

# Responsible Investment Policy

**Invesco Quantitative Strategies**  
Invesco Sustainable Allocation Fund

March 2022



# Executive Summary

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The Invesco Sustainable Allocation Fund follows a multi-stage process which is purely systematic, rule-based and designed for the broadest possible collection of diversified risk premiums. The fund only invests in liquid assets, such as listed equities, government bonds and exchange traded futures. 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 approach, Asset Allocation and Security Selection.

01

## ESG Approach

- Determine the ESG policy for the equity and fixed income portion of the fund
- Implement ESG criteria for equities and bonds with Vigeo Eiris DataLab

02

## Asset Allocation

- Dynamic approach based on tactical models that have been actively used for more than 15 years
- Determine allocation for equities, bond duration and foreign currency exposures

03

## Portfolio Construction

- Quantitative selection process focused on equities using our multi-factor investment approach which exploits premia using proprietary factor definitions for Momentum, Quality and Value
- Bond selection consists of high-quality long-term government bonds and supranationals

# Holistic ESG consideration in the investment process

The Invesco Quantitative Strategies (IQS) team applies an integrated ESG (environmental, social, governance) investment approach and has been managing customized sustainable investment solutions for more than 30 years. With many years of experience, the team offers different approaches to integrate ESG criteria into the portfolio at different stages of the investment process across all asset classes.

The investment team follows an integrated ESG approach. The team takes ESG factors into account at several levels of their management process:

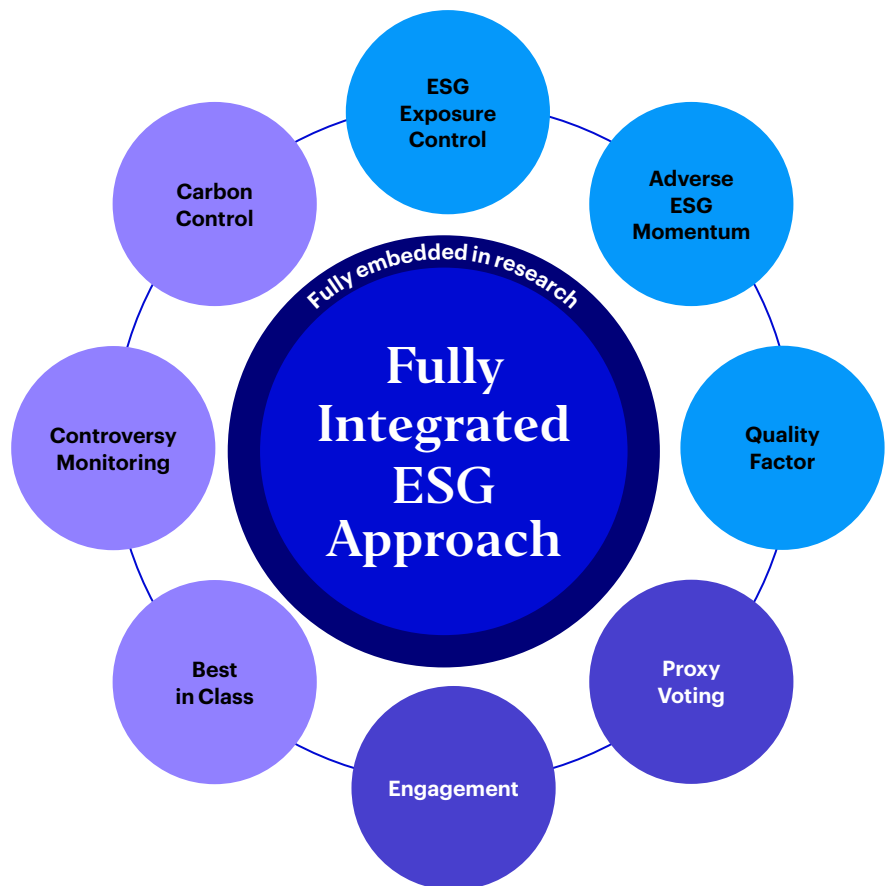
- Explicit and implicit consideration of key ESG aspects in the multi-factor optimization process
- Active dialogue with companies through engagement programs and investor-oriented proxy voting with Invesco's proprietary proxy voting platform
- Offering optionality to implement additional, customized ESG criteria

## 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
- ESG fully embedded in research processes and analytics and documented in every research note



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 screened daily 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 EM index. 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.

