
Invesco Environmental Climate Opportunities Bond Fund

(the “Fund”)

Sustainability-related disclosures

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Summary

The Fund meets the Article 8 requirements of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). It promotes, among other things, environmental and/or social characteristics while also ensuring that investee companies follow good governance practices.

The Fund is an actively managed fixed income fund that invests in corporate and government bonds from issuers globally. The Fund has both a financial and a non-financial objective; these are: i) to provide income and growth; and ii) to support the transition to a low carbon economy.

In order to achieve these two objectives, the investment team employs a five-stage investment process which incorporates a traditional financial and credit research-based methodology alongside a climate-based framework to select corporate and government bond issuers.

The traditional financial and credit research process emphasises active fund management based on in-depth macroeconomic and credit research.

The climate-based framework combines sector exclusions, sector-specific parameters and the selection of issuers with stronger climate characteristics compared to their sector peers. 'Climate characteristics' means a range of data which reveals how carbon intensive companies are, how quickly they are decarbonising and other factors such as management's approach to climate risk in their business planning. The Fund seeks to achieve its objective of supporting the transition to a low carbon economy through investing in bonds of issuer's who meet one or more of the following five key criteria:

- Companies that have a low carbon footprint, or are making significant progress in reducing their carbon footprint
- Companies that have carbon reducing projects financed via green bonds, transition bonds and sustainability-linked bonds
- Green companies (those directly involved with activities that result in a low carbon economy which do not issue green bonds)
- Companies that have made commitments, and are, or are expected to be, on a Net Zero pathway
- Governments that have demonstrated strong environmental and social credentials

The Fund strategically invests across the fixed interest credit risk spectrum depending on investment opportunities.

The Fund is actively managed and is measured against the 75% ICE BofA Global Corp Bond Indx (USD Hdgd) and 25% ICE BofA Global High Yield Index (USD Hdgd) Indx for performance comparison purposes.

The Fund aims to allocate at least 10% of its assets in sustainable investments, as defined by SFDR.

No sustainable investment objective

This Fund promotes environmental or social characteristics, but does not have as its objective sustainable investment.

However, the Fund has 10% minimum allocated to sustainable investments (as further explained under “Environmental and social characteristics of the product”).

The Fund uses the mandatory principal adverse impacts (PAI) indicators defined in Table 1 of Annex I of the regulatory technical standards for Regulation 2019/2088, combined with qualitative research and/or engagement, to assess whether the sustainable investments of the Fund cause significant harm (DNSH) to a relevant environmental or social investment objective. Where a company is determined to cause such significant harm, it can still be held within the Fund but will not count toward the “sustainable investments” within the Fund. Please find below the table and metrics used to assess the DNSH.

PAI Indicators used to assess Do No Significant Harm (DNSH)

PAI No.	PAI Indicator	Portfolio Rollups
1,2,3	ISS Scope 1 Emissions ISS Scope 2 Emissions ISS Scope 3 Emissions ISS Scope 1 Emissions (EUR) ISS Scope 2 Emissions (EUR) ISS Scope 3 Emissions (USD)	1. Total Emissions (Financed) Scope 1+2 2. Carbon Foot Print Scope 1+2 3. Total Emissions Scope 1+2+3 4. Carbon Foot Print Scope 1+2+3 5. WACI 1+2 6. WACI 1+2+3
4	SA Carbon – Fossil Fuel-Level of Involvement Range-SFDR	% of the Fund exposed to any fossil fuels revenue
5	SA Share of Non-Renewable Energy Production Percentage-SFDR	Adjusted Weighted Average
	SA Share of Non-Renewable Energy Consumption Percentage-SFDR	Adjusted Weighted Average
6	SA Energy Consumption Intensity Agriculture, Forestry & Fishing-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Construction-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Electricity, Gas, Steam & Air Conditioning Supply-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Manufacturing-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Mining & Quarrying-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Real Estate Activities-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Transportation & Storage-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity Water Supply, Sewerage, Waste Management & Remediation Activities-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity Wholesale & Retail Trade & Repair of Motor Vehicles & Motorcycles-SFDR	Adjusted Weighted Average
7	SA Activities Negatively Affecting Biodiversity Areas-SFDR	% Weight of Portfolio
8	SA Emissions to Water Tonnes-SFDR	$((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Emissions to water})) / \text{Million EUR Invested}$; Same as Carbon footprint calculation
9	SA Hazardous Waste Production Tonnes-SFDR	$((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Hazardous Waste})) / \text{Million EUR Invested}$; Same as Carbon footprint calculation
10	SA Breach of UN Global Compact Principles & OECD Guidelines for Multinational Enterprises-SFDR	% Weight of Portfolio

