Invesco

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Invesco US Senior Loan ESG Fund

(the "Fund")

Sustainability-related disclosures

Contents

Summary

The Fund meets the Article 8 requirements of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). It promotes, among other things, environmental and/or social characteristics while also ensuring that investee companies follow good governance practices.

In 2015, Invesco began incorporating ESG considerations into its bank loan 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 bank loan 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 bank loan managers to develop an ESG rating process for bank loans and we offer investors a rigorous multi-pronged approach to ESG screening.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

The Fund aims to achieve a high level of current income, consistent with the preservation of capital, while integrating environmental, social and governance ("ESG") criteria.

The factors that are incorporated in the screening and evaluation process of the underlying assets include but are not limited to:

Environmental Pillar

- Natural resources
- Pollution & waste
- Supply chain impact
- Environmental opportunities

Social Pillar

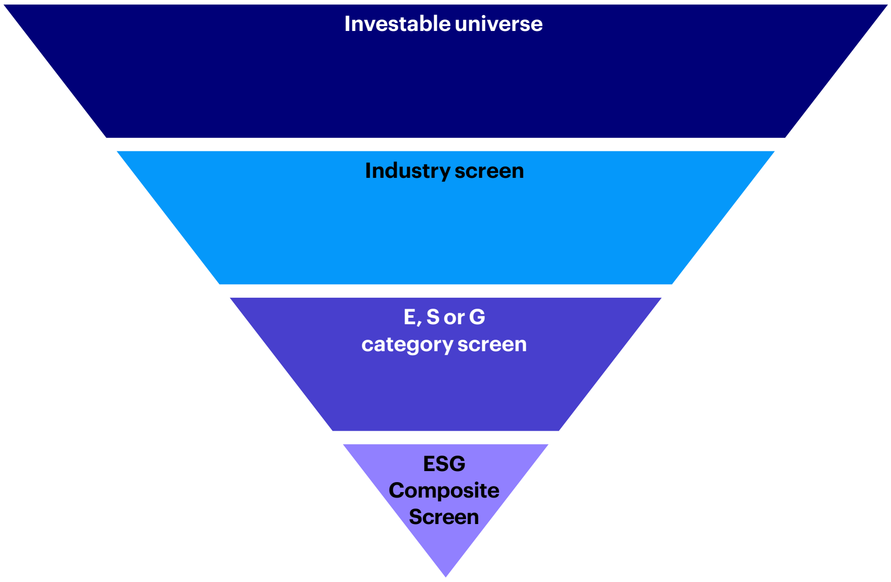
- Workforce
- Community
- Product responsibility
- Human rights

Governance Pillar

- Management
- Shareholders
- Board of Directors
- Auditor
- Regulatory issues
- Corporate social responsibility strategy
- Anti-corruption
- Business ethics

An evaluation of the factors above is used to derive separate E, S and G ratings for each borrower by the investment manager, Invesco Senior Secured Management Inc. (ISSM). ISSM then uses a weighting schematic for the borrower's broad industry category to average these three separate ratings into an overall composite ESG score that, along with the individual E, S and G pillar scores, are approved by the investment committee, subject to updates and reviews on at least an annual basis.

Investment Strategy



Source: Invesco. For illustrative purposes only.

Investment strategy used to meet the environmental or social characteristics promoted by the Fund

For the Fund, minimum ESG ratings criteria and certain sector exclusions are applied during portfolio construction.

Industry screening

The Fund employs screening to exclude companies and/or issuers from the investment universe that do not meet the Fund's ESG criteria, based on the level of involvement (as further detailed in the table below) in:

- the production of tobacco and tobacco products,
- gambling,
- controversial weapons (including nuclear weapons),
- 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,

UN Global Compacts violations/non-compliance: The Fund makes use of third party provider UN Global Compacts issues list which is uploaded into the Investment Manager's trade compliance engine and restricts issuers who are in violation of, or in non-compliance with, the core principles.

