Invesco ESG Senior Loan Strategy

October 2019

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How does our ESG ratings process work?
Our core investment philosophy and process are based on a fundamental bottom-up risk assessment of an issuer/issue coupled with a top-down macro view based on risk positioning and sector themes tied to broad economic trends.

We apply several proprietary risk analytical tools designed to capture elements of volatility and risk-adjusted returns across the entirety of the investable loan universe. These tools are utilized during initial portfolio construction and continuously monitored, factoring in any change to our investment thesis.

To derive an issuer-level ESG rating, we the use a weighted schematic for the issuer's broad industry category. We then average these ratings into an overall ESG score that is approved by our Senior Investment Committee. Most importantly, the process leads to new conversations and behaviours from management teams.

ESG ratings process
Our credit analysts are responsible for independently rating each loan they cover from an ESG perspective. We 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, our 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 over 600 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 table 1 on page 2).

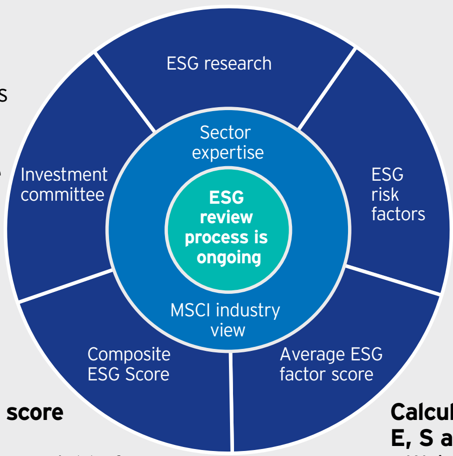
As part of this process, we will seek to engage with the investee companies to ensure that they are minimizing and disclosing the risks and maximizing the opportunities presented by climate change by implementing a strong governance framework which clearly articulates their respective board's accountability 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. This includes but is not limited to excluding companies and/or issuers based on their level of involvement:

Figure 1
Our ESG ratings process

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



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

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

Source: Invesco. For illustrative purposes only.

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

Environmental Pillar	Social Pillar	Governance Pillar
– Natural Resources – Pollution & Waste – Supply Chain Impact – Environmental Opportunities	– Workforce – Community – Product Responsibility – Human Rights	– Management – Shareholders – Board Of Directors – Auditor – Regulatory Issues – Corporate Social Responsibility Strategy – Anti-corruption – Business Ethics

Source: Invesco. For illustrative purposes only.

- 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),
- the generation of electricity above a defined percentage from coal-fired power plants, 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, an 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.

Risk warnings

The strategy is particularly dependent on the analytical abilities of its investment manager on senior loans. 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. 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.