Responsible Investment Policy

Invesco Fixed Income
Invesco Net Zero Global Buy and Maintain Credit 2020-2035 Fund

Invesco Net Zero Global Buy and Maintain Credit 2030-2050 Fund

August 2022

Executive Summary

Contents

The Invesco Net Zero Global Buy and Maintain Credit 2020-2035 Fund and the Invesco Net Zero Global Buy and Maintain Credit 2030-2050 Fund ("the Funds") promote environmental, social and governance (ESG) criteria as covered under Article 8 of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

The Funds aim to capture credit risk premium and to generate a predictable set of cash flows over the life of the Funds while contributing to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner.

Invesco Fixed Income (IFI), the Funds' investment team, will implement a multi-faceted approach in order to align the Funds' investments with the definition of a Net Zero Investment Strategy set out by the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF).

The Funds apply a rigorous ESG framework and climate risk considerations to guide their long-term investments. The Funds' ESG approach combines sector exclusions, sector-specific parameters, alignment assessments against global net zero goals and the selection of issuers with strong ESG characteristics.

The portfolio management approach will leverage external frameworks and climate expertise to deliver its mandate of decarbonising the Funds in-line with the goal of achieving net zero emissions by 2050. Coordination on engagement topics and oversight are provided by Invesco's Global ESG team ("the ESG Team").

Overview of the investment process for the Funds

The best investment insights come from independent experts, collaborating under a disciplined, yet flexible structure.
IFI's investment process integrates macro and credit views into risk positioning, asset allocation views and key themes to guide investing. Portfolio managers combine these views with their own to create optimal portfolios. Together with highly sophisticated risk management techniques, this enables rigorously structured and consistent outcomes and targets solid risk-adjusted returns over the long term.

Understand client investment requirements

Screen investment universe (client constraints, ESG constraints)

Filter on IFI Fundamental and ESG ratings

Apply IFI Watchlist – control for ratings migration and jump-to-default risk

Quantitative Optimisation – Risk / Asset allocation / Yield Maximisation

Qualitative Optimisation – PM review corroborated with research colleagues

Portfolio trading – Trader / PM liquidity assessment and execution

The process in overview:

1. **Screen investment universe**
   The initial filter screens out unsuitable bonds such as subordinated financial debt, callable bonds, perpetual bonds, issuers not rated by IFI credit analysts, poorly rated issuers from an ESG perspective and issuers featured on the Watchlist. For sustainability focussed portfolios, additional screens are applied reflecting each client's responsible investing policy.

2. **Quantitative Optimisation**
   An optimised portfolio, taking into account all mandate guidelines, is then created within Invesco Vision, our proprietary market-leading analytical and strategic modelling tool. We can optimize on yield for a target cashflow profile, weighted average duration or carbon-based measure. If all the constraints cannot be achieved, or the portfolio's yield does not meet any specified target, we will review the portfolio and the limits applied and explore ways in which the portfolio could be improved.

3. **Qualitative Optimisation**
   The portfolio management team meticulously refines the quantitatively generated portfolio at issuer and security levels. The team ensure exposure to certain issuers and sectors is held at the most appropriate point across the term structure and will evaluate each of the positions considering the current views of IFI and existing market conditions.

4. **Ongoing management**
   Portfolio holdings are continually monitored in terms of credit fundamentals and ratings migration. These are not buy-and-forget portfolios and sell decisions are only made under a predefined set of circumstances. We believe that the decision to hold can be just as critical as the decision of when to sell. An example of when portfolio trading might take place would be due to a change in the fundamental credit rating of an issuer. If credit analysts identify a sudden deterioration in quality of a credit, which may lead to a default, we will look to pre-emptively sell impacted holdings.

Net Zero Investment Framework and IFI approach to net zero alignment

Net Zero Investment Framework

The Funds' investment approach will follow the Net Zero Investment Framework (NZIF) as developed by the Paris Aligned Investment Initiative (PAII). The NZIF was created as a means of translating the goals of the Paris Agreement into practical guidance for asset managers and asset owners. It is designed to support the decarbonisation of the real economy, help minimise the negative impacts of climate change, and seize investment opportunities from addressing climate change.

To be considered aligned to the temperature goals of the Paris Agreement, the NZIF sets out that investment managers should commit to the goal of achieving net zero portfolio emissions by 2050 or sooner and adopt an investment strategy consistent with this goal. There are two core components for a net zero investment strategy;

1. To decarbonise investment portfolios in a way that is consistent with achieving global net zero greenhouse gas (GHG) emissions by 2050.
2. To increase investment in the range of 'climate solutions' needed to meet that goal.

Under the NZIF, investment managers assess how closely aligned issuers in their investment universe are to achieving net zero. An issuer is defined as "Achieving Net Zero" when its current emissions intensity is at, or close to, net zero emissions and it has a business model or investment plan that is expected to continue to achieve this goal over time. The framework establishes six core criteria (plus four further criteria to be incorporated where possible) to aid investment managers in making the net zero alignment assessment of each issuer. The Funds' investment process assesses companies against these criteria in order to categorise their net zero alignment status as part of its issuer selection process.