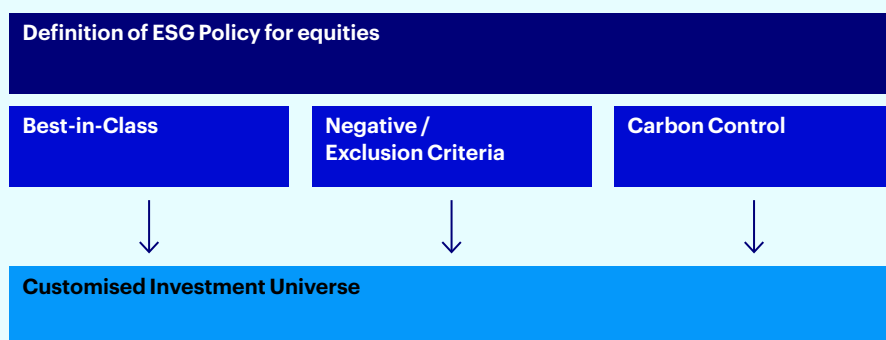
### Customised ESG

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.

**Best-in-Class criteria:** By applying best-in-class 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.

The investment team uses multiple data providers to identify companies that fail to meet certain ESG criteria.

With the integrated best-in-class approach, the investment team also focuses on the best performing companies in their sector with respect to the company's overall ESG rating to transition into a low carbon economy.

## Holistic ESG consideration in the investment process

The Invesco Sustainable Allocation Fund uses the following exclusion criteria:

	Controversial Activities	Excluded if
<b>Coal</b>	Turnover derived from thermal coal mining	<b>&gt;=5%</b>
	Turnover derived from burning coal for power generation	<b>&gt;=5%</b>
	Proportion in electricity generation fuel mix from coal	<b>&gt;=10%</b>
	Structural increase of thermal coal activities over 3 years	<b>Yes</b>
<b>Unconventional oil &amp; gas</b>	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	<b>0%</b>
	Involvement in fracking activities	<b>Yes</b>
	Involvement in arctic drilling activities	<b>Yes</b>
<b>Fossil fuel industry</b>	Revenues are derived from fossil fuel industries	<b>&gt;=5%</b>
	Structural increase of fossil activities over 3 years	<b>Yes</b>
<b>Chemicals of concern</b>	Production of restricted chemicals	<b>0%</b>
<b>Bio-diversity</b>	Controversies in the field of endangering biodiversity	<b>Yes</b>
<b>Pollution</b>	Controversies in the field of preventing and managing of accidental pollution or soil pollution	<b>Yes</b>
<b>Community involvement</b>	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)	<b>Yes</b>
<b>Nuclear power</b>	Turnover from nuclear power	<b>&gt;=5%</b>
	Proportion in electricity generation fuel mix from nuclear power	<b>&gt;=5%</b>
<b>Civilian Firearms</b>	Manufacture or sale of civilian firearms or related products	<b>&gt;=5%</b>
	Manufacture of civilian firearms or related products	<b>&gt;=5%</b>
<b>Military</b>	Sales that are related to military sales including key parts or services for conventional weapons	<b>&gt;=5%</b>
	Controversial weapons	<b>0%</b>

