

Responsible Investment Policy

Invesco Sustainable Pan European
Structured Equity Fund

April 2021



Executive Summary

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The Invesco Sustainable Pan European Structured Equity Fund (the fund) follows an ESG integrated multi-factor Low Volatility strategy. While strict ESG filters are applied, the investment team aims at earning factor premiums, using their proven multi-factor investment approach which considers Momentum, Quality and Value. Furthermore, the team's low volatility optimization targets to achieve reduced volatility compared to a market cap weighted benchmark, the MSCI Europe. The fund invests in European listed equities. The consideration of sustainability criteria is an integral part of every step of our investment process.

The investment process of the fund is based on three building blocks: ESG Policy, Security Selection and Proxy Voting and Engagement.

01

ESG Approach

- Using integrated ESG screening combined with additional ESG criteria
- Implement ESG criteria using the EIRIS Portfolio Manager

02

Security Selection

- Multi-factor low volatility selection process focused on equities using a proprietary multi-factor investment approach which exploits premiums using proprietary factor definitions for Momentum, Quality and Value

03

Proxy Voting & Engagement

- Voting in line with a dedicated proxy voting policy promoting ESG themes
- Entering into an active dialogue with companies that have weaknesses in the field of ESG

Combination of appealing characteristics

- Implementing holistic **ESG criteria** in investment process
- Extra return potential from **Multi-Factor Model**
- **Low volatility objective** for more stable return pattern
- Achieving **measurable improvement** of ESG characteristics



Holistic ESG consideration in the investment process

Invesco Quantitative Strategies (IQS) follows a fully integrated ESG (environmental, social, governance) investment process which is built on a longstanding experience in customized ESG solutions, active engagement with companies and the Invesco proxy voting approach.

The team considers explicit and implicit key ESG aspects in their multi factor optimization process on a single stock, portfolio, and risk management level.

Besides incorporating proprietary aspects of governance within the Quality factor, all portfolios implement a dedicated ESG exposure control during portfolio construction and an adverse ESG momentum measure to restrict companies which face weak ESG scores and significant ESG downgrades, respectively.

Beyond a broad-based integration across all portfolios, a carbon control can be applied during portfolio construction to obtain a better overall carbon footprint in comparison to an underlying benchmark or investment universe.

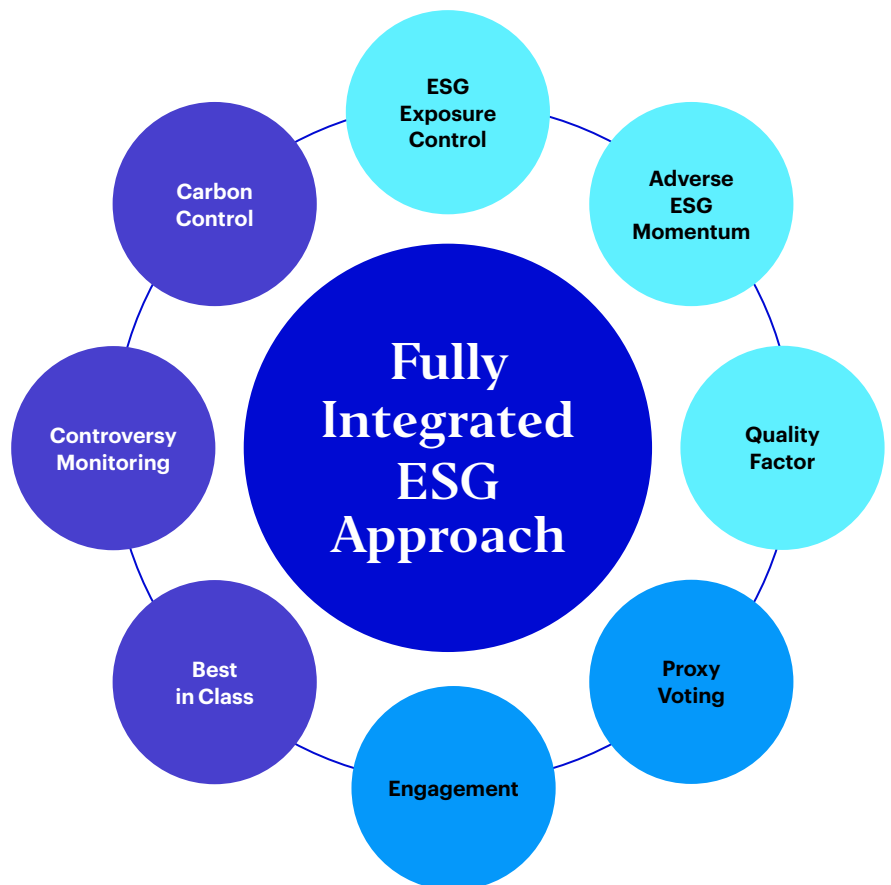
Additional customized ESG criteria in form of best-in-class and controversy monitoring can be implemented to meet client specific ESG requirements, as well as internationally recognized norms, conventions and renowned ESG quality labels.

