

Invesco Municipal Trust
Form N-CSR
May 09, 2014

OMB APPROVAL
OMB Number: 3235-0570

Expires: January 31, 2017

Estimated average burden

hours per response: 20.6

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES
Investment Company Act file number 811-06362

Invesco Municipal Trust
(Exact name of registrant as specified in charter)

Edgar Filing: Invesco Municipal Trust - Form N-CSR

1555 Peachtree Street, N.E., Atlanta, Georgia 30309

(Address of principal executive offices) (Zip code)

Colin Meadows 1555 Peachtree Street, N.E., Atlanta, Georgia 30309

(Name and address of agent for service)

Registrant's telephone number, including area code: (713) 626-1919

Date of fiscal year end: 2/28

Date of reporting period: 2/28/14

Item 1. Report to Stockholders.

Management's Discussion of Trust Performance

Performance summary

This is the annual report for Invesco Municipal Trust (the Trust) for the fiscal year ended February 28, 2014. The Trust's return can be calculated based on either the market price or the net asset value (NAV) of its shares. NAV per share is determined by dividing the value of the Trust's portfolio securities, cash and other assets, less all liabilities and preferred shares, by the total number of common shares outstanding. Market price reflects the supply and demand for Trust shares. As a result, the two returns can differ, as they did during the reporting period. The main driver of the Trust's return on an NAV basis was its exposure to the long end of the yield curve.

Performance

Total returns, 2/28/13 to 2/28/14

Trust at NAV	-2.09%
Trust at Market Value	-8.74
Barclays Municipal Bond Index*	-0.21
Market Price Discount to NAV as of 2/28/14	-8.33
Source(s): Lipper Inc.	

*Effective February 28, 2014, after the close of the fiscal year, the Trust will adopt a three-tier benchmark structure to compare its performance to broad market, style-specific and peer group market measures. The S&P Municipal Bond Index will represent the Trust's broad market benchmark instead of the Barclays Municipal Bond Index as the S&P Municipal Bond Index more closely reflects the performance of the broad US municipal bond market. The S&P Municipal Bond 5+ Year Investment Grade Index and Lipper General & Insured Leveraged Municipal Debt Funds Index will become the Trust's style-specific and peer group benchmarks, respectively.

The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Investment return, NAV and common share market price will fluctuate so that you may have a gain or loss when you sell shares. Please visit invesco.com/us for the most recent month-end performance. Performance figures reflect Trust expenses, the reinvestment of distributions (if any) and changes in NAV for performance based on NAV and changes in market price for performance based on market price.

Since the Trust is a closed-end management investment company, shares of the Trust may trade at a discount or premium from the NAV. This characteristic is separate and distinct from the risk that NAV could decrease as a result of investment activities and may be a greater risk to investors expecting to sell their shares after a short time. The

Edgar Filing: Invesco Municipal Trust - Form N-CSR

Trust cannot predict whether shares will trade at, above or below NAV. The Trust should not be viewed as a vehicle for trading purposes. It is designed primarily for risk- tolerant long-term investors.

How we invest

The Trust seeks to provide investors with a high level of current income exempt from federal income tax, consistent with preservation of capital.

We seek to achieve the Trust's investment objective by investing primarily in municipal securities that are rated investment grade at the time of investment. Municipal securities include municipal bonds, municipal notes, municipal commercial paper and lease obligations. The Trust may also invest up to 20% of its net

assets in non-investment-grade and unrated securities that we determine to be of comparable quality. From time to time, we may invest in municipal securities that pay interest subject to the federal alternative minimum tax.

We employ a bottom-up, research-driven approach to identify securities that have attractive risk-reward characteristics for the sectors in which we invest. We also integrate macroeconomic analysis and forecasting into our evaluation and ranking of various sectors and individual

Portfolio Composition

By credit sector, based on total investments

Revenue Bonds	87.8%
General Obligation Bonds	8.7
Pre-Refunded Bonds	3.1
Other	0.4

Total Net Assets

Applicable to Common Shares

\$736.5 million

Total Number of Holdings

619

The Trust's holdings are subject to change, and there is no assurance that the Trust will continue to hold any particular security.