The criteria encapsulate the current and forward-looking characteristics that companies with meaningful commitment to the goal of net zero should exhibit. These are;

Alignment criteria

1	**Ambition**	The company has set a long term goal consistent with achieving net zero emissions by 2050
2	**Targets**	The company has explicit short- and medium-term emissions reduction targets covering its scope 1, 2 and material scope 3 emissions.
3	**Emissions performance**	The company demonstrates that its current emissions intensity performance (scope 1, 2 and material scope 3) meets targets that it has set with reference to climate science-based approaches.
4	**Disclosure**	The company discloses its scope 1, 2 and material scope 3 emissions.
5	**Decarbonisation Strategy**	The company has a quantified plan setting out measures deployed to meet its GHG reduction targets, proportion of green revenues and increases in green revenues.
6	**Capital Allocation Alignment**	The company's capital expenditures are clearly consistent with the goal of achieving net zero.

Net Zero Investment Framework and IFI approach to net zero alignment

Issuers can fall into one of five categories across a spectrum of net zero alignment depending on the extent of criteria met. These are represented below.

Not aligned including no data

Committed to aligning
Companies that have made a clear commitment to achieve zet zero by 2050

Aligning towards a net zero pathway
Companies with short- and medium-term emissions targets, clear disclosure of current emissions and a plan for achieving its targets

Aligned to net zero pathway
Companies with fully quantified decarbonisation strategies, capital expenditure plans consistent with net zero and clear progress over time of emissions reduction in-line with science-based net zero pathways

Achieving net zero
Companies with current emissions intensity at, or close to, net zero emissions and a business model or investment plan expected to continue to achieve this goal over time

The focus of the framework is primarily on material emitting sectors which are those sectors which account for the majority of global industrial greenhouse gas emissions. Importantly, the NZIF also classifies financial and real estate companies as material emitting.

Few companies currently exist that operate with emissions and business models in-line with the requirements of a net zero world but the process of committing to that goal has begun. The NZIF provides a means for investment managers to assess where companies are on that journey, set alignment targets and engage proactively with companies over time to encourage real world reductions in emissions. It is important to highlight that the framework does not set out specific sector or business activity exclusions. The rationale for this is that an orderly transition of the global economy to a low carbon approach will require all sectors to be supported on the transition journey. Investment managers may set exclusions at their discretion on sectors or activities that are fundamentally incompatible with a low carbon world (for example, coal extraction and coal-based power production).

The NZIF requires managers to set two additional net zero-connected targets alongside existing financial objectives such as excess returns, risk, credit quality etc.

1. A 5-year goal for increasing % AUM invested in assets in material emitting sectors that are
    a. net zero, or
    b. meeting criteria to be considered 'aligned' or
    c. 'aligning' to net zero

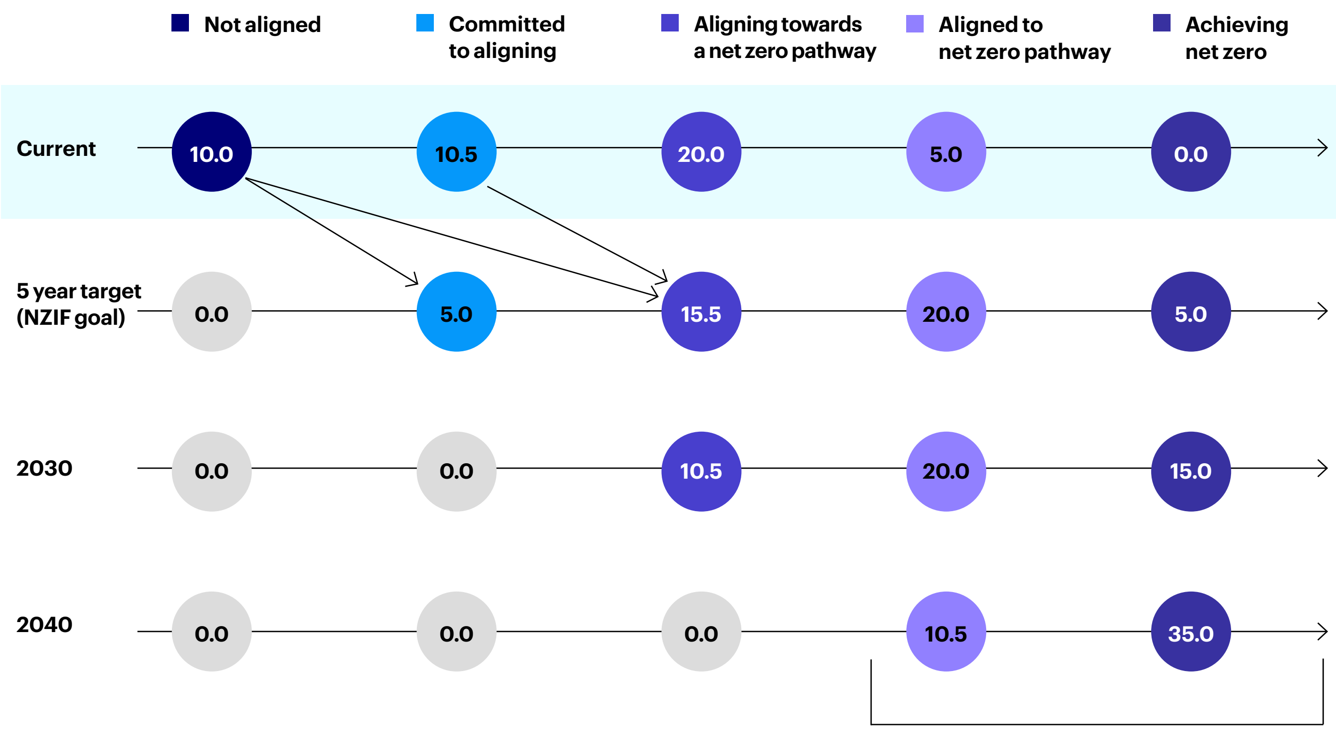
    Long term: Increase alignment target towards the goal of 100% of assets to be i) net zero or ii) aligned, by 2040