		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
	Fracking Related Energy Extraction	>=5% of revenue
	Proprietary E Score	> 4.00
Social	Controversial Weapons, including companies involved > 0% of revenue in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty	
	Recreational Cannabis	>=5% of revenue
	Tobacco Products Production	>=5% of revenue
	Gambling Operations	>=5% of revenue
	Gambling Specialised Equipment	>=5% of revenue
	Proprietary S Score	> 4.00
Governance	Proprietary Governance Score	> 4.00
Combined ESG Score / Other	Combined ESG Score	>= 3.75
	Cash and cash equivalents	Cash, cash equivalents (including money market instruments are not assessed
	Counterparty Selection for cash / derivatives etc	Not assessed
	Derivatives	Not assessed

Rating process
In addition, the Fund may not invest in loans from companies that have an aggregated ESG rating greater than or equal to 3.75 or single category E, S, or G ratings greater than 4, in accordance with the internal ESG rating methodology. The Fund will disinvest within 6 months from loans for which the aggregated ESG rating or single category E, S, or G ratings rise above these limits, in accordance with the Investment Manager's internal rating methodology.

In this context, Invesco has developed a proprietary framework for rating each issuer from an ESG perspective. The Investment Manager'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.

Policy to assess good governance practices of the investee companies
Within the ESG criteria taken into account by the Fund, the Governance pillar includes factors such as management, shareholder treatment, composition of the board of directors, auditor / regulatory issues, corporate social responsibility strategy, anti-corruption practices and ethics policies and practices – factors on which each issuer is rated by the Investment Manager, and will form part of the ESG rating. The Investment Manager also tracks and records borrowers' compliance with, or violations of, United Nations Global Compact Principles and OECD Guidelines for Multinational Enterprises.

Proportion of investments

The ESG-criteria is applied in respect of each underlying loan on an on-going basis by the Investment Manager, integrated as part of the investment process for credit selection and portfolio construction.

To that effect, the industry screening and the rating process will be applied to the whole investment universe, representing at least 90% of the portfolio (but expected to represent around 95% under normal market conditions). The industry screening and the rating process will not be applied to cash and cash equivalents (including money market instruments) which are held for cash management/liquidity purposes.

The Fund will not use derivatives to attain the environmental or social characteristics promoted by the Fund.

Monitoring of environmental or social characteristics

E and S characteristics are integrated into Invesco's fundamental credit research process. Each new and existing issuer's approach to E and S characteristics, and the associated business risks, are independently evaluated and tracked by our credit analysts. Invesco maintains a proprietary list of required diligence questions that are augmented on an industry by industry basis. These questions are asked of our borrowers at least annually, and answers are recorded and updated in our systems. Invesco analysts also supplement their analysis using 3rd party data where available. E and S characteristic scores and written detail/reasoning are tracked and stored in our technology system and with a fully auditable history. These scores drive both pre-trade and post-trade compliance and portfolio management decisions.

When there are proposed changes to the ESG metrics used, a formal sign off procedure takes place that includes members of the global ESG team, investment team, product, and legal team.

Methodologies for environmental or social characteristics

ESG Ratings Process

The Investment Manager'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, where 1 is the best score:

1 = negligible risk;

2 = low risk;

3 = average risk;

4 = above average risk; and

5 = high risk.

There are 16 factors within the E/S/G pillars that our credit analysts' rating contemplates.

As part of this process, the Investment Manager 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.

While management teams are generally receptive to the Investment Manager's approach, facilitating active engagement with an issuer can sometimes present a challenge.
The Fund excludes from its portfolio any issuer whose management does not engage and/or for which appropriate ESG scores cannot be determined.

Deriving issuer level ESG rating

1. The Investment Manager averages the various factors under each E/S/G pillar to determine Pillar Ratings.
2. The Investment Manager 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 4 October 2022 are shown in table 1.
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 Investment Manager's Investment Committee (the same committee that approves all senior loans from a credit perspective).

