Invesco Senior Secured Loans Strategy

High stable monthly income by investing in contractual loans to global companies

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If you are looking for:

- high stable monthly income
- protection against rising rates and inflation
- a trusted manager
- a high degree of liquidity

The Invesco Senior Secured Loans Strategy can offer these benefits.

In volatile and uncertain markets, with inflation and interest rates stubbornly high, investors are seeking certainty of income. Investors are looking beyond traditional equities and bonds to boost income, reduce volatility, and enhance portfolio diversification.

Senior secured loans may provide these attributes when allocated to diversified and income portfolios.

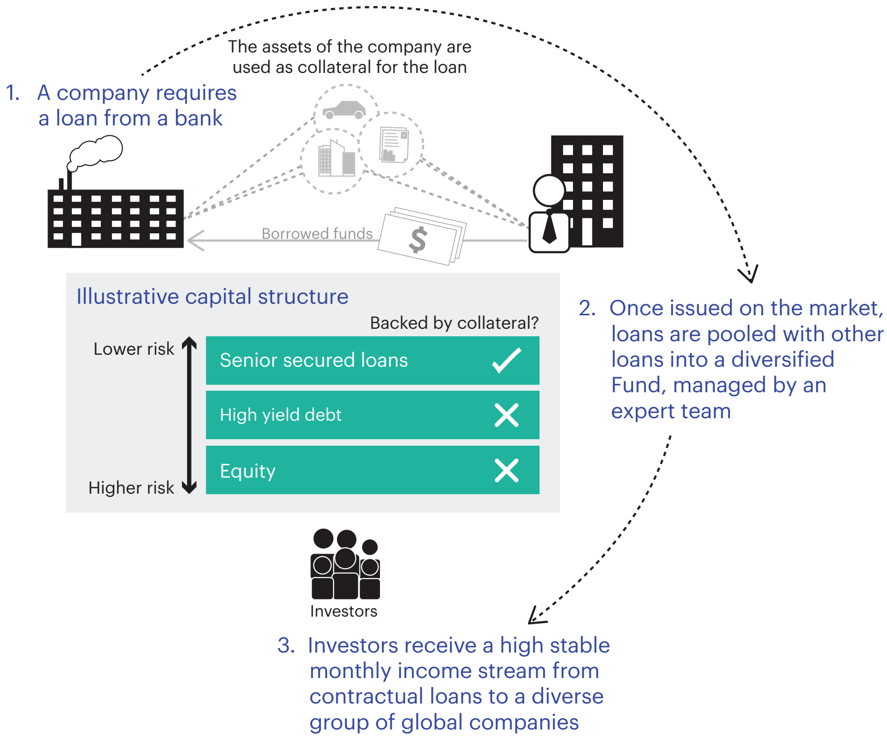
What are Senior Secured Loans?

Overview

Companies can finance their business by borrowing money (issuing debt) or by selling an interest in their business (equity). Debt and equity form the basis of a company's capital structure. When a company repays its obligations, debt holders are repaid ahead of equity holders.

Senior secured loans are a primary source of funding for companies to finance their growth or daily operations. As their name suggests, they are at the safest part of a company's capital structure, being senior to all other forms of debt and equity, as well as being secured (or backed) by the borrowing company's assets.

The process of issuing a senior secured loan is illustrated below. It shows the debt arrangements between the borrowing company, the issuing banks, and the markets the loans are traded in.