2. A minimum coverage threshold of 70% of emissions in material emitting sectors are either
    a. net zero,
    b. aligned, or
    c. subject of direct or collective engagement and stewardship actions

    Increase threshold target to at least 90% by 2030, at the latest. Disclose the proportion of assets considered i) net zero and ii) aligned, separately to assets under engagement/stewardship

Net Zero Investment Framework and IFI approach to net zero alignment

Alignment status of high emitting issuers (current & targets)
Portfolio weight (%)



Source: Invesco. For illustrative purposes only.

NZIF goal is for all assets in material sectors to be either at or aligned to net zero by 2040

Please note that the above are not binding targets and the graphic is intended for illustrative purposes only.

The portfolio managers will provide updates on the Fund's actual 5-year alignment targets for exposures to high emitting companies through periodic fund marketing materials.

NZIF will continue to develop in the years ahead and as such, the investment approach of the Funds will reflect any future enhancements.

Net Zero Investment Framework and IFI approach to net zero alignment

IFI approach to Net Zero alignment

The Funds actively invest in corporate bonds worldwide. Their investment approach seeks to invest in companies that are committed to aligning their business models with the goal of achieving net zero carbon dioxide emissions by 2050. To this end, the Funds will invest in bonds from issuers that the portfolio managers believe can make real progress towards decarbonisation and delivering net zero. Finally, the Funds' investment approach is thematic in nature and the portfolio management will pursue macro and sector-specific themes that they believe will enable the Funds to achieve an attractive yield.

The Funds will apply a multi-faceted approach to meet the requirements of a net zero investment strategy.

Element	Description
Net Zero Alignment Spectrum	All portfolio assets will be classified as either material emitting or low impact following the implementation guidance of the NZIF. Using the NZIF methodology, holdings will be classified across the net zero alignment spectrum. The initial focus will be on setting 5-year targets for each category. This target setting will be a function of several inputs; IFI's understanding of each issuer and its potential to commit and execute against net zero alignment, an engagement component that is designed to push companies to make greater progress. In particular, the Funds will invest principally in issuers who are: • achieving Net Zero; • aligned to a Net Zero Pathway • aligning towards a Net Zero Pathway or • committed to aligning. For issuers in sectors that are considered material emitting, the Funds will aim to target 100% of holdings to be either aligned to net zero or at net zero by 2040 to achieve increasing levels of net zero alignment. Investment in issuers that sit along the net zero alignment spectrum will therefore be based on our assessment of their current business model and their expected progress on decarbonisation. Alternatively, we will invest in the bonds of the issuer where the use of proceeds is clearly directed towards climate solutions aimed at mitigation of or adaptation to climate change using our sustainable bond framework. **Not aligned issuers** The Funds will have some flexibility to invest a proportion in issuers who are currently non-aligned with net zero but, in the view of the Investment Manager, will be moving towards a commitment and/or alignment. This must be on a timetable which will make them contributors to carbon reduction and thus appropriate for the portfolio. In conjunction with an engagement schedule, the investment manager will set accelerated timelines for such issuers to demonstrate commitment to align, which will lead to divestment if not met. To assess the investment in such instruments, the Investment Manager will focus on various catalysts such as (1) Change in management; (2) Change in corporate strategy; (3) Committing to setting emission targets under SBTI; (4) Stakeholder pressures; (5) Regulatory Pressures (EU taxonomy); (6) Organic growth in business lines linked to decarbonisation; (7) Technology advances enabling core operations to be transitioned; (8) Sector pressure with peers already making commitments. Moreover, engagement with non-aligned issuers will be key and the focus will be on a set of front-loaded milestones.
Climate Solutions	The Funds' investment in climate solutions may be expressed through their investments in companies where revenue and capital expenditure in climate change mitigation- and adaptation-related activities can be assessed directly. Regulatory efforts to standardise the categorisation of these activities such as the EU Taxonomy for Sustainable Activities will inform and guide the portfolio management team's assessments.
Temperature Alignment	The portfolio management team will analyse and optimise, where possible, the implied temperature warming measure of the Funds relative to the broader global corporate bond market. Due to their issuer selection approach, the Funds are expected to have a lower warming alignment than the broader market.

