



Invesco ESG Loan Investment Process Overview

January 2020

This marketing document is only intended for use with (i) Professional Clients in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, Dubai and the UK (ii) as well as Qualified Investors in Switzerland. It is not intended for and should not be distributed to, or relied upon, by retail clients. Please do not redistribute this document.

Invesco's ESG approach to senior loans

At Invesco, we manage roughly USD 41.1 billion¹ in senior secured bank loans for institutional, retail, and high net worth clients globally. Senior loans are an alternative asset class - they are privately arranged debt instruments (usually below investment grade). Investors look to add bank loans to their asset allocation strategies because they provide appealing returns through various economic cycles - they are senior in the capital structure, secured by all assets of the company, and they provide stable current income floating with prevailing interest rates. However, loans are not a security. Each loan has unique characteristics tailored to the underlying corporate issuer. Often senior secured loan issuers are private companies or may be sponsored by a private equity firm with no publicly available information.

A growing segment of Invesco's bank loan clients are focused on ESG and have asked for a commingled ESG managed bank loan portfolio. In 2015, we began incorporating ESG considerations into our investment process as part of our consideration of credit risk for each issuer. However, investors are seeking a quantifiable approach to better understand Invesco's ESG considerations, as well as our ability to screen out issuers. More importantly, investors are looking for bank loan managers that will actively engage management with respect to their ESG policies and progression. As such, Invesco's loan team is able to offer investors a rigorous multi-pronged approach to ESG screening.

Because senior loans are private instruments, there is only a small pool of the investable universe that are rated by outside ESG rating providers. For Invesco to offer an ESG product that would work with clients' needs, during 2018-2019 Invesco developed a proprietary framework for rating each issuer from an ESG perspective.

As a result, the credit analysts of Invesco Senior Secured Management (ISSM) are responsible for independently rating each loan they cover from an

ESG perspective. They conduct diligence reviews with issuers' management teams to inform a rigorous, multifaceted screening process in which each loan is measured on a scale of 1 to 5 (with 1 indicating "no risk" and 5 indicating "high risk") on numerous ESG factors, as listed in figure 1.

To derive an issuer-level ESG rating, ISSM uses a weighting schematic for the issuer's broad industry category. These ratings are averaged into an overall ESG score that is approved by ISSM's Investment Committee, subject to updates and reviews on at least an annual basis.

While management teams have generally been very receptive to ISSM's approach, facilitating active engagement with an issuer can sometimes present a challenge. ISSM excludes from its ESG portfolios any issuer whose management refuses to engage and/or for which appropriate ESG scores cannot be determined.

Applying the firm's own proprietary ESG approach to senior loans has led to many positive outcomes, the most significant of which has been ISSM's ability to provide an investment solution that meets its clients' ESG objectives. ISSM has received considerable interest in its approach from existing and prospective clients alike, and the firm is always looking to broaden this capability.

Another major result is that ISSM has substantively enhanced its analytical skills with regard to ESG risks. Although the process of rating each issuer has been time-consuming and complex, ISSM's credit analysts are now leaders in understanding the implications of ESG issues across the investable universe - and, as such, they are able to make more impactful investment decisions.

Engaging management teams on the importance of ESG from an investor perspective has been another benefit of ISSM's approach. While the firm does not have voting rights or control over issuers' ESG

Figure 1

Factors that are incorporated into our ESG rating include, but are not limited to:

Environmental Pillar	Social Pillar	Governance Pillar
<ul style="list-style-type: none"> - Natural resources - Pollution & waste - Supply chain impact - Environmental opportunities 	<ul style="list-style-type: none"> - Workforce - Community - Product responsibility - Human rights 	<ul style="list-style-type: none"> - Management - Shareholders - Board of Directors - Auditor - Regulatory issues - Corporate social responsibility Strategy - Anti-corruption - Business ethics

Source: Invesco. For illustrative purposes only.

¹ Invesco Senior Secured Management Invesco Senior Secured Management: AuM as at 31 December 2019.

activities or conduct, ISSM's position as one of the largest managers of multi-credit strategies enables us to emphasize to management teams the importance of ESG issues in relation to their ability to raise capital in this market.