## Holistic ESG consideration in the investment process

	Controversial Activities	Excluded if
<b>Tobacco</b>	Turnover from production and distribution	<b>&gt;=10%</b>
	Turnover from production	<b>&gt;=5%</b>
<b>UN Global Compact</b>	Fail to pass the global compact screening	<b>Yes</b>
<b>Labour rights</b>	Controversies in Labour Rights including the supply chain, forced or child labour and discrimination	<b>Yes</b>
<b>Human rights</b>	Controversies in Human Rights	<b>Yes</b>
<b>Corruption</b>	Controversies in the field of corruption	<b>Yes</b>
<b>Recreational Cannabis</b>	Involvement in recreational cannabis	<b>&gt;=5%</b>
<b>Animal Welfare</b>	Animal testing and extensive farming operations	<b>&gt;=5%</b>
	Proportion of turnover (expressed as a threshold) that comes from the production of cosmetics tested on animals and/or from intensive farming operations	
<b>GMOs</b>	Production of GMOs for human consumption or industrial uses	<b>Yes</b>
	No policy to avoid or to label food products containing GM ingredients in supply of food/beverages and supermarket catering	

Definition of Controversial Weapons: Even though there is no official definition of the concept of controversial weapons, investors and stakeholders typically refer to weapons of mass destruction (nuclear, chemical and biological weapons) and some conventional weapons when they use the term controversial. These weapons are collectively referred to as controversial weapons because, in particular, they may be considered to be excessively injurious, to have indiscriminate effects or to damage the natural environment. International Humanitarian Law (IHL) prohibits or restricts the use of some weapons. Three rules of customary international law, binding on all States, apply to all weapons: the prohibition of weapons of a nature to cause superfluous injury or unnecessary suffering; the prohibition of weapons which are indiscriminate by nature; and the prohibition of weapons causing widespread, long-term and severe damage to the natural environment. Explicitly, those weapons include anti-personnel mines, cluster munitions, chemical weapons, biological weapons, nuclear weapons, incendiary weapons, non-detectable fragments, blinding lasers, white phosphorous and depleted uranium beyond others. The screening covers companies providing full weapon systems and platforms, or key parts and services, for controversial weapons.

Definition of Key Parts or services for Weapons: Key parts include subsystems of the whole weapon system (e.g. if the system is a rocket, the motor, fins, and random are some of its key parts) as well as end products that are essential to weapon systems, such as combat equipment. Key services include services that are essential to weapon systems and combat, such as communication, testing or flight simulation training services, design services. Other examples of important subsystems for a weapons system, could be the barrel for a gun, ammunition magazines, engines and transmission for weapons platform, the fuze for munition, the guidance package for a missile, arming devices for warheads, targeting radars, etc.

We do not invest in sovereigns of countries that practice the death penalty, as it is the ultimate cruel, inhuman and degrading punishment and a violation of the right to life.

# Holistic ESG consideration in the investment process

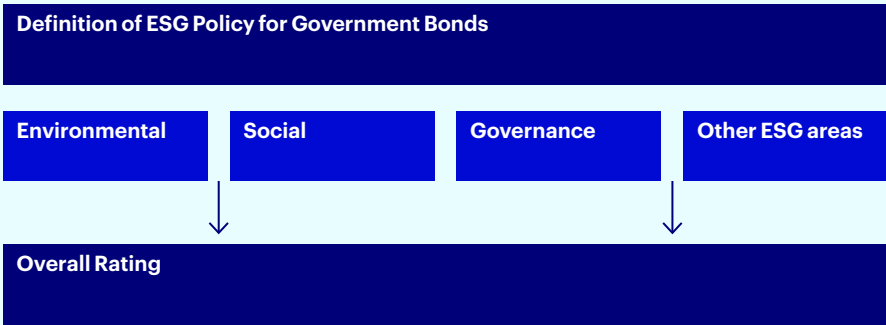
## ESG screening for Government Bonds

Environmental, social and governance focus

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 50% 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. The product does not use any derivatives on agricultural commodities.



- Flexible use through a wide range of country-specific ESG-indicators
- Ratings for more than 180 countries
- Coverage of all OECD countries

Source: Invesco. For illustrative purposes only.

Within their multi-asset product range, IQS facilitates sustainability criteria in sovereign bonds with a sustainability rating via Vigeo Eiris DataLab. To assess a sovereign in terms of sustainability criteria, a large number of indicators are used from the area of political and social issues as well as environmental issues. These are combined into an overall rating. In addition, details of how well countries perform on specific concerns, like nuclear power as percentage of nationally produced energy consumption and religious freedom, can be provided as well. Reliable international sources, such as Amnesty International, UNICEF, World Bank and WHO, are used for the assessment.

