

Responsible Investment Policy

Invesco Fixed Income

Invesco Sustainable Global High Income Fund

April 2022



Executive Summary

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The Invesco Sustainable Global High Income Fund (the fund) applies a rigorous Environmental, Social and Governance (ESG) framework to guide its active investments. Its ESG approach combines sector exclusions, carbon emission consideration and the selection of issuers with stronger ESG characteristics compared to their sector peers.

The fund is comprehensively supported by Invesco's global ESG resources and infrastructure. Proprietary ESG Grades are an integral part of the fundamental credit research process helping to ensure that the portfolio's progressive investment mandate is delivered. Coordination on engagement topics and oversight are provided by Invesco's Global ESG team (the ESG team)



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

ESG overview

The Invesco Fixed Income (IFI) team'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. 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.

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

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 the 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.

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

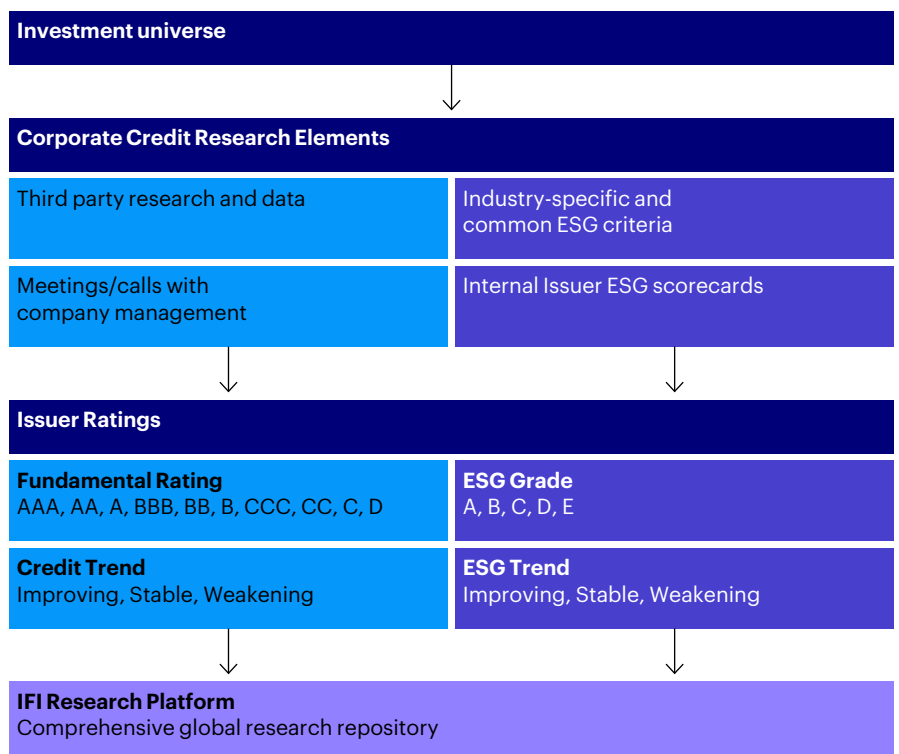
How ESG is integrated into the credit investment process at Invesco Fixed Income

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.



Example: Standard IFI material risk factors for Financials
(if applicable, IFI Standard % limit will apply)

Risk factor	Evaluation	Metrics identified
Environmental		
Environmental commitment	Evaluating a financial company's awareness of the environmental impacts of their business can expose critical environmental and governance risks. From a policy perspective, we like to see companies involved in and become signatories to global efforts and standards. From an operating perspective, we observe lending exposure to projects deemed detrimental to the environment. Positive results here would be expected to reduce earnings volatility and benefiting the environment.	<ul style="list-style-type: none"> • Signatory to UN Principles • Signatory to Equator Principles • Signatory to UN Global Compact
Social		
Human capital management	We believe that evaluating how financial companies attract and develop their human capital can expose critical social and governance risks. We prefer companies to have policies that empower employees to speak out against wrongdoings of employees/management. Diversity in management results from successful human capital development. Such policies are likely to result in lower employee turnover, which can lead to improving and less volatile financial performance.	<ul style="list-style-type: none"> • Employee Turnover Percentage • Percentage of Women in Management • Employee Protection Whistle Blower Policy
Privacy and data security	Reviewing a company's privacy and data security policies and procedures can expose critical social and governance risks. We seek to understand a company's track record with data breaches, associated costs and resulting management response. Companies should have strong policies and procedures with respect to data security and privacy, which can lead to a reduction in earnings volatility and improved social outcomes.	<ul style="list-style-type: none"> • Data Breaches and policy/actions to address • Cybersecurity policy/actions
Governance		
Business ethics	We believe reviewing a company's business ethics policies and history can expose critical social and governance risks. We seek to understand a company's value system and its visibility to employees. We also seek to review historical shortcomings and management responses to these situations. Improving business ethics can lead to better governance outcomes and lower earnings volatility.	<ul style="list-style-type: none"> • Fraud Prevention • Whistle Blower hotline usage
Board Engagement	Reviewing the composition and activity of corporate boards can expose critical social and governance risks. We seek to understand how board diversity has evolved and what plans and policies exist to ensure diversity of thought. In addition, we review the independence and activity of the board and ensure proper committee structures exist to guide best practices.	<ul style="list-style-type: none"> • Board Meeting Frequency • Percentage of Independent Board Members • Percentage of Women on Board