Holistic ESG consideration in our investment process

Integrating key aspects of ESG

We consider ESG at several layers in our investment process:

- Standardized explicit and implicit incorporation of ESG key aspects into our investment process
- Active dialog with companies and investor-driven proxy voting using Invesco's proprietary Proxy Voting Platform
- Offering optionality to implement additional, customized ESG criteria



Source: Invesco. For illustrative purposes only.

Holistic ESG consideration in the investment process

The IQS team's investment process is built on the factors Momentum, Quality and Valuation, which can explain the long-term risk and return characteristics of equities. The team has identified that some signals within the Quality factor show positive correlation to governance factors. The calculation of these Quality signals is part of the daily factor score production and the multi-factor investment process. These Quality signals prefer companies with a high balance sheet quality which, for example, buy back shares and do not show disproportionate balance sheet growth. Governance factors also prefer companies in which management acts in the interests of shareholders and does not pursue unprofitable business projects.

Besides the implicit integration via the Quality factor, the team also explicitly uses its measures Adverse ESG Momentum and ESG Exposure Control. The team uses these measures to manage the risks which are associated with weakly scoring companies or portfolios.

For the Adverse ESG Momentum, the investment universe is daily screened for significant ESG downgrades. The team's research has shown that companies that experienced severe downgrades tend to underperform their peers in the following months. Therefore, the investment in companies which suffered severe downgrades would be restricted.

Additionally, the team uses the ESG Exposure Control. During the regular rebalancing the ESG exposure of the equity portfolio is managed against the exposure of the fund's equity benchmark, hence the MSCI Europe. The team targets an exposure that is approximately at or above benchmark level. The key point is guarding against a risk that historically has been small but is expected to be material in the future.

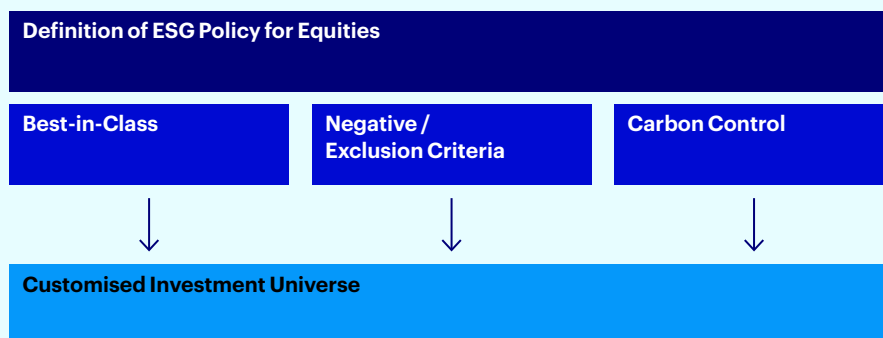
Customised ESG

In addition to the standard ESG integration, IQS implements further individual ESG requirements in numerous respects:

ESG screening for equities

Environmental, social and governance focus

- Flexible use through an individual definition of over 250 ESG criteria
- Global universe of over 6,000 companies



Source: Invesco. For illustrative purposes only.



The team's research has shown that companies that experienced severe downgrades tend to underperform their peers in the following months

Positive criteria: By applying positive criteria, companies are identified that display excellence in sustainable management and sustainable products or processes. They fulfil ecological and social requirements particularly well, ranging from climate efficiency and low water consumption to labour safety and satisfaction.

Exclusion and negative criteria: 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.