Element	Description
Portfolio Emissions (Scope 1 and 2)	At inception of the Net Zero strategy, the Funds will seek to have lower total scope 1 and 2 emissions relative to the global corporate bond market (proxy for investment universe). The Funds' focus on net zero alignment and achieving broad-based real world emissions reduction allows investment in high emitting companies as long as credible decarbonisation plans are in place and being executed upon. This is how this approach differs from low carbon portfolios which typically avoid high emitting companies or sectors through exclusions. For alignment-based Funds, it is not as relevant to set carbon footprint targets relative to the market. We will continue to evaluate potential methodologies and better data sources to enable accurate target-setting of scope 3 emissions.

Reflecting the reality that net zero by 2050 is a multi-decade transition process, the Funds' investments will be primarily spread across issuers at different levels of net zero maturity (as outlined above) where fund assets are expected to be increasingly allocated to companies at high levels of net zero alignment in the medium term. Portfolio alignment expectations in the short to medium term will reflect the portfolio management team's expectations for how fast each company held may progress against its net zero plans, which may be subject to change. Much of this focus will be on companies in high emitting sectors where progress will be most meaningful against the goal of reducing global emissions. Nevertheless, the portfolios will have clear targets for the alignment of its high emitting holdings to be hit by 2030 and 2040. These are:

- **By 2030**
  At least 90% of the financed emissions of the Funds from high emitting sectors will be from companies considered to be achieving net zero, aligned to a net zero pathway or if not at this stage, the subject of ongoing engagement (by Invesco or by Invesco as part of collective industry efforts). We will disclose the target for companies at net zero or aligned to a net zero pathway separately in Funds' literature.
- **By 2040**
  All emissions financed by the funds from material emitting sectors will be from companies that are either achieving net zero emissions already or are aligned to a net zero pathway. In the case of the Invesco Net Zero Global Buy and Maintain Credit 2020-2035 Fund, it is anticipated that at least 95% of assets from material emitting sectors will be achieving net zero emissions or aligned to a net zero pathway at the maturity of the fund.

How do we define high emitting sectors?

Material or high emitting sectors primarily include industrial sectors covered in the scope of the Transition Pathway Initiative (TPI) assessment framework. There are; electricity utilities, oil & gas, oil & gas distribution, coal mining, autos, airlines, shipping, aluminium, cement, pulp & paper, steel, chemicals, diversified mining and other industrials including technology hardware, aerospace & defense, construction machinery, heavy electrical equipment and more. In addition, the Funds will also consider financials and real estate as high emitting sectors that need to be in scope to achieve its net zero aim.

Net Zero Investment Framework and IFI approach to net zero alignment

Net Zero and engagement with issuers

Engagement approach
Our approach to engagement is guided by the reality that to address climate change and limit global warming, carbon emissions must be reduced in absolute terms across the global economy. We will invest in companies that we believe can make the transition to lower carbon business models in a manner that is consistent with the goal of net zero carbon emissions by 2050. Our approach will be broad-based and invest across a range of sectors including energy intensive areas. Some holdings will be high emitters and responsible for a large share of global emissions while others will have lower carbon footprints.

Our approach is to engage with companies to make net zero commitments in the first instance if they have not already and then support them through ongoing contact to set and then implement credible decarbonisation plans. In some cases, engagement will be needed to kick-start progress towards aligning to net zero in sectors where urgent action must happen to achieve meaningful real-world emission reductions.

Net zero is fundamentally about putting the global economy on a pathway to halving emissions by 2030 and eliminating them on a net basis by 2050 but it is a pathway that starts now. Our engagement process respects the urgent need for action in the short term. Timeframes for action will focus on the immediate years ahead, especially for high emitters that are yet to align a net zero path.

Engagement principles for the Funds:

- Financed emissions are defined in terms of the absolute total carbon emissions (Scope 1, 2 and 3) of each issuer held. We do not view emissions relative to portfolio market value weight or the percentage of Enterprise Value owned. Every dollar invested in an issuer's bonds enables its business model to operate and generate emissions. We will engage with the largest absolute emitter in the portfolios as a priority even if it is the smallest position held.
- We will commit to engage with issuers representing at least 70% of the total emissions financed by the portfolio (based on the definition above). We will engage with at least the top 10 emitters in the portfolios if the 70% target is met by fewer companies due to concentration or issuer selection.
- Additionally, we will commit to engage with all companies held in sectors defined as high emitting that have yet to make net zero commitments.

Divestment
Divestment is ultimately a last resort open to the Funds. To be eligible for the Funds, issuers must be able to evidence continuous progress in their decarbonisation efforts over time.

Invesco's engagement approach
We engage directly with companies to better understand their positions and their future intentions.

This is carried out tactically by relevant analysts within IFI and strategically with co-ordination through the Invesco Global ESG team.

