

ESG Investment Policy

Invesco Senior Secured Management, Inc. (“ISSM”)

March 2022

Invesco Direct Lending (UL) Master Fund II, SCSp, and its feeder funds
Invesco Direct Lending (L) Master Fund II, SCSp, and its feeder funds
(Altogether the “Invesco Direct Lending Fund II”)



Executive Summary

Contents

- 02 Executive Summary
- 03 Holistic ESG consideration in the investment process
- 07 Investment Process

Invesco Senior Secured Management, Inc. (ISSM) is our Private Credit Platform at Invesco and has capabilities in broadly syndicated loans, direct lending and distressed credit.

The platform is fully integrated, has a global presence with 100+ dedicated professionals, and is one of the largest private-side senior loans managers with over \$41 billion in assets under management.

Invesco Direct Lending Fund II (the “Fund”) will primarily focus on the North American “Core Middle Market.” This segment is comprised of companies with enterprise valuations typically between \$100 and \$750mm, debt facilities ranging from \$50 to \$350mm, and /or EBITDA between \$10 and \$75mm.

In 2015, Invesco began incorporating ESG considerations into its investment process as part of the consideration of credit risk for each issuer. As ESG evolved, investors have been seeking a more quantifiable approach to better understand ESG considerations, as well as the ability to screen out issuers. More importantly, investors have been looking for private credit managers that will actively engage management with respect to their ESG policies and progression.

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, **Invesco developed a proprietary framework for rating each issuer for ESG risk and have been independently rating each loan for ESG risk since 2019.**

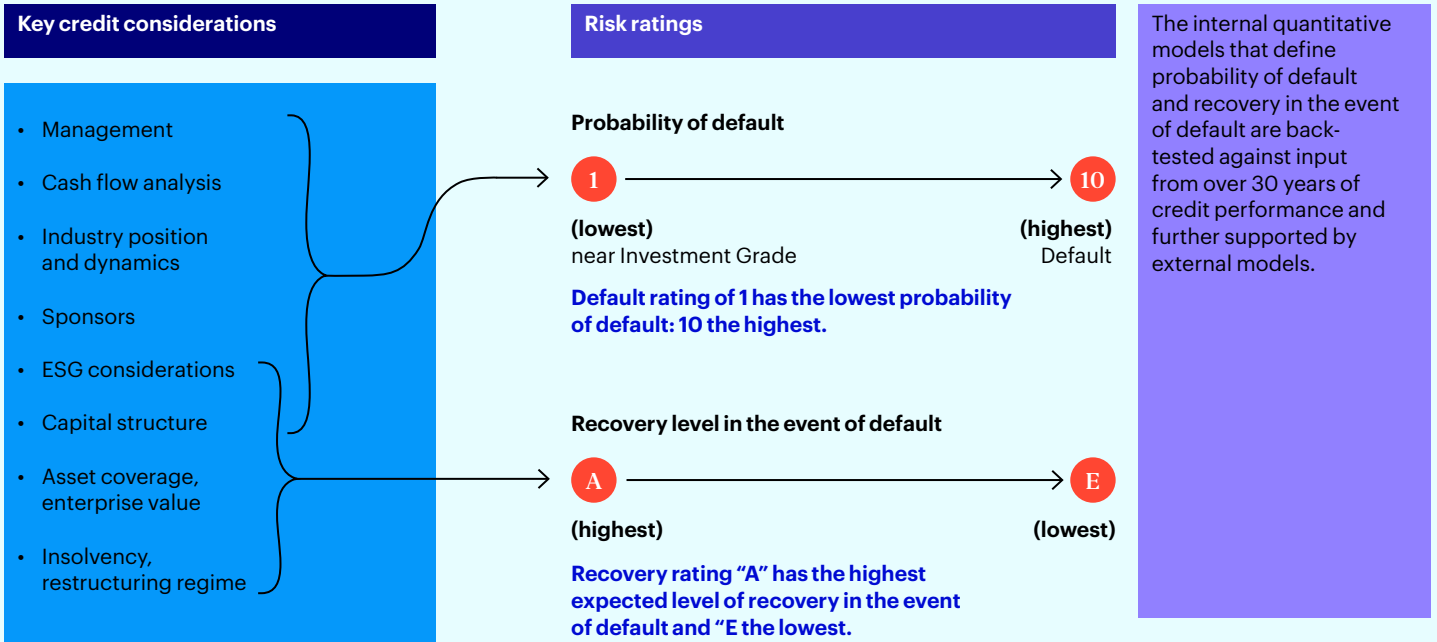
We believe Invesco is one of the first private credit managers to develop an ESG rating process for private credit and we offer investors a rigorous multi-pronged approach to ESG screening.