Using the Datalab provided by Vigeo Eiris, the investment team is able to define a set of ESG criteria. Exclusion criteria and negative criteria can be used to eliminate companies that fail to meet certain ESG criteria, with positive criteria, companies can be identified, which are particularly characterised by sustainable economic development, positive products or processes.

With the integrated best-in-class approach companies are selected the investment team focuses on better performing companies in their sector with respect to the company's ability to transition into a low carbon economy.

Holistic ESG consideration in the investment process

The Invesco Sustainable Pan European Structured Equity Fund uses the following exclusion criteria:

	Controversial Activities	Excluded if
Coal	Turnover derived from thermal coal mining	>=10%
	Turnover derived from burning coal for power generation	>=10%
	Proportion in electricity generation fuel mix from coal	>=10%
Unconventional oil & gas	Revenues that comes from projects or the extraction of tar sands and oil shale, as well as the proportion of reserves in tar sands or oil shale	0%
	Involvement in fracking activities	Yes
	Involvement in arctic drilling activities	Yes
Fossil fuel industry	Revenues are derived from fossil fuel industries	>=10%
Environmental strategy	Company's commitment to define clear objectives and appropriate measures to ensure management of the environmental impacts of products and services	insufficient environmental strategy
Chemicals of concern	Production of restricted chemicals	0%
Bio-diversity	Controversies in the field of endangering biodiversity	Yes
Pollution	Controversies in the field of preventing and managing of accidental pollution or soil pollution	Yes
Community involvement	Controversies in the field of community involvement (including e.g. impact of operations on the local economy, responsible tax strategy, transfer of technology and skills)	Yes
Nuclear power	Turnover from nuclear power	>=5%
	Proportion in electricity generation fuel mix from nuclear power	>=5%
Civilian Firearms	Manufacture or sale of civilian firearms or related products	>=10%
	Manufacture of civilian firearms or related products	>=5%
Military	Sales that are related to military sales including key parts or services for conventional weapons	>= 5%
	Controversial weapons & financing of cluster munition or anti-personnel landmines	0%
Tobacco	Turnover from production and distribution	>=10%
	Turnover from production	>=5%
UN Global Compact	Fail to pass the global compact screening	Yes

Holistic ESG consideration in the investment process



it is expected that the size of the investment universe of the Fund will be reduced by about

30 to 40%

in terms of number of issuers

For the best-in-class approach the Invesco Quantitative Strategies Team uses the Energy Transition score from Vigeo Eiris. The score seeks to inform on a company's strategic approach to reducing their emissions and top adopt their business model to address the risks and opportunities tied to the transition to a low carbon economy. During the construction of the portfolio, the fund aims to reduce the aggregated Scope 1 and 2 greenhouse gas emission intensity by at least 30% compared to the market cap weighted benchmark.

As a result of these ESG guidelines for screening, it is expected that the size of the investment universe of the Fund will be reduced by about 30 to 40% in terms of number of issuers.

Derivatives, which are utilized to gain exposure to capital markets have to fulfil the ESG criteria on a constituent's level. This includes derivatives used for efficient portfolio management.

Proxy Voting

Invesco's Proxy Voting approach is governed by the Global Proxy Voting Policy¹, which is premised on respecting the fund manager's freedom to vote in what they believe is the best interests of the investors in the relevant fund or portfolio in order to achieve positive outcomes for clients.

To this effect, Invesco maintains a proprietary global proxy administration platform, known as the "fund manager portal". The platform streamlines the proxy voting and ballot reconciliation processes, as well as related functions, such as share blocking and managing conflicts of interest issuers. This enables fund managers to vote in an efficient manner, increase transparency, share knowledge and effectively influence corporate practices and behaviours.



Source: Invesco. For illustrative purposes only.

IQS adopts and applies a dedicated ESG voting policy across managed funds, portfolios and mandates. Besides the support of shareholder proposals through Invesco's proprietary Fund Manager Portal, specific voting decisions on the following ESG topics are taken if applicable:

- Gender Pay Gap Proposals,
- Political contribution disclosure/political lobbying
- Disclosure/political activities and action data security
- Privacy and internet issues
- Report on Climate Change/climate change action and
- Gender Diversity on public boards.

