the Fund. Moreover, instead of segregating assets if the Fund held a futures or forward contract, it could purchase a put option on the same futures or forward contract with a strike price as high or higher than the price of the contract held. Other Strategic Transactions may also be offset in combinations. If the offsetting transaction

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terminates at the time of or after the primary transaction, no segregation is required; but if it terminates prior to such time, assets equal to any remaining obligation would need to be segregated.

The Fund s activities involving Strategic Transactions may be limited by the requirements of Subchapter M of the Internal Revenue Code for qualification as a regulated investment company.

Invesco Van Kampen High Income Trust II (VLT)

Investment Practices

In connection with the Fund s investment objective and policies, the Fund may: purchase and sell options on fixed-income securities and on indices based on fixed-income securities to the extent a market in any such indices exists or develops and engage in interest rate and other hedging transactions. These investment practices entail risks. The Adviser may use some or all of the following hedging and risk management practices when their use appears appropriate. Although the Adviser believes that these investment practices may further the Fund s investment objective, no assurance can be given that these investment practices will achieve this result. If the Fund issues Senior Securities and seeks to obtain a rating of the Senior Securities, the rating service issuing such rating may, as a condition thereof, impose asset coverage or other requirements compliance with which may restrict the Fund s ability to engage in these investment practices. The Fund anticipates the imposition of some such restrictions in connection with obtaining a rating of the Preferred Shares. The Fund cannot predict what, if any, additional requirements may be imposed by such rating service in connection with its rating of any Senior Securities other than the anticipated requirements in connection with seeking a rating of the Preferred Shares.

Securities Options Transactions. The Fund may invest in options on fixed-income securities. Such options may be traded over-the- counter or on a national securities exchange. In general, the Fund may purchase and sell (write) options on up to 25% of its assets. The SEC requires that obligations of investment companies such as the Fund, in connection with option sale positions, must comply with certain segregation or coverage requirements which are more fully described below. No limitation exists on the amount of the Fund s assets which can be used to comply with such segregation or cover requirements.

A call option gives the purchaser the right to buy, and obligates the writer to sell, the underlying security at the agreed upon exercise (or strike) price during the option period. A put option gives the purchaser the right to sell, and obligates the writer to buy, the underlying security at the strike price during the option period. Purchasers of options pay an amount, known as a premium, to the option writer in exchange for the right under the option contract. Option contracts may be written with terms which would permit the holder of the option to purchase or sell the underlying security only upon the expiration date of the option.

The Fund may purchase put and call options in hedging transactions to protect against a decline in the market value of the securities in the Fund s portfolio (e.g., by the purchase of a put option) and to protect against an increase in the cost of fixed-income securities that the Fund may seek to purchase in the future (e.g., by the purchase of a call option). In the event the Fund purchases put and call options, paying premiums therefor, and price movements in the underlying securities are such that exercise of the options would not be profitable for the Fund, then to the extent such underlying securities correlate in value to the Fund s portfolio securities, losses of the premiums paid may be offset by an increase in the value of the Fund s portfolio securities (in the case of a purchase of put options) or by a decrease in the cost of acquisition of securities by the Fund (in the case of a purchase of call options).

The Fund may also sell put and call options as a means of increasing the yield on the Fund s portfolio and as a means of providing limited protection against decreases in market value of the Fund s portfolio. When the Fund sells an option, if the underlying securities do not increase (in the case of a call option) or decrease (in the case of a put option) to a price level that would make the exercise of the option profitable to the holder of the option, the option generally will expire without being exercised and the Fund will realize as profit the premium received for such option. When a call option of which the Fund is the writer is exercised, the Fund will be required to sell the underlying securities to the option holder at the strike price; therefore the Fund will not participate in any increase in the price of such securities above the strike price. When a put option of which the Fund is the writer is exercised, the

Fund will be required to purchase the underlying securities at the strike price, which may be in excess of the market value of such securities.

Over-the-counter options (OTC options) differ from exchange-traded options in several respects. They are transacted directly with dealers and not with a clearing corporation, and a risk exists of non-performance by the dealer. OTC options are available for a greater variety of securities and for a wider range of expiration dates and exercise prices than are available for exchange-traded options. Because OTC options are not traded on an exchange, pricing is done normally by reference to information from a market maker, which information is monitored carefully by the Adviser and verified in appropriate cases.

Generally the Fund s policy, in order to avoid the exercise of an option sold by it, will be to cancel its obligation under the option by entering into a closing purchase transaction, if available, unless selling (in the case of a call option) or to purchasing (in the case of a put option) the underlying securities is determined to be in the Fund s interest. A closing purchase transaction consists of the Fund purchasing an option having the same terms as the option sold by the Fund and has the effect of cancelling the Fund s position as a seller. The premium which the Fund will pay in executing a closing purchase transaction may be higher (or lower) than the premium received when the option was sold, depending in large part upon the relative price of the underlying security at the time of each transaction. To the extent options sold by the Fund are exercised and the Fund either delivers portfolio securities to the holder of a call option or liquidates securities in its portfolio as a source of funds to purchase securities put to the Fund, the Fund s portfolio turnover rate will increase, which would cause the Fund to incur additional brokerage expenses.

During the option period the Fund, as a covered call writer, gives up the potential appreciation above the exercise price should the underlying security rise in value, and the Fund, as a secured put writer, retains the risk of loss should the underlying security decline in value. For the covered call writer, substantial appreciation in the value of the underlying security would result in the security being called away at the strike price of the option which may be substantially below the fair market value of such security. For the secured put writer, substantial depreciation in the value of the underlying security would result in the security being put to the writer at the strike price of the option which may be substantially in excess of the fair market value of such security. If a covered call option or a secured put option expires unexercised, the writer realizes a gain, and the buyer a loss, in the amount of the premium.

To the extent that an active market exists or develops, whether on a national securities exchange or over-the-counter, in options on indices based upon fixed-income securities, the Fund may purchase and sell options on such indices, subject to the limitation that the Fund may purchase and sell options on up to 25% of its assets. Through the writing or purchase of index options the Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on securities except that, rather than the right to take or make delivery of a security at a specified price, an option on a securities index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the strike price of the option.

Price movements in securities which the Fund owns or intends to purchase will not correlate perfectly with movements in the level of an index and, therefore, the Fund bears the risk of a loss on an index option which is not offset completely by movements in the price of such securities. Because index options are settled in cash, a call writer cannot determine the amount of its settlement obligations in advance and, unlike call writing on specific securities, cannot provide in advance for, or cover, its potential settlement obligations by acquiring and holding the underlying securities.

Interest Rate and Other Hedging Transactions. In order to seek to protect the value of its portfolio securities against declines resulting from changes in interest rates or other market changes, the Fund may enter into various hedging transactions, such as financial futures contracts and related options contracts.

The Fund may enter into various interest rate hedging transactions using financial instruments with a high degree of correlation to the securities which the Fund may purchase for its portfolio, including interest rate futures contracts in such financial instruments and interest rate related indices, put and call options on such futures contracts

and on such financial instruments. The Fund expects to enter into these transactions to lock in a return or spread on a particular investment or portion of its portfolio, to protect against any increase in the price of securities the Fund anticipates purchasing at a later date, or for other risk management strategies. Financial futures and options contracts and the risks attendant to the Fund s use thereof are described more completely below.

The Fund will not engage in the foregoing transactions for speculative purposes, but only as a means to hedge risks associated with management of the Fund s portfolio. Typically, investment in these contracts requires the Fund to deposit with the applicable exchange or other specified financial intermediary as a good faith deposit for its obligations, known as initial margin, an amount of cash or specified debt securities which initially is 1%-15% of the face amount of the contract and which thereafter fluctuates on a periodic basis as the value of the contract fluctuates. Thereafter, the Fund must make additional deposits equal to any net losses due to unfavorable price movements of the contract and will be credited with an amount equal to any net gains due to favorable price movements. These additional deposits or credits are calculated and required daily and are known as variation margin.

The SEC generally requires that when an investment company, such as the Fund, effects transactions of the foregoing nature, such a fund either must segregate cash or high quality, readily marketable portfolio securities with its custodian in the amount of its obligations under the foregoing transactions or must cover such obligations by maintaining positions in portfolio securities, futures contracts or options that would serve to satisfy or offset the risk of such obligations. When effecting transactions of the foregoing nature, the Fund will comply with such segregation or cover requirements. No limitation exists as to the percentage of the Fund s assets which may be segregated in connection with such transactions.

The Fund will not enter into a futures contract or related option if, immediately after such investment, the sum of the amount of its initial margin deposits and premiums on open contracts and options would exceed 5% of the Fund s total assets at current value. The Fund, however, may invest more than such amount in the future if it obtains authority to do so from the appropriate regulatory agencies without rendering the Fund a commodity pool operator or adversely affecting its status as an investment company for federal securities law or income tax purposes.

All of the foregoing transactions present certain risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the security being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Fund s securities. In addition, these instruments may not be liquid in all circumstances and are closed out generally by entering into offsetting transactions rather than by disposing of the obligations. As a result, in volatile markets, the Fund may not be able to close out a transaction without incurring losses. Although the contemplated use of those contracts should tend to reduce the risk of loss due to a decline in the value of the hedged security, at the same time the use of these contracts could tend to limit any potential gain which might result from an increase in the value of such security. Finally, the daily deposit requirements for futures contracts create an ongoing greater potential financial risk than do option purchase transactions, where the exposure is limited to the cost of the premium for the option.

Successful use of futures contracts and options thereon by the Fund is subject to the ability of the Adviser to predict correctly movements in the direction of interest rates and other factors affecting markets for securities. If the Adviser s expectations are not met, the Fund would be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates which would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet such requirements. Such sales of securities may, but will not necessarily, be at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

In addition to engaging in transactions utilizing options on futures contracts, the Fund may purchase put and call options on securities and, as developed from time to time, on interest indices and other instruments. Purchasing options may increase investment flexibility and improve total return, but also risks loss of the option

premium if an asset the Fund has the option to buy declines in value or if an asset the Fund has the option to sell increases in value.

The Fund also may enter into various other hedging transactions, such as interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as a hedge and not as a speculative investment. The Fund will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor.

The Fund may enter into interest rate swaps, caps and floors on either an asset-based or liability- based basis, depending on whether it is hedging its assets or its liabilities, and will enter usually into interest rate swaps on a net basis, i.e., the two payment streams are netted out, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. Inasmuch as these hedging transactions are entered into for good faith risk management purposes, the Adviser and the Fund believe such obligations do not constitute senior securities and, accordingly, will not treat them as being subject to its investment restrictions on borrowing. The net amount of the excess, if any, of the Fund s obligations over its entitlements with respect to each interest rate swap will be accrued on a daily basis and an amount of cash or liquid securities having an aggregate net asset value at least equal to the accrued excess will be maintained in a segregated account by the Fund s custodian. The creditworthiness of firms with which the Fund enters into interest rate swaps, caps or floors will be monitored on an ongoing basis by the Adviser pursuant to procedures adopted and reviewed, on an ongoing basis, by the Board of Trustees of the Fund. If a default occurs by the other party to such transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction.

New options and futures contracts and other financial products, and various combinations thereof, continue to be developed and the Fund may invest in any such options, contracts and products as may be developed to the extent consistent with its investment objective and the regulatory requirements applicable to investment companies.

Options and Futures

General. The Fund may engage in futures and options transactions in accordance with its investment objective and policies. The Fund intends to engage in such transactions if it appears advantageous to the Adviser to do so in order to pursue its investment objective, to hedge against the effects of market conditions and to stabilize the value of its assets. The use of futures and options, and the possible benefits and attendant risks are discussed below, along with information concerning certain other investment policies and techniques.

Financial Futures Contracts. The Fund may enter into financial futures contracts for the future delivery of a financial instrument, such as a security, or the cash value of a securities index. This investment technique is designed primarily to hedge (i.e., protect) against anticipated future changes in market conditions which otherwise might adversely affect the value of securities which the Fund holds or intends to purchase. A sale of a futures contract means the undertaking of a contractual obligation to deliver the securities, or the cash value of an index, called for by the contract at a specified price during a specified delivery period. A purchase of a futures contract means the undertaking of a contractual obligation to acquire the securities, or cash value of an index, at a specified price during a specified delivery period. At the time of delivery in the case of fixed income securities pursuant to the contract, adjustments are made to recognize differences in value arising from the delivery of securities with a different interest rate than that specified in the contract. In some cases, securities called for by a futures contract may not have been issued at the time the contract was written.