Invesco has established a global process to ensure that our ESG targeted engagements are a collaboration between the ESG team and the investment teams across Invesco who may have interest in the issuer:

i. **Internal assessment and coordination**
The ESG team consults with the appropriate investors and reviews the ESG Engagement focus list and decides whether to (a) gather feedback on a topic and provide that feedback to an issuer, (b) schedule a call if it is deemed to be necessary, or (c) engage directly and serve as a liaison. The ESG team will set up the calls with investors and issuers when and if a call is deemed necessary. Any ESG engagement meeting is added to a centralized calendar that investment teams can access.

ii. **Research and follow up**
The ESG research team conducts in depth ESG research in preparation for these meetings and discusses with holders across Invesco to ensure that companies are questioned on the key ESG topics. The ESG team writes up an Engagement Report for these meetings and this is shared via the Bloomberg platform for all Invesco investors to access.

Net Zero Investment Framework and IFI approach to net zero alignment

ESG and Net Zero integration in portfolio management

IFI has developed its own ESG methodology and grading system to provide clear and consistent outputs for portfolio managers. Each issuer receives a proprietary overall ESG Grade, accompanied by sub-ratings covering the three pillars of E, S and G. In addition, ESG momentum is captured through trend assessments, which add further guidance for portfolio managers in the same way that creditworthiness trend assessments do for fundamental credit ratings.

Assessments of issuers' alignment to the criteria set out in the Net Zero Investment Framework are a separate process, managed centrally, that feeds our downstream investment management platforms.

ESG research stored on our research platform is connected to the portfolio management platform to enable key ESG data to be integrated into the portfolio management workflow. ESG metrics can therefore be incorporated into pre-trade compliance assessments, portfolio trade construction and post-trade portfolio analysis.

Dedicated ESG-focused portfolio reviews are in place to complement the existing risk-return portfolio review process. The ESG team leads each review meeting which is attended by IFI portfolio managers, credit research analysts and the fixed income risk team. The scope of the review meeting covers portfolios with ESG objectives and also portfolios without explicit ESG objectives. Portfolios are reviewed in terms of alignment with Net Zero commitment and pathway, issuer level ESG exposures, carbon data, highest carbon emitters and UN Global Compact compliance.

As a key component of our approach to Net Zero, Invesco has committed to ongoing and regular reporting of Net Zero progress and related outcomes. The frequency of this report is intended to be annual and will include an aggregated view of our committed assets and the relevant indicators, including Net Zero related engagement activity. This report will be compiled using the Invesco Net Zero framework. Additional reporting may be undertaken at the strategy level but that is still to be determined.

Other key ESG elements reflected in the Funds

In addition to considering the net-zero profile, exposure to climate solutions and the credit fundamentals of each issuer, the investment team also follows a comprehensive ESG framework to guide the bond selection process.

Additional elements to the Funds' ESG framework that will be reflected through the portfolio construction process are;

1. **Sector exclusions**
   Systemically excluding sectors and business activities that are inconsistent with the sustainability or socially responsible objectives.
2. **Good governance assessment**
   Issues are assessed on a range of good governance principles which may vary, for example due to differing business profiles or operating jurisdictions. The Investment Manager assesses issuers for good governance practices using both qualitative and quantitative measures, with appropriate action taken where material concerns around governance exist.

Exclusion criteria and negative criteria can be used to eliminate issuers that fail to meet certain ESG criteria, while positive criteria can be used to identify companies which are particularly characterised by sustainable economic development, positive products or processes.

By applying these criteria, companies, sectors or countries are excluded from the investment universe which fail to fulfil certain ESG criteria or that violate international norms and standards according to the definitions of the International Labour Organisation (ILO), the OECD or the United Nations.

These elements are described in more detail below.

Sector Exclusions

The Funds will employ screening to exclude issuers that do not meet the Funds' criteria on a range of other environmental and social metrics, including but not limited to some principal adverse impacts and the level of involvement in those activities. In this context, the Funds use the following exclusion criteria, which may evolve over time:

Controversial Activities	Measure	Excluded If
UN Global Compact	Overall Global Compact Compliance	Assessed as being Not Compliant with any principle
Coal	Thermal Coal Extraction	>=5% of revenue
	Thermal Coal Power Generation	>=10% of revenue
Unconventional Oil & Gas extraction	Revenues from 1) Arctic oil & gas extraction, 2) Oil sands extraction, 3) Shale energy extraction	>5% of revenue on each component
Weapons	Revenue from illegal & controversial weapons (anti-personnel mines, cluster munition, depleted uranium, biological/chemical weapons etc.)	>0% of revenue

Other key ESG elements reflected in the Funds

Additional sectorial exclusions are applied at the Funds level which may evolve over time:

Weapons	Military Contracting Weapons	>=5% of revenue
	Military Contracting Weapons related products and services	>=5% of revenue
	Small Arms Civilian customers (Assault Weapons)	>=5% of revenue
	Small Arms Military / Law Enforcement	>=5% of revenue
	Small Arms Key Components	>=5% of revenue
	Small Arms Retail/Distribution	>=5% of revenue
	Companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty (NPT)	>=0% of revenue
Tobacco	Tobacco products production	>=5% of revenue
	Tobacco Products Related Products/Services	>=5% of revenue
Gambling	Gambling Operations	>=10% of revenue
	Gambling Specialised Equipment	>=10% of revenue
	Gambling Supporting Products/Services	>=10% of revenue
Adult Entertainment	Adult Entertainment Production	>=10% of revenue
	Adult Entertainment Distribution	>=10% of revenue
Cannabis	Revenues from the production of or sales of recreational cannabis products	>=5% of revenue

Good governance assessment

The Funds' investment approach will seek to avoid issuers with governance structures and standards that are assessed by our credit analysts as not meeting acceptable minimum standards. Our assessments examine whether features consistent with sound governance practices are present such as independent boards, diversity in board composition and tenure and comprehensive safeguarding policies on employee relations, operational practices, business ethics and relationships with other key stakeholders such as local communities. Governance assessments are also embedded in the Funds' net zero assessment framework, particularly with respect to setting corporate decarbonisation strategy, lobbying and oversight of climate planning and executive remuneration targets.