In particular, the team applies the following criteria to bonds, including a best in class approach:

- Fundamental Rights and Principles at work conventions
- International Human Rights treaties, including Death penalty
- Party to the Paris Agreement, Mitigation and adaption of climate change & Air emissions
- UN Convention on Biological Diversity
- Party to the Nuclear Non-Proliferation Treaty & Nuclear power share
- Military expenditure
- Corruption

In addition to the bespoke ESG criteria the IQS team has adopted a controversial weapons policy, which is applicable to all their managed funds, mandates and portfolios and seeks to limit investments in firms which manufacture land mines and cluster munitions.

The investment team uses two types of derivatives for their investment approach:

1. Equity index futures for hedging risks
2. Government bond futures for hedging and as source of active return

## Proxy Voting

Invesco's Proxy Voting approach is governed by the Global Proxy Voting Policy,<sup>1</sup> 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 "PROXYintel". The platform streamlines the proxy voting and ballot reconciliation processes, as well as related functions, such as share blocking and managing conflicts of interest issues. 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.

Invesco adopts and applies a dedicated ESG voting policy across managed funds, portfolios and mandates. Besides the support of shareholder proposals through Invesco's proprietary "PROXYintel" 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.

<sup>1</sup> <https://www.invesco.com/corporate/dam/jcr:a1f25695-b417-4701-b399-5e6ec31929c8/Global%20Proxy%20Policy%20-%20Effective%20January%202021%20-%20FINAL.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 V.E. The potential target companies are selected by IQS and a final selection of the companies to be engaged with is then agreed with V.E. 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.

#### Direct dialogue with companies

- Address ESG risks and weaknesses
- Enhance ESG performance of companies
- Pooling of interest of different asset managers



#### IQS Engagement ESG themes

- Climate change
- Water management
- Bribery & corruption
- Supply Chain labour standards
- Human rights
- Global norms & conventions



#### Joint Engagement with Invesco ESG areas

- Good governance
- Climate change
- Social Equity
- Climate Action 100+

Source: Invesco Quantitative Strategies, Vigeo Eiris. For illustrative purposes only.

#### IQS' engagement priorities follow two methods:

- 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.
- Controversy-led engagement, which aims to prompt companies to observe internationally-recognized standards and conventions and correspondingly improve their company guidelines.

V.E 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. In case engagement targets are not met after repeated escalation the investment team may divest from a company and/or vote against board members or management compensation.

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

# Investment Process

## Investment universe

The investment universe comprises Global developed markets equities as well as high-quality long-term government bonds and supranationals 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 for its equity investments, 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 global markets stock universe (over 6,000 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** the 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		
<b>Proprietary signals</b> Quantifiable, predictive, complementary	<ul style="list-style-type: none"> <li>Earnings momentum</li> <li>Earnings/sales revisions</li> <li>Revisions against trend</li> <li>Cash flow surprise</li> </ul>	<ul style="list-style-type: none"> <li>Specific momentum</li> <li>Risk-adjusted momentum</li> <li>Event momentum</li> <li>Short interest</li> </ul>	<ul style="list-style-type: none"> <li>Net external financing</li> <li>Net asset growth</li> <li>Profitability &amp; operating efficiency</li> <li>Fundamental health</li> <li>Accounting integrity</li> </ul>	<ul style="list-style-type: none"> <li>Cash flow yield</li> <li>Gross profit yield</li> <li>Earnings yield</li> <li>Book yield</li> <li>Dividend yield</li> </ul>