Features and benefits

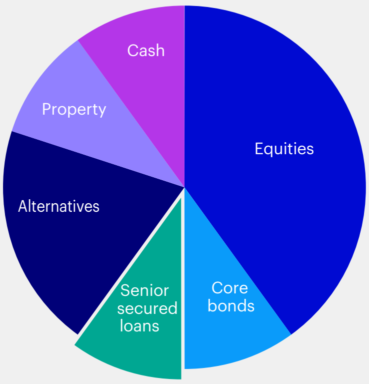
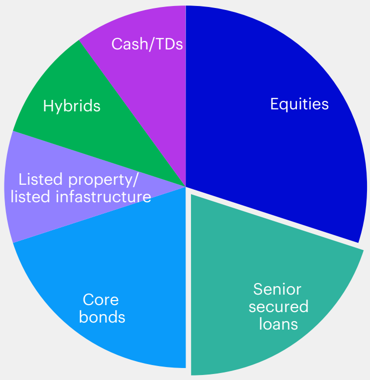
Senior secured loans offer a unique combination of appealing characteristics. These are summarised below and set out in more detail later in this brochure.

Feature	Benefit
High income	Stable monthly income stream from contractual loans to a diverse group of global companies
Floating rate	Near zero duration risk, income rises when interest rates rise, providing a hedge against inflation
Senior secured	Highest priority to be repaid and first right to the companies' assets
Diversification	Diverse group of large, mature and global companies; complementary with other assets in a traditional portfolio
Liquidity	Liquid US$1.6+ trillion market with consistently high trading volumes allows ready access to funds

Source: Credit Suisse Leveraged Loan Market Statistics *(Wider definition of Institutional Market vs. S&P)* Credit Suisse Leveraged Loan Index, Credit Suisse Western European Leveraged Loan Index as of 31 March 2024.

Where can senior secured loans fit in a portfolio?

Senior secured loans offer a unique combination of appealing characteristics and can be used to either complement fixed income assets within a diversified portfolio or as a core part of an income-focused portfolio, as shown below.

Client objective:	**Portfolio diversification**	**Stable income**
Portfolio type:	Diversified Portfolio	Income Portfolio
		
Role of senior secured loans:	Complement to core bonds to diversify away from fixed rate assets and government bonds	Differentiated and complementary source of high income through a core allocation
Typical funding source:	Bonds and equities	Bonds and hybrids

Source: Invesco. For illustrative purposes only.

Comparing typical income sources

The following table provides a subjective comparison of the various sources of income included in investor portfolios based on the typical characteristics of each asset class.

Asset class/ Category	Frequency	Method	Seniority/Security	Diversification Benefit[1]	Liquidity	Complexity	Total return	Total risk[2]
Senior secured loans	**Monthly**	**Floating rate & contractual**	**Highest priority & secured**	**Strong**	**High**	**Simple**	**Medium**	**Low**
Equities	Quarterly	Variable & not guaranteed	Lowest priority & unsecured	Average	Very high	Simple	High	High
Listed property & infrastructure	Quarterly	Variable & not guaranteed	Lowest priority & unsecured	Weak	High	Moderate	High	High
Hybrids	Quarterly	Floating/ Fixed rate & not guaranteed	Medium priority & unsecured	Weak	Medium	Complex	Medium	Medium
Core bonds	Monthly	Fixed rate & contractual	Medium priority & unsecured	Strong	High	Simple	Low	Low
Cash/ Term deposits	Monthly	Floating/ Fixed rate & contractual	Highest priority & secured	Average	Very high (but break costs)	Very simple	Low	Very low

Note: Manager opinion for illustrative purposes.
1. Diversification benefit of having this source of income in a typical Australian investor portfolio.
2. Qualitative assessment of risk based on volatility, probability of negative return and permanent capital loss.

How may senior secured loans benefit investors?

Why now?