As a fully integrated platform, the ESG framework that was originally developed for bank loans has been adopted and implemented also for the direct lending space.

Holistic ESG consideration in the investment process

ESG Capabilities & credit process

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.



Invesco has developed a proprietary framework for rating each borrower from an ESG perspective. Our credit analysts are responsible for independently rating each borrower they cover from an ESG perspective. They conduct diligence reviews with borrowers' management teams to inform a rigorous, multifaceted screening process.

Credit analysts utilize a combination of external data sources (such as Bloomberg and Sustainalytics), Invesco proprietary ESG data metrics, as well as customized questionnaires and diligence interviews with management teams to determine key risks from an ESG perspective.

This screening process focuses on evaluating each borrower on 16 ESG factors under Environmental, Social and Governance pillars as defined below:

Holistic ESG consideration in the investment process

Figure 1
Factors that are incorporated into our ESG rating include, but are not limited to:



Environment Pillar

- Natural Resources
- Pollution & Waste
- Supply Chain Impact
- Environmental Opportunities



Social Pillar

- Workforce
- Community
- Product Responsibility
- Human Rights



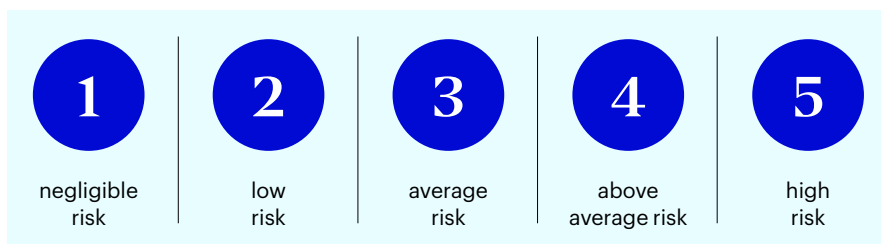
Governance Pillar

- Management
- Shareholders
- Board of Directors
- Auditors
- Regulatory Issues
- Corporate Social Responsibility Strategy
- Anti-corruption
- Business Ethics

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

ESG Ratings Process

ISSM’s investment professionals are responsible for independently rating each borrower they cover from an ESG perspective. They conduct diligence reviews with borrowers’ management teams to inform a rigorous, multifaceted screening process in which each borrower is measured on a scale of 1 to 5.



There are 16 factors within the E/S/G pillars that our credit analysts’ rating contemplates (noted in figure 1).

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.

Holistic ESG consideration in the investment process

Upfront and Continued Engagement

While management teams are generally receptive to Invesco’s approach, facilitating active engagement with a borrower can sometimes present a challenge. Invesco excludes from its ESG portfolios any borrower whose management does not engage and/or for which appropriate ESG scores cannot be determined.

One of the primary drivers around our ability to implement ESG integration in middle market direct lending orients around our ability to engage with management teams and sponsors. Generally, in middle market loans, the debt providers are limited to a handful of participants which allows our direct lending team to maintain a regular dialogue with the issuer throughout underwriting/diligence and throughout the investment horizon.

Given that middle market companies are often less systematic with regard to the benefits of incorporating ESG into their culture, we often find early opportunities to educate on the mutually beneficial nature of these initiatives and create awareness of the financial and non-financial benefits of ESG adoption. In our experience, we have been impressed by these conversations as we have found the dialogues to be constructive as management teams and sponsors are often eager to learn more about our evaluation, relative ESG positioning within their sector, and opportunities and benefits associated with ESG improvements.

Finally, and perhaps most importantly, our approach culminates with regular engagement, designed to encourage the adoption of discrete and actionable initiatives to progress their ESG implementation. We work with our portfolio companies to identify these efforts, help identify the benefits of change, and use our regular engagement to follow up on these efforts with the goal of effecting positive, tangible change.