Where none of the ESG topics listed above are affected, IQS will generally follow the voting decision taken by the biggest active equity holder ("Majority Voting") in the Invesco Group as this reflects the relationship and dialogue that active managers within the group have with investee companies. In this manner, we also seek to leverage the active-equity expertise and comprehensive proxy voting reviews conducted by teams employing active-equity strategies, which typically incorporate analysis of proxy issues as a core component of the investment process.

Where there is no active equity holder in the Invesco group, IQS will usually follow the ISS recommendation, subject to the engagement approach outlined above.

¹ <https://www.invesco.com/corporate/dam/jcr:472ccfeb-b3cc-411e-9996-afd238caa7ad/Invesco-Global-Proxy-Policy-Statement-June-2019.pdf>

Holistic ESG consideration in the investment process

Engagement

IQS enters regularly into dialogue with carefully selected target companies via the Global Engagement Service of Vigeo Eiris. The potential target companies are selected by IQS and a final selection of the companies to be engaged with is then agreed with Vigeo Eiris. In general, the team look to engage on topics related to the IQS Priority ESG Themes, which are Climate Change, Human Rights, Supply Chain Management, Water and Bribery/Corruption.

IQS selects investee companies which are at a size and stage making them likely to be influenceable. The objective is to identify weaknesses in the company's sustainability management and discuss these with management to enable the companies to achieve a better ESG performance in the medium to long term. Discussions can take place via telephone calls, personal meetings and written communication. Engagements are followed through over a period of years where necessary.

IQS' engagement priorities can be differentiated between the following two methods:

1. Theme-based engagement, which aims to encourage companies to expose and reduce systemic risks in areas such as bribery reporting; climate change; human rights management systems; supply chain labour policy and water scarcity.
2. Controversy-led engagement, which aims to prompt companies to observe internationally-recognised standards and conventions and correspondingly improve their company guidelines.

Engagement – direct dialogue with companies

Global Engagement Service

- Engagement with up to 30 companies a year
- Pooling of interest of different asset managers



Source: Invesco. For illustrative purposes only.

Vigeo Eiris undertakes a detailed assessment of the themes for each company that the IQS team has selected. This is based upon a long established and rigorous methodology and involves assessing the level of risk that a company is exposed to in any one area and then analysing how the company mitigates these risks.

IQS also leverages on the firm-level engagement and actively supports the Climate Action 100+ initiative.



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Investment Process

Investment universe

The investment universe comprises European equities that meet the defined sustainability criteria using exclusions as well as Best-in-Class criteria. Risk management is an integral part of each investment step.

The investment team relies on its factor-based selection model, which seeks to capture the factors of Quality, Momentum and Valuation. In addition, the IQS team implements specific ESG criteria. Following in-depth factor research, IQS uses proprietary factor definitions that are expected to deliver results in excess of standard factor definitions.

In the first step, the whole investable European stocks universe (around 1,000 European mid-large cap stocks) is screened for ESG criteria to define the eligible ESG universe. The eligible number of stocks of the ESG universe varies depending on the ESG criteria. At this stage the adverse ESG momentum is applied, which leads to exclusion of companies which face severe downgrades in their ESG score. Afterwards the stocks are ranked according to each stock's attractiveness with respect to the above-mentioned factors. To achieve comparability, these rankings are done within industry groups within regions, i.e. on an industry-neutral basis by region.

In step two, these factor rankings are weighted in order to obtain an overall multi-factor measure of a stock's attractiveness, a weighted multi-factor score. The weightings of the factors are determined with a view through the cycle, i.e. with the intention to establish highly attractive long-term risk-adjusted return expectations. This overall multi-factor attractiveness score is based on stock characteristics that have historically proven to differentiate successful from unsuccessful stocks, it is a measure of a stock's relative attractiveness within its regional peer group.

Step three determines a corresponding risk forecast for each stock in the universe by using a proprietary risk model that uses the same multi-factor building blocks as the return forecasting in order to assure alignment of return and risk view.

Step four constructs a Low Volatility tilted anchor portfolio. This portfolio is constructed using an optimization approach by reducing the ex-ante volatility of the portfolio. The ESG criteria as well as the greenhouse gas intensity reduction targets are incorporated in this step.

In the final step, the portfolio construction/optimisation establishes factor weightings aiming at high sensitivities of the overall portfolio with respect to the factors applied while rigorously managing risks and neutralising non-rewarded risks. This explicitly includes consideration of transaction costs.