Top Five Fixed Income Holdings

1.	New Jersey (State of) Economic Development Authority; Series 1992	5.6%
2.	New York & New Jersey (States of) Port Authority; One-Hundred Forty-Fourth Series 2006	2.2

3.	Ohio (State of) Air Quality Development Authority (Dayton Power); Series 2006	2.1
4.	Chicago (City of) (O Hare International Airport); Series 2005 A	1.7
5.	Ohio (State of) Higher Educational Facility Commission (Hospital University); Series 2007	1.4

securities. Finally, we employ leverage in an effort to enhance the Trust's income and total return.

Sell decisions generally are based on:

- n A deterioration or likely deterioration of an individual issuer's capacity to meet its debt obligations on a timely basis.
- n A deterioration or likely deterioration of the broader fundamentals of a particular industry or sector.
- n Opportunities in the secondary or primary market to purchase a security with better relative value.

Market conditions and your Trust

For the fiscal year ended February 28, 2014, the municipal bond market returned -0.21%¹, as measured by the Barclays Municipal Bond Index, the Trust's benchmark. Record outflows from municipal bond funds, driven by concerns over rising interest rates and high-profile credit events, resulted in a challenging year for municipal bond investors. The \$67 billion² in municipal bond fund redemptions between March and December 2013 was in stark contrast to inflows of \$65 billion² and strong performance for the asset class over the prior two years.

Shortly after the fiscal year began, investors became apprehensive that the US Federal Reserve (the Fed) would reduce its asset purchase program, known as quantitative easing (QE), as the US economy improved. Concerned that Fed action would cause interest rates to rise and bond prices to fall, investors began trimming their allocations to fixed income investments, including municipal bonds. The rate of outflows increased dramatically in June following comments made by then-Fed Chairman Ben Bernanke on the timing for tapering QE.

Over the summer of 2013, several high-profile credit events had an adverse impact on the municipal bond market. These included downgrades to the credit ratings of Chicago debt on pension concerns, Detroit filing the largest municipal bankruptcy in US history³ and increased uncertainty about the financial condition of Puerto Rico.

The market received a two-month reprieve in September when the Fed decided not to reduce QE, although it reversed that decision in December when it announced that it would decrease its asset purchases by \$10 billion per month, beginning in January 2014.⁴ A final headwind for the municipal bond market was significant tax-loss selling of municipal bonds in December to offset gains from strong equity returns during 2013.

In the first two months of 2014, the municipal bond market turned positive. Softer economic data reduced expectations for hawkish Fed action. Relatively high yields on municipal bonds, coupled with higher personal income tax rates and improving municipal fundamentals, drew investors back to the asset class. Net positive fund flows in January and February, combined with limited supply of new issuance, produced strong returns in the final two months of the fiscal year.

During the fiscal year, the largest driver of Trust performance relative to its benchmark was an overweight position in longer-maturity bonds. This position had a negative impact on relative performance as investors sold longer-dated bonds on concerns over rising interest rates. Security selection in the intermediate-to-long end of the yield curve was positive and helped partially offset the impact of rising rates.

At a sector level, hospitals, the Trust's largest sector and largest overweight position, contributed to relative performance. An overweight allocation and security selection in the special tax sector detracted from relative performance for the fiscal year, as did the Trust's position in Puerto Rico bonds.

One important factor affecting the Trust's performance relative to its benchmark was the use of structural leverage. The Trust uses leverage because we believe that, over time, leveraging can provide opportunities for additional income and total return for common shareholders. However, the use of leverage also can expose common shareholders to additional volatility. For example, if the prices of securities held by a trust decline, the negative effect of these valuation changes on common share NAV and total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of securities held by a trust generally are rising.