Initial credit screening

Screening is employed to exclude companies and/or issuers from the investment universe that do not meet the Invesco ESG Senior Loan Strategy's (the "Strategy") ESG criteria (including but not limited to: level of involvement in the production of tobacco and tobacco products, controversial weapons (including nuclear weapons), extraction of thermal coal, extraction of fossil fuels from unconventional sources (including Arctic drilling, tar sands, shale oil and gas, or other fracking activities and/or mining of oil shale), generation of electricity above a defined percentage from coal-fired power plants, as well as status in terms of respecting the UN global compact principles). In addition, the Strategy may not invest in loans from companies that have an aggregated ESG rating or single category E, S, or G ratings below levels set within the internal ESG rating methodology.

The investment screening process begins with the analyst. ISSM maintains an experienced analyst team aligned by industry, with a dedication to being experts in each industry covered. The credit analysts are responsible for surveillance and analysis of issuers in their sectors. Invesco's bank loan credit analysts conduct diligence reviews with issuers' management teams to inform a rigorous, multifaceted screening process. Each loan is measured by our analysts on a scale of 1-5 for risks related to 16 ESG factors under separate pillars for E/S/G.

The fundamental bottom-up credit analysis conducted by the analyst determines the initial eligibility of an asset for inclusion in any portfolio. The analysts research all primary and secondary investment opportunities in terms of both appropriateness of credit quality and risk/return profile. The screening process includes a complete review of the issuer's financial performance, discussions with the arranger's banking team, and often times a discussion with the issuer's management team. All primary investment opportunities undergo a formal review process, ending in either the preparation of a credit analysis memorandum and Investment Committee discussion

for transactions that are recommended for approval or a decline memorandum circulated to the entire team.

For transactions that are declined, the analysts discuss their rationale with their team leader and often times with the co-heads of credit to ensure that each transaction receives due consideration.

ESG ratings process

As noted earlier, ISSM's credit analysts are responsible for independently rating each loan they cover from an ESG perspective. They conduct diligence reviews with issuers' management teams to inform a rigorous, multifaceted screening process in which each loan is measured on a scale of 1 to 5. 1 = negligible risk; 2 = low risk; 3 = average risk; 4 = above average risk; and 5 = high risk.

To date, Invesco's bank loan analysts have conducted ESG specific diligence reviews with issuer's management teams - often being cited as the first or the most progressive bank loan analysts from an ESG perspective. In doing so, we have independently rated close to 700 issuers from an ESG perspective.

As mentioned above, each loan is measured by our analysts on a scale of 1-5 for risks related to multiple ESG factors under separate pillars for E/S/G. There are 16 factors within the E/S/G pillars that our credit analysts' rating contemplates (noted in figure 2 under #4).

As part of this process, ISSM will seek to engage with companies to ensure that they are minimizing and disclosing the risks and maximizing the opportunities presented by climate change by implementing a strong governance framework which clearly articulates their respective board's accountability and oversight of climate change risk and opportunities, taking action to reduce greenhouse gas emissions across their value chain and providing enhanced corporate disclosure on their carbon emissions.

Screening will be employed to exclude companies and/or issuers from the investment universe that do not meet the Invesco ESG Senior Loan Strategy's criteria. Minimum ESG ratings criteria and certain sector exclusions are applied during portfolio

Figure 2
Invesco Bank Loan Platform: Responsible investing methodology

1	2	3	4
<p>ESG considerations are integrated into Invesco's fundamental research process. ESG plays a critical role in Invesco's credit underwriting process and is a key discussion factor in the investment team's credit evaluation of potential investment opportunities</p>	<p>Each credit analyst spends a great deal of time getting to know borrowers' management teams, sponsors, key suppliers and customers. This insight, communication, and exposure, provides Invesco's investment team with an intimate look at the company's underlying activities, which allows for an opportunity to incorporate elements of ESG into the investment process</p>	<p>Each new loan is independently measured on a scale of 1 to 5 for risk related to Environment, Social and Governance factors by our credit analysts. These ratings are averaged into an overall ESG score that is approved by our investment committee and reviewed and updated annually 1 = negligible risk 2 = low risk 3 = average risk 4 = above average risk 5 = high risk</p>	<p>Factors that are incorporated into our ESG rating include, but are not limited to:</p> <ul style="list-style-type: none"> - Environmental pillar (natural resources, pollution & waste, supply chain impact, environmental opportunities) - Social pillar (workforce, community, product responsibility, human rights) - Governance pillar (management, shareholders, board of directors, auditor, regulatory issues, corporate social responsibility strategy, anti-corruption, business ethics)