PAI No.	PAI Indicator	Portfolio Rollups
11	SA Lack of Processes & Compliance Mechanisms to Monitor Compliance with UN Global Compact Principles & OECD Guidelines for MNEs-SFDR	% Weight of Portfolio
12	SA Unadjusted Gender Pay Gap Percentage of Male Employees Gross Hourly Earnings-SFDR	Adjusted Weighted Average
13	SA Board Gender Diversity Percentage of Female Board Members-SFDR	Adjusted Weighted Average
14	SA Controversial Weapons-Evidence of Activity-SFDR	% Weight of Portfolio
Sovereign		
15	SA Carbon Emissions Intensity-SFDR	Weighted Average
16	SA Any Country Social Violations-SFDR	No. of Countries involved in Violations; % of countries involved in violations
Optional Indicators		
E	Lack of Carbon Emission Reduction Initiatives-SFDR	% Weight of Portfolio
S	Lack of Human Rights Policy-SFDR	% Weight of Portfolio

The portion of sustainable investments will exclude companies, sectors or countries from the investment universe when such companies violate international norms and standards according to the definitions of the International Labour Organisation (ILO), the OECD or the United Nations. All issuers considered for investment will be screened for compliance with, and excluded if they do not meet, UN Global Compact principles, based on third-party data and the investment team's proprietary analysis and research.

Environmental or social characteristics of the financial product

The Fund will have various environmental and social characteristics.

Screening will be employed to exclude issuers depending on their level of involvement in certain activities considered controversial, such as (but not limited to) activities involved in coal, arctic oil & gas exploitation, oil sands extraction, shale energy extraction, conventional oil and gas, tobacco, recreational cannabis (as more defined below). The Fund will also exclude issuers in violation of the UN Global Compact, based on third-party data and the investment team's analysis and research.

The Fund will support the transition to a low carbon economy by funding companies in high carbon emitting sectors that show progress towards lowering their carbon footprint as well as low carbon sectors.

The Fund intends to make sustainable investments by contributing to an environmental objective (climate change) for at least 10% of its portfolio.

In order to determine if an investment should be considered a sustainable investment, under Regulation 2019/2088, there is a two-step process.

First, several qualitative checks are performed for the Fund and the selection criteria includes:

- Best in Class Approach – Issuers that score 2 using a proprietary climate comparator that combines external ESG data and industry specific metrics to create a sector relative score between 1–5 for each issuer. This represents the top 14% of issuers in our universe.
- UN Sustainable Development Goals – Issuers that generate at least 25% of the issuers revenue from operations aligned to the UN Sustainable Development Goals. This assessment relies on external ESG data providers.

Note that Invesco relies on third-party data providers to assess issuer's performance on the above criteria. It should be noted that the full weight in the portfolio will count as sustainable investments when meeting the above criteria.

Second and as disclosed in the section above, the Fund uses the mandatory principal adverse impacts (PAI) indicators defined in Table 1 of Annex I of the regulatory technical standards for Regulation 2019/2088, combined with qualitative research and/or engagement, to assess whether the sustainable investments of the Fund cause significant harm (DNSH) to a relevant environmental or social investment objective.

Where a company is determined to cause such significant harm, it can still be held within the Fund but will not count toward the "sustainable investments" within the Fund. Please refer to section "No sustainable investment objective" for more information on the PAIs and metrics used to assess the DNSH as well as how the Fund considers international norms and standards."

Investment Strategy

The investment team employs a five-stage investment process, combining a traditional investment research alongside a climate focused selection process.

1

Macroeconomic assessment

- Top down macroeconomic assessment, conducted by the team's economist macro specialists
- Fund managers develop their views on the general direction of yields and credit spreads

2

Identify issuers with strong climate characteristics

- Non-sustainable exclusions applied
- 'Climate Comparator' output
- Fundamental climate analysis

3

Credit analysis

- Bottom up credit research conducted by the team's 11 dedicated corporate credit analysts
- Absolute and relative value analysis incorporated
- Green bond assessment

4

Portfolio construction and risk management

- Fund manager responsibility – not tied to an index
- Risk continuously managed according to market conditions
- Strong risk monitoring infrastructure

5

Climate monitoring and ESG team oversight

- Portfolio measured and compared against the Climate Comparator using a range of indicators
- Periodic reviews with Invesco's ESG team

Stage 1: Macroeconomic assessment

The starting point for the investment team's work is an appreciation of the key macroeconomic inputs that influence government and corporate bond markets.