Factors Balanced, time-tested	Momentum		Quality	Value
	Earnings Momentum	Price Momentum		
Proprietary signals Quantifiable, predictive, complementary	<ul style="list-style-type: none"> Earnings momentum Earnings/sales revisions Revisions against trend Cash flow surprise 	<ul style="list-style-type: none"> Specific momentum Risk-adjusted momentum Event momentum Short interest 	<ul style="list-style-type: none"> Net external financing Net asset growth Profitability & operating efficiency Fundamental health Accounting integrity 	<ul style="list-style-type: none"> Cash flow yield Gross profit yield Earnings yield Book yield Dividend yield

Source: Invesco, as of 30 September 2019. For illustrative purposes only. Not all signals are used in all regions and sub-models. Signals often have subcomponents. Additional signals are used in specific sub-models and definitions may vary across regions.

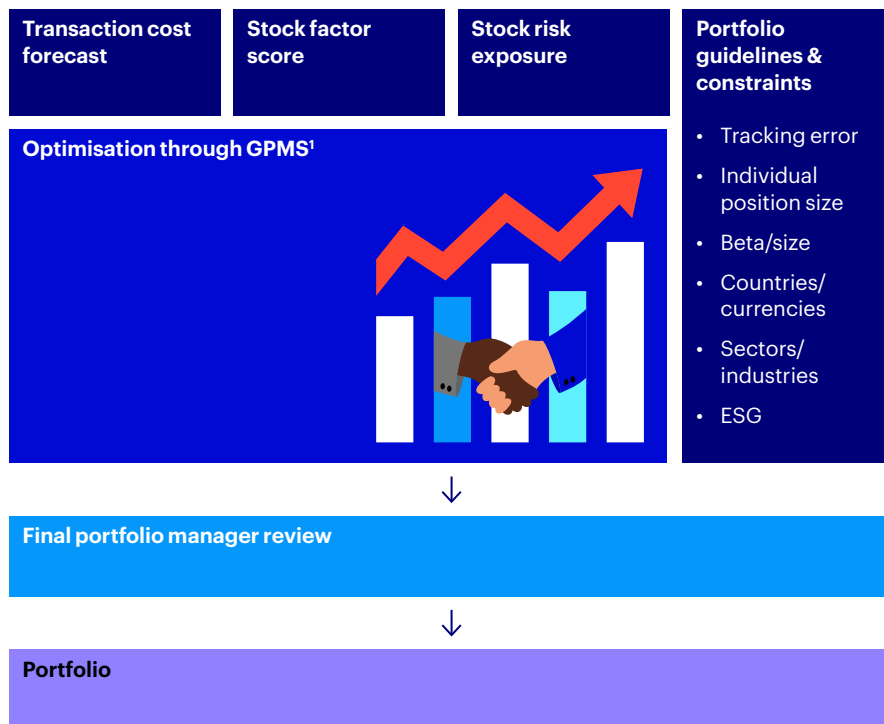
Investment Process

The resulting ESG equity portfolio will establish broadly diversified factor exposures towards stock characteristics we like, seeking to capture the long-term positive premiums of these factors deemed rewarding while reducing volatility compared to a capitalisation weighted index.

Finally, before the portfolio is implemented a member of the IQS Portfolio Management team manually checks the optimisation results and the suggested trades for data consistency. The portfolio manager

does not have a discretionary right to overrule the optimisation results. However if the portfolio manager finds data inconsistencies for a stock, e.g. due to a last-minute profit warning, the IQS team has defined procedure how to deal with a stock in such a case. After the correction of the data, the optimisation is run again to reflect all important information. Subsequently to the sign off of the optimisation result, the portfolio adjustments will be implemented into the portfolio.

How we build the optimal equity portfolio



Source: Invesco. For illustrative purposes only. ¹ Global Portfolio Management System.

Fund Facts

Invesco Sustainable Pan European Structured Equity Fund

Investment Centre	Invesco Quantitative Strategies
Fund Manager	Alexander Uhlmann Thorsten Paarmann, CFA
Contracted Vehicle Type	SICAV
Domicile Country	Luxembourg
SICAV Launch Date	06/11/2000
Repositioned Date	08/04/2021
Fund Volume	USD 1.96bn

Source: Invesco as at 31 March 2021.