Source: Invesco. For illustrative purposes only.

construction. The Fund's team employs screening to exclude companies and/or issuers from the investment universe that do not meet the Fund's ESG criteria, including but not limited to:

- level of involvement in the production of tobacco and tobacco products,
- controversial weapons (including nuclear weapons),
- extraction of thermal coal,
- extraction of fossil fuels from unconventional sources (including Arctic drilling, tar sands, shale oil and gas, or other fracking activities and/or mining of oil shale),
- generation of electricity above a defined percentage from coal-fired power plants, as well as status in terms of respecting the UN global compact principles), as well as based on the status of these companies and/or issuers in terms of respecting the UN global compact principles as assessed by third party providers for the global universe they cover, as updated from time to time.

In addition, the Invesco ESG Senior Loan Strategy may not invest in loans from companies that have an aggregated ESG rating or single category E, S, or G ratings below levels set within the internal ESG rating methodology, and will disinvest within 6 months from loans for which the aggregated ESG rating or single category E, S, or G ratings fall below these limits, as determined by the Investment Manager's internal rating methodology.

To derive an issuer level ESG rating:

1. ISSM averages the various factors under each E/S/G pillar to determine Pillar Ratings.
2. ISSM then weights each pillar by the average E/S/G pillar weights published by MSCI ESG Research by industry sector to come up with an ESG Composite Score. Those pillar weights as of 30 April 2019 are shown in table 1.
3. These ratings are averaged into an overall ESG score. Each overall ESG rating is reviewed with, and approved by, ISSM's Investment Committee (the same committee that approves all senior loans from a credit perspective).
4. Each ESG rating is included in any new deal underwriting and reviewed at least (minimum) annually. ESG criteria will be reviewed and applied on an ongoing basis by ISSM, integrated as part of the investment process for credit selection and portfolio construction.

Table 1
ESG pillar weighting by broad industry
To derive issuer level ESG ratings, we further weight E, S and G factors by broad industry pillars as follows:

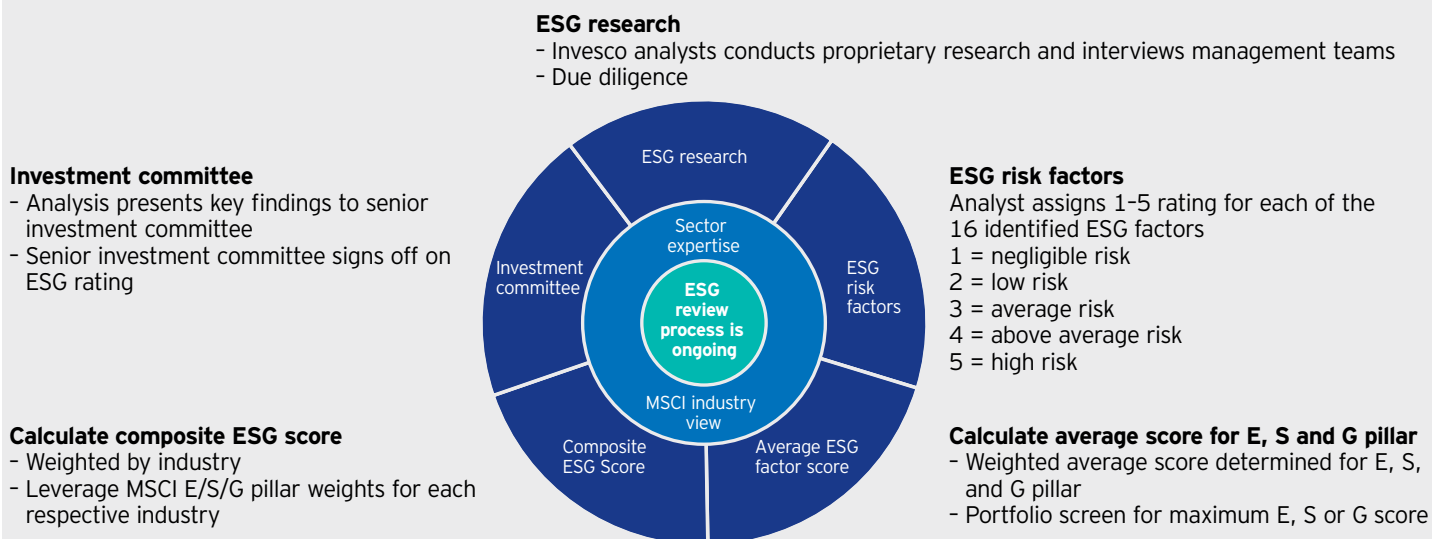
GICS Sector	Environmental pillar	Social pillar	Governance pillar
Communication Services	6.5%	51.6%	41.9%
Consumer Discretionary	22.2%	52.7%	25.1%
Consumer Staples	31.1%	49.1%	19.8%
Energy	50.0%	18.2%	31.8%
Financials	8.9%	59.9%	31.2%
Health Care	7.75%	50.6%	41.7%
Industrials	26.4%	35.0%	38.6%
Information Technology	21.3%	52.2%	26.5%
Materials	57.1%	22.7%	20.2%
Real Estate	32.7%	34.2%	33.2%
Utilities	65.9%	16.8%	17.3%
Grand Total	26.1%	43.3%	30.5%

