
Invesco US Senior Loan ESG Fund

(the “Fund”)

Sustainability-related disclosures

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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.

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 environmental and social characteristics that the Fund aims to promote include:



Environmental Pillar

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



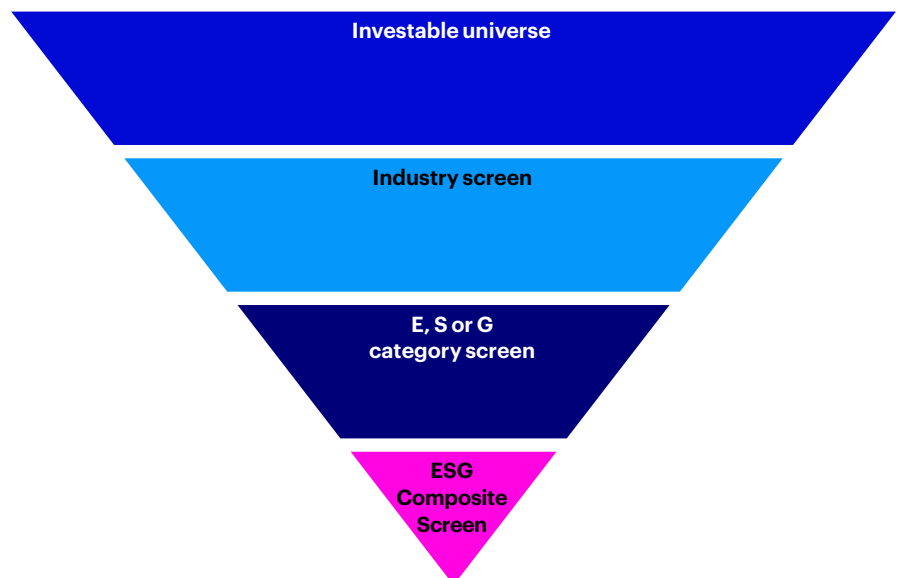
Social Pillar

- Workforce
- Community
- Product responsibility
- Human rights

In addition, the Fund will exclude companies and/or issuers which as assessed by third party providers are in violation of non-compliance of any United Nations Global Compact (“UNGC”) principles, and also based on involvement in certain activities, including coal, unconventional and conventional oil and gas, controversial weapons, recreational cannabis, tobacco and gambling.

Finally, the Fund considers principal adverse impacts on sustainability factors by carrying out a qualitative and quantitative review of the 14 mandatory indicators as defined by the Sustainable Finance Disclosure Regulation (primarily the indicators as defined in Table 1 of the Annex I of the regulatory technical standards for Regulation 2019/2088 and subject to availability of data). Please refer to the pre-contractual disclosures embedded to the prospectus of Invesco Zodiac Funds and the annual report of Invesco Zodiac Funds for more information.

Investment Strategy



Source: Invesco. For illustrative purposes only.

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

Certain sector exclusions and ESG ratings criteria are applied during portfolio construction, as described below.

Industry screening

Firstly, screening will be employed to exclude companies and/or issuers from the investment universe that do not meet the Sub-Fund's criteria. This includes excluding companies and/or issuers based on their level of involvement in controversial activities, as per the below:

		Exclusion Framework
Environmental	Exploration, mining, extraction, distribution or refining of hard coal and lignite	>=1% 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
	Companies that derive their revenues from the exploration, extraction, distribution or refining of oil fuels	>=10% revenue
	Companies that derive their revenue from the exploration, extraction manufacture or distribution of gaseous fuels	>=50% revenue
Social	Power generation with intensity >100 gCO ₂ e/kWH	>=50% revenue
	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	0% of revenue
	Gambling Operations	>=5% of revenue
	Gambling Specialised Equipment	>=5% of revenue

The companies and/or issuers that do not meet the above criteria as a result of the screening, as mentioned above, will be excluded from the potential investment universe of the Sub-Fund.