Deriving borrower level ESG rating

1. The team averages the various factors under each E/S/G pillar to determine Pillar Ratings.
2. We then weight 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 September 2020 are shown in table below.
3. These ratings are averaged into an overall ESG score. Each overall ESG rating is included in any new deal underwriting and reviewed and approved by the Direct Lending Investment Committee.

The Investment Committee has responsibility for approving every loan position, evaluating both credit risk and ESG risk, determining relative position hold levels by fund strategy, and setting the strategy and direction for each fund.

4. ESG criteria will be reviewed and applied on an ongoing basis and each overall ESG rating will be reviewed formally, at least annually.

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	Avg. Environment Pillar Weight	Avg. Social Pillar Weight	Avg. Governance Pillar Weight
Energy	49.57	17.14	33.29
Materials	53.84	23.01	23.16
Industrials	21.50	38.10	40.40
Consumer Discretionary	21.06	51.93	27.00
Consumer Staples	30.42	46.75	22.83
Health Care	5.90	49.10	45.00
Financials	8.91	58.71	32.38
Information Technology	21.38	51.00	27.62
Communication Services	5.00	54.75	40.25
Utilities	57.55	18.62	23.83
Real Estate	32.92	32.70	34.38

Holistic ESG consideration in the investment process

How does the ESG rating process work?



■ ESG research

- Invesco analysts conducts proprietary research and interviews management teams
- Due diligence

■ ESG risk factors

- Analyst assigns 1-5 rating for each of the 16 identified ESG factors
- 1 - Negligible risk
 - 2 - Low risk
 - 3 - Average risk
 - 4 - Above average risk
 - 5 - High risk

■ Calculate average score for E, S and G pillars

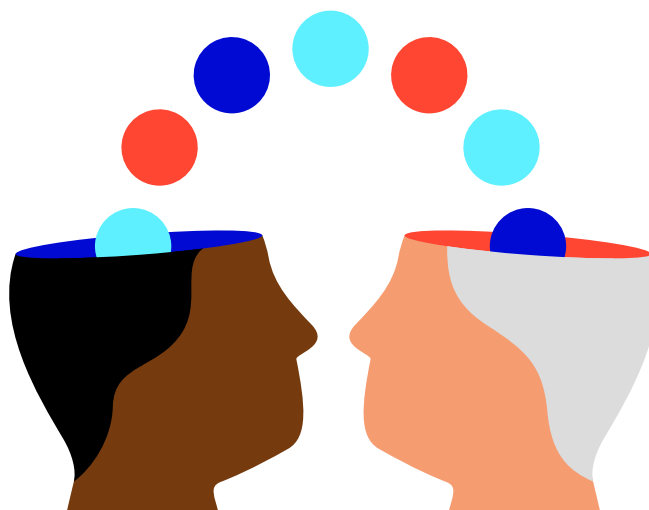
- Weighted average score determined for E, S, and G pillars
- Portfolio screen for maximum E, S or G score

■ Calculate composite ESG score

- Weighted by industry
- Leverage MSCI E/S/G pillar weights for each respective industry

■ Investment Committee

- Analyst presents key findings to senior Investment Committee
- Senior Investment Committee signs off on ESG rating



Investment Process

Investment Process

The direct lending team is structured as follows:

Investment Committee

Invesco Direct Lending's investment decisions are overseen by a formal investment committee that meets regularly. The primary responsibilities of the investment committee include screening initial investment ideas, reviewing diligence updates, approving the origination of debt, and ongoing monitoring of individual investment progress.

Direct Lending Investment Team

These are experienced credit professionals dedicated to our middle market direct lending investment activities. These individuals lead sourcing efforts, own the entirety of the diligence/underwriting process, and portfolio monitoring following investment. Direct Lending investment professionals frequently leverage sector-specific credit professionals on our broader platform to enhance sourcing and diligence efforts.