During the reporting period, the Trust achieved a leveraged position through the use of inverse floating rate securities and Variable Rate Muni Term Preferred (VMTP) shares. Inverse floating rate securities or Tender Option Bonds (TOBs) are instruments that have an inverse relationship to a referenced interest rate. VMTPs are a variable rate form of preferred stock with a mandatory redemption date. Inverse floating rate securities and VMTPs can be efficient means to manage duration, yield curve exposure and credit exposure, and potentially can enhance yield. At the close of the reporting period,

leverage accounted for 38% of the Trust's total assets and it detracted from returns. For more information about the Trust's use of leverage, see the Notes to Financial Statements later in this report.

As stated earlier, the Trust trades at a market price that may be at a premium or discount to NAV. Throughout most of the fiscal year and at the end of the reporting period, the Trust traded at a discount to its underlying NAV.

We wish to remind you that the Trust is subject to interest rate risk, meaning when interest rates rise, the value of fixed income securities generally will fall. This risk may be greater in the current market environment because interest rates are at or near historic lows. We are monitoring interest rates and market and economic factors that may impact interest rates, including the potential impact of the Fed's tapering of QE. If interest rates rise, markets may experience increased volatility, which may affect the value and/or liquidity of certain of the Trust's investments or the market price of the Trust's common shares.

Recently published rules implementing section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act may preclude banking entities from sponsoring and/or providing services for TOB trust programs. As a result, the Trust's ability to utilize TOBs for leverage purposes may be adversely affected.

Thank you for investing in Invesco Municipal Trust and for sharing our long-term investment horizon.

- 1 Source: Barclays
- 2 Source: Morningstar
- 3 Source: Moody's
- 4 Source: US Federal Reserve

The views and opinions expressed in management's discussion of Trust performance are those of Invesco Advisers, Inc. These views and opinions are subject to change at any time based on factors such as market and economic conditions. These views and opinions may not be relied upon as investment advice or recommendations, or as an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Trust. Statements of fact are from sources considered reliable, but Invesco Advisers, Inc. makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

See important Trust and, if applicable, index disclosures later in this report.

Robert Wimmel

Portfolio manager, is manager of Invesco Municipal Trust and head of Investment

Grade Municipals for Invesco. He joined Invesco in 2010. Mr. Wimmel was associated with the Trust's previous investment adviser or its investment advisory affiliates in an investment management capacity from 1996 to 2010 and began managing the Trust in 2001. He earned a BA in anthropology from the University of Cincinnati and an MA in economics from the University of Illinois at Chicago.

Thomas Byron

Portfolio manager, is manager of Invesco Municipal Trust. He joined Invesco in 2010.

Mr. Byron was associated with the Trust's previous investment adviser or its investment advisory affiliates in an investment management capacity from 1981 to 2010 and began managing the Trust in 2000. He earned a BS in finance from Marquette University and an MBA in finance from DePaul University.

Robert Stryker

Chartered Financial Analyst, portfolio manager, is manager of Invesco Municipal

Trust. He joined Invesco in 2010. Mr. Stryker was associated with the Trust's previous investment adviser or its investment advisory affiliates in an investment management capacity from 1994 to 2010 and began managing the Trust in 2009. He earned a BS in finance from the University of Illinois at Chicago.

3 Invesco Municipal Trust

Supplemental Information

Invesco Municipal Trust's investment objective is to provide common shareholders with a high level of current income exempt from federal income tax, consistent with preservation of capital.

- n Unless otherwise stated, information presented in this report is as of February 28, 2014, and is based on total net assets applicable to common shares.
- n Unless otherwise noted, all data provided by Invesco.
- n To access your Trust's reports, visit invesco.com/fundreports.