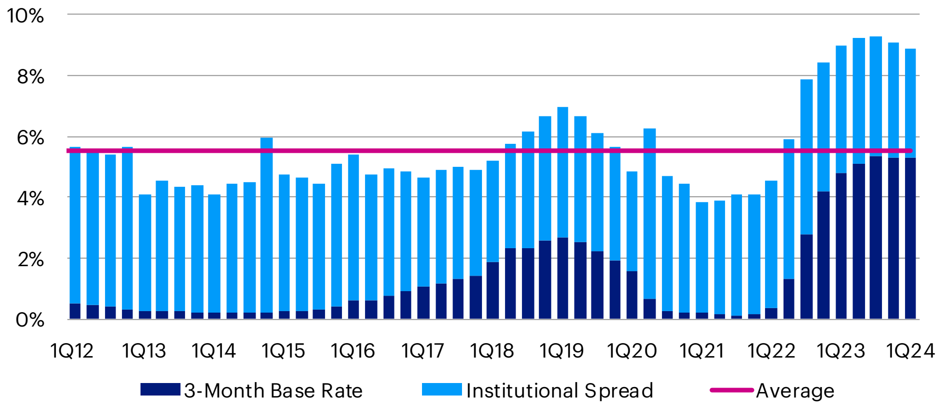
- The total income for loans is already above long term averages and rising.
- Senior secured loans continue to offer compelling spreads (margins) over cash of 3-5% p.a., broadly in line with historical averages.

We set out below the potential key benefits of senior secured loans in more detail, and explain why now may be the opportune time to invest.

High income

Senior secured loans offer a stable monthly income stream from contractual loans to a diverse group of global companies.

Weighted Average Absolute Institutional Rate
Three-month Libor plus weighted average institutional spread



Source: Invesco. Pitchbook LCD as of 31March 2024.

Floating rate

Traditional bonds (e.g. government or corporate bonds) pay coupon interest at a fixed rate that never changes. Senior secured loans, by contrast, pay interest at a floating (or variable) rate.

A key benefit of this dynamic is that income from floating rate loans increases when short-term rates rise, and loan prices exhibit low sensitivity to rising interest rates. This is illustrated in the following diagram.

Why now?

- Global interest rates are on stubbornly high. And as we've already seen, traditional government bonds and investment grade credit are at risk of capital loss if rates rise further.
- Senior secured loans' floating rate structure means they benefit when rates rise, acting as a hedge against inflation.

Why now?

- We are in unchartered waters with the 'new normal' following the pandemic not yet established and recessionary risks rising.
- With uncertainty in markets and economics, investors are best positioned at the safe end of the capital structure (i.e. senior secured loans)

Why now?

- Given uncertainty in markets, investors are seeking new sources of diversification.
- Australian investors are over-exposed to Australian assets, particularly financials and resources, which dominate the ASX.
- Senior secured loans offer broad, global diversification by industry and company, including global brands.

	Rising interest rates		Falling interest rates	
	Income	Prices	Income	Prices
Floating rate (i.e. senior secured loans)	Will adjust to changes in interest rates	Less sensitive to changes in interest rates	Will adjust to changes in interest rates	Less sensitive to changes in interest rates
Fixed rate (i.e. government bonds)	Is fixed	Adjusts to changes in interest rates	Is fixed	Adjusts to changes in interest rates

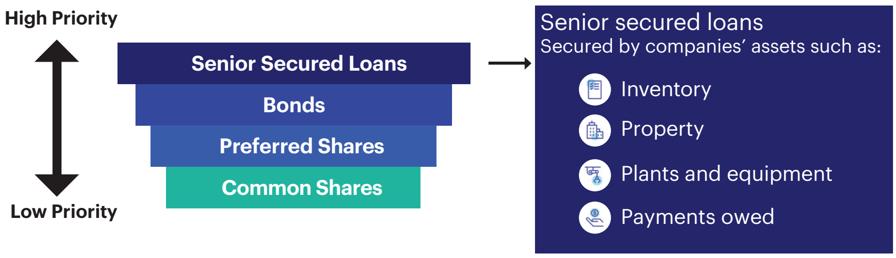
Source: Invesco. For illustrative purposes only.

Senior Secured

The 'senior' aspect of senior secured loans refers to the fact that they lie at the top of a company's capital structure. Thus, in the event of a company's financial distress (e.g. a loan default), senior secured loan holders are first to be paid back before all other holders of securities in the capital structure. This favourable payback priority order is crucial, as illustrated in the diagram below.