Although some financial futures contracts by their terms call for the actual delivery or acquisition of securities, in most cases the contractual commitment is closed out before delivery without having to make or take delivery of the security. The offsetting of a contractual obligation is accomplished by purchasing (or selling, as the

case may be) on a commodities exchange an identical futures contract calling for delivery in the same period. Such a transaction cancels the obligation to make or take delivery of the securities. All transactions in the futures market are made, offset or fulfilled through a clearing house associated with the exchange on which the contracts are traded. The Fund will incur brokerage fees when it purchases or sells contracts, and will be required to maintain margin deposits. Futures contracts entail risks. If the Adviser s judgment about the general direction of securities markets or interest rates is wrong, the Fund s overall performance may be poorer than if the Fund had not entered into such contracts.

There may be an imperfect correlation between movements in prices of futures contracts and portfolio securities being hedged. In addition, the market prices of futures contracts may be affected by certain factors. If participants in the futures market elect to close out their contracts through offsetting transactions rather than meet margin requirements, distortions in the normal relationship between the securities and futures markets could result. Price distortions could also result if investors in futures contracts decide to make or take delivery of underlying securities rather than engage in closing transactions due to the resultant reduction in the liquidity of the futures market. In addition, because from the point of view of speculators, the margin requirements in the futures market may be less onerous than margin requirements in the cash market, increased participation by speculators in the futures market could cause temporary price distortions. Due to the possibility of price distortions in the futures market and because of the imperfect correlation between movements in the prices of securities and movements in the prices of futures contracts, a correct forecast of market trends by the Adviser may still not result in a successful hedging transaction. If this should occur, the Fund could lose money on the financial futures contracts and also on the value of its portfolio securities.

Options on Financial Futures Contracts. The Fund may purchase and write call and put options on financial futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise, the writer of the option delivers the futures contract to the holder at the exercise price. The Fund would be required to deposit with its custodian initial margin and maintenance margin with respect to put and call options on futures contracts written by it. Options on futures contracts involve risks similar to those risks relating to transactions in financial futures contracts described above. Also, an option purchased by the Fund may expire worthless, in which case the Fund would lose the premium paid therefor.

Options on Securities. The Fund may write covered call options so long as it owns securities which are acceptable for escrow purposes and may write secured put options, which means that so long as the Fund is obligated as a writer of a put option, it will invest an amount, not less than the exercise price of the put option, in eligible securities. A call option gives the purchaser the right to buy, and the writer the obligation to sell, the underlying security at the exercise price during the option period. A put option gives the purchaser the right to sell, and the writer the obligation to buy, the underlying security at the exercise price during the option period. The premium received for writing an option will reflect, among other things, the current market price of the underlying security, the relationship of the exercise price to the market price, the price volatility of the underlying security, the option period, supply and demand and interest rates. The Fund may write or purchase spread options, which are options for which the exercise price may be a fixed dollar spread or yield spread between the security underlying the option and another security that is used as a benchmark. The exercise price of an option may be below, equal to or above the current market value of the underlying security at the time the option is written. The buyer of a put who also owns the related security is protected by ownership of a put option against any decline in that security s price below the exercise price, less the amount paid for the option. At times the Fund may wish to establish a position in a security upon which call options are available. By purchasing a call option on such security the Fund would be able to fix the cost of acquiring the security, this being the cost of the call plus the exercise price of the option. This procedure also provides some protection from an unexpected downturn in the market, because the Fund is only at risk for the amount of the premium paid for the call option which it can, if it chooses, permit to expire.

Options on Securities Indices. The Fund also may purchase and write call and put options on securities indices. Through the writing or purchase of index options, the Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on a security except that, rather than the right to take or make delivery of a security at a specified price, an option on a securities index gives the

holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put,

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the exercise price of the option. This amount of cash is equal to the difference between the closing price of the index and the exercise price of the option. The writer of the option is obligated, in return for the premium received, to make delivery of this amount. Unlike options on securities (which require, upon exercise, delivery of the underlying security), all settlements of options on securities indices, upon exercise thereof, are in cash, and the gain or loss on an option on an index depends on price movements in the market generally (or in a particular industry or segment of the market on which the underlying index base) rather than price movements in individual securities, as is the case with respect to options on securities.

When the Fund writes an option on a securities index, it will be required to deposit with its custodian eligible securities equal in value to 100% of the exercise price in the case of a put, or the contract s value in the case of a call. In addition, where the Fund writes a call option on a securities index at a time when the contract value exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash or cash equivalents equal in value to such excess.

Options on futures contracts and index options involve risks similar to those risks relating to transactions in financial futures described above. Also, an option purchased by the Fund may expire worthless, in which case the Fund would lose the premium paid therefor.

Over-the-Counter Options. As previously indicated in this Prospectus (see Investment Practices Securities Options Transactions), the Fund may deal in OTC options. The Fund understands the position of the staff of the SEC to be that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. The Fund and the Adviser disagree with this position and have found the dealers with which they engage in OTC options transactions generally agreeable to and capable of entering into closing transactions. As also indicated in this Prospectus, the Fund has adopted procedures for engaging in OTC options for the purpose of reducing any potential adverse impact of such transactions upon the liquidity of the Fund s portfolio.

As part of these procedures the Fund will only engage in OTC options transactions with primary dealers that have been specifically approved by the Board of Trustees of the Fund. The Fund and its Adviser believe that the approved dealers should be agreeable and able to enter into closing transactions if necessary and, therefore, present minimal credit risks to the Fund. The Fund anticipates entering into written agreements with those dealers to whom the Fund may sell OTC options, pursuant to which the Fund would have the absolute right to repurchase the OTC options from such dealers at any time at a price determined pursuant to a formula set forth in certain no action letters published by the SEC staff. The Fund will not engage in OTC options transactions if the amount invested by the Fund in OTC options plus, with respect to OTC options written by the Fund, the amounts required to be treated as illiquid pursuant to the terms of such letters (and the value of the assets used as cover with respect to OTC option sales which are not within the scope of such letters), plus the amount invested by the Fund in illiquid securities, would exceed 20% of the Fund s total assets.

Regulatory Restrictions. To the extent required to comply with applicable SEC releases and staff positions, when purchasing a futures contract or writing a put option, the Fund will maintain, in a segregated account, cash or liquid high-grade securities equal to the value of such contracts.

To the extent required to comply with Commodity Futures Trading Commission Regulations and avoid commodity pool operator status, the Fund will not enter into a futures contract or purchase an option thereon if immediately thereafter the initial margin deposits for futures contracts held by the Fund plus premiums paid by it for open options on futures would exceed 5% of the Fund s total assets. The Fund will not engage in transactions in financial futures contracts or options thereon for speculation, but only to attempt to hedge against changes in market conditions affecting the values of securities which the Fund holds or intends to purchase. When futures contracts or options thereon are purchased to protect against a price increase on securities intended to be purchased later, it is anticipated that at least 75% of such intended purchases will be completed. When other futures contracts or options thereon are purchased, the underlying value of such contracts will at all times not exceed the sum of: (1) accrued profit on such contracts held by the broker; (2) cash or high quality money market instruments set aside in an identifiable manner; and (3) cash proceeds from investments due in 30 days.

Accounting and Tax Considerations. When the Fund writes an option, an amount equal to the premium received by it is included in the Fund s Statement of Assets and Liabilities as a liability. The amount of the liability

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is subsequently marked to market to reflect the current market value of the option written. When the Fund purchases an option, the premium paid by the Fund is recorded as an asset and is subsequently adjusted to the current market value of the option.

In the case of a regulated futures contract purchased or sold by the Fund, an amount equal to the initial margin deposit is recorded as an asset. The amount of the asset is subsequently adjusted to reflect changes in the amount of the deposit as well as changes in the value of the contract.

Certain listed options and futures contracts are considered section 1256 contracts for federal income tax purposes. In general, gain or loss realized by the Fund on section 1256 contracts will be considered 60% long term and 40% short term capital gain or loss. Also, section 1256 contracts held by the Fund at the end of each taxable year (and at October 31 for purposes of calculating the excise tax) will be marked to market , that is, treated for federal income tax purposes as though sold for fair market value on the last business day of such taxable year. The Fund can elect to exempt its section 1256 contracts which are part of a mixed straddle (as described below) from the application of section 1256.

Gain or loss realized by the Fund upon the expiration or sale of certain over-the-counter put and call options held by the Fund will be either long term or short term capital gain or loss depending upon the Fund s holding period with respect to such option. However, gain or loss realized upon the expiration or closing out of such options that are written by the Fund will be treated as short term capital gain or loss. In general, if the Fund exercises an option, or an option that the Fund has written is exercised, gain or loss on the option will not be separately recognized, but the premium received or paid will be included in the calculation of gain or loss upon disposition of the property underlying the option.

Any security, option or futures contract, delayed delivery transaction, or other position entered into or held by the Fund in conjunction with any other position held by the Fund may constitute a straddle for federal income tax purposes. A straddle of which at least one, but not all, of the positions are section 1256 contracts will constitute a mixed straddle . In general, straddles are subject to certain rules that may affect the character and timing of the Fund s gains and losses with respect to straddle positions by requiring, among other things, that loss realized on disposition of one position of a straddle be deferred to the extent of any unrealized gain in an offsetting position until such position is disposed of; that the Fund s holding period in certain straddle positions not begin until the straddle is terminated (possibly resulting in gain being treated as short term capital gain rather than long term capital gain); and that losses recognized with respect to certain straddle positions, that would otherwise constitute short term capital losses, be treated as long term capital losses. Different elections are available to the Fund which may mitigate the effects of the straddle rules, particularly with respect to mixed straddles.

Invesco Van Kampen Municipal Trust (VKQ), Invesco Van Kampen Trust for Value Municipals (VIM) and Invesco Van Kampen Ohio Quality Municipal Trust (VOQ)

Options and Futures

General. The Fund may engage in futures and options transactions in accordance with its investment objective and policies. The Fund intends to engage in such transactions if it appears advantageous to the Adviser to do so in order to pursue its investment objective, to hedge against the effects of market conditions and to stabilize the value of its assets. The use of futures and options, and the possible benefits and attendant risks are discussed below, along with information concerning certain other investment policies and techniques.

In connection with the investment objective and policies described above, the Fund may engage in interest rate and other hedging and risk management transactions; and purchase and sell options on municipal securities and on indices based on municipal securities. These investment practices entail risks. The Adviser may use some or all of the following hedging and risk management practices when their use appears appropriate. Although the Adviser believes that these investment practices may further the Fund s investment objective, no assurance can be given that these investment practices will achieve this result.

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Securities Options Transactions. The Fund may invest in options on municipal securities. Such options are traded over-the-counter, although if options on municipal securities were to be listed for trading on a national securities exchange the Fund may trade in exchange-listed options. In general, the Fund may purchase and sell (write) options on up to 20% of its assets. The Securities and Exchange Commission (the SEC) requires that obligations of investment companies such as the Fund, in connection with options sale positions, must comply with certain segregation or cover requirements which are more fully described below. There is no limitation on the amount of the Fund s assets which can be used to comply with such segregation or cover requirements.

A call option gives the purchaser the right to buy, and the writer the obligation to sell, the underlying security at the agreed upon exercise (or strike) price during the option period. A put option gives the purchaser the right to sell, and the writer the obligation to buy, the underlying security at the strike price during the option period. Purchasers of options pay an amount, known as a premium, to the option writer in exchange for the right under the option contract. Option contracts may be written with terms which would permit the holder of the option to purchase or sell the underlying security only upon the expiration date of the option.

The Fund may purchase put and call options in hedging transactions to protect against a decline in the market value of municipal securities in the Fund s portfolio (*e.g.,* by the purchase of a put option) and to protect against an increase in the cost of fixed income securities that the Fund may seek to purchase in the future (*e.g.,* by the purchase of a call option). In the event the Fund purchases put and call options, paying premiums therefor, and price movements in the underlying securities are such that exercise of the options would not be profitable for the Fund, to the extent such underlying securities correlate in value to the Fund s portfolio securities, losses of the premiums paid may be offset by an increase in the value of the Fund s portfolio securities (in the case of a purchase of put options) or by a decrease in the cost of acquisition of securities by the Fund (in the case of a purchase of call options).

The Fund may also sell put and call options as a means of increasing the yield on the Fund s portfolio and also as a means of providing limited protection against decreases in market value of the Fund s portfolio. When the Fund sells an option, if the underlying securities do not increase (in the case of a call option) or decrease (in the case of a put option) to a price level that would make the exercise of the option profitable to the holder of the option, the option generally will expire without being exercised and the Fund will realize as profit the premium received for such option. When a call option of which the Fund is the writer is exercised, the option holder purchases the underlying security at the strike price and the Fund does not participate in any increase in the price of such securities above the strike price. When a put option of which the Fund is the writer is exercised, the Fund will be required to purchase the underlying securities at the strike price, which may be in excess of the market value of such securities.