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

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	Avg. Environmental Pillar Weight	Avg. Social Pillar Weight	Avg. Governance Pillar Weight
Communication Services	5.00	50.10	44.90
Consumer Discretionary	17.82	44.14	38.04
Consumer Staples	29.38	35.63	34.99
Energy	41.86	24.29	33.85
Financials	9.19	51.72	39.09
Health Care	5.90	51.10	43.00
Industrials	21.24	34.64	44.12
Information Technology	14.69	44.46	40.85
Materials	45.18	21.71	33.11
Real Estate	28.54	29.33	42.13
Utilities	44.58	19.25	36.17

How does the ESG rating process work?

ESG research

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

Investment committee

- Analysis presents key findings to senior investment committee
- Senior investment committee signs off on ESG rating

Calculate composite ESG score

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

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 pillar

- Weighted average score determined for E, S and G pillar

Source: Invesco. For illustrative purposes only.

Data sources and processing

Invesco has developed a proprietary framework for rating each issuer from an ESG perspective. The Investment Manager'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.

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. Due diligence monitoring is done to ensure data providers are providing on-time deliverables such as ESG data, research and recommendations. Invesco conduct these due diligence meetings with select service providers as necessary. Invesco is constantly evaluating vendors to ensure our investment teams/clients are provided with the current information and our expectations are met. When we identify an issue or our expectations are not met, our teams report the issue and follow up with the service provider to resolve it.

When the analyst (together with the respective team leader) determines that an issue is suitable for investment, he/she will circulate an internal memorandum 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. ESG scores are then reconfirmed within technology systems and formally approved by Investment Committee members. Once approved the scores are locked and score history is stored in an auditable system.

Invesco's proprietary framework considers both qualitative and quantitative data to derive a quantitative ESG score.

Invesco uses multiple datasets from different sources and it is difficult to generate the proportion of ESG data that is estimated. Certain categories of ESG data are more likely to be estimated (such as scope 3 emissions, certain business involvement categories, etc) due to a lack of consistent disclosure among issuers. Because of this, ESG data that is directly disclosed by an issuer is given preference over data that is generated by a vendor using a proxy, estimation model, industry average, or other means. Invesco is committed to review the current ESG datasets that are used and will continue work with vendors to improve upon both the timeliness and accuracy of data that is used in construction of our ESG products. This data review is an ongoing process that involves members of our investment teams, ESG research team, ESG data analytics team, and our investment technology team.

Limitations to methodologies and data

As mentioned above in "Proportion of investments", the Fund's investment universe will be covered and assessed against the industry screening and rating process. The industry screening and the rating process will not be applied to cash and cash equivalents (including money market instruments) which are held for cash management/liquidity purposes.

The Fund will not use derivatives to attain the environmental or social characteristics promoted by the Fund.

Invesco does not rely on 3rd party data sources to determine ESG risks/scores; as such, we do not believe data limitations have a significant impact on our ability to evaluate a borrower's ESG risks. Credit Analysts engage on ESG topics with each of the borrowers on an annual basis, at minimum, which we believe is core strength of Invesco's process versus competitors who depend on less reliable external data sources.

Due diligence

Using proprietary qualitative research, augmented by third-party quantitative data when available, Invesco credit analysts determine whether a Company's Environmental, Social or Governance practices and/or business threats have the potential to negatively affect the financial position of an issuer. During primary underwriting analysts are required to diligence a standard, proprietary, ESG questionnaire with issuers and, using their industry expertise, augment the list for industry-specific risks. For actively monitored investments, Invesco analysts are required to have, at a minimum, an annual engagement with each of the borrowers regarding ESG topics, which is used to update and submit a new rating.

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.

Engagement policies

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

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

The Credit Analysts of the Investment Manager are required to, at minimum, engage on ESG topics with the borrowers on an annual basis. Based on this, analysts are also required to update and submit a new ESG rating, regardless of the materiality of policy/risk changes.

Version	Date	Details of change
1.0	16 December 2022	Creation of the document