Source: MSCI ESG Research, average E/S/G pillar weights, as at 30 April 2019. For illustrative purposes only.

Portfolio construction process

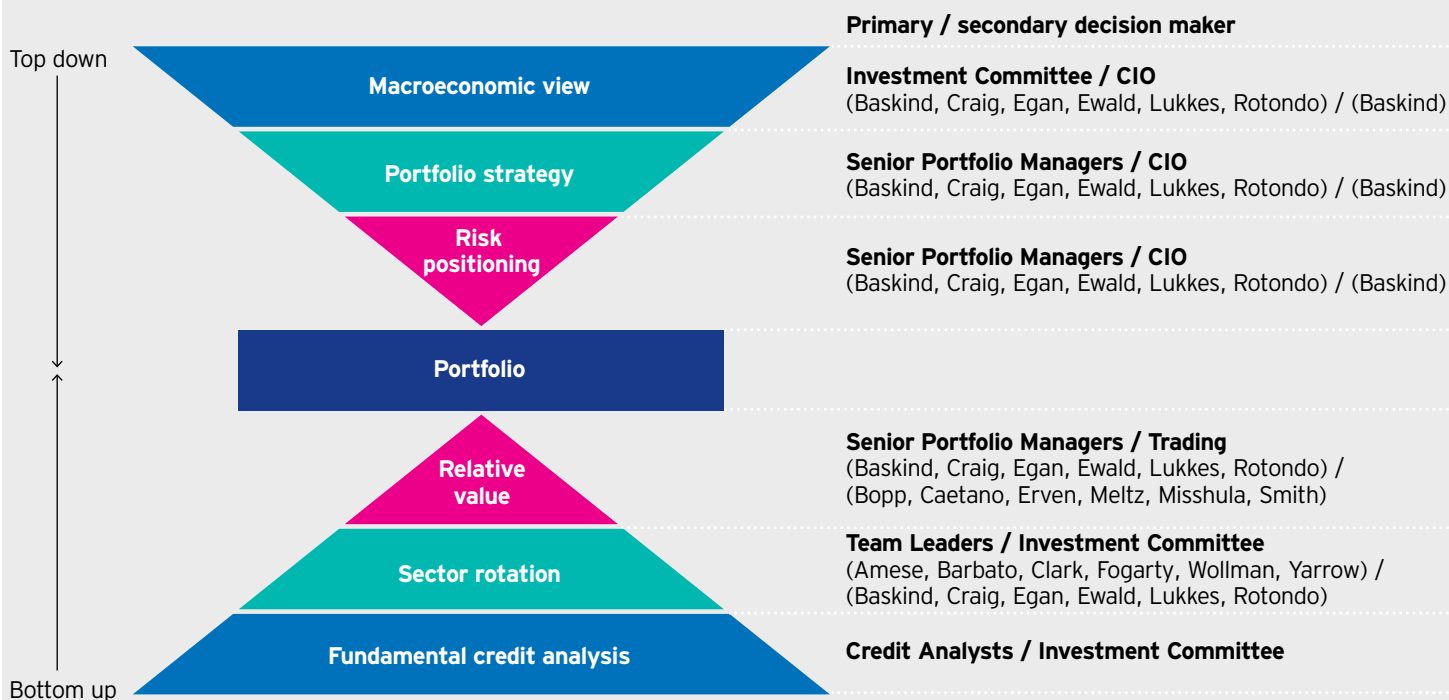
The senior secured loan market is comprised of roughly 2,000 issuers globally. The team will maintain internal risk ratings on about half of these issuers at any given time. This pool of loans represents the eligible investment universe for portfolio construction. Portfolio managers have discretion to select from this pool within the predetermined limits established by the Investment Committee and group these investments in a manner consistent with the team's top-down view and portfolio-specific constraints (e.g., risk tolerance and investment guidelines). The portfolio managers work with the traders to source selected loans and execute trades at levels that maximize return potential.