Other key ESG elements reflected in the Funds

Additional policy considerations

Cash management
Cash or cash equivalent positions in the Funds will be held for technical reasons such as providing liquidity to the Funds' investors. Money market funds will be held by the Funds as they represent the most efficient vehicle for meeting the liquidity needs of investors. However, meeting the broader net zero policy of the Funds is not possible through money market funds currently available and therefore, investors should note that a technical exception to this policy for liquidity exposures will apply.

For the avoidance of doubt, where the Funds invest in short-dated instruments issued by individual issuers (for example, bank term deposits) as part of the active investment strategy rather than liquidity position, each issuer will meet the policy outlined above.

Derivatives
The portfolio managers will use derivatives in the Funds for hedging, efficient portfolio management (EPM) and investment position-taking. Derivatives for investment purposes will meet the Funds' Net Zero and ESG criteria, while, in the absence of qualified instruments in the market, derivatives for hedging and efficient portfolio management may not always be wholly aligned with these criteria.

Sovereign debt
The Funds' exposure to Government debt will be ancillary in nature and will be used to manage Funds duration and liquidity at the overall Funds level. As primarily corporate bond funds, the Investment Manager does not apply specific exclusion criteria to Government debt.

Other Collective Investment Schemes
The Fund may hold ETFs or other collective investment schemes as a means to help manage credit liquidity within the portfolio. To the extent that the fund holds such positions it is unlikely that the ESG framework of such collective investment schemes will be aligned with the NetZero framework applied by the Funds. However, to the extent that such collective investment schemes are held, the investment manager will ensure that such funds are compliant with a minimum of Article 8 of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

Appendix

How ESG is integrated into the credit investment process a Invesco Fixed Income

ESG overview
IFI's investment approach emphasises proprietary research and focuses on fundamental valuation to support the active management of our clients' portfolios. ESG integration is strongly consistent with this investment focus. IFI has chosen to integrate ESG analysis into its investment process because it believes that investment risk management is improved by evaluating issuers in a structured manner across these additional dimensions and ultimately, risk-adjusted returns can be enhanced for all clients. ESG integration can also enhance returns through the identification of sustainability-linked opportunities.

Developing an independent, proprietary view on each issuer's performance across environmental, social and governance factors is the core objective of IFI's approach. **IFI seeks to provide an ESG Grade for most of its invested holdings with critical mass coverage of relevant client benchmarks (more than 70% of market value).** To this end, IFI seeks to deliver on this mandate through investments in its platform, processes and people.

The fixed income landscape is wide and varied. It encompasses securities issued by countries, companies, securitised debt, loans undertaken by private companies and many other forms of assets. Geographical, structural and regulatory differences mean that data availability, ESG awareness and management engagement levels are highly diverse. As a result, while our underlying approach to ESG remains constant, the path to arriving at an ESG-based assessment necessarily differs to account for the constraints and challenges of a particular asset class. Our approach follows a structured framework where quantitative measures are just one input used by analysts to arrive at a qualitative assessment of where each issuer stands relative to its global sector peers.

ESG Infrastructure
We have developed a fully integrated solution for ESG information, which enables our portfolio managers to be ESG aware, with the ability to optimise as required. This has been achieved by connecting the ESG data stored in our research database with our portfolio management system so that PMs can view the ESG metrics as part of their primary workflow in evaluating portfolio risk and constructing trades. This is a combination of IFI proprietary ESG scores and those of recognised ESG rating providers.

Common Principles for ESG Research
Our approach to ESG is rooted in a belief that evaluating environmental, social and governance criteria leads to better long-term risk-adjusted returns. With this in mind, we look for a combination of **materiality** and **momentum**.

- **Materiality** means being clear about the ESG considerations that have the potential to impact most significantly on an issuer's ability to meet its debt obligations. In keeping with Invesco's overarching approach to responsible investing, we integrate ESG into our fundamental research processes. This benefits our clients by providing an independent assessment of each investment's suitability for strategies, thus complementing ratings from third-party providers or expanding the investable universe for issuers that lack external coverage. In addition, our global standards for research and investment decision-making allow for ESG considerations to be applied across asset classes, thereby enhancing comparability for multisector fixed income portfolios.
- **Momentum** means using our expert analysis to determine which issuers are outpacing their peers in making progress around ESG considerations. We believe that a link may exist between positive momentum in ESG characteristics and improving creditworthiness, which is advantageous for fixed income prices. Importantly, we encourage momentum by engaging with issuers. We work with Invesco's Global ESG team and other experts to engage with issuer management and provide our views on matters such as corporate strategy, transparency, capital allocation and ESG concerns. Again, reflecting Invesco's overall approach, we see active ownership as a vital element of our fiduciary responsibilities.

Appendix

ESG Grades
IFI uses a common ESG Grade approach across public fixed income markets in order to ensure clear communication of each issuer's ESG status.

These ratings are typically a function of scores across the three pillars of environmental, social and governance factors. Pillar scores are structured on a 1–5 scale:

1. Leading on most areas
2. Among sector leaders on some areas with stable/improving trend
3. At global sector norms with stable trend or balanced risk factors
4. Among sector laggards on some areas with stable/weakening trend
5. Lagging on most areas

For our proprietary ESG Grade, the scale definition is as follows:

A. All pillar scores above the sector median

B. Majority of pillar scores above the sector median

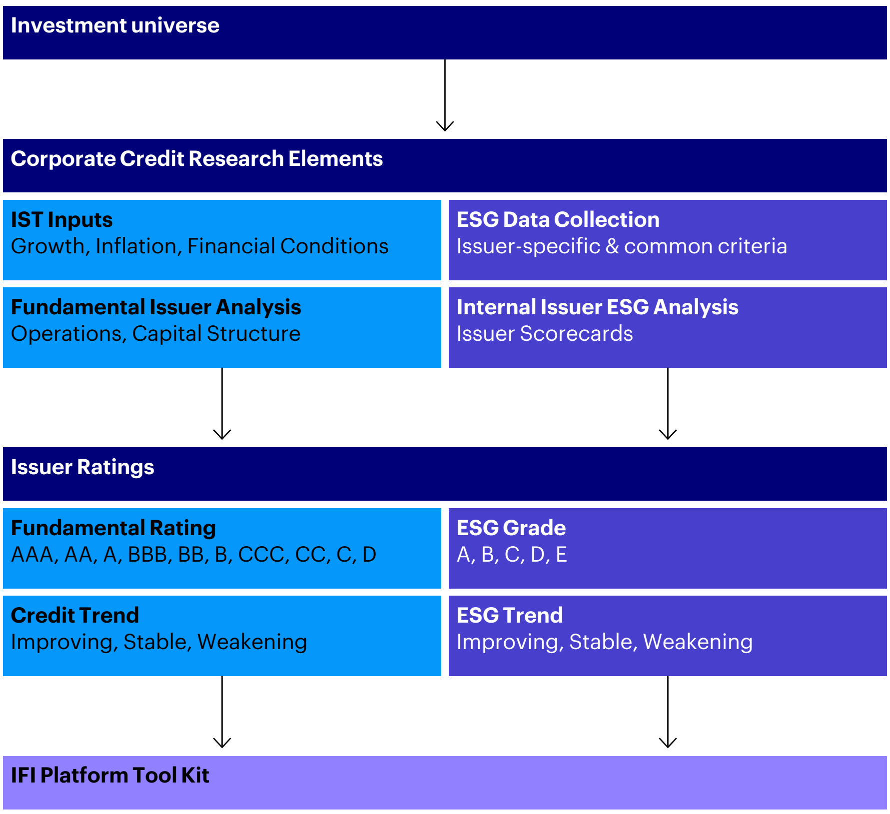
C. Balanced pillar scores around the sector median

D. Majority of pillar scores below the sector median

E. All pillar scores below the sector median

ESG Analysis for Corporate Bonds
IFI's credit analysts are responsible for evaluating the ESG drivers for the companies that they cover and conducting ESG-based analysis alongside their fundamental financial analysis and as part of their investment recommendation process. Each credit analyst is tasked with publishing an overall ESG Grade for issuers under their coverage. Issuers are scored at environmental, social and governance pillar level which support an overall trend and grade assessment. Oversight is provided through the construct of our Global Corporate Research team with industry sector teams assessing appropriate material risk factors to provide a reference framework. Our analysts are focused on identifying risk factors that could be financially material – these may be common to all industry participants or unique to a specific issuer.

Overview of ESG Grade elements for corporate bonds
The starting point for ESG assessment is at the industry level. Our Global Sector teams set out common ESG risk factors for each industry, and individual analysts work within this framework on each issuer in their coverage area while also seeking to identify any idiosyncratic ESG risks to which individual issuers might be exposed.



Appendix

By integrating the assessment of different risk factors across the ESG spectrum into our fundamental research process, our primary goal is to be able to identify ESG risks that may have a potentially material impact on an issuer's ability to service its debt in the future. The ESG process for corporate credit is initially structured at the sector level with each IFI global credit sector team establishing key risk factors under the environmental, social and governance pillars – see financials example above. This provides a common framework for assessing all issuers across our research coverage universe.

We use third-party research and data to provide broad market context and transparency on ESG issues for analysts. Our research platform collates multiple sources (examples listed below) to present IFI analysts with a comprehensive dashboard of information, which forms a baseline for the proprietary ESG assessment ultimately.

Examples of data sources incorporated:

- MSCI E, S & G Scores, Industry percentiles and weights
- Sustainalytics Risk scores and category summary data
- Global Compact compliance or violation fields (MSCI and Sustainalytics)
- ISS Climate Solutions – Scope 1 to 3 emissions and science-based emission targets
- Controversies – MSCI & Sustainalytics data feeds

At the issuer level, data availability, disclosure rules and management engagement levels can vary dramatically across each global sector. When placed alongside the fact that issuers themselves have unique features in terms of business models, the weighting of ESG factors in each issuer assessment must be approached with specialist insight. In our research process, the qualitative judgment of the credit analyst is central to determining whether an ESG factor is evolving in a manner that may compromise an issuer's financial indicators and ultimately, its creditworthiness.

ESG analysis output
For each issuer, there are three outputs from the ESG assessment carried out by the credit analyst.

1. **ESG Pillar Scores**
   Pillar scores are structured on a 1 to 5 scale. Issuers which lead on most factors within a pillar and have improving momentum on those factors are assigned a 1 score. By contrast, the worst performing issuers receive a 5 score reflecting lagging performance across the majority of factors.
2. **Overall ESG Grade**
   Ratings are expressed on an A to E letter scale. A rated issuers typically will have all pillar scores above their sector median.
3. **ESG Trend Assessment**
   Assessed as "Improving", "Stable" or "Weakening" within a forward-looking rolling 12-18 month time horizon.

These outputs are also accompanied by a qualitative ESG assessment written by the analyst, which outlines notable elements contributing to the pillar scores, overall ESG grade and trend assessment. ESG Grades for each issuer are published alongside credit fundamental ratings and security recommendations on Invesco Fixed Income's global research platform.

Appendix

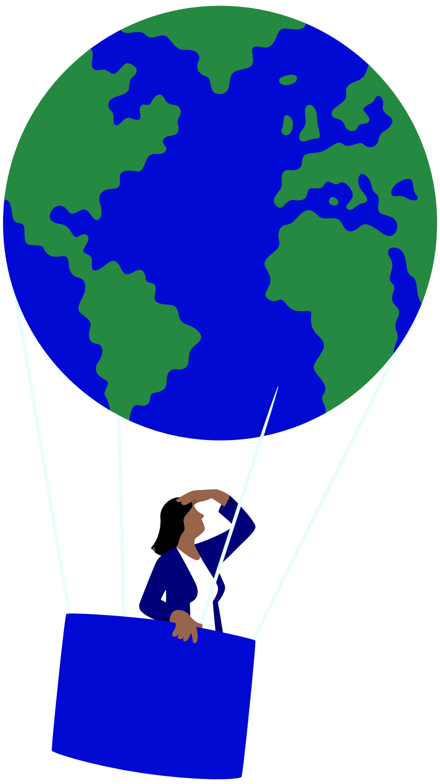
Assessing Sustainability, Social and Green Bonds
Sustainability-linked, Social and Green Bonds will be an integral part of the issue selection process for the Funds. Bonds may be held to gain exposure to specific issuers as part of a strategic theme implemented across the Funds. For the avoidance of doubt, the thematic investment approach for the Funds will include sustainability-linked themes at times.

As sustainability, social and green bonds have seen increased issuance as well as interest from clients, Invesco has developed its own specialized templates to aid in analysing bonds in these categories. This facilitates dynamic assessments of primary issuance to take place and timely decision-making on whether to participate for client accounts.

An overview of the assessment process for these bonds is provided below.

Philosophy	Criteria for Green/Social	Criteria for SLBs	Overall evaluation summary	Review
We assess sustainable bonds against ICMA criteria. We use the UN SDGs to define what can be considered 'green', 'social' and 'sustainable'.	Use of proceeds: Score 0 – 4	Mapping of KPIs to UN SDGs: Score 0 – 4	Total 8 – 10: Maximum alignment	Ongoing assessment to ensure proceeds have been spent in line with proposal at time of issuance and/or KPIs are on track.
	Management of proceeds: Score 0 – 2	Difficulty of achievement: Score 0 – 2	Total 4 – 7: Sufficient alignment	
	Reporting: Score 0 – 2	Financial penalty for failure: Score 0 – 2	Total 0 – 3: Minimum alignment	
	External verification: Score 0 – 2	External verification & reporting: Score 0 – 2		

After completing the assessment, IFI analysts input these scores into our investment research platform to provide portfolio managers with guidance as to the alignment of sustainability bonds at the time of issue. We audit compliance for owned bonds on an annual basis.



Fund Facts

Invesco Net Zero Global Buy and Maintain Credit 2020-2035 Fund
Invesco Net Zero Global Buy and Maintain Credit 2030-2050 Fund

Investment Centre	Invesco Asset Management Limited – Invesco Fixed Income
Fund Manager	Luke Greenwood, Lyndon Man, Matthew Henly & Michael Booth
Vehicle Type	FCP-RAIF
Domicile Country	Luxembourg
Launch Date	3rd August 2020
Fund size	Invesco Net Zero Global Buy and Maintain Credit 2020- 2035 Fund: £79.37m Invesco Net Zero Global Buy and Maintain Credit 2030-2050 Fund: £102.95m

Invesco as at 31 March 2022