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.

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

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.

While disclosure levels vary greatly by the company due to sector, size and regional factors, these data dashboards can provide a comprehensive picture of each issuer's performance.

Our process also captures data on each issuer's published policies, which can further inform the engagement process and facilitate screening during the investment management process where clients operate with a positive screening on specific policies that are reflective of their sustainability goals.

Engagement with issuers

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 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 for all Invesco investors to access.

Invesco is also part of several organisations that facilitate collective dialogue with companies and continues to assess other collective engagements that we would like to be more actively involved in the future:

- We have signed up to Climate Action 100+ and are taking a leading investor role on one company and are taking a participative role at a number (at least 6) of other companies since 2020
- We joined the Investor Tailings Initiative when it was first launched in 2019. We signed the letters sent to over 600 companies and actively participated in meetings with companies and governments to ensure the development of higher standards and to evolve the tools to assess companies.
- Invesco signed the Investor statement on Covid-19, to encourage the business community to take what steps they can to mitigate the social impacts caused by the pandemic. Some of these steps include providing paid leave, prioritizing health and safety, maintaining employment and maintaining supplier relationships. We have been engaging companies on these topics as part of our ongoing 1-1 ESG engagements.

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

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 IFI's global research platform.

ESG implementation in portfolio management

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. Ratings and 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 issuer level ESG exposures, carbon data, highest carbon emitters and UN Global Compact compliance.

Key ESG elements reflected in the Invesco Sustainable Global High Income Fund

The Invesco Sustainable Global High Income Fund actively invests in high yield corporate bonds worldwide. Its investment approach blends top-down risk positioning and bottom-up fundamental research to deliver current income and capital appreciation over a full credit cycle. Diligent selection of issuers and their bonds drives the population of each theme within the portfolio. In addition to considering the credit fundamentals of each issuer, the investment team also follows a comprehensive ESG framework to guide the selection process.

There are three main elements to the ESG framework that will be reflected through the portfolio construction process.

1. **Sector exclusions**

Systemically excluding sectors and business activities that are inconsistent with the sustainability or socially responsible objectives.

2. **Positive issuer selection criteria**

Selecting issuers which are assessed as being better positioned than their global sector peers in terms of addressing environmental, social and governance issues.

3. **Carbon emission consideration**

Building and maintaining a portfolio with the objective of having a lower carbon intensity compared to the Bloomberg Barclays Global High Yield Corporate Index.

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.

These elements are described in more detail below.

Key ESG elements reflected in the Invesco Sustainable Global High Income Fund

Sector Exclusions

The fund will employ screening to exclude issuers that do not meet the fund's criteria on a range of other environmental and social metrics. In this context, the fund uses the following exclusion criteria, applicable to corporate credit, which may evolve over time:

Controversial Activities	Measure	Excluded If
UN Global Compact	Violations of the UN Global Compact principles	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: Arctic oil & gas exploration Shale energy extraction Oil sands 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
	Military Contracting Weapons	>=5% of revenue
	Military Contracting Weapons related products and services	>=5% of revenue
	Small Arms Civillian 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	>=0% of revenue
Tobacco	Tobacco products production	>=5% of revenue
	Tobacco Products Related products/services	>=5% of revenue
Cannabis	Revenues from the production of or sales of recreational cannabis products	>=-5% of revenue
Adult Entertainment	Adult entertainment production	>=10% of revenue
	Adult entertainment distribution	>=10% of revenue
Gambling	Gambling operations	>10% of revenue
	Gambling specialized equipment	>10% of revenue
	Gambling supporting products/services	>10% of revenue