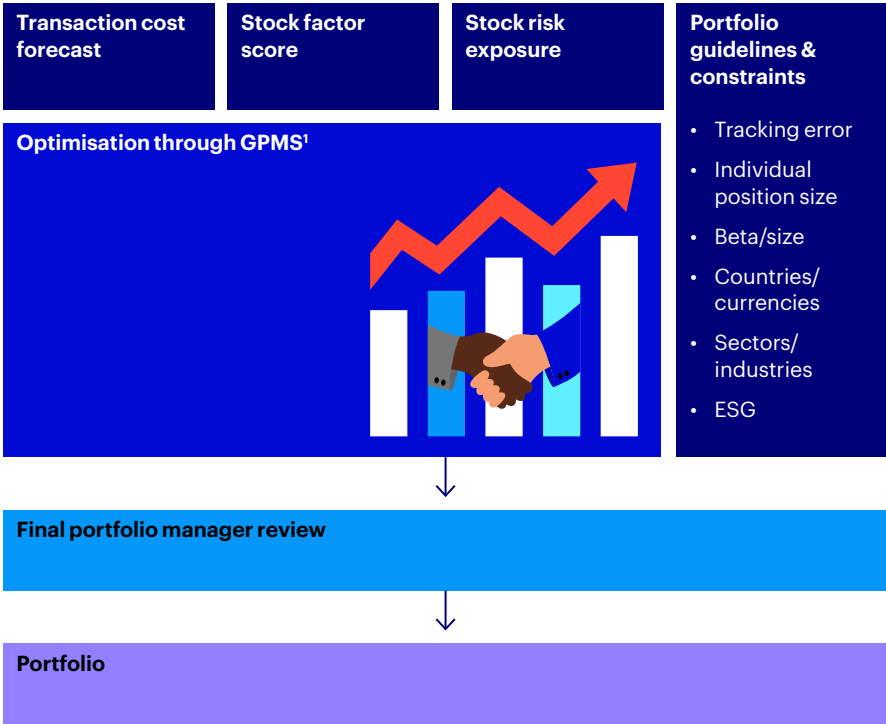
Source: Invesco, as of 30 September 2021. For illustrative purposes only. Not all signals are used in all regions and sub-models. Signals often have subcomponents. Additional signals are used in specific sub-models and definitions may vary across regions.

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

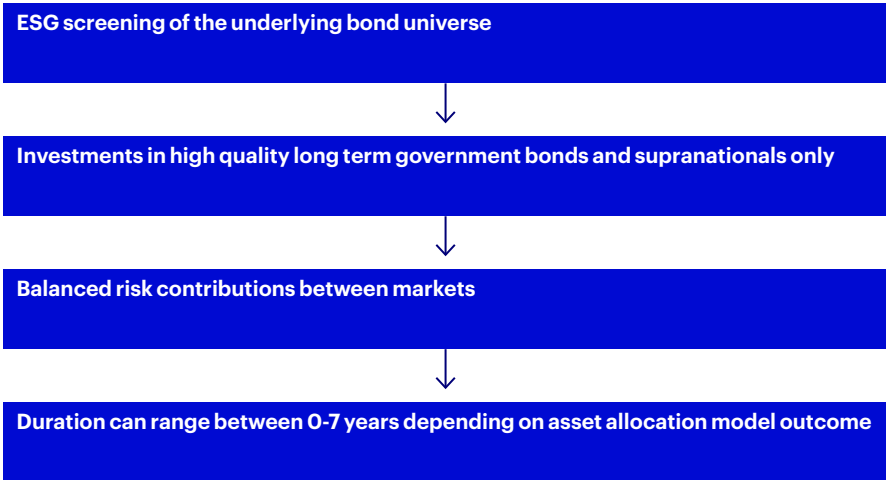
consistency. The portfolio manager does not have a discretionary right to overrule the optimisation results. However, if the portfolio manager finds data inconsistencies for a stock, e.g. due to a last-minute profit warning, the IQS team has defined procedures for how to deal with a stock in such a case. 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.