Figure 3
How does the ESG rating process work?



Source: Invesco. For illustrative purposes only.

Figure 4
Fundamental investment process with clear decision making philosophy
 Disciplined and proven process drives strong investment results



Source: Invesco, as at 31 December 2019. For illustrative purposes only.

The rigorous application of the internal risk ratings is a central component of ISSM's portfolio management and construction process and is used to size position exposures and to help quantify the impact that an individual credit decision will have on modelled portfolio returns.

Portfolio construction and management decision making combines multiple disciplines

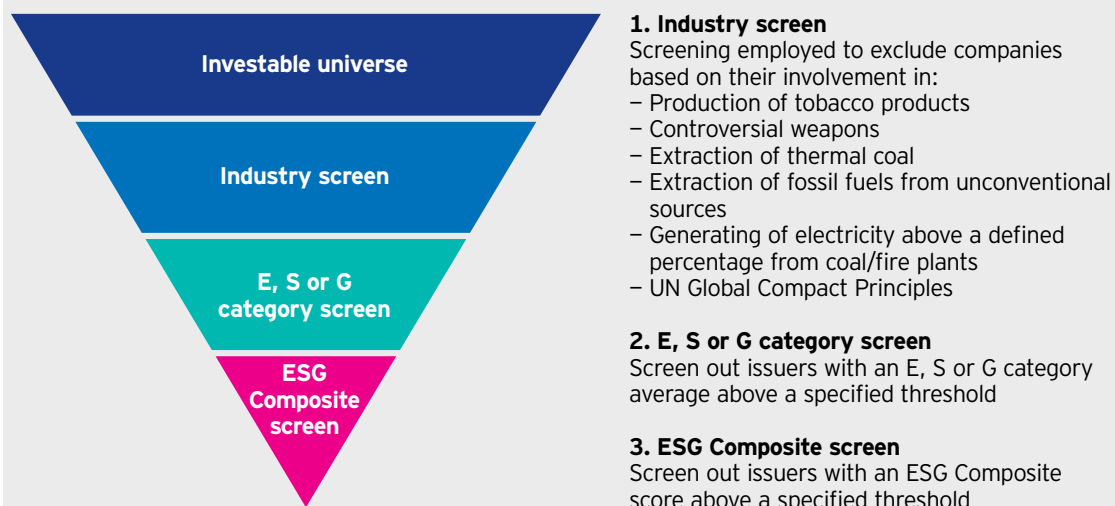
Portfolio management and oversight is directed by the Chief Investment Officer and senior portfolio managers. The portfolio management process combines multiple core disciplines and is a collaborative approach among the Chief Investment Officer (CIO), the Investment Committee, the senior portfolio managers, the team leaders, and the credit analysts (figure 4).

Through this ongoing process portfolio managers are provided with inputs and tools necessary to dynamically manage portfolios within the objective, investment guidelines and risk appetite of each individual fund mandate, including minimum ESG criteria and certain sector exclusions (figure 5).

Conclusion

ISSM invests and manages portfolios constructed of US, European, and global senior secured bank loans. As such, ISSM's credit analysts and Investment Committee are very focused on ESG issues surrounding the underlying and ongoing investment thesis for all investments. ESG plays a critical role in ISSM's credit underwriting process and is a key discussion factor in the investment team's credit evaluation of potential investment opportunities.

Figure 5
ESG portfolio construction



Source: Invesco. For illustrative purposes only.

Prior to investing in a company and throughout the ownership of the company's debt, the senior loan investment team will engage with company management on a number of issues - including environmental, social and governance. These discussions are designed to enhance ISSM's understanding of the long-term economic value of the company which includes a thoughtful process and approach to determining whether to invest in a company.