Key ESG elements reflected in the Invesco Sustainable Global High Income Fund

Positive issuer selection criteria

Building on the sector exclusions and sector-specific criteria set for permitted sectors, the fund will pursue a progressive approach to issuer selection based on the proprietary ESG research carried out by IFI's global credit research team. This positive selection framework is designed to tilt the portfolio towards issuers that are rated by our research process as either at or above the standards of their global sector or are on improving trajectory across their ESG metrics.

The ESG status of all fund holdings will be continually monitored by the IFI portfolio management and credit research teams. If a holding has its IFI ESG rating downgraded, it will be reviewed to establish whether continued investment is merited and to set conditions, which if not met, would lead to an orderly disposal.

The fund will not systematically (structurally and permanently) contain issuer exposures that cannot be evaluated on their sustainability in any way either through our internal or any external methodology.

Corporate Credit

Issuer selection will focus on companies with a minimum ESG grade of C at time of purchase based on IFI research. Companies with any pillar score of 5 are also excluded. To capture opportunities from positive ESG momentum, a limited allocation to "ESG rising stars" or companies that are currently D graded with Improving trend assessments are permitted.

Sovereigns

The fund's approach to country selection is based on Invesco proprietary ESG research and recognises the need to balance investment in countries already exhibiting strong sustainability characteristics while also supporting investment in countries that are improving on ESG grounds. The fund's country selection framework, therefore, focuses on sovereign issuers that are rated by our research process as either (i) at or above the median standards of their global peers or (ii) are on improving trajectory across their ESG metrics that, if sustained, is likely to place it at or above its median peer.

Issuer selection will therefore focus on sovereigns with a minimum ESG grade of C at time of purchase based on IFI research. To capture opportunities from positive ESG momentum, a limited allocation to "ESG rising stars" or countries that are currently D graded with improving trend assessments are permitted.

Carbon emission consideration

Solving climate change requires us all to work together. As a responsible investor, we would like to take action to combat climate change and its impacts. Invesco Sustainable Global High Income Fund is intended to build a portfolio with overall lower carbon intensity compared to traditional global high yield credit bond investments without a sustainable framework, as measured by the Bloomberg Barclays Global High Yield Corporate Index.

The investment team will monitor the carbon emission data of the fund and review it on a quarterly basis. It is the investment team's intention to maintain the portfolio carbon intensity lower than that of the benchmark.

Key ESG elements reflected in the Invesco Sustainable Global High Income Fund

Additional ESG policy considerations

Cash management

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

For the avoidance of doubt, where the fund invests 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 ESG policy outlined above.

Derivatives

The portfolio managers will use derivatives in the fund for hedging, efficient portfolio management (EPM) and investment position-taking. Derivatives on indices and derivative counterparties will be exempt from the ESG criteria set out above. This includes instruments and counterparties used in the management of the portfolio's duration or yield curve positions, the hedging of non-base currency exposures, and the fund's overall credit risk as well as active investment exposures taken through derivatives. This is not an exhaustive list but the intention is to ensure that efficient management of the portfolio's risks as well as desired investment exposures can be delivered efficiently for investors using exchange-traded and OTC instruments. The investment manager will continue to monitor market developments on sustainability-aligned derivative instruments and will evaluate new instruments as they arise.

For the avoidance of doubt, where single name derivatives (i.e. derivatives with a single underlying issuer or asset) are employed the investment manager will carry out an assessment on the underlying assets to ensure that they are consistent with the ESG policy detailed above.

Overview of the investment process for the fund

The Invesco Sustainable Global High Income Fund’s philosophy is built on merging two disciplines: diligent security selection and systematic portfolio construction

We believe that high yield offers excess return potential but comes with asymmetric and idiosyncratic risk necessitating the heightened emphasis on downside risk which needs to be managed using a comprehensive approach.

In order to mitigate downside risks, we engage in diligent credit research focusing on securities where we believe there is intrinsic value with a margin of safety above the market value of debt. In addition, our credit research process also seeks to uncover catalysts for price appreciation. The result is a strategy that aims to capture the total return potential of high yield, with added alpha from proactive security selection.