Over-the-counter options (OTC options) differ from exchange-traded options in several respects. They are transacted directly with dealers and not with a clearing corporation, and there is a risk of non-performance by the dealer. OTC options are available for a greater variety of securities and for a wider range of expiration dates and exercise prices than for exchange-traded options. Because OTC options are not traded on an exchange, pricing is normally done by reference to information from a market maker, which information is carefully monitored by the Adviser and verified in appropriate cases. The Fund may be required to treat certain of its OTC options transactions as illiquid securities as described below.

It will generally be the Fund s policy, in order to avoid the exercise of an option sold by it, to cancel its obligation under the option by entering into a closing purchase transaction, if available, unless it is determined to be in the Fund s interest to sell (in the case of a call option) or to purchase (in the case of a put option) the underlying securities. A closing purchase transaction consists of the Fund purchasing an option having the same terms as the option sold by the Fund and has the effect of cancelling the Fund s position as a seller. The premium which the Fund will pay in executing a closing purchase transaction may be higher than the premium received when the option was sold, depending in large part upon the relative price of the underlying security at the time of each transaction. To the extent options sold by the Fund are exercised and the Fund either delivers portfolio securities to the holder of a call option or liquidates securities in its portfolio as a source of funds to purchase securities put to the Fund, the Fund s portfolio turnover rate will increase, which would cause the Fund to incur additional brokerage expenses.

During the option period the Fund, as a covered call writer, gives up the potential appreciation above the exercise price should the underlying security rise in value, and the Fund, as a secured put writer, retains the risk of

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loss should the underlying security decline in value. For the covered call writer, substantial appreciation in the value of the underlying security would result in the security being called away at the strike price of the option which may be substantially below the fair market value of such security. For the secured put writer, substantial depreciation in the value of the underlying security would result in the security being put to the writer at the strike price of the option which may be substantially in excess of the fair market value of such security. If a covered call option or a secured put option expires unexercised, the writer realizes a gain, and the buyer a loss, in the amount of the premium.

To the extent that an active market exists or develops, whether on a national securities exchange or over-the-counter, in options on indices based upon municipal securities, the Fund may purchase and sell options on such indices, subject to the limitation that the Fund may purchase and sell options on up to 20% of its assets. Through the writing or purchase of index options the Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on securities except that, rather than the right to take or make delivery of a security at a specified price, an option on a securities index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put, the strike price of the option.

Price movements in securities which the Fund owns or intends to purchase will not correlate perfectly with movements in the level of an index and, therefore, the Fund bears the risk of a loss on an index option which is not completely offset by movements in the price of such securities. Because index options are settled in cash, a call writer cannot determine the amount of its settlement obligations in advance and, unlike call writing on specific securities, cannot provide in advance for, or cover, its potential settlement obligations by acquiring and holding the underlying securities.

Income earned or deemed to be earned, if any, by the Fund from transactions in securities options will be taxable income of the Fund. Under a revenue ruling issued by the Service, the Fund is required to allocate net capital gains and other taxable income, if any, among Common Shares and Preferred Shares on a pro rata basis for the year in which such net capital gains or other taxable income is realized. For a further discussion of certain characteristics of options and risks associated with options transaction, see below.

Interest Rate and Other Hedging Transactions. In order to seek to protect the value of its portfolio securities against declines resulting from changes in interest rates or other market changes, the Fund may enter into various hedging transactions, such as financial futures contracts and related options contracts.

The Fund may enter into various interest rate hedging transactions using financial instruments with a high degree of correlation to the municipal securities which the Fund may purchase for its portfolio, including interest rate futures contracts in such financial instruments (*e.g.,* futures contracts on U.S. Treasury securities) and interest rate related indices *(e.g.,* municipal bond indices), put and call options on such futures contracts and on such financial instruments. The Fund expects to enter into these transactions to lock in a return or spread on a particular investment or portion of its portfolio, to protect against any increase in the price of securities the Fund anticipates purchasing at a later date, or for other risk management strategies such as managing the effective dollar weighted average duration of the Fund s portfolio. Financial futures and options contracts and the risks attendant to the Fund s use thereof are more completely described below. The successful utilization of hedging and risk management transactions requires skills different from those needed in the selection of the Fund s portfolio securities. The Fund believes that the Adviser possesses the skills necessary for the successful utilization of hedging and risk management transactions.

The Fund will not engage in the foregoing transactions for speculative purposes, but only as a means to hedge risks associated with management of the Fund s portfolio. Typically, investments in futures contracts and sales of futures options contracts require the Fund to deposit in a custodial account a good faith deposit, known as initial margin, in connection with its obligations in an amount of cash or specified debt securities which generally is equal to 1%-15% of the face amount of the contract, which initial margin requirement may be revised periodically by the applicable exchange as the volatility of the contract fluctuates. Thereafter, the Fund must make additional deposits with the applicable financial intermediary equal to any net losses due to unfavorable price movements of

the contract, and will be credited with an amount equal to any net gains due to favorable price movements. These additional deposits or credits are calculated and required daily and are known as variation margin.

The SEC generally requires that when investment companies, such as the Fund, effect transactions of the foregoing nature, such funds must either segregate cash or high quality, readily marketable portfolio securities with its custodian or financial intermediary in the amount of its obligations under the foregoing transactions, or cover such obligations by maintaining positions in portfolio securities, futures contracts or options that would serve to satisfy or offset the risk of such obligations. When effecting transactions of the foregoing nature, the Fund will comply with such segregation or cover requirements. There is no limitation as to the percentage of the Fund s assets which may be segregated with respect to such transactions.

The Fund will not enter into a futures contract or related option, if, immediately after such investment, the sum of the amount of its initial margin deposits and premiums on open contracts and options would exceed 5% of the Fund s total assets at current value. The Fund may, however, invest more than such amount in the future if it obtains authority to do so from the appropriate regulatory agencies without rendering the Fund a commodity pool operator or adversely affecting its status as an investment company for federal securities law or income tax purposes.

All of the foregoing transactions present certain risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the securities being hedged creates the possibility that losses on the hedge may be greater than gains in the value of the Fund s securities. In addition, these instruments may not be liquid in all circumstances and generally are closed out by entering into offsetting transactions rather than by delivery or cash settlement at maturity. As a result, in volatile markets, the Fund may not be able to close out a transaction without incurring losses. Although the contemplated use of those contracts should tend to reduce the risk of loss due to a decline in the value of the hedged security, at the same time the use of these contracts could tend to limit any potential gain which might result from an increase in the value of such security. Finally, the daily deposit requirements for futures contracts and sales of futures options contracts create an ongoing greater potential financial risk than do option purchase transactions, where the exposure is limited to the cost of the premium for the option.

Successful use of futures contracts and options thereon by the Fund is subject to the ability of the Adviser to predict correctly movements in the direction of interest rates and other factors affecting markets for securities. If the Adviser s expectations are not met, the Fund would be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates which would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet such requirements. Such sales of securities may be, but will not necessarily be, at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

In addition to engaging in transactions utilizing options on futures contracts, the Fund may purchase put and call options on securities and, as developed from time to time, on interest indices and other instruments. Purchasing options may increase investment flexibility and improve total return, but also risks loss of the option premium if an asset the Fund has the option to buy declines in value or if an asset the Fund has the option to sell increases in value.

To the extent permitted by applicable regulatory authority, the Fund also may enter into various other hedging transactions, such as interest rate swaps and the purchase or sale of interest rate caps and floors. The Fund expects to enter into these transactions primarily to preserve a return or spread on a particular investment or portion of its portfolio or to protect against any increase in the price of securities the Fund anticipates purchasing at a later date. The Fund intends to use these transactions as a hedge and not as a speculative investment. The Fund will not sell interest rate caps or floors that it does not own. Interest rate swaps involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, *e.g.,* an exchange of floating rate payments for fixed rate payments. The purchase of an interest rate cap entitles the purchaser, to the extent that a specified index exceeds a predetermined interest rate, to receive payments of interest on a notional principal amount (the

reference amount with respect to which interest obligations are determined, although no actual exchange of principal occurs) from the party selling such interest rate cap. The purchase of an interest rate floor entitles the purchaser, to the extent that a specified index falls below a predetermined interest rate, to receive payments of interest on a notional principal amount from the party selling such interest rate floor. The Fund will not enter into swaps, caps or floors if, on a net basis, the aggregate notional principal amount with respect to such agreements exceeds the net assets of the Fund.

Inasmuch as these hedging transactions are entered into for good-faith risk management purposes, the Adviser and the Fund believe such obligations do not constitute senior securities. The staff of the SEC is presently considering its position with respect to swaps, caps and floors as senior securities. Pending a determination by the staff, the Fund will either treat swaps, caps and floors as being subject to its senior securities restrictions or will refrain from engaging in swaps, caps and floors. Once the staff has expressed a position with respect to swaps, caps and floors, the Fund intends to engage in swaps, caps and floors, if at all, in a manner consistent with such position. The Fund will usually enter into interest rate swaps on a net basis, *i.e.,* where the two parties make net payments with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The net amount of the excess, if any, of the Fund s obligations over its entitlements with respect to each interest rate swap will be accrued and an amount of cash or liquid securities having an aggregate net asset value at least equal to the accrued excess will be designated on the Fund s books. If the Fund enters into a swap on other than a net basis, the Fund will designate on the Fund s books the full amount of the Fund s obligations under each such swap. The Fund may enter into swaps, caps and floors with member banks of the Federal Reserve System, members of the New York Stock Exchange or other entities determined by the Adviser, pursuant to procedures adopted and reviewed on an ongoing basis by the Board of Trustees, to be creditworthy. If a default occurs by the other party to such transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction but such remedies may be subject to bankruptcy and insolvency laws which could affect the Fund s rights as a creditor. The swap market has grown substantially in recent years with a large number of banks and financial services firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. Caps and floors are more recent innovations and they are less liquid than swaps. There can be no assurance, however, that the Fund will be able to enter into interest rate swaps or to purchase interest rate caps or floors at prices or on terms the Adviser believes are advantageous to the Fund. In addition, although the terms of interest rate swaps, caps and floors may provide for termination, there can be no assurance that the Fund will be able to terminate an interest rate swap or to sell or offset interest rate caps or floors that it has purchased. Payments received on transactions in swaps, caps or floors will generally constitute taxable income or gains to the Fund.

New options and futures contracts and other financial products, and various combinations thereof, continue to be developed and the Fund may invest in any such options, contracts and products as may be developed to the extent consistent with its investment objective and the regulatory requirements applicable to investment companies.

Income earned or deemed to be earned, if any, by the Fund from its hedging activities, will be taxable income of the Fund. Such income will be allocated to both the Common Shares and the Preferred Shares.

Financial Futures Contracts. The Fund may enter into financial futures contracts for the future delivery of a financial instrument, such as a security, or the cash value of a securities index. This investment technique is designed primarily to hedge (i.e., protect) against anticipated future changes in market conditions which otherwise might adversely affect the value of securities which the Fund holds or intends to purchase. A sale of a futures contract means the undertaking of a contractual obligation to deliver the securities, or the cash value of an index, called for by the contract at a specified price during a specified delivery period. A purchase of a futures contract means the undertaking of a contractual obligation to acquire the securities, or cash value of an index, at a specified price during a specified delivery period. At the time of delivery, in the case of fixed income securities pursuant to the contract, adjustments are made to recognize differences in value arising from the delivery of securities with a different interest rate than that specified in the contract. In some cases, securities called for by a futures contract may not have been issued at the time the contract was written.

Although some financial futures contracts by their terms call for the actual delivery or acquisition of securities, in most cases the contractual commitment is closed out before delivery without having to make or take delivery of the

security. The offsetting of a contractual obligation is accomplished by purchasing (or selling, as the case may be) on a commodities exchange an identical futures contract calling for delivery in the same period. Such a

transaction cancels the obligation to make or take delivery of the securities. All transactions in the futures market are made, offset or fulfilled through a clearing house associated with the exchange on which the contracts are traded. The Fund will incur brokerage fees when it purchases or sells contracts, and will be required to maintain margin deposits. Futures contracts entail risk. If the Adviser s judgment about the general direction of securities markets or interest rates is wrong, the Fund s overall performance may be poorer than if the Fund had not entered into such contracts.

There may be an imperfect correlation between movements in prices of futures contracts and portfolio securities being hedged. In addition, the market prices of futures contracts may be affected by certain factors. If participants in the futures market elect to close out their contracts through offsetting transactions rather than meet margin requirements, distortions in the normal relationship between the securities and futures markets could result. Price distortions could also result if investors in futures contracts decide to make or take delivery of underlying securities rather than engage in closing transactions due to the resultant reduction in the liquidity of the futures market. In addition, because from the point of view of speculators, the margin requirements in the futures market may be less onerous than margin requirements in the cash market, increased participation by speculators in the futures market could cause temporary price distortions. Due to the possibility of price distortions in the futures market and because of the imperfect correlation between movements in the prices of securities and movements in the prices of futures contracts, a correct forecast of market trends by the Adviser may still not result in a successful hedging transaction. If this should occur, the Fund could lose money on the financial futures contracts and also on the value of its portfolio securities.

Options on Financial Futures Contracts. The Fund may purchase and write call and put options on financial futures contracts. An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time during the period specified in the terms of the option. Upon exercise, the writer of the option delivers the futures contract to the holder at the exercise price. The Fund would be required to deposit with its custodian initial margin and maintenance margin with respect to put and call options on futures contracts written by it. Options on futures contracts involve risks similar to those risks relating to transactions in financial futures contracts described above. Also, an option purchased by the Fund may expire worthless, in which case the Fund would lose the premium paid therefor.

Options on Securities. The Fund may write covered call options so long as it owns securities which are acceptable for escrow purposes and may write secured put options, which means that so long as the Fund is obligated as a writer of a put option, it will invest an amount, not less than the exercise price of the put option, in eligible securities. A call option gives the purchaser the right to buy, and the writer the obligation to sell, the underlying security at the exercise price during the period specified in the terms of the option. A put option gives the purchaser the right to sell, and the writer the obligation to buy, the underlying security at the exercise price during the period specified in the terms of the option. The premium received for writing an option will reflect, among other things, the current market price of the underlying security, the relationship of the exercise price to the market price, the price volatility of the underlying security, the option period, supply and demand and interest rates. The Fund may write or purchase spread options, which are options for which the exercise price may be a fixed dollar spread or yield spread between the security underlying the option and another security that is used as a benchmark. The exercise price of an option may be below, equal to or above the current market value of the underlying security at the time the option is written. The buyer of a put who also owns the related security is protected by ownership of a put option against any decline in that security s price below the exercise price, less the amount paid for the option. At times the Fund may wish to establish a position in a security upon which call options are available. By purchasing a call option on such security the Fund would be able to fix the cost of acquiring the security, this being the cost of the call plus the exercise price of the option. This procedure also provides some protection from an unexpected downturn in the market, because the Fund is only at risk for the amount of the premium paid for the call option which it can, if it chooses, permit to expire.

Options on Securities Indices. The Fund also may purchase and write call and put options on securities indices. Through the writing or purchase of index options, the Fund can achieve many of the same objectives as through the use of options on individual securities. Options on securities indices are similar to options on a security except that, rather than the right to take or make delivery of a security at a specified price, an option on a securities index gives the

holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the securities index upon which the option is based is greater than, in the case of a call, or less than, in the case of a put,

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the exercise price of the option. This amount of cash is equal to the difference between the closing price of the index and the exercise price of the option. The writer of the option is obligated, in return for the premium received, to make delivery of this amount. Unlike options on securities (which require, upon exercise, delivery of the underlying security), settlements of options on securities indices, upon exercise thereof, are in cash, and the gain or loss on an option on an index depends on price movements in the market generally (or in a particular industry or segment of the market on which the underlying index base) rather than price movements in individual securities, as is the case with respect to options on securities.

When the Fund writes an option on a securities index, it will be required to deposit with its custodian eligible securities equal in value to 100% of the exercise price in the case of a put, or the contract s value in the case of a call. In addition, where the Fund writes a call option on a securities index at a time when the contract value exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash or cash equivalents equal in value to such excess.

Options on securities and index options involve risks similar to those risks relating to transactions in financial futures described above. Also, an option purchased by the Fund may expire worthless, in which case the Fund would lose the premium paid therefor.

Over-the-Counter Options. As previously indicated in this Prospectus (see Investment Practices Securities Options Transactions), the Fund may deal in OTC options. The Fund understands the position of the staff of the SEC to be that purchased OTC options and the assets used as cover for written OTC options arc illiquid securities. The Fund and the Adviser disagree with this position and have found the dealers with which they engage in OTC options transactions generally agreeable to and capable of entering into closing transactions. The Fund has adopted procedures for engaging in OTC options for the purpose of reducing any potential adverse impact of such transactions upon the liquidity of the Fund s portfolio.

As part of these procedures the Fund will only engage in OTC options transactions with respect to U.S. government securities with primary dealers that have been specifically approved by the Board of Trustees of the Fund. The Fund will engage in OTC options transactions with respect to municipal securities only with dealers that have been specifically approved by the Board of Trustees. The Fund and its Adviser believe that the approved dealers should be agreeable and able to enter into closing transactions as necessary and, therefore, present minimal credit risks to the Fund. The Fund anticipates entering into written agreements with those dealers to whom the Fund may sell OTC options, pursuant to which the Fund would have the absolute right to repurchase the OTC options from such dealers at any time at a price with respect to U.S. government securities determined pursuant to a formula set forth in certain no action letters published by the SEC staff. The Fund will not engage in OTC options transactions if the amount invested by the Fund in OTC options, plus, with respect to OTC options written by the Fund, the amounts required to be treated as illiquid pursuant to the terms of such letters (and the value of the assets used as cover with respect to OTC option sales which are not within the scope of such letters), plus the amount invested by the Fund in illiquid securities, would exceed 15% of the Fund s total assets. OTC options on securities other than U.S. government securities, including options on municipal securities, may not be within the scope of such letters and, accordingly, the amount invested by the Fund in OTC options on such other securities and the value of the assets used as cover with respect to OTC option sales regarding such non-U.S. government securities will be treated as illiquid and subject to the 15% limitation on the Fund s assets which may be invested in illiquid securities.

Regulatory Restrictions. To the extent required to comply with applicable SEC releases and staff positions, when purchasing a futures contract or writing a put option, the Fund will designate on the Fund s books cash or liquid high-grade securities equal to the value of such contracts.

To the extent required to comply with Commodity Futures Trading Commission Regulations and avoid commodity pool operator status, the Fund will not enter into a futures contract or purchase an option thereon if immediately thereafter the initial margin deposits for futures contracts held by the Fund plus premiums paid by it for open options on futures would exceed 5% of the Fund s total assets. The Fund will not engage in transactions in financial futures contracts or options thereon for speculation, but only to attempt to hedge against changes in market conditions affecting the values of securities which the Fund holds or intends to purchase. When futures contracts or options thereon are purchased to protect against a price increase on securities intended to be purchased later, it is

anticipated that at least 75% of such intended purchases will be completed. When other futures contracts or options

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thereon are purchased, the underlying value of such contracts will at all times not exceed the sum of: (1) accrued profit on such contracts held by the broker; (2) cash or high quality money market instruments set aside in an identifiable manner; and (3) cash proceeds from investments due in 30 days.

Accounting and Tax Considerations. When the Fund writes an option, an amount equal to the premium received by it is included in the Fund s Statement of Assets and Liabilities as a liability. The amount of the liability is subsequently marked to market to reflect the current market value of the option written. When the Fund purchases an option, the premium paid by the Fund is recorded as an asset and is subsequently adjusted to the current market value of the option.

In the case of a regulated futures contract purchased or sold by the Fund, an amount equal to the initial margin deposit is recorded as an asset. The amount of the asset is subsequently adjusted to reflect changes in the amount of the deposit as well as changes in the value of the contract.

Certain listed options and futures contracts are considered section 1256 contracts for Federal income tax purposes. In general, gain or loss realized by the Fund on section 1256 contracts will be considered 60% long term and 40% short term capital gain or loss. Also, section 1256 contracts held by the Fund at the end of each taxable year (and at October 31 for purposes of calculating the excise tax) will be marked to market , that is, treated for Federal income tax purposes as though sold for fair market value on the last business day of such taxable year. The Fund can elect to exempt its section 1256 contracts which are part of a mixed straddle (as described below) from the application of section 1256.

Gain or loss realized by the Fund upon the expiration or sale of certain over-the-counter put and call options held by the Fund will be either long term or short term capital gain or loss depending upon the Fund s holding period with respect to such option. However, gain or loss realized upon the expiration or closing out of such options that are written by the Fund will be treated as short term capital gain or loss. In general, if the Fund exercises an option, or an option that the Fund has written is exercised, gain or loss on the option will not be separately recognized, but the premium received or paid will be included in the calculation of gain or loss upon disposition of the property underlying the option.

Any security, option or futures contract, delayed delivery transaction, or other position entered into or held by the Fund in conjunction with any other position held by the Fund may constitute a straddle for Federal income tax purposes. A straddle of which at least one, but not all, the positions are section 1256 contracts will constitute a mixed straddle . In general, straddles are subject to certain rules that may affect the character and timing of the Fund s gains and losses with respect to straddle positions by requiring, among other things, that loss realized on disposition of one position of a straddle be deferred to the extent of any unrealized gain in an offsetting position until such position is disposed of; that the Fund s holding period in certain straddle positions not begin until the straddle is terminated (possibly resulting in gain being treated as short term capital gain rather than long term capital gain); and that losses recognized with respect to certain straddle positions, that would otherwise constitute short term capital losses, be treated as long term capital losses. Different elections are available to the Fund which may mitigate the effects of the straddle rules, particularly with respect to mixed straddles.

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APPENDIX D
PORTFOLIO TURNOVER

For the fiscal year ended in 2010, blended portfolio turnover rates of the predecessor funds and the Funds are presented in the tables below. For the fiscal year or period ended 2011 and the fiscal year ended 2012, the portfolio turnover rates for each Fund are presented in the tables below. Variations in turnover rate may be due to a fluctuating volume of shareholder purchase and redemption orders, market conditions and/or changes in the predecessor fund s adviser s or Invesco s investment outlook.

FUND NAME	February 29, 2012	February 28, 2011
Invesco Municipal Income Opportunities Trust II	20%	18%

Prior to February 28, 2010, the fiscal year end of the Funds in the table below was October 31; the current fiscal year end is the last day of February.

FUND NAME	February 29, 2012	Four months ended February 28, 2011[1]	October 31, 2010
Invesco Value Municipal Income Trust	13%	3%	7%
Invesco Quality Municipal Income Trust	26%	3%	11%
Invesco Van Kampen California Value Municipal Income Trust	20%	4%	12%
Invesco Van Kampen Municipal Opportunity Trust	16%	2%	10%
Invesco Van Kampen Trust for Investment Grade New York Municipals	17%	5%	14%
Invesco Van Kampen Municipal Trust	14%	3%	10%
Invesco Value Municipal Bond Trust	10%	4%	7%
Invesco Value Municipal Securities	15%	5%	9%
Invesco Value Municipal Trust	15%	3%	8%
Invesco Quality Municipal Investment Trust	14%	1%	9%
Invesco Quality Municipal Securities	17%	1%	11%
Invesco California Municipal Income Trust	21%	2%	13%
Invesco California Quality Municipal Securities	25%	2%	13%
Invesco California Municipal Securities	18%	2%	12%
Invesco Van Kampen Select Sector Municipal Trust	14%	2%	12%
Invesco Van Kampen Trust for Value Municipals	12%	4%	5%

[1] The fiscal year end for these Funds changed from October 31 to the last day of February effective February 28, 2011.

FUND NAME	February 29, 2012	Four months ended February 28, 2011[1]	October 31, 2010
Invesco New York Quality Municipal Securities	14%	7%	21%
Invesco Van Kampen Massachusetts Value Municipal Income Trust	26%	3%	33%
Invesco Van Kampen Ohio Quality Municipal Trust	22%	5%	14%
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals	8%	6%	17%

Prior to February 28, 2010, the fiscal year end of the Funds in the table below was May 31; the current fiscal year end is the last day of February.

FUND NAME	February 29, 2012	Nine months ended February 28, 2011[2]	May 31, 2010
Invesco Municipal Income Opportunities Trust	22%	12%	13%
Invesco Municipal Premium Income Trust	18%	5%	12%

Prior to February 28, 2010, the fiscal year end of the Funds in the table below was December 31; the current fiscal year end is the last day of February.

FUND NAME	February 29, 2012	Two months ended February 28, 2011[3]	December 31, 2010
Invesco Van Kampen High Income Trust II	60%	18%	135%
Invesco High Yield Investments Fund, Inc.	62%	16%	109%

Prior to February 28, 2010, the fiscal year end of the Funds in the table below was March 31; the current fiscal year end is the last day of February.

FUND NAME	February 29, 2012	Eleven months ended February 28, 2011[4]	March 31, 2010
Invesco Municipal Income Opportunities Trust III	22%	16%	14%

2 The fiscal year end for these Funds changed from May 31 to the last day of February effective February 28, 2011.

3 The fiscal year end for these Funds changed from December 31 to the last day of February effective February 28, 2011.

4 The fiscal year end for these Funds changed from March 31 to the last day of February effective February 28, 2011.

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APPENDIX E
MANAGEMENT FEES

For the last three fiscal years ended February 28th or 29th, the management (MGMT) fees payable by the Fund, the amounts waived by the Adviser and the net fees paid by the Fund were as follows:

	February 29, 2012			February 28, 2011			February 28, 2010		
FUND NAME	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid
Invesco Municipal Income Opportunities Trust II	$598,136	$ 0	$598,136	$605,593	$ 0	$605,593	$553,714	$ 0	$553,714

For the fiscal year ended February 29, 2012, the period November 1, 2010 through February 28, 2011, and the fiscal years ended October 31, 2010 and 2009, the management (MGMT) fees payable by each Fund, the amounts waived by the Adviser and the net fees paid by each Fund were as follows:

February 29, 2012			Four months ended February 28, 2011[1]			October 31, 2010			October 3	
MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGM Fe Waiv
1,260,269	$ 0	$1,260,269	$ 400,246	$ 0	$ 400,246	$1,259,956	$ (2,593)	$1,257,363	$1,185,054	$
1,328,663	0	1,328,663	428,879	0	428,879	1,367,347	(5,495)	1,361,852	1,292,771	
2,527,951	(160,762)	2,367,189	802,072	(27,271)	774,801	2,574,534	(268,891)	2,305,643	2,359,507	(429,
4,230,819	(260,730)	3,970,089	1,355,930	(64,217)	1,291,713	4,318,515	(454,127)	3,864,388	4,006,685	(728,

[1] The fiscal year end for these Funds changed from October 31 to the last day of February effective February 28, 2011.

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February 29, 2012			Four months ended February 28, 2011[1]			October 31, 2010			October	
MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MG Fe Wai
,986,120	(94,910)	1,891,210	635,799	0	635,799	2,009,542	(219,252)	1,790,290	1,845,283	(335
4,579,741	(383,025)	4,196,716	1,464,000	(110,359)	1,353,641	4,647,305	(588,085)	4,059,220	4,236,296	(770
234,466	0	234,466	74,310	0	74,310	234,283	(1,492)	232,791	219,526	
256,292	$ 0	$ 256,292	$ 81,427	$ 0	$ 81,427	$ 256,760	$ (7,210)	$ 249,550	$ 241,317	$
998,842	0	998,842	320,922	0	320,922	1,025,858	(13,447)	1,012,411	978,117	
782,350	0	782,350	246,217	0	246,217	773,296	(2,479)	770,817	737,734	
771,123	0	771,123	247,755	0	247,755	777,393	(1,987)	775,406	730,183	
586,685	0	586,685	186,967	0	186,967	593,259	0	593,259	563,370	
466,256	0	466,256	148,383	0	148,383	470,517	0	470,517	439,192	
132,063	0	132,063	41,692	0	41,692	133,799	0	133,799	129,475	
,660,443	(81,874)	1,578,569	530,488	(4,407)	526,081	1,688,408	(187,132)	1,501,276	1,555,502	(282

,141,043	(12,027)	1,129,016	368,441	0	368,441	1,175,153	(124,117)	1,051,036	1,115,739	(202

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	February 29, 2012			Four months ended February 28, 2011[1]			October 31, 2010			October 31, 2009		
NAME	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	M Fe
o New Quality ipal ies	231,178	0	231,178	73,078	0	73,078	228,528	0	228,528	210,608	0	21
o Van n chusetts ipal e Trust	310,639	(118,369)	192,270	96,465	(25,217)	71,248	309,370	(100,909)	208,461	300,471	(136,600)	16
o Van n Ohio y ipal	749,541	(135,863)	613,678	238,066	(14,362)	223,704	757,536	(131,032)	626,504	704,573	(192,200)	51
o Van n Trust estment New pals	877,345	(79,437)	797,908	274,494	0	274,494	869,608	(128,339)	741,269	827,317	(150,400)	67

For the fiscal year ended February 29, 2012, the period June 1, 2010 through February 28, 2011, and the fiscal years ended May 31, 2010 and 2009, the management (MGMT) fees payable by each Fund, the amounts waived by the Adviser and the net fees paid by each Fund were as follows:

	February 29, 2012			Nine months ended February 28, 2011[2]			May 31, 2010			May 31, 2009		
FUND NAME	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid
Invesco Municipal Income Opportunities Trust	$656,990	$0	$656,990	$495,129	$0	$495,129	$629,842	$0	$629,842	$609,305	$0	$609,305
Invesco Municipal Premium Income Trust	949,388	0	949,388	707,388	0	707,388	940,333	0	940,333	917,039	0	917,039

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The fiscal year end for these Funds changed from October 31 to the last day of February effective February 28, 2011.

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For the fiscal years ended February 29, 2012, the period January 1, 2011 through February 28, 2011, and the fiscal years ended December 31, 2010 and 2009, the management (MGMT) fees payable by each Fund, the amounts waived by the Adviser and the net fees paid by each Fund were as follows:

	February 29, 2012			Two months ended February 28, 2011[3]			December 31, 2010			December 31, 200		
NAME	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	M Fe
o Van n High Trust	$590,468	$ (1,489)	$588,979	$99,620	$ (208)	$99,412	$597,234	$(21,660)	575,574	$568,387	$(40,600)	$5
o High nents nc.	486,594	(58,038)	428,556	81,457	(48,506)	32,951	482,667	(5,464)	477,203	426,000	(10,000)	4

For the fiscal year ended February 29, 2012, the period April 1, 2010 through February 28, 2011, and the fiscal years ended March 31, 2010 and 2009, the management (MGMT) fees payable by the Fund, the amounts waived by the Adviser and the net fees paid by the Fund were as follows:

	February 29, 2012			Eleven months ended February 28, 2011[4]			March 31, 2010			March 31, 2009		
FUND NAME	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid	MGMT Fee Payable	MGMT Fee Waivers	Net MGMT Fee Paid
Invesco Municipal Income Opportunities Trust III	$339,535	$(3,896)	$335,639	$312,415	0	$312,415	$320,980	0	$320,980	$336,190	0	$336,190

3 The fiscal year end for these Funds changed from December 31 to February 28, 2011.

4 The fiscal year end for this Fund changed from March 31 to the last day of February effective February 28, 2011.

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APPENDIX F
ADMINISTRATIVE SERVICES FEES

The Fund paid the Adviser the following amounts for administrative services for the last three fiscal years ended February 28th or 29th.

FUND NAME	February 29, 2012	February 28, 2011	February 28, 2010
Invesco Municipal Income Opportunities Trust II	$ 50,000	$ 63,203	$ 88,594

For the fiscal year ended February 29, 2012, the period November 1, 2010 through February 28, 2011, and the fiscal years ended October 31, 2010 and 2009, the Funds paid the Adviser the following amounts for administrative services:

FUND NAME	February 29, 2012	Four months ended February 28, 2011[1]	October 31, 2010	October 31, 2009
Invesco Value Municipal Income Trust	$ 121,958	$ 38,672	$ 266,429	$ 351,127
Invesco Quality Municipal Income Trust	119,974	38,381	287,400	383,043
Invesco Van Kampen California Value Municipal Income Trust	100,594	31,949	100,998	109,130
Invesco Van Kampen Municipal Opportunity Trust	162,710	52,027	173,751	171,886
Invesco Van Kampen Trust for Investment Grade New York Municipals	80,361	16,438	86,678	88,401
Invesco Van Kampen Municipal Trust	168,583	53,605	188,281	190,866
Invesco Value Municipal Bond Trust	50,000	16,438	60,891	65,045
Invesco Value Municipal Securities	50,000	16,438	64,651	71,502
Invesco Value Municipal Trust	77,633	24,422	208,986	289,813
Invesco Quality Municipal Investment Trust	50,000	16,439	152,762	218,588
Invesco Quality Municipal Securities	50,000	16,438	153,435	216,351
Invesco California Municipal Income Trust	50,000	16,438	122,344	166,924
Invesco California Quality Municipal Securities	50,000	16,438	101,274	130,131
Invesco California Municipal Securities	50,000	16,439	43,806	38,363
Invesco Van Kampen Select Sector Municipal Trust	50,000	16,438	81,673	95,506
Invesco Van Kampen Trust for Value Municipals	50,000	16,438	61,560	68,648
Invesco New York Quality Municipal Securities	50,000	16,438	59,725	62,402
Invesco Van Kampen Massachusetts Value Municipal Income Trust	50,000	16,439	42,301	37,598
Invesco Van Kampen Ohio Quality Municipal Trust	50,000	16,438	52,462	52,403
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals	50,000	16,438	62,868	56,614

[1] The fiscal year end for these Funds changed from October 31 to the last day of February effective February 28, 2011.

For the fiscal year ended February 29, 2012, the period June 1, 2010 through February 28, 2011, and the fiscal years ended May 31, 2010 and 2009, the Funds paid the Adviser the following amounts for administrative services:

FUND NAME	February 29, 2012	Nine months ended February 28, 2011[2]	May 31, 2010	May 31, 2009
Invesco Municipal Income Opportunities Trust	$ 50,000	$ 37,397	$100,774	$ 97,489
Invesco Municipal Premium Income Trust	50,000	37,397	188,067	183,408

For the fiscal years ended February 29, 2012, the period January 1, 2011 through February 28, 2011, and the fiscal years ended December 31, 2010 and 2009, the Funds paid the Adviser the following amounts for administrative services:

FUND NAME	February 29, 2012	Two months ended February 28, 2011[3]	December 31, 2010	December 31, 2009
Invesco Van Kampen High Income Trust II	$ 50,000	$ 8,082	$ 50,934	$ 50,493
Invesco High Yield Investments Fund, Inc.	50,000	8,082	42,766	49,000

For the fiscal year ended February 29, 2012, the period April 1, 2010 through February 28, 2011, and the fiscal years ended March 31, 2010 and 2009, the Funds paid the Adviser the following amounts for administrative services:

FUND NAME	February 29, 2012	Eleven months ended February 28, 2011[4]	March 31, 2010	March 31, 2009
Invesco Municipal Income Opportunities Trust III	$ 50,000	$ 46,550	$ 51,357	$ 53,791

2 The fiscal year end for these Funds changed from May 31 to the last day of February effective February 28, 2011.

3 The fiscal year end for these Funds changed from December 31 to February 28, 2011.

4 The fiscal year end for this Fund changed from March 31 to the last day of February effective February 28, 2011.

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APPENDIX G
PORTFOLIO MANAGERS

Portfolio Manager Fund Holdings and Information on Other Managed Accounts

Invesco s portfolio managers develop investment models which are used in connection with the management of certain Invesco Funds as well as other mutual funds for which Invesco or an affiliate acts as sub-adviser, other pooled investment vehicles that are not registered mutual funds, and other accounts managed for organizations and individuals. The Investments chart reflects the portfolio managers investments in the Funds that they manage. Accounts are grouped into three categories: (i) investments made directly in the Fund, (ii) investments made in an Invesco pooled investment vehicle with the same or similar objectives and strategies as the Fund, and (iii) any investments made in any Invesco Fund or Invesco pooled investment vehicle. The Assets Managed chart reflects information regarding accounts other than the Funds for which each portfolio manager has day-to-day management responsibilities. Accounts are grouped into three categories: (i) other registered investment companies, (ii) other pooled investment vehicles and (iii) other accounts. To the extent that any of these accounts pay advisory fees that are based on account performance (performance-based fees), information on those accounts is specifically broken out. In addition, any assets denominated in foreign currencies have been converted into U.S. Dollars using the exchange rates as of the applicable date.

Investments

The following information is as of February 29, 2012:

Portfolio Manager	Dollar Range of Investments in each Fund[1]	Dollar Range of Investments in Invesco pooled investment vehicles[2]	Dollar Range of all Investments in Funds and Invesco pooled investment vehicles
Invesco Value Municipal Income Trust (IIM)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Municipal Income Opportunities Trust (OIA)			
William Black	None	N/A	$100,001-$500,000
Mark Paris	None	N/A	$100,001-$500,000
Jim Phillips	None	N/A	$100,001-$500,000
Invesco Quality Municipal Income Trust (IQI)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen California Value Municipal Income Trust (VCV)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000

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Portfolio Manager	Dollar Range of Investments in each Fund[1]	Dollar Range of Investments in Invesco pooled investment vehicles[2]	Dollar Range of all Investments in Funds and Invesco pooled investment vehicles
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen High Income Trust II (VLT)			
Peter Ehret	None	N/A	$100,001-$500,000
Darren Hughes	None	N/A	$100,001-$500,000
Scott Roberts	None	N/A	$100,001-$500,000
Invesco Van Kampen Municipal Opportunity Trust (VMO)			
Thomas Byron	$1-$10,000	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Trust for Investment Grade New York Municipals (VTN)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Municipal Trust (VKQ)			
Thomas Byron	$1-$10,000	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Value Municipal Bond Trust (IMC)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Value Municipal Securities (IMS)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Value Municipal Trust (IMT)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000

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Portfolio Manager	Dollar Range of Investments in each Fund[1]	Dollar Range of Investments in Invesco pooled investment vehicles[2]	Dollar Range of all Investments in Funds and Invesco pooled investment vehicles
		Invesco Municipal Income Opportunities Trust II (OIB)	
William Black	None	N/A	$100,001-$500,000
Mark Paris	None	N/A	$100,001-$500,000
Jim Phillips	None	N/A	$100,001-$500,000
		Invesco Municipal Income Opportunities Trust III (OIC)	
William Black	None	N/A	$100,001-$500,000
Mark Paris	None	N/A	$100,001-$500,000
Jim Phillips	None	N/A	$100,001-$500,000
		Invesco Quality Municipal Investment Trust (IQT)	
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
		Invesco Quality Municipal Securities (IQM)	
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
		Invesco California Municipal Income Trust (IIC)	
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000
		Invesco California Quality Municipal Securities (IQC)	
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000
		Invesco California Municipal Securities (ICS)	
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000

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Portfolio Manager	Dollar Range of Investments in each Fund[1]	Dollar Range of Investments in Invesco pooled investment vehicles[2]	Dollar Range of all Investments in Funds and Invesco pooled investment vehicles
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco High Yield Investments Fund, Inc. (MSY)			
Peter Ehret	None	N/A	$100,001-$500,000
Darren Hughes	None	N/A	$500,001-$1,000,000
Scott Roberts	None	N/A	$100,001-$500,000
Invesco Municipal Premium Income Trust (PIA)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Select Sector Municipal Trust (VKL)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,000-$500,000
Invesco Van Kampen Trust for Value Municipals (VIM)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco New York Quality Municipal Securities (IQN)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Massachusetts Value Municipal Income Trust (VMV)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Ohio Quality Municipal Trust (VOQ)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$100-001-$500,000

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Portfolio Manager	Dollar Range of Investments in each Fund[1]	Dollar Range of Investments in Invesco pooled investment vehicles[2]	Dollar Range of all Investments in Funds and Invesco pooled investment vehicles
Robert Wimmel	None	N/A	$100,001-$500,000
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals (VTJ)			
Thomas Byron	None	N/A	$100,001-$500,000
Robert Stryker	None	N/A	$100,001-$500,000
Julius Williams	None	N/A	$50,001-$100,000
Robert Wimmel	None	N/A	$100,001-$500,000

1 This column reflects investments in a Fund s shares beneficially owned by a portfolio manager (as determined in accordance with Rule 16a-1(a) (2) under the Securities Exchange Act of 1934, as amended). Beneficial ownership includes ownership by a portfolio manager s immediate family members sharing the same household.

2 This column reflects portfolio managers investments made either directly or through a deferred compensation or a similar plan in Invesco pooled investment vehicles with the same or similar objectives and strategies as the Fund as of the most recent fiscal year end of the Fund.

Assets Managed

The following information is as of February 29, 2012:

Portfolio	Other Registered Investment Companies Managed (assets in millions)		Other Pooled Investment Vehicles Managed (assets in millions)		Other Accounts Managed (assets in millions)	
Manager	Number of Accounts	Assets	Number of Accounts	Assets	Number of Accounts	Assets
Invesco Value Municipal Income Trust (IIM)						
Thomas Byron	30	$14,150.0	None	None	None	None
Robert Stryker	30	$14,150.0	None	None	None	None
Robert Wimmel	30	$14,150.0	None	None	None	None
Invesco Municipal Income Opportunities Trust (OIA)						
William Black	4	$ 6,171.7	None	None	None	None
Mark Paris	4	$ 6,171.7	None	None	None	None
Jim Phillips	4	$ 6,171.7	None	None	None	None
Invesco Quality Municipal Income Trust (IQI)						
Thomas Byron	30	$14,118.8	None	None	None	None
Robert Stryker	30	$14,118.8	None	None	None	None
Robert Wimmel	30	$14,118.8	None	None	None	None

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Portfolio Manager	Other Registered Investment Companies Managed (assets in millions) Number of Accounts	Assets	Other Pooled Investment Vehicles Managed (assets in millions) Number of Accounts	Assets	Other Accounts Managed (assets in millions) Number of Accounts	Assets
Invesco Van Kampen California Value Municipal Income Trust (VCV)						
Thomas Byron	30	$14,147.6	None	None	None	None
Robert Stryker	30	$14,147.6	None	None	None	None
Julius Williams	12	$ 2,629.8	None	None	None	None
Robert Wimmel	30	$14,147.6	None	None	None	None
Invesco Van Kampen High Income Trust II (VLT)						
Peter Ehret	11	$ 3,634.5	None	None	None	None
Darren Hughes	7	$ 1,908.9	None	None	None	None
Scott Roberts	6	$ 1,885.8	None	None	None	None
Invesco Van Kampen Municipal Opportunity Trust (VMO)						
Thomas Byron	30	$13,832.5	None	None	None	None
Robert Stryker	30	$13,832.5	None	None	None	None
Robert Wimmel	30	$13,832.5	None	None	None	None
Invesco Van Kampen Trust for Investment Grade New York Municipals (VTN)						
Thomas Byron	30	$14,254.8	None	None	None	None
Robert Stryker	30	$14,254.8	None	None	None	None
Julius Williams	12	$ 2,954.2	None	None	None	None
Robert Wimmel	30	$14,254.8	None	None	None	None
Invesco Van Kampen Municipal Trust (VKQ)						
Thomas Byron	30	$13,759.4	None	None	None	None
Robert Stryker	30	$13,759.4	None	None	None	None
Robert Wimmel	30	$13,759.4	None	None	None	None
Invesco Value Municipal Bond Trust (IMC)						
Thomas Byron	30	$14,549.0	None	None	None	None
Robert Stryker	30	$14,549.0	None	None	None	None
Robert Wimmel	30	$14,549.0	None	None	None	None
Invesco Value Municipal Securities (IMS)						
Thomas Byron	30	$14,514.1	None	None	None	None
Robert Stryker	30	$14,514.1	None	None	None	None
Robert Wimmel	30	$14,514.1	None	None	None	None

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Portfolio	Other Registered Investment Companies Managed (assets in millions)		Other Pooled Investment Vehicles Managed (assets in millions)		Other Accounts Managed (assets in millions)	
Manager	**Number of Accounts**	**Assets**	**Number of Accounts**	**Assets**	**Number of Accounts**	**Assets**
Invesco Value Municipal Trust (IMT)						
Thomas Byron	30	$13,759.4	None	None	None	None
Robert Stryker	30	$13,759.4	None	None	None	None
Robert Wimmel	30	$13,759.4	None	None	None	None
Invesco Municipal Income Opportunities Trust II (OIB)						
William Black	4	$ 6,184.5	None	None	None	None
Mark Paris	4	$ 6,184.5	None	None	None	None
Jim Phillips	4	$ 6,184.5	None	None	None	None
Invesco Municipal Income Opportunities Trust III (OIC)						
William Black	4	$ 6,239.5	None	None	None	None
Mark Paris	4	$ 6,239.5	None	None	None	None
Jim Phillips	4	$ 6,239.5	None	None	None	None
Invesco Quality Municipal Investment Trust (IQT)						
Thomas Byron	30	$14,332.8	None	None	None	None
Robert Stryker	30	$14,332.8	None	None	None	None
Robert Wimmel	30	$14,332.8	None	None	None	None
Invesco Quality Municipal Securities (IQM)						
Thomas Byron	30	$14,335.7	None	None	None	None
Robert Stryker	30	$14,335.7	None	None	None	None
Robert Wimmel	30	$14,335.7	None	None	None	None
Invesco California Municipal Income Trust (IIC)						
Thomas Byron	30	$14,408.3	None	None	None	None
Robert Stryker	30	$14,408.3	None	None	None	None
Julius Williams	12	$ 2,890.5	None	None	None	None
Robert Wimmel	30	$14,408.3	None	None	None	None
Invesco California Quality Municipal Securities (IQC)						
Thomas Byron	30	$14,456.5	None	None	None	None
Robert Stryker	30	$14,456.5	None	None	None	None
Julius Williams	12	$ 2,938.7	None	None	None	None
Robert Wimmel	30	$14,456.5	None	None	None	None

Portfolio	Other Registered Investment Companies Managed (assets in millions)		Other Pooled Investment Vehicles Managed (assets in millions)		Other Accounts Managed (assets in millions)	
Manager	Number of Accounts	Assets	Number of Accounts	Assets	Number of Accounts	Assets
Invesco California Municipal Securities (ICS)						
Thomas Byron	30	$14,587.9	None	None	None	None
Robert Stryker	30	$14,587.9	None	None	None	None
Julius Williams	12	$ 3,070.2	None	None	None	None
Robert Wimmel	30	$14,587.9	None	None	None	None
Invesco High Yield Investments Fund, Inc. (MSY)						
Peter Ehret	11	$ 3,620.0	None	None	None	None
Darren Hughes	7	$ 1,894.3	None	None	None	None
Scott Roberts	6	$ 1,871.2	None	None	None	None
Invesco Municipal Premium Income Trust (PIA)						
Thomas Byron	30	$14,391.2	None	None	None	None
Robert Stryker	30	$14,391.2	None	None	None	None
Robert Wimmel	30	$14,391.2	None	None	None	None
Invesco Van Kampen Select Sector Municipal Trust (VKL)						
Thomas Byron	30	$14,322.4	None	None	None	None
Robert Stryker	30	$14,322.4	None	None	None	None
Robert Wimmel	30	$14,322.4	None	None	None	None
Invesco Van Kampen Trust for Value Municipals (VIM)						
Thomas Byron	30	$14,424.5	None	None	None	None
Robert Stryker	30	$14,424.5	None	None	None	None
Robert Wimmel	30	$14,424.5	None	None	None	None
Invesco New York Quality Municipal Securities (IQN)						
Thomas Byron	30	$14,548.9	None	None	None	None
Robert Stryker	30	$14,548.9	None	None	None	None
Julius Williams	12	$ 3,031.1	None	None	None	None
Robert Wimmel	30	$14,548.9	None	None	None	None
Invesco Van Kampen Massachusetts Value Municipal Income Trust (VMV)						
Thomas Byron	30	$14,580.4	None	None	None	None
Robert Stryker	30	$14,580.4	None	None	None	None
Julius Williams	12	$ 3,062.6	None	None	None	None

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Portfolio	Other Registered Investment Companies Managed (assets in millions)		Other Pooled Investment Vehicles Managed (assets in millions)		Other Accounts Managed (assets in millions)	
Manager	Number of Accounts	Assets	Number of Accounts	Assets	Number of Accounts	Assets
Robert Wimmel	30	$14,580.4	None	None	None	None
Invesco Van Kampen Ohio Quality Municipal Trust (VOQ)						
Thomas Byron	30	$14,497.5	None	None	None	None
Robert Stryker	30	$14,497.5	None	None	None	None
Julius Williams	12	$ 2,979.7	None	None	None	None
Robert Wimmel	30	$14,497.5	None	None	None	None
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals (VTJ)						
Thomas Byron	30	$14,472.0	None	None	None	None
Robert Stryker	30	$14,472.0	None	None	None	None
Julius Williams	12	$ 2,954.2	None	None	None	None
Robert Wimmel	30	$14,472.0	None	None	None	None

Potential Conflicts of Interest

Actual or apparent conflicts of interest may arise when a portfolio manager has day-to-day management responsibilities with respect to more than one Fund or other account. More specifically, portfolio managers who manage multiple Funds and/or other accounts may be presented with one or more of the following potential conflicts:

Ø The management of multiple Funds and/or other accounts may result in a portfolio manager devoting unequal time and attention to the management of each Fund and/or other account. The Adviser and each Sub-Adviser seek to manage such competing interests for the time and attention of portfolio managers by having portfolio managers focus on a particular investment discipline. Most other accounts managed by a portfolio manager are managed using the same investment models that are used in connection with the management of the Funds.

Ø If a portfolio manager identifies a limited investment opportunity which may be suitable for more than one Fund or other account, a Fund may not be able to take full advantage of that opportunity due to an allocation of filled purchase or sale orders across all eligible Funds and other accounts. To deal with these situations, the Adviser, each Sub-Adviser and the Funds have adopted procedures for allocating portfolio transactions across multiple accounts.

Ø The Adviser and each Sub-Adviser determine which broker to use to execute each order for securities transactions for the Funds, consistent with its duty to seek best execution of the transaction. However, for certain other accounts (such as mutual funds for which Invesco or an affiliate acts as sub-adviser, other pooled investment vehicles that are not registered mutual funds, and other accounts managed for organizations and individuals), the Adviser and each Sub-Adviser may be limited by the client with respect to the selection of brokers or may be instructed to direct trades through a particular broker. In these cases, trades for a Fund in a particular security may be placed separately from, rather than aggregated with, such other accounts. Having separate transactions with respect to a security may temporarily affect the market price of the security or the execution of the transaction, or both, to the possible detriment of the Fund or other account(s) involved.

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Ø Finally, the appearance of a conflict of interest may arise where the Adviser or Sub-Adviser has an incentive, such as a performance-based management fee, which relates to the management of one Fund or account but not all Funds and accounts for which a portfolio manager has day-to-day management responsibilities.

The Adviser, each Sub-Adviser, and the Funds have adopted certain compliance procedures which are designed to address these types of conflicts. However, there is no guarantee that such procedures will detect each and every situation in which a conflict arises.

Description of Compensation Structure

For the Adviser and each affiliated Sub-Adviser

The Adviser and each Sub-Adviser seek to maintain a compensation program that is competitively positioned to attract and retain high-caliber investment professionals. Portfolio managers receive a base salary, an incentive bonus opportunity and an equity compensation opportunity. Portfolio manager compensation is reviewed and may be modified each year as appropriate to reflect changes in the market, as well as to adjust the factors used to determine bonuses to promote competitive Fund performance. The Adviser and each Sub-Adviser evaluate competitive market compensation by reviewing compensation survey results conducted by an independent third party of investment industry compensation. Each portfolio manager s compensation consists of the following three elements:

Base Salary. Each portfolio manager is paid a base salary. In setting the base salary, the Adviser and each Sub-Adviser s intention is to be competitive in light of the particular portfolio manager s experience and responsibilities.

Annual Bonus. The portfolio managers are eligible, along with other employees of the Adviser and each Sub-Adviser, to participate in a discretionary year-end bonus pool. The Compensation Committee of Invesco Ltd. reviews and approves the amount of the bonus pool available for the Adviser and each of the Sub-Adviser s investment centers. The Compensation Committee considers investment performance and financial results in its review. In addition, while having no direct impact on individual bonuses, assets under management are considered when determining the starting bonus funding levels. Each portfolio manager is eligible to receive an annual cash bonus which is based on quantitative (*i.e.* investment performance) and non-quantitative factors (which may include, but are not limited to, individual performance, risk management and teamwork).

Each portfolio manager s compensation is linked to the pre-tax investment performance of the Funds/accounts managed by the portfolio manager as described in the table below.

Sub-Adviser	Performance time period[1]
Invesco [2] Invesco Australia[2] Invesco Deutschland	One-, Three- and Five-year performance against Fund peer group.
Invesco Advisors- Invesco Real Estate[3] Invesco Senior Secured[2, 4]	Not applicable
Invesco Canada[2]	One-year performance against Fund peer group. Three- and Five-year performance against entire universe of Canadian funds.
Invesco Hong Kong[2] Invesco Asset Management	One-, Three- and Five-year performance against Fund peer group.
Invesco Japan[5]	One-, Three- and Five-year performance against the appropriate Micropol benchmark.

[1] Rolling time periods based on calendar year-end.

[2] Portfolio managers may be granted an annual deferral award that vests on a pro-rata basis over a four year period and final payments are based on the performance of eligible Funds selected by the portfolio manager at the time the award is granted.

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[3] Portfolio managers for Invesco Global Real Estate Fund, Invesco Real Estate Fund, Invesco Global Real Estate Income Fund and Invesco V.I. Global Real Estate Fund base their bonus on new operating profits of the U.S. Real Estate Division of Invesco.

[4] Invesco Senior Secured s bonus is based on annual measures of equity return and standard tests of collateralization performance.

[5] Portfolio managers for Invesco Pacific Growth Fund s compensation is based on the one-, three- and five-year performance against the appropriate Micropol benchmark. Furthermore, for the portfolio manager(s) formerly managing the predecessor fund to Invesco Pacific Growth Fund, they also have a ten-year performance measure.

High investment performance (against applicable peer group and/or benchmarks) would deliver compensation generally associated with top pay in the industry (determined by reference to the third-party provided compensation survey information) and poor investment performance (versus applicable peer group) would result in low bonus compared to the applicable peer group or no bonus at all. These decisions are reviewed and approved collectively by senior leadership which has responsibility for executing the compensation approach across the organization.

Equity-Based Compensation. Portfolio managers may be granted an annual deferral award that allows them to select receipt of shares of certain Invesco Funds with a vesting period as well as common shares and/or restricted shares of Invesco Ltd. stock from pools determined from time to time by the Compensation Committee of Invesco Ltd. s Board of Directors. Awards of equity-based compensation typically vest over time, so as to create incentives to retain key talent.

Portfolio managers also participate in benefit plans and programs available generally to all employees.

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APPENDIX H
BROKERAGE COMMISSIONS

For the last three fiscal years ended February 28th or 29th, the Fund paid the following commissions to brokers:

FUND NAME	February 29, 2012	February 28, 2011	February 28, 2010
Invesco Municipal Income Opportunities Trust II	None	None	None

For the fiscal year ended February 29, 2012, the period November 1, 2010 through February 28, 2011, and the fiscal years ended October 31, 2010 and 2009, the Fund paid the following commissions to brokers:

FUND NAME	February 29, 2012	Four months ended February 28, 2011[1]	October 31, 2010	October 31, 2009
Invesco Value Municipal Income Trust	None	None	$5,061	$45,000
Invesco Quality Municipal Income Trust	None	None	3,154	52,000
Invesco Van Kampen California Value Municipal Income Trust	None	None	4,773	None
Invesco Van Kampen Municipal Opportunity Trust	None	None	None	None
Invesco Van Kampen Trust for Investment Grade New York Municipals	None	None	None	None
Invesco Van Kampen Municipal Trust	None	None	None	None
Invesco Value Municipal Bond Trust	None	None	1,401	10,000
Invesco Value Municipal Securities	None	None	1,945	15,000
Invesco Value Municipal Trust	None	None	3,648	34,000
Invesco Quality Municipal Investment Trust	None	None	1,462	26,000
Invesco Quality Municipal Securities	None	None	1,445	22,000
Invesco California Municipal Income Trust	None	None	4,773	29,000
Invesco California Quality Municipal Securities	None	None	4,354	21,000
Invesco California Municipal Securities	None	None	1,896	9,000
Invesco Van Kampen Select Sector Municipal Trust	None	None	None	None
Invesco Van Kampen Trust for Value Municipals	None	None	None	None
Invesco New York Quality Municipal Securities	None	None	922	7,000
Invesco Van Kampen Massachusetts Value Municipal Income Trust	None	None	None	None
Invesco Van Kampen Ohio Quality Municipal Trust	None	None	None	None
Invesco Van Kampen Trust for Investment Grade New Jersey Municipals	None	None	None	None

1 The fiscal year end for these Funds changed from October 31 to the last day of February effective February 28, 2011.

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For the fiscal year ended February 29, 2012, the period June 1, 2010 through February 28, 2011, and the fiscal years ended May 31, 2010 and 2009, the Funds paid the following commissions to brokers:

FUND NAME	February 29, 2012	Nine months ended February 28, 2011[2]	May 31, 2010	May 31, 2009
Invesco Municipal Income Opportunities Trust	None	None	None	None
Invesco Municipal Premium Income Trust	None	None	4,000	$42,000

For the fiscal years ended February 29, 2012, the period January 1, 2011 through February 28, 2011, and the fiscal years ended December 31, 2010 and 2009, the Funds paid the following commissions to brokers:

FUND NAME	February 29, 2012	Two months ended February 28, 2011[3]	December 31, 2010	December 31, 2009
Invesco Van Kampen High Income Trust II	None	None	None	$ 7,000
Invesco High Yield Investments Fund, Inc.	None	None	None	None

For the fiscal year ended February 29, 2012, the period April 1, 2010 through February 28, 2011, and the fiscal years ended March 31, 2010 and 2009, the management fees payable by the Fund, the Fund paid the following commissions to brokers:

FUND NAME	February 29, 2012	Eleven months ended February 28, 2011[4]	March 31, 2010	March 31, 2009
Invesco Municipal Income Opportunities Trust III	None	.14	None	None

2 The fiscal year end for these Funds changed from May 31 to the last day of February effective February 28, 2011.

3 The fiscal year end for these Funds changed from December 31 to the last day of February effective February 28, 2011.

4 The fiscal year end for this Fund changed from March 31 to the last day of February effective February 28, 2011.

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APPENDIX I
DIRECTED BROKERAGE (RESEARCH SERVICES)

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PART C
OTHER INFORMATION

Item 15. Indemnification.

Declaration of Trust

The Trustees shall provide for indemnification by the Trust of any person who is, or has been, a Trustee, officer, employee or agent of the Trust against all liability and against all expenses reasonably incurred or paid by him in connection with any claim, action, suit or proceeding in which he becomes involved as a party or otherwise by virtue of his being or having been a Trustee, officer, employee or agent and against amounts paid or incurred by him in the settlement thereof, in such manner as the Trustees may provide from time to time in the By-Laws.

The words claim, action, suit, or proceeding shall apply to all claims, actions, suits or proceedings (civil, criminal, or other, including appeals), actual or threatened; and the words liability and expenses shall include without limitation, attorneys fees, costs, judgments, amounts paid in settlement, fines, penalties and other liabilities.

By-Laws

(a) The Trust shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Trust) by reason of the fact that he is or was a Trustee, officer, employee, or agent of the Trust. The indemnification shall be against expenses, including attorneys fees, judgments, fines, and amounts paid in settlement, actually and reasonably incurred by him in connection with the action, suit, or proceeding, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Trust shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or on behalf of the Trust to obtain a judgment or decree in its favor by reason of the fact that he is or was a Trustee, officer, employee, or agent of the Trust. The indemnification shall be against expenses, including attorneys fees actually and reasonably incurred by him in connection with the defense or settlement of the action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust; except that no indemnification shall be made in respect of any claim, issue, or matter as to which the person has been adjudged to be

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liable for negligence or misconduct in the performance of his duty to the Trust, except to the extent that the court in which the action or suit was brought, or a court of equity in the county in which the Trust has its principal office, determines upon application that, despite the adjudication of liability but in view of all circumstances of the case, the person is fairly and reasonably entitled to indemnity for those expenses which the court shall deem proper, provided such Trustee, officer, employee or agent is not adjudged to be liable by reason of his willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

(c) To the extent that a Trustee, officer, employee, or agent of the Trust has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsection (a) or (b) or in defense of any claim, issue or matter therein, he shall be indemnified against expenses, including attorneys fees, actually and reasonably incurred by him in connection therewith.

(d) (1) Unless a court orders otherwise, any indemnification under subsections (a) or (b) of this section may be made by the Trust only as authorized in the specific case after a determination that indemnification of the Trustee, officer, employee, or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) or (b). (2) The determination shall be made: (i) By the Trustees, by a majority vote of a quorum which consists of Trustees who were not parties to the action, suit or proceeding; or (ii) If the required quorum is not obtainable, or if a quorum of disinterested Trustees so directs, by independent legal counsel in a written opinion; or (iii) By the Shareholders. (3) Notwithstanding any provision of this Section 4.8, no person shall be entitled to indemnification for any liability, whether or not there is an adjudication of liability, arising by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of duties as described in Section 17(h) and (i) of the Investment Company Act of 1940 (disabling conduct). A person shall be deemed not liable by reason of disabling conduct if, either: (i) a final decision on the merits is made by a court or other body before whom the proceeding was brought that the person to be indemnified (indemnitee) was not liable by reason of disabling conduct; or (ii) in the absence of such a decision, a reasonable determination, based upon a review of the facts, that the indemnitee was not liable by reason of disabling conduct, is made by either: (A) a majority of a quorum of Trustees who are neither interested persons of the Trust, as defined in Section 2(a)(19) of the Investment Company Act of 1940, nor parties to the action, suit or proceeding, or (B) an independent legal counsel in a written opinion.

(e) Expenses, including attorneys fees, incurred by a Trustee, officer, employee or agent of the Trust in defending a civil or criminal action, suit or proceeding may be paid by the Trust in advance of the final disposition thereof if: (1) authorized in the specific case by the Trustees; and (2) the Trust receives an undertaking by or on behalf of the Trustee, officer, employee or agent of the Trust to repay the advance if it is not ultimately determined that such person is entitled to be indemnified by the Trust; and (3) either: (i) such person provides a security for his undertaking, or (ii) the Trust is insured against losses by reason of any lawful advances, or (iii) a determination, based on a review of readily available facts, that there is reason to believe that such person ultimately will be found entitled to indemnification, is made by either: (A) a majority of a quorum which consists of Trustees who are neither interested persons of the

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Trust, as defined in Section 2(a)(19) of the 1940 Act, nor parties to the action, suit or proceeding, or (B) an independent legal counsel in a written opinion.

(f) The indemnification provided by this Section shall not be deemed exclusive of any other rights to which a person may be entitled under any by-law, agreement, vote of Shareholders or disinterested Trustees or otherwise, both as to action in his official capacity and as to action in another capacity while holding the office, and shall continue as to a person who has ceased to be a Trustee, officer, employee, or agent and inure to the benefit of the heirs, executors and administrators of such person; provided that no person may satisfy any right of indemnity or reimbursement granted herein or to which he may be otherwise entitled except out of the property of the Trust, and no Shareholder shall be personally liable with respect to any claim for indemnity or reimbursement or otherwise.

(g) The Trust may purchase and maintain insurance on behalf of any person who is or was a Trustee, officer, employee, or agent of the Trust, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such. However, in no event will the Trust purchase insurance to indemnify any officer or Trustee against liability for any act for which the Trust itself is not permitted to indemnify him.

(h) Nothing contained in this Section shall be construed to protect any Trustee or officer of the Trust against any liability to the Trust or to its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Item 16. Exhibits.

(1) Copies of the charter of the Registrant as now in effect;

- (a) Declaration of Trust dated March 12, 1992 is filed herewith.
- (b) Amendment to the Declaration of Trust dated July 1, 1992 is filed herewith.
- (c) Amendment to the Declaration of Trust dated December 21, 1998 is filed herewith.
- (d) Amendment to the Declaration of Trust dated December 20, 2001 is filed herewith.
- (e) Amendment to the Declaration of Trust dated January 8, 2010 is filed herewith.
- (f) Amendment to the Declaration of Trust dated May 21, 2010 is filed herewith.
- (g) Amendment to the Declaration of Trust dated March 16, 2011 is filed herewith.

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(2) Copies of the existing bylaws or corresponding instrument of the Registrant;

(a) Amended and Restated Bylaws dated June 19, 2009 is incorporated into this filing by reference to the Registrant s Form NSAR-B filed on December 30, 2009.

(3) Copies of any voting trust agreement affecting more than 5 percent of any class of equity securities of the Registrant;

Not Applicable.

(4) Copies of the agreement of acquisition, reorganization, merger, liquidation and any amendments to it;

(a) Form of Agreement and Plan of Redomestication by and among the Registrant is attached to the Proxy Statement Prospectus contained in this Registration Statement.

(b) Form of Agreement and Plan of Merger by and among the Registrant is attached to the Proxy Statement Prospectus contained in this Registration Statement.

(5) Copies of all instruments defining the rights of holders of the securities being registered including, where applicable, the relevant portion of the articles of incorporation or by-laws of the Registrant;

(a) Articles IV and IX of the Restated and Amended Declaration of Trust.

(b) Articles II, VIII and IX of the Amended and Restated Bylaws.

(6) Copies of all investment advisory contracts relating to the management of the assets of the Registrant;

(a) Master Investment Advisory Agreement, dated June 1, 2010, between the Registrant and Invesco Advisers, Inc. is incorporated into this filing by reference to Registrant s Form NSAR-B filed on December 30, 2010.

(b) Master Intergroup Sub-Advisory Contract for Mutual Funds, dated May 1, 2008 between Invesco Advisers, Inc., on behalf of Registrant, and each of Invesco Asset Management Deutschland GmbH, Invesco Asset Management Ltd., Invesco Asset Management (Japan) Limited, Invesco Australia Limited, Invesco Hong Kong Limited, Invesco Senior Secured Management, Inc. and Invesco Trimark Ltd. Is incorporated into this filing by reference to Registrant s Form NSAR-B filed on December 30, 2010.

(7) Copies of each underwriting or distribution contract between the Registrant and a principal underwriter, and specimens or copies of all agreements between principal underwriters and dealers;

Not applicable.

(8) Copies of all bonus, profit sharing, pension, or other similar contracts or arrangements wholly or partly for the benefit of trustees or officers of the Registrant in their capacity as such. Furnish a reasonably detailed description of any plan that is not set forth in a formal document;

(a) Form of AIM Funds Retirement Plan for Eligible Directors/Trustees, as approved by the Board of Directors/Trustees on December 31, 2010 is incorporated into this filing by reference to Post-Effective Amendment No. 116 to AIM Investment Funds (Invesco Investment Funds) s registration statement filed on September 23, 2011.

(b) Form of Invesco Funds Trustee Deferred Compensation Agreement as approved by the Board of Directors/Trustees on December 31, 2010 is incorporated into this filing by reference to Post-Effective Amendment No. 116 to AIM Investment Funds (Invesco Investment Funds) s registration statement filed on September 23, 2011.

(9) Copies of all custodian agreements and depository contracts under Section 17(f) of the Investment Company Act of 1940, as amended (the 1940 Act) for securities and similar investments of the Registrant, including the schedule of remuneration;

(a) Amended and Restated Master Custodian Contract, dated June 1, 2010, between Registrant and State Street Bank and Trust Company is incorporated into this filing by reference to Post-Effective Amendment No. 97 to AIM Investment Funds (Invesco Investment Funds) s registration statement filed on July 16, 2010.

(10) Copies of any plan entered into by Registrant pursuant to Rule 12b-1 under the 1940 Act and any agreements with any person relating to implementation of the plan, and copies of any plan entered into by the Registrant pursuant to Rule 18f-3 under the 1940 Act, any agreement with any person relating to implementation of the plan, any amendment to the plan, and a copy of the portion of the minutes of the meeting of the Registrant s trustees describing any action taken to revoke the plan;

Not applicable.

(11) An opinion and consent of counsel as to the legality of the securities being registered, indicating whether they will, when sold, be legally issued, fully paid and nonassessable;

(a) Consent of Stradley Ronon Stevens & Young, LLP is filed herewith.

(a) Opinion of Stradley Ronon Stevens & Young, LLP will be filed by amendment.

(12) An opinion, and consent to their use, of counsel or, in lieu of an opinion, a copy of the

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revenue ruling from the Internal Revenue Service, supporting the tax matters and consequences to shareholders discussed in the prospectus;

(a) Opinion of Stradley Ronon Stevens & Young, LLP, supporting the tax matters and consequences to shareholders will be filed by amendment.

(13) Copies of all material contracts of the Registrant not made in the ordinary course of business which are to be performed in whole or in part on or after the date of filing the registration statement;

(a) Memorandum of Agreement, regarding expense limitations, dated July 18, 2011, between Registrant (on behalf of certain Funds) and Invesco Advisers, Inc. is incorporated into this filing by reference to Post-Effective Amendment No. 116 to AIM Investment Funds (Invesco Investment Funds) s registration statement filed on September 23, 2011.

(14) Copies of any other opinions, appraisals, or rulings, and consents to their use, relied on in preparing the registration statement and required by Section 7 of the 1933 Act;

(a) Consent of Pricewaterhouse Coopers LLP, the Registrant s independent registered public accountant, is filed herewith.

(15) All financial statements omitted pursuant to Item 14(a)(1);

Not applicable.

(16) Manually signed copies of any power of attorney pursuant to which the name of any person has been signed to the registration statement; and

(a) Power of Attorney for David C. Arch, Frank S. Bayley, James T. Bunch, Bruce L. Crockett, Rodney Dammeyer, Albert R. Dowden, Jack M. Fields, Martin L. Flanagan, Prema Mathai-Davis, Larry Soll, Hugo F. Sonnenschein, Raymond Stickel, Jr., Phil A. Taylor and Wayne W. Whalen is incorporated herein by reference to the Initial Registration Statement on Form N-14, filed on April 5, 2012.

(b) Power of Attorney for Carl Frischling is incorporated herein by reference to the Initial Registration Statement on Form N-14, filed on April 5, 2012.

(17) Any additional exhibits which the Registrant may wish to file.

(a) Form of Proxy Cards relating to Special Meeting of Shareholders are filed herewith.

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Item 17. Undertakings.

(1) The undersigned Registrant agrees that prior to any public reoffering of the securities registered through the use of a prospectus which is a part of this registration statement by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c) of the Securities Act [17 CRF 203.145C], the reoffering prospectus will contain the information called for by the applicable registration form for reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) The undersigned Registrant agrees that every prospectus that is filled under paragraph (1) above will be filed as a part of an amendment to the registration statement and will not be used until the amendment is effective, and that, in determining any liability under the 1933 Act, each post-effective amendment shall be deemed to be a new registration statement for the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering of them.

(3) The undersigned Registrant undertakes to file an opinion of counsel supporting the tax matters and consequences to shareholders discussed will be filed by Post-Effective Amendment.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement on Form N-14 to be signed on its behalf by the undersigned, thereto duly authorized, in the City of Houston, State of Texas, on the 15th day of May, 2012.

Registrant: Invesco Quality Municipal Income Trust

By: /s/ Philip A. Taylor
Philip A. Taylor, President

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement on Form N-14 has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ Philip A. Taylor	Trustee & President	May 15, 2012
(Philip A. Taylor)	(Principal Executive Officer)	
/s/ David C. Arch*	Trustee	May 15, 2012
(David C. Arch)		
/s/ Frank S. Bayley*	Trustee	May 15, 2012
(Frank S. Bayley)		
/s/ James T. Bunch*	Trustee	May 15, 2012
(James T. Bunch)		
/s/ Bruce L. Crockett*	Chair & Trustee	May 15, 2012
(Bruce L. Crockett)		
/s/ Rodney F. Dammeyer*	Trustee	May 15, 2012
(Rodney F. Dammeyer)		
/s/ Albert R. Dowden*	Trustee	May 15, 2012
(Albert R. Dowden)		

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SIGNATURES	TITLE	DATE
/s/ Jack M. Fields*	Trustee	May 15, 2012
(Jack M. Fields)		
/s/ Martin L. Flanagan*	Trustee	May 15, 2012
(Martin L. Flanagan)		
/s/ Carl Frischling*	Trustee	May 15, 2012
(Carl Frischling)		
/s/ Prema Mathai-Davis*	Trustee	May 15, 2012
(Prema Mathai-Davis)		
/s/ Larry Soll*	Trustee	May 15, 2012
(Larry Soll)		
/s/ Hugo F. Sonnenschein*	Trustee	May 15, 2012
(Hugo F. Sonnenschein)		
/s/ Raymond Stickel, Jr.*	Trustee	May 15, 2012
(Raymond Stickel, Jr.)		
/s/ Wayne W. Whalen*	Trustee	May 15, 2012
(Wayne W. Whalen)		
/s/ Sheri Morris	Vice President & Treasurer	May 15, 2012
(Sheri Morris)	(Principal Financial Officer)	

*By: /s/ Philip A. Taylor
Philip A. Taylor
Attorney-in-Fact

* Philip A. Taylor, pursuant to powers of attorney dated November 30, 2011, is incorporated herein by reference to the Initial Registration Statement on Form N-14, filed on April 5, 2012.

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EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
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1(g)	Amendment to the Declaration of Trust dated March 16, 2011
11(a)	Consent of Stradley Ronon Stevens & Young, LLP
14(a)	Consent of Pricewaterhouse Coopers LLP
17(a)	Form of Proxy Cards