ISSM's senior loan team has a fundamentals-based, bottom-up credit process and determines the initial eligibility of an asset for inclusion in any senior secured loan portfolio. Given the depth, knowledge and experience of the investment professionals

dedicated to senior secured loan investing, each credit analyst spends a great deal of time getting to know borrowers, borrowers' management teams, sponsors, key suppliers and customers etc. Analysts are expected to interact with the management teams of their portfolio companies on a regular basis. These company meetings provide investment teams a better understanding of the long-term nature of the business, its key drivers, competitive position, and the achievability of management goals. This insight, communication, and exposure provides ISSM's investment team with an intimate look at the company's underlying activities, which allows for an opportunity to incorporate elements of ESG into the investment process.

Risk warnings

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. This document does not form part of any prospectus. It contains general information only and does not take into account individual objectives, taxation position or individual financial needs. It does not constitute a recommendation of the suitability of any investment strategy for a particular investor. Nor does it constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. As with all investments, there are associated inherent risks. Please obtain and review all relevant materials carefully before investing. Many senior loans are illiquid, meaning that the investors may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default.

Fund risks

The fund is particularly dependent on the analytical abilities of its investment manager on senior loans. Many senior loans are illiquid, meaning that the fund may not be able to sell them quickly at a fair price and/or that the redemptions may be delayed due to illiquidity of the senior loans. The market for senior loans remains less developed in Europe than in the U.S. Accordingly, and despite the development of this market in Europe, the European Senior Loans secondary market is usually not considered as liquid as in the U.S. The market for illiquid securities is more volatile than the market for liquid securities. The market for senior loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates. Senior loans, like most other debt obligations, are subject to the risk of default. For more important information on risks associated with [this/these] fund[s], please see the "Risk Factor" section of the relevant Appendix of the Prospectus.

Important information

This marketing document is only intended for use with (i) Professional Clients in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, Dubai and the UK (ii) as well as Qualified Investors in Switzerland. It is not intended for and should not be distributed to, or relied upon, by retail clients. Please do not redistribute this document.

By accepting this document, you consent to communicate with us in English, unless you inform us otherwise.

This marketing document is not an invitation to subscribe for shares in a fund and is by way of information only, it should not be considered financial advice. Persons interested in acquiring the fund should inform themselves as to (i) the legal requirements in the countries of their nationality, residence, ordinary residence or domicile; (ii) any foreign exchange controls and (iii) any relevant tax consequences. This document is by way of information only. Please note there is no guarantee the targets will be achieved. For the full objectives and investment policy please consult the current prospectus. Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. Further information can be obtained from the contact details below.

Restrictions on Marketing:

The fund, as a Specialised Investment Fund domiciled in Luxembourg, is authorised for 'Well-Informed Investors' only (as defined in the Luxembourg Law dated 13th February 2007). Even if the marketing of the fund's shares is permitted to Well-Informed Investors in Luxembourg, this marketing document is exclusively for use by Professional Clients in Luxembourg and is not for retail client use. In addition, marketing of the fund's shares is permitted to Professional Clients in Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and the UK in accordance with the Alternative Investment Fund Managers Directive, as well as to Qualified Investors in Switzerland as defined in the Swiss Collective Investment Schemes Act and its implementing ordinance.

This marketing document is only being delivered to Professional Clients in the above-mentioned countries and specifically Qualified Investors in Switzerland. The fund's shares will not be marketed, and the Prospectus and marketing materials of the fund may only be distributed in other jurisdictions without public solicitation and in compliance with the private placement rules set forth in the laws, rules and regulations of the jurisdictions concerned. The marketing of the fund in certain jurisdictions may be restricted by law. The fund is not registered for distribution with the Swiss Financial Market Supervisory Authority ("FINMA").

Persons into whose possession this document may come are required to inform themselves about and to comply with any relevant restrictions. This does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. Persons interested in acquiring the fund should inform themselves as to (i) the legal requirements in the countries of their nationality, residence, ordinary residence or domicile; (ii) any foreign exchange controls and (iii) any relevant tax consequences. The fund is available only in jurisdictions where its promotion and sale is permitted.

Issued by the alternative investment fund manager Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg.

Issued in Switzerland by Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland.

Issued in Dubai by Invesco Asset Management Limited, PO Box 506599, DIFC Precinct Building No 4, Level 3, Office 305, Dubai, United Arab Emirates. Regulated by the Dubai Financial Services Authority.

[EMEA961/2020]