About indexes used in this report

- n The **Barclays Municipal Bond Index** is an unmanaged index considered representative of the tax-exempt bond market.
- n The **S&P Municipal Bond Index** is a broad, market value-weighted index that seeks to measure the performance of the US municipal bond market.
- n The **S&P Municipal Bond 5+ Year Investment Grade Index** is a subset of the broad S&P Municipal Bond Index. This index of market value-weighted investment-grade US municipal bonds seeks to measure the performance of US municipals whose maturities are greater than or equal to 5 years.
- n The **Lipper General & Insured Leveraged Municipal Debt Funds Index** is an unmanaged index considered representative of general and insured leverage municipal debt funds tracked by Lipper. These funds either invest primarily in municipal debt issues rated in the top four credit ratings or invest primarily in municipal debt issues insured as to timely payment. These funds can be leveraged via use of debt, preferred equity, and/or reverse repurchase agreements.
- n The Trust is not managed to track the performance of any particular index, including the index(es) described here, and consequently, the performance of the Trust may deviate significantly from the performance of the index(es).
- n A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of the peer group, if applicable, reflects trust expenses; performance of a market index does not.

Other information

- n The returns shown in management's discussion of Trust performance are based on net asset values (NAVs) calculated for shareholder transactions. Generally accepted accounting principles require adjustments to be made to the net assets of the Trust at period end for financial reporting purposes, and as such, the NAVs for shareholder transactions and the returns based on those NAVs may differ from the NAVs and returns reported in the Financial Highlights.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

4 Invesco Municipal Trust

Dividend Reinvestment Plan

The dividend reinvestment plan (the Plan) offers you a prompt and simple way to reinvest your dividends and capital gains distributions (Distributions) into additional shares of your Invesco closed-end Trust (the Trust). Under the Plan, the money you earn from Distributions will be reinvested automatically in more shares of the Trust, allowing you to potentially increase your investment over time. All shareholders in the Trust are automatically enrolled in the Plan when shares are purchased.

Plan benefits

n Add to your account:

You may increase your shares in your Trust easily and automatically with the Plan.

n Low transaction costs:

Shareholders who participate in the Plan may be able to buy shares at below-market prices when the Trust is trading at a premium to its net asset value (NAV). In addition, transaction costs are low because when new shares are issued by the Trust, there is no brokerage fee, and when shares are bought in blocks on the open market, the per share fee is shared among all participants.

n Convenience:

You will receive a detailed account statement from Computershare Trust Company, N.A. (the Agent), which administers the Plan. The statement shows your total Distributions, date of investment, shares acquired, and price per share, as well as the total number of shares in your reinvestment account. You can also access your account at invesco.com/us.

n Safekeeping:

The Agent will hold the shares it has acquired for you in safekeeping.

Who can participate in the Plan

If you own shares in your own name, your purchase will automatically enroll you in the Plan. If your shares are held in street name in the name of your brokerage firm, bank, or other financial institution you must instruct that entity to participate on your behalf. If they are unable to participate on your behalf, you may request that they reregister your shares in your own name so that you may enroll in the Plan.

How to enroll

Edgar Filing: Invesco Municipal Trust - Form N-CSR

If you haven't participated in the Plan in the past or chose to opt out, you are still eligible to participate. Enroll by visiting invesco.com/us, by calling toll-free 800 341 2929 or by notifying us in writing at Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170. If you are writing to us, please include the Trust name and account number and ensure that all shareholders listed on the account sign these written instructions. Your participation in the Plan will begin with the next Distribution payable after the Agent receives your authorization, as long as they receive it before the record date, which is generally 10 business days before the Distribution is paid. If your authorization arrives after such record date, your participation in the Plan will begin with the following Distribution.

How the Plan works

If you choose to participate in the Plan, your Distributions will be promptly reinvested for you, automatically increasing your shares. If the Trust is trading at a share price that is equal to its NAV, you'll pay that amount for your reinvested shares. However, if the Trust is trading above or below NAV, the price is determined by one of two ways:

1. **Premium:** If the Trust is trading at a premium (a market price that is higher than its NAV) you'll pay either the NAV or 95 percent of the market price, whichever is greater. When the Trust trades at a premium, you may pay less for your reinvested shares than an investor purchasing shares on the stock exchange. Keep in mind, a portion of your price reduction may be taxable because you are receiving shares at less than market price.
2. **Discount:** If the Trust is trading at a discount (a market price that is lower than its NAV) you'll pay the market price for your reinvested shares.