The 'secured' aspect of senior secured loans refers to the fact that they are secured by collateral such as property. This results in much higher levels of recoveries than unsecured bonds (e.g. high yield) and equities.

Payback priority order



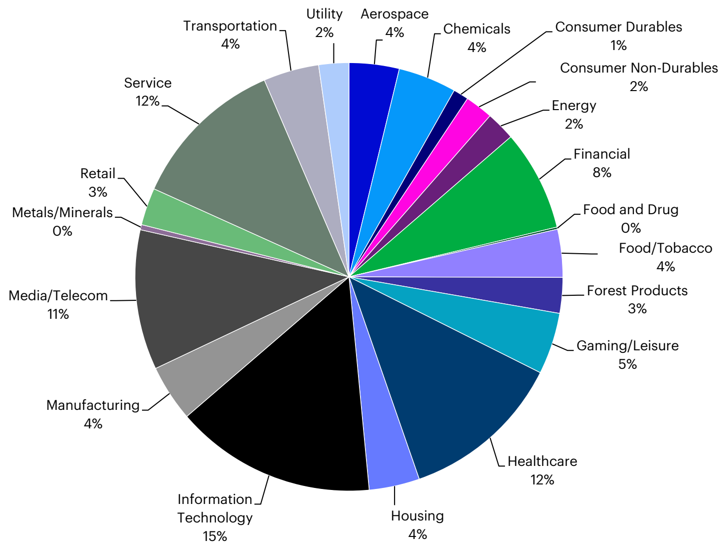
Source: Invesco. For illustrative purposes only.

Diversification

Senior secured loans offer diversification benefits on two main fronts:

1. Given their floating rate structure, senior secured loans typically perform differently from equities and fixed income securities over time, offering greater complementation within a fixed income or balanced portfolio.

2. A portfolio of senior secured loans can be highly diversified by industry (see diagram below) and issuer.



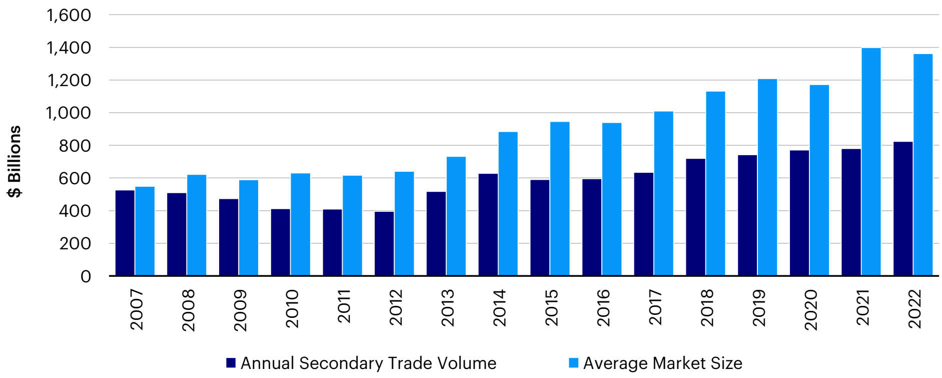
Source: S&P/LSTA Leveraged Loan Index as at 31 December 2023.

Liquidity

Since the late 1980s, increased appetite for senior secured loans from institutions has resulted in tremendous growth in market volume. These days, the global market in senior secured loans is large and liquid, currently valued at over US$1.6 trillion[1]. Moreover, trading volumes in senior secured loans remain high regardless of the market environment, as shown below.

1. Credit Suisse Leveraged Loan Market Statistics *(Wider definition of Institutional Market vs. S&P)* Credit Suisse Leveraged Loan Index, Credit Suisse Western European Leveraged Loan Index as of 31 March 2024.

Annual secondary trade volumes of US Senior Secured Loans



Source: LTSA. Data as at 31 December 2022.