For the avoidance of doubt, by virtue of applying the above exclusions, the Fund complies with the exclusions referred in CDR (EU) 2020/1818 with regards to minimum standards for EU Paris Aligned benchmarks.

In addition, the companies and/or issuers that are found to be in violation or non-compliance of UNGC principles will also be excluded from the potential investment universe of the Sub-Fund.

* The Fund will not knowingly finance cluster munitions, munitions and weapons containing depleted uranium, and anti-personnel mines, as well as biological and chemical weapons. This includes in particular not knowingly investing in any form of securities issued by an entity the main activities of which are the manufacturing, use, reparation, sale, exhibition, distribution, import or export, storing or transport of cluster munitions, munitions and weapons containing depleted uranium, and anti-personnel mines as well as biological and chemical weapons, and the Directors of Invesco Management S.A. will therefore implement relevant internal investment guidelines.

Rating process

Invesco has developed a proprietary framework for rating each issuer from an ESG perspective.

The ESG factors that are incorporated in the evaluation process (as further described below) include:



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

In this context, based on proprietary research and due diligence on the companies and issuers with regard to ESG considerations, each company and/or issuer is assigned a rating on a 1 to 5 scale, where 1 denotes the lowest ESG-related financial risk for each factor, for each identified ESG factor (as described above). A weighted average score is then calculated for each of the E, S, and G pillars. An overall composite ESG score is also calculated with pillars weighted differently depending on industry. Scores are approved by the Investment Manager's investment committee and reviewed and updated regularly, on at least an annual basis.

The Fund may not invest in loans from companies or issuers 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 internal rating methodology.

ESG Framework		
Environmental	Proprietary E Score	> 4.00
Social	Proprietary S Score	> 4.00
Governance	Proprietary G 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

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 85% of the total portfolio net assets (#1 Aligned with E/S characteristics). The industry screening and the rating process will not be applied to unencumbered cash and cash equivalents (including money market funds) which are held for cash management/liquidity purposes (#2 Other).

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 the Investment Manager's fundamental credit research process. Each new and existing company and/or issuer's approach to E and S characteristics, and the associated business risks, are independently evaluated and tracked by the credit analysts. The Investment Manager maintains a proprietary list of required diligence questions that are augmented on an industry by industry basis. These questions are asked of the companies and issuers at least annually, and answers are recorded and updated in the systems. The Investment Manager's analysts also supplement their analysis using third party data where available. E and S characteristic scores and written detail/reasoning are tracked and stored in the 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 the credit analysts' rating contemplates.

While management teams are generally receptive to the Investment Manager's approach, facilitating active engagement with a company or 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 GICS* industry sector to come up with an ESG Composite Score.
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.

* GICS - Global Industry Classification Standard. Industries include: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real estate and Utilities.

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, Sustainalytics and Sustainable Fitch), 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 unencumbered cash and cash equivalents (including money market funds) 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.

Principal adverse impact indicators

As mentioned in the section "Environmental or social characteristics of the financial product", the Fund considers principal adverse impacts on sustainability factors by carrying out a qualitative and quantitative review of the 14 mandatory indicators as defined by the Sustainable Finance Disclosure Regulation (primarily the indicators as defined in Table 1 of the Annex I of the regulatory technical standards for Regulation 2019/2088 and subject to availability of data). Given the nature of the asset class and the private issuers, the quantitative data coverage is currently limited. While improving disclosure on these indicators will form part of the ongoing engagement process with the issuers, consideration of these indicators in these cases is on a best efforts basis.

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.

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
1.1	13 December 2023	Updated to provide more details on the applicable environmental and social characteristics that are aimed to be promoted by the Fund, the sustainability indicators as well as the investment strategy and its binding elements
1.2	16 January 2024	Updated to change the asset allocation subject to industry screening and rating process
1.3	24 March 2025	Updates to various sections in light of the ESMA Guidelines on funds' names using ESG or sustainability-related terms