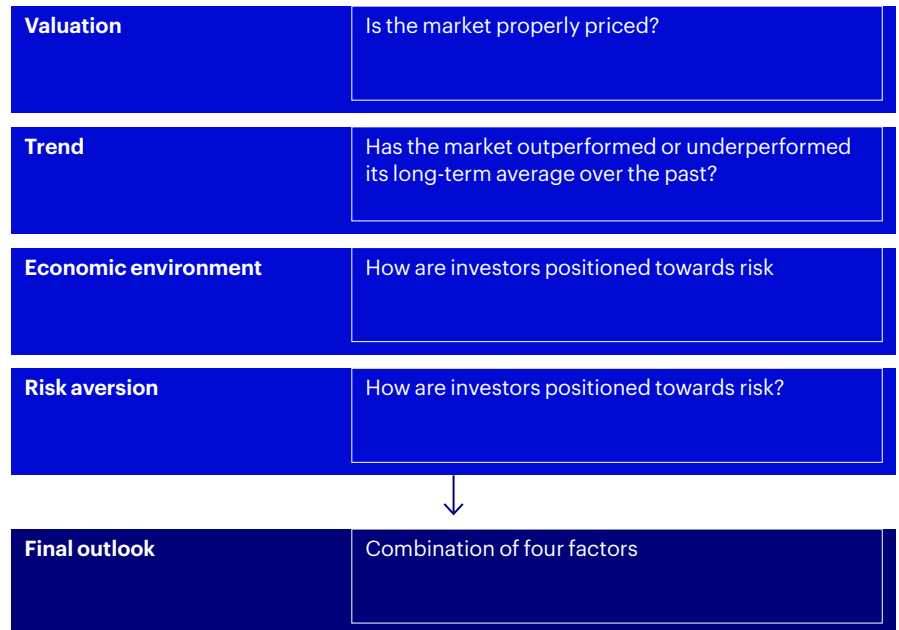
How we build the optimal bond portfolio



Source: Invesco. For illustrative purposes only.

## Tactical Asset Allocation (TAA):

For the tactical asset allocation (TAA), the investment team uses their systematic TAA model to over- or underweight the respective assets. The asset classes are continuously assessed on a basis of four concepts: valuation, trend, economic environment and risk aversion.



The indicators of the four concepts are combined into a signal. The signal can take five scores ranging from maximum underweight (--) through to moderate underweight (-), neutral allocation (0), moderate overweight (+), and maximum overweight (++). A neutral signal for each asset class would mean that the tactical portfolio is equivalent to the strategic portfolio. Deviations from the strategic allocation are implemented in discrete steps depending on the signal for each asset class.

### Asset Allocation ranges of the fund:

Equity Allocation can range between 0-70% while the bond duration of the portfolio can be between 0 and 7 years. Furthermore the FX allocation can opt in for a full hedge or no hedge.

Asset Allocation changes are mainly implemented using derivatives. Those derivatives, which are utilized to gain exposure to capital markets have to fulfill the ESG criteria on a constituent's level for equity index derivatives and on the Cheapest-to-deliver level for Fixed Income derivatives. This includes derivatives used for efficient portfolio management. Derivatives, which are solely used for hedging activities do not necessarily fulfill the fund's ESG criteria.

### Risk Management

Risk management is integrated in each step within the investment process, the SAA, the Multi-Factor stock selection and bond selection as well as the TAA. Additionally, to the implicit risk consideration, the investment team applies an additional risk management layer which integrates a volatility cap for the Sustainable Allocation Fund. The goal of the daily risk management step is to limit drawdowns which usually occur in times of highly volatile markets. For this purpose, a daily portfolio expected shortfall is calculated. Portfolio positions are managed with the help of a dynamic risk forecast (expected shortfall) that is calculated using the t-GARCH Copula approach.

For the risk management component, the team implements a Dynamic Allocation strategy switching between the portfolio's target Asset Allocation and the money market representing the risk-free asset. Whenever IQS' dynamic risk forecast exceeds the maximum volatility, a portfolio hedge will be implemented to bring the portfolio again into compliance with the volatility cap. Hence, the risk management can lead to deviations from the desired tactical allocation if the risk forecasts are above the volatility threshold.

# Fund Facts

## Invesco Sustainable Allocation Fund

Investment Centre	Invesco Quantitative Strategies
Fund Manager	Manuela von Ditzfurth, Dr. Martin Kolrep
Contracted Vehicle Type	SICAV
Domicile Country	Luxembourg
Launch Date	17 December 2017
Fund volume	EUR 20.16mn (as at November 2021)