Given the over the counter (OTC) nature of the market, lack of a TRACE trade reporting system, and the private nature of structuring deals, many market participants assume that the bank loans market is illiquid. According to the LSTA, at the end of Q4 2022, the US loan market grew to a record USD1.4 trillion in total issuance outstanding. The loan market has grown 125% since the end of 2007. While the size of the loan market has increased significantly, the overall number of issuers in the loan market has decreased from 1,740 in 2008 to 1,158 as of June 30, 2023.

Why choose Invesco for senior secured loans?

When investing in the senior secured loan market we believe it is important to choose a manager with market presence and scale, private credit specialists, a proprietary process and proven track record, and importantly, one that can access the best deals i the market at any time.

Invesco can offer these attributes and has strong credentials to manage senior secured loans.

Depth & breadth of resources	Market presence & scale	Proven credit process & proprietary tools	Access to company information
• Invesco's Private Credit platform is one of the largest private-side senior loan managers in the world with around US $43 billion of AUM in US and European private credit across senior secured loans, direct lending and distressed credit. • One of the largest managers of senior secured loans worldwide. • Global expertise with US and European senior secured loan portfolio management and trading.	• Managing senior secured loans since 1989. • Scale enables Invesco to obtain preferred allocations. • Invesco is a top trading counterparty, allowing for better loan execution.	• Disciplined, fundamental research focus to better measure and identify relative value. • Qualitative credit process enhanced by quantitative tools. • Credit analysts with deep and specific expertise in senior secured loans.	• Privileged access to management and financial information, aiding investment decisions. • Early looks at new loan transactions to provide feedback on loan pricing and terms. • One-on-one discussions with management teams.

Why invest in Invesco's Senior Secured Loans Strategy?

Australian investors looking to capture the many benefits of senior secured loans can invest in either the Invesco Wholesale Senior Secured Income Fund (retail fund) or the Invesco Senior Secured Loans Fund (institutional fund), provided they meet the eligibility criteria details in the PDS and IM documents respectively.

Both Funds aim to provide a high level of stable monthly income, preserve capital and achieve a gross return of cash plus 4% p.a. over rolling three year periods.

The Funds can help meet investors' needs as follows:

High stable monthly income

- Pays regular monthly income.
- Income can be received as either a distribution or a reinvestment so the return is compounded.

Protection against rising rates and inflation

- Provides a rising income return when interest rates rise.
- Fully hedged to Australian dollars

Capital stability

- Invests predominantly in senior secured loans, helping to keep capital volatility low

Complementary investments

- Exposure to the US and Europe with broad diversification by industry and company (approximately 500 issuers).
- Exposure to senior secured loans that behave differently to traditional asset classes.

Trusted investment manager

- Invesco is a specialised manager with global scale, extensive coverage, and a large, dedicated loans team.

Access to money

- Provides for a high degree of liquidity

Where does the Strategy stand on ESG?

ESG considerations are firmly integrated into the investment process. ESG is incorporated into 100% of research notes, and each credit is assigned an ESG rating based on 16 factors to evaluate companies for ESG risk. The ESG rating of a credit is a critical consideration in the Investment Committee's approval to invest.

Invesco's Global ESG Team utilises a consistent integration framework to measure each investment team's ESG journey and progress, and the Senior Secured Loans team have made great strides in the journey towards being an ESG leader.

No systematic approach	Minimal but systematic	Systematic and fully integrated	ESG consideration drives investment process
No designated ESG approach Typically some consideration of governance Ad-hoc may consider ESG as it is presented to fund managers through corporates and the market Typically votes shares although not with a high degree of analysis	ESG approach is defined and consistently applied ESG considerations in majority of investment ideas ESG dialogue is part of standard conversations with companies A high level ESG policy exists and light touch comments in marketing material	ESG considerations documents in 100% of research notes Targeted ESG dialogue is a core part of the process ESG monitoring is part of the risk/oversight process ESG policies, marketing, RFPs and reporting reference ESG	Sustainable/impact product (Not available) ESG considerations include a specific framework to any given strategy Fund manager purposely looks for stocks with defined ESG characteristics May include exclusion or sustainability focus in the objectives or prospectus High degree of ESG content in marketing materials and investment process documents

Invesco ESG integration continuum: level of influence on the investment decision making

2013
Began managing ESG mandates in separate accounts

2015
Incorporated ESG discussion as part of our investment committee review

2018
Formalised 16-factor ESG rating process for all investments

2019
Launched first commingled US ESG loan product

2020
Launched first Euro ESG loan product

Launched first Global ESG loan product

First '40 Act mutual fund to evaluate all investments for ESG

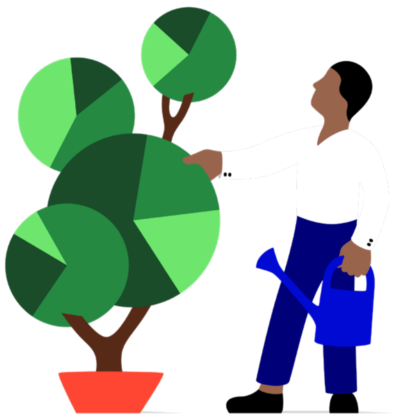
2021
Runner Up ESGInvesting Best ESG Investment Fund: Specialist Fixed Income

2022
Runner Up ESGInvesting Best Specialist ESG Research

Recognised as an ESG Leader in Global Fund Search and Nordic Sustainable Investments ESG Leaders Handbook (Invesco paid a fee to participate in the rankings)

2023
Winner ESGInvesting Best ESG Research: Investment Manager

Finalist ESGInvesting Best Specialist ESG Research



Learn more

Explore the Senior Secured Loans Resource Hub

A one-stop-shop featuring educational videos, case studies and infographics to provide all the information you may need to better understand Senior Secured Loans.

Visit the hub here or scan this QR code to access:

For more information or assistance, you can also contact our Client Services Team at clientservices.au@invesco.com

Important information

There are risks associated with investing in the Fund. Some of these risks and how these risks are managed are set out in the Fund PDS and IM. You should obtain professional advice before deciding to invest in the Fund.

The minimum suggested investment period for the Fund is at least 3-5 years. However, we recommend that you consider, with your financial adviser, the suggested investment period for the Fund in relation to your own investment time-frame.

Disclaimer

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Senior secured loans - commonly used terms

Collateral	Assets pledged by a borrower to secure a loan and subject to seizure if the borrower defaults.
Coupon rate	The stated interest rate on a debt security when it is issued.
Credit risk	The risk that the issuer of a debt security will default on its commitment to pay interest and repay principal.
Credit spread	The spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.
Credit Suisse Leveraged Loan Index	Index designed to mirror the investable universe of the $US-denominated senior secured loan market.
Default risk	The risk that a company will be unable to make required payments on its debt obligation.
Duration	The change in the value of a fixed income security that will result from a 1% change in interest rates. Duration is expressed as a number of years. The bigger the duration number, the greater the interest rate risk.
Floating rate	A floating interest rate is an interest rate that is allowed to move up and down with the rest of the market or along with an index. This contrasts with a fixed interest rate, in which the interest rate of a debt obligation stays constant for the duration of the agreement.
Interest rate risk	Risk that the value of a fixed income security falls if interest rates rise.
Liquidity risk	The risk that an investment's lack of marketability will prevent it from being bought or sold quickly enough to prevent or minimise a loss.
Loan syndication	The process used by the Primary Bank to break the loan into smaller pieces which are then invested in by other investors.
Recovery rate	The proportion of the recovered debt amount that would be achieved when collateralised assets are sold in the event of a default. A recovery rate of 100% means that there is no loss to the investor.