Costs of the Plan

There is no direct charge to you for reinvesting Distributions because the Plan's fees are paid by the Trust. If the Trust is trading at or above its NAV, your new shares are issued directly by the Trust and there are no brokerage charges or fees. However, if the Trust is trading at a discount, the shares are purchased on the open market, and you will pay your portion of any per share fees. These per share fees are typically less than the standard brokerage charges for individual transactions because shares are purchased for all participants in blocks, resulting in lower fees for each individual participant. Any service or per share fees are added to the purchase price. Per share fees include any applicable brokerage commissions the Agent is required to pay.

Tax implications

The automatic reinvestment of Distributions does not relieve you of any income tax that may be due on Distributions. You will receive tax information annually to help you prepare your federal income tax return.

Invesco does not offer tax advice. The tax information contained herein is general and is not exhaustive by nature. It was not intended or written to be used, and it cannot be used, by any taxpayer for avoiding penalties that may be imposed on the taxpayer under US federal tax laws. Federal and state tax laws are complex and constantly changing. Shareholders should always consult a legal or tax adviser for information concerning their individual situation.

How to withdraw from the Plan

You may withdraw from the Plan at any time by calling 800 341 2929, by visiting invesco.com/us or by writing to Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170. Simply indicate that you would like to withdraw from the Plan, and be sure to include your Trust name and account number. Also, ensure that all shareholders listed on the account sign these written instructions. If you withdraw, you have three options with regard to the shares held in the Plan:

1. If you opt to continue to hold your non-certificated whole shares (Investment Plan Book Shares), they will be held by the Agent electronically as Direct Registration Book-Shares (Book-Entry Shares) and fractional shares will be sold at the then-current market price. Proceeds will be sent via check to your address of record after deducting applicable fees, including per share fees such as any applicable brokerage commissions the Agent is required to pay.
2. If you opt to sell your shares through the Agent, we will sell all full and fractional shares and send the proceeds via check to your address of record after deducting a \$2.50 service fee and per share fees. Per share fees include any applicable brokerage commissions the Agent is required to pay.
3. You may sell your shares through your financial adviser through the Direct Registration System (DRS). DRS is a service within the securities industry that allows Trust shares to be held in your name in electronic format. You retain full ownership of your shares, without having to hold a share certificate. You should contact your financial adviser to learn more about any restrictions or fees that may apply.

The Trust and Computershare Trust Company, N.A. may amend or terminate the Plan at any time. Participants will receive at least 30 days written notice before the effective date of any amendment. In the case of termination, Participants will receive at least 30 days written notice before the record date for the payment of any such Distributions by the Trust. In the case of amendment or termination necessary or appropriate to comply with applicable law or the rules and policies of the Securities and Exchange Commission or any other regulatory authority, such written notice will not be required.

To obtain a complete copy of the current Dividend Reinvestment Plan, please call our Client Services department at 800 341 2929 or visit invesco.com/us.

Schedule of Investments

February 28, 2014

	Interest Rate	Maturity Date	Principal Amount (000)	Value
Municipal Obligations 161.02%				
Alabama 1.04%				
Bessemer Governmental Utility Services Corp.; Series 2008 A, Ref. Water Supply RB (INS AGC ^{(b)(c)})	5.00%	06/01/39	\$ 2,150	\$ 2,223,638
Birmingham (City of) Airport Authority; Series 2010, RB (INS AGM ^(b))	5.25%	07/01/30	1,650	1,768,734
Huntsville (City of) Special Care Facilities Financing Authority (Redstone Village); Series 2007, Retirement Facility RB	5.50%	01/01/43	1,725	1,477,601
Selma (City of) Industrial Development Board; Series 2009 A, Gulf Opportunity Zone RB	6.25%	11/01/33	1,950	2,162,296
				7,632,269
Alaska 0.51%				
Alaska (State of) Industrial Development & Export Authority (Providence Health Services); Series 2011 A, RB ^(c)	5.50%	10/01/41	3,160	3,408,566
Matanuska-Susitna (Borough of) (Public Safety Building Lease); Series 2000, COP (INS AGM ^(b))	5.75%	03/01/16	370	371,784
				3,780,350
Arizona 3.39%				
Arizona (State of) Transportation Board; Series 2008 B, Highway RB	5.00%	07/01/25	1,700	1,942,573
Series 2008 B, Highway RB ^(c)	5.00%	07/01/26	2,545	2,901,275
Series 2011 A, Ref. Sub. Highway RB ^(c)	5.25%	07/01/32	2,500	2,812,825
Glendale (City of) Industrial Development Authority (John C. Lincoln Health Network); Series 2005, Ref. Hospital RB	5.00%	12/01/35	1,090	1,097,390
Glendale (City of) Industrial Development Authority (Midwestern University); Series 2010, RB	5.00%	05/15/35	500	513,250
Series 2010, RB	5.13%	05/15/40	1,100	1,131,130
Goodyear (City of) McDowell Road Commercial Corridor Improvement District; Series 2007, Special Assessment Improvement RB (INS AMBAC ^(b))	5.25%	01/01/32	1,035	1,058,339
Maricopa (County of) Industrial Development Authority (Catholic Healthcare West); Series 2009 C, Health Facilities RB ^(d)	5.00%	07/01/14	2,150	2,184,594
Navajo County Pollution Control Corp.; Series 2009 C, PCR ^(d)	5.50%	06/01/14	625	632,563
Series 2009 E, PCR ^(d)	5.75%	06/01/16	715	786,157
Phoenix (City of) Industrial Development Authority (Career Success Schools);				

Edgar Filing: Invesco Municipal Trust - Form N-CSR

Series 2009, Education RB	7.00%	01/01/39	640	567,558
Series 2009, Education RB	7.13%	01/01/45	610	542,198
Phoenix (City of) Industrial Development Authority (Rowan University); Series 2012, Lease RB	5.00%	06/01/42	2,170	2,210,253
Pima (County of) Industrial Development Authority (Global Water Resources, LLC); Series 2007, Water & Wastewater RB ^(e)	6.55%	12/01/37	2,300	2,317,158
Salt River Project Agricultural Improvement & Power District; Series 2009 A, Electric System RB ^(c)	5.00%	01/01/28	2,050	2,289,522
University Medical Center Corp.; Series 2005, Hospital RB	5.00%	07/01/35	900	905,157
Yuma (City of) Industrial Development Authority (Regional Medical Center); Series 2014 A, Hospital RB	5.25%	08/01/32	1,060	1,110,244
				25,002,186
California 13.38%				
Anaheim (City of) Public Financing Authority (Anaheim Public Improvements); Series 1997 C, Sub. Lease CAB RB (INS AGM ^b) ^(f)	0.00%	09/01/20	4,000	3,396,160
Bay Area Governments Association (California Redevelopment Agency Pool); Series 2004 A, Tax Allocation RB (INS SG ^f)	5.25%	09/01/35	2,100	2,018,898
Bay Area Toll Authority (San Francisco Bay Area); Series 2008 F-1, Toll Bridge RB ^(c)	5.00%	04/01/39	6,000	6,473,040
Series 2009 F-1, Toll Bridge RB ^(c)	5.00%	04/01/34	2,500	2,729,700
Series 2009 F-1, Toll Bridge RB ^(c)	5.13%	04/01/39	4,000	4,372,000
Beverly Hills Unified School District (Election of 2008); Series 2009, Unlimited Tax CAB GO Bonds ^(f)	0.00%	08/01/28	800	459,568

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

6 Invesco Municipal Trust

	Interest Rate	Maturity Date	Principal Amount (000)	Value
California (continued)				
California (State of) Department of Water Resources (Central Valley); Series 2008 AE, Water System RB ^(c)				