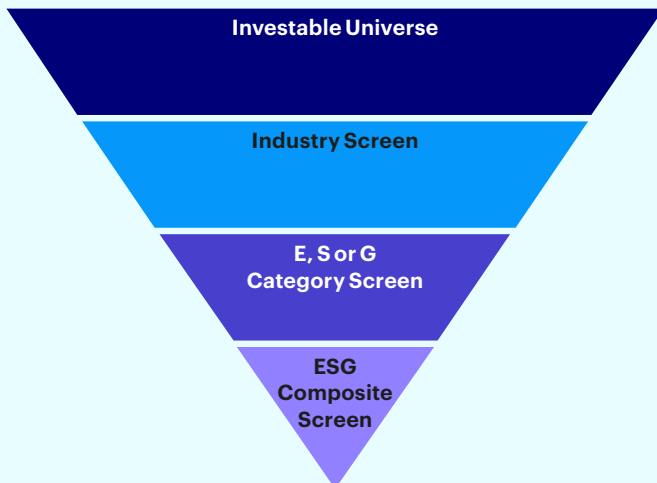
Platform Credit professionals

A fundamental element to our strategy is to leverage our Platform's sector experts throughout the investment process. We believe this differentiated approach provides critical insight into current macro and sector trends and allows us to have a more informed and efficient diligence process, which can drive favourable investment decisions.

The broader platform has a team of more than 20 credit analysts organized by sector involved in senior loan investing across U.S. and Europe.

ESG Portfolio Construction

Portfolio management and oversight is led by our investment committee. In developing an ESG portfolio for Direct Lending, our process utilizes a number of inputs and tools to ensure that ESG criteria are appropriately considered to manage the portfolios within the objectives, including minimum ESG criteria and exclusions.



Industry Screen

Screening employed to exclude companies based on their involvement in:

- Production of tobacco and tobacco products
- Gambling
- Controversial weapons
- Engagement in cannabis or cannabis derived products for the purposes of recreational use
- Extraction of thermal coal
- Extraction of fossil fuels from unconventional sources
- Generation of electricity above a defined percentage from coal-fired power plants

E, S or G Category Screen

- Screen out issuers with an E, S or G category average above a specified threshold

ESG Composite Score

- Screen out issuers with an ESG Composite score above a specified threshold

Investment Process

For the Invesco ESG Direct Lending strategies, minimum ESG ratings criteria and certain sector exclusions are applied during portfolio 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:

- gambling,
- controversial weapons (including nuclear weapons),
- level of involvement in the production of tobacco and tobacco products,
- whole or partial engagement in the cultivation, production or distribution of cannabis or cannabis derived products for the purposes of recreational use (including any company that derives a part of its revenue from recreational cannabis),
- 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.

In addition, the Invesco ESG Direct Lending strategies may not invest in loans from companies that have an aggregated ESG rating or single category E, S, or G ratings outside levels set within the internal ESG rating methodology. As it is not expected that there will be a secondary market for loans granted, in the event a borrower is downgraded below the stated threshold, it is unlikely that disposal will be possible but the team will continue to engage actively with the borrower around areas of improvement.

As at the date of this policy, the criteria for exclusion applied to the Fund across the criteria disclosed above are as per the following table, which may be updated from time to time.

	Direct Lending ESG Framework
Environmental	
Thermal Coal Extraction	>=5% of revenue
Thermal Coal Power Generation	>=30% of revenue
Arctic Oil and Gas Exploration	>=5% of revenue
Oil Sands Extraction	>=5% of revenue
Shale Energy Extraction	>=5% of revenue
Proprietary E Score	>= 4.25
Social	
Controversial Weapons, including companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty	> 0% of revenue
Recreational Cannabis	>=5% of revenue
Tobacco Products Production	>=5% of revenue
Tobacco Products Related Products/Services	>=5% of revenue
Gambling Operations	>=5% of revenue
Gambling Specialised Equipment	>=5% of revenue
Gambling Supporting Products/Service	>=5% of revenue
Proprietary S Score	>= 4.25
Governance	
Proprietary Governance Score	>= 4.25
Combined ESG Score/Other	
Combined ESG Score	>= 4.00
Cash and cash equivalents	Cash, Cash Equivalents, MMIs and MMFs are not assessed
Counterparty Selection for cash / derivatives etc	Not assessed
Derivatives	Index derivatives not assessed but single named derivatives assessed

Investment Process

Decision Process

When the analyst determines that a borrower is suitable for investment, he/she will circulate the IC Memo containing his/her analysis to the Investment Committee prior to an Investment Committee meeting. The Investment Committee meeting includes a thorough discussion of the due diligence process, risks and strengths of each investment, transaction and structural consideration, recommended Internal Rating, ESG recommended rating, and relative value. Based on these factors, the Investment Committee confirms the Internal Rating and the corresponding commitment level on both an aggregate and fund-specific basis.