The portfolio construction process is specifically designed to ensure that the selection process flows through to alpha transparently and secondly, we are able to control beta, capture macro beta opportunities and manage the risk profile according to client objectives. We seek to maximize transparency and intentionality in both macro and individual security selection positioning.



Diligent security selection

Primary focus on margin of safety, enhanced by continued search for catalyst-driven total return opportunities within the global credit realm



Systematic portfolio construction

Putting client objectives first, beta management and opportunistic macro-driven trades intended to enhance our security selection process

Competency	<ul style="list-style-type: none"> • Provide alpha through risk taking where we have expertise or an information advantage • Process and risk management provide core guardrails
Conviction	<ul style="list-style-type: none"> • Security selection as primary driver of performance • Governance and climate change are impactful contributors to credit performance • Transaction costs matter
Consistency	<ul style="list-style-type: none"> • Nimble and systematic approach allows us to capture market inefficiencies over time • Differentiated approach to valuations to capture asymmetric return profile of high yield bonds and avoidance of realized loss
Communication	<ul style="list-style-type: none"> • Culturally aligned to share our strong research capabilities across region, asset class and capital structure to maximize information advantages

Overview of the investment process for the fund

The process in detail

Our investment process is built around being intentional where the portfolio management team believes they have an informational edge.

The 3 key attributes that the team delineates in the investment process to manage risk and add alpha are:

1. Security selection

The Sustainable Global High Income Fund’s primary focus is security selection. Through diligent security selection we aim to provide excess return while managing credit and downside risk that comes from investing in below investment grade securities.

The security selection process involves 3 parts: Fundamental analysis, qualitative analysis and relative value. The output of these analyses come together and is synthesized into an Allocation Grade based on an A-E scale. The allocation grade reflects the sizing recommendation by the analyst. The grade informs portfolio managers in their decision making.

2. Beta management

Our second focus in the portfolio construction process is on beta management. We believe that a portfolio construction process solely focused on bottom-up security selection can easily result in inadvertent macroeconomic positioning. In order to address this, the portfolio construction process uses a risk framework that allows us to manage beta to meet strategy objectives and to allocate risk such that macro decisions are delineated from security selection alpha.

3. Thematic tilts

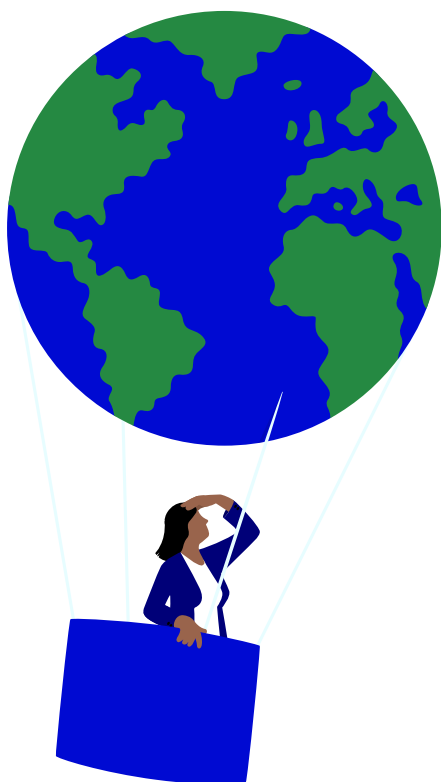
Our third area of focus in the portfolio management process is thematic investing. Rather than traditional sector, regional or ratings allocation, we employ a thematic approach to overall allocation.

This approach synthesizes the bottom-up views coming out of our credit research process with top-down views generated by the firm’s Investment Strategy process to capitalize on high conviction trends we believe will result in alpha opportunities.

Through security selection, beta modulation and thematic tilts we are able to construct a benchmark aware, diversified portfolio.

Trading & execution

IFI’s experienced traders provide market intelligence and execute trade ideas. Together with derivative specialists, these trading professionals help portfolio management teams determine the most efficient ways to implement views, and they provide valuable insights into the practicalities of execution and implementation.



Fund Facts

Invesco Sustainable Global High Income Fund

Investment Centre	Invesco Fixed Income
Fund Manager	Niklas Nordenfelt, Rahim Shad, Philip Susser
Vehicle Type	Invesco Funds, SICAV
Domicile Country	Luxembourg
Launch Date	8 October 2018
Repositioning Date	29 April 2022
Fund size	USD 235.4m

Source: Invesco as at 28 February 2022.