There is no 'house view' to which the team must adhere and the fund managers form their own opinions about key macroeconomic trends as they remain ultimately responsible for the Fund's risk profile and performance.

Specifically, the aim of the team's macroeconomic work is for the team's fund managers to develop a view of the general direction and structure of interest rates and future trends in the general pricing of credit risk, rather than make point estimates of specific economic variables. To a large extent these broader views help influence the fund managers' overall appetite for credit and interest rate risk.

To assist the fund managers, the team has a dedicated economist and several macroeconomic analysts who produce and share research and facilitate team discussions. Team members assess a range of primary data sources, as well as engaging with independent economic research providers and investment bank economists. The team also benefits from the research produced by Invesco's Group Chief Economist's department.

High frequency economic and survey data are assessed continuously either informally or more formally at the team's daily morning meetings. In addition, more in-depth economic research is produced and discussed at dedicated meetings or more formally at the monthly investment department meeting or the fixed income team's asset allocation group meeting.

Stage 2: Identifying issuers with strong climate characteristics

The identification of companies with strong climate characteristics is what gives this strategy its unique characteristic. The team considers those companies and governments that are leading the way towards a low carbon world through a combination of public policies and strategies designed to encourage or compel decarbonising activities, or by providing low carbon energy, goods and services.

1. Exclusions

The Fund's ethos results in certain minimum standards both in terms of climate and general sustainable activities. Therefore, the first step is to screen the universe of global corporate bonds based on the exclusions outlined below.

Climate-based exclusions	Revenue thresholds for exclusion ¹
Thermal coal extraction	>=5% of revenue
Thermal coal power generation	>=10% of revenue
Arctic oil & gas exploitation, oil sands extraction, shale energy extraction	Each >=5% of revenue
Oil & gas exploration, production, refining, transportation and/or storage ²	>=25% of revenue
Non-climate-based exclusions	
Controversial weapons	>=0% of revenue
Tobacco – products production	>=5% of revenue
Tobacco related products and services	>=5% of revenue
U.N. Global Compact Status	Companies not compliant with the Ten Principles of the UN Global Compact Initiative
The manufacturer and sale of nuclear weapons to countries that have not signed the Nuclear Non-Proliferation Treaty	>=0% of revenue
Recreational cannabis	>=5% of revenue

The climate-based exclusions have been applied with reference to each fossil fuel's climate warming potential, set against the practical reliance that we still have on fossil fuels in the medium term.

Fossil fuel type	Kg CO ₂ emitted per million British thermal units (Btu)
Coal	93–103 depending on variety
Diesel	73
Gasoline	71
Propane Gas	63
Natural Gas	53

We believe that supporting the transition to a low carbon economy necessitates the almost total exclusion of thermal coal. Thermal coal is not only the most polluting of fossil fuels, but in addition, the global economy in aggregate is no longer dependent on it as other forms of energy have become more prevalent.

The revenue threshold for thermal coal extraction is set at 5% and thermal coal power generation set at 10%, rather than 0% to allow companies with very modest legacy coal assets to be eligible. For example, a number of mining and steel companies have legacy thermal coal operations but play an important role in climate transition through the supply of raw materials required for electrification. As a result, their inclusion in the Fund is supportive of the transition objective. Furthermore, the Fund has no restrictions on coking coal which is used for steel production.

The oil and gas sector is more nuanced. On the one hand, oil and gas represent the overwhelming majority of CO₂ emissions. According to the US Energy Information Administration, in 2018 fossil fuel combustion was responsible for 93% of all anthropogenic CO₂ emissions in the US. However, both are cleaner fuels than coal (natural gas produces 43% less CO₂) and both are deeply embedded in the global energy supply chain. For example, oil and gas still accounts for 75% of the UK's primary energy (power, transport and heating). The team believes that in the medium term, gas in particular is a vital and relatively clean component of global energy supplies.

¹ Companies which derive more than this level of revenue from the activities listed above will be excluded from the Fund.

² The Fund is permitted to buy green bonds, subject to an analysis of their suitability, from companies whose revenues from oil and gas are greater than 25% and whose revenues from unconventional oil and gas exploration are greater than 5%.

Nonetheless, we acknowledge that it would be inappropriate for a climate fund to have no restrictions on funding the major sources of CO₂ emissions and as a result, we place a 25% revenue threshold for mainstream oil and gas production. This rule effectively excludes companies whose core activities are oil and gas related. The reason for permitting up to 25% of revenue from oil and gas operations, rather than a complete exclusion, is because whilst we don't wish to finance major sources of carbon emissions, we think we should be able to finance diversified energy companies and support their efforts to increase clean energy production.

We also recognise that whilst oil and gas companies are major sources of emissions, there are increasing efforts amongst many of these companies to diversify into renewable energy. Critically, many of the global oil and gas energy groups have the financial and technical resources necessary to make that shift. As a result, the Fund also permits investment in companies whose revenues from oil and gas activities are greater than 25% in cases where it can finance specific green energy projects via green bonds.

Another important sector in a climate context is utilities, given the extent of emissions created during power generation. Here, rather than the Fund adopting specific exclusions based on thermal coal, we analyse the amount of CO₂ emissions per unit of energy generated, ensuring that only the least carbon intensive generators are selected.

The issue of nuclear energy is also sensitive. On the one hand, nuclear energy remains controversial with the challenge of waste and the environmental risk that it poses a genuine concern. Yet we recognise that nuclear power also provides consistent, reliable, and importantly for a climate-oriented fund, zero-carbon energy. As a result, we believe that permitting nuclear power is on balance appropriate for a sustainable product of this type.

The Fund also adopts a number of baseline exclusions (shown in the table above as "Non-climate based exclusions") determined by Invesco, based in part on its assessment of the market's expectation of what constitutes unsustainable activities.

The exclusion filter uses Sustainalytics data on company revenues attributed to particular activities such as tobacco or thermal coal which is then fed into Invesco's pre-trade compliance system.

To ensure a minimum standard of governance amongst investee companies, the Fund will avoid investing in those that have a governance score of 5 as measured by our proprietary ESG scoring tool, which scores companies 1-5 (with 1 being the best) against 18 governance-specific indicators.

The Fund is also permitted to have up to 30% of its assets (such as cash) and long exposure to derivatives (such as index CDS), which do not conform to the climate methodology.

The next step is to identify companies that are performing well versus their peers from a carbon perspective and therefore could be suitable potential investments for the Fund.

2. Investment selection process: Climate Comparator

To help in this assessment, the team uses an Invesco-developed proprietary sector-based Climate Comparator which incorporates data from over 2,000 corporate bond issuers, incorporating a wide range of climate and specifically carbon-oriented indicators.

Examples of indicators include the percentage change in a company's carbon emissions, different measures of carbon intensity, the percentage change in a company's intensity and measures of carbon emissions relative to an output such as power.

Each company's performance in each indicator is converted to a sector-relative 1-5 score (1 being the best). The indicator scores are then summed to produce an overall sector-based 1-5 rating. In cases where data is missing, those indicators are excluded from a company's overall score. The weights applied to each indicator are determined by its importance based on the team's judgement.

The weights of each indicator can also be tailored to individual sectors. For example, the CO₂/kwh indicator is given a 60% weighting for the electric utility sector but is not included in other sectors.

Below is an example of how an electric utility company is scored based on the indicators that are applied to that sector. This company scores particularly well on its low use of thermal coal and its assessment by the Transition Pathway Initiative, a climate-focused organisation that assesses companies on the basis of their carbon intensity and management's approach to dealing with climate change.

Electric utility sector indicators	Weighting	Data	Score
CO ₂ mt per MWH	60%	0.32mt	2
CDP Grade ³	15%	A-	2
Transition Pathway Initiative Assessment ⁴	15%	4	1
MSCI Low Carbon Transition Management Score ⁵	10%	6.60	1
Overall score			1.8

The Fund will typically invest in sovereigns which have better scores than their peers in the climate comparator (scoring at 4 or better on a rating from 1 to 5 (1 being the best scoring)). Although the Fund is permitted to invest in lower scoring companies and/or companies not included in the climate comparator, the Investment Manager must justify their inclusion in the portfolio based on some qualitative indicators (such as but not limited to forecast analysis, target on decarbonization).

Similarly, for government debt, the Investment Manager will use a proprietary sovereign climate comparator which incorporates data on a range of climate and specifically carbon-oriented indicators. The Fund will typically invest in sovereigns which have better scores than their peers in the climate comparator (ranking from the 30th percentile or higher). Although the Fund is permitted to invest in lower scoring sovereigns the Investment Manager must justify their inclusion in the portfolio.

In instances in which the investment team judges that the quality of the data for certain indicators in specific industries is poor, those indicators can be excluded. A good example of this is banks' scope 3 emissions. In this case, banks' efforts to calculate their funded emissions are in their nascency and comparative data is not yet available. Instead, the focus is on banks' willingness to engage with industry initiatives, a qualitative assessment of their policies towards funding emissions intensive sectors and other qualitative assessments.

3. Fundamental Research: Invesco's ESG team

In addition to the Climate Comparator, the investment team also benefits from the fundamental research capability of not only the team's credit analysts but also Invesco's Global ESG team. Invesco's Global ESG team consists of specialists, who conduct fundamental research in co-ordination with Invesco's investment teams. Fundamental climate and carbon research is directed towards those issuers for which the investment team judge that further investigation is warranted, for example where data is sparse, or inconclusive, or where the investment team believe that the historic data does not properly capture the investment opportunity to support future carbon reduction.

Research involves an assessment and contextualisation of the carbon data, understanding an issuer's carbon reduction strategy, their objectives and success to date. The views of the ESG team analysts and investment analyst are then considered by the fund managers who are able to make an informed judgement about the appropriateness of a security.

4. Green, sustainability-linked, and transition bonds

The Fund will also invest in a range of green bonds where an investment opportunity is identified and, given the rapid growth and development of this market, there is no upper limit to how many green bonds will be held in the Fund.

Supply of green bonds has grown rapidly in recent years as issuers have sought to benefit from the rise in demand from socially responsible investors. A key challenge in the development of the green bond market has been to develop common standards as to what constitutes a green bond. To counteract the threat of greenwashing, the use of external reviews of green bonds has become widespread. External reviews can take the form of second party opinions, verifications and ratings. These reviews confirm (or otherwise) alignment with green bond principles and verify that the use of proceeds conforms to standards as set out in the Green Bond Principles.

The development of the market was boosted by the introduction of Green Bond Principles from the International Capital Markets Association (ICMA) in 2014 and the Climate Bond Initiative Standards and Certification Scheme which set out to provide a framework in which green financing could develop.

³ CDP rates companies based on their environmental disclosure and environmental risk management.

⁴ Transition Pathway Initiative Assessment assesses companies' preparedness and management of climate risk as well as their carbon performance.

⁵ MSCI proprietary measure of how well a company manages risk and opportunities related to the Low Carbon Transition.

The investment team assesses green bonds to ensure they meet acceptable standards. To do this, the team follows the International Capital Markets Association criteria.

Bonds are scored on four criteria: the use of proceeds, management of proceeds, reporting, and external verification.

A green bond can score 1 – 10 and the investment team will invest in green bonds that score 4 or more.

	Score	Definition
Use of proceeds	0 – 4	Are qualifying projects clearly identified? Is refinancing permitted, if so for how long? Is there committee oversight?
Management of proceeds	0 – 2	Are proceeds held in a separate account? Is there a timeline for distribution of proceeds?
Reporting score	0 – 3	Is there regular reporting on the project? Is the report published? Is the project audited?
External verification	0 – 1	Is the bond verified by an external party?
Total	/10	

5. Net zero emissions alignment

The Fund will also invest in bonds issued by companies that have made net zero pledges.

The Carbon Trust, a well known authority on climate change, defines ‘net zero’ as ‘achieving a state in which the activities within the value-chain of an organisation result in no net impact on the climate from greenhouse gas emissions.’

Companies and governments often set 2050 as their ‘net zero’ goal to align with the IPC’s own global goal of carbon neutrality. However, with such a long time frame it is important that issuers set out a clear roadmap with interim targets.

In this regard, Science Based Targets (SBT, a leading climate-focused not for profit organisation that works with companies who are reducing their carbon emissions) is at the forefront of defining how companies can achieve net zero status.

SBT states that there are three key elements to the definition of a net zero emissions company:

1. The company will set and pursue an ambitious 1.5°C aligned science-based target for its full value chain emissions.
2. The boundary must be global scopes 1, 2 and 3 for the organisation.
3. Any remaining hard-to-decarbonise emissions can be compensated with certified greenhouse gas removals (GGR). These should be restricted to only certified methods of GGR, to increase confidence that the carbon is permanently sequestered. Importantly, the company or organisation should make sure that only truly ‘hard-to-decarbonise’ emissions may be compensated.

Net zero also differs from ‘carbon neutrality’ in a number of ways. The Carbon Trust states:

1. Whereas the boundary of a net zero target includes global scope 1, 2 and 3 emissions of the organisation, carbon neutrality for an organisation only requires scope 1 and 2, with scope 3 emissions encouraged but not mandatory.
2. The boundary of a carbon neutral claim can refer to a specific product or service instead of encompassing the whole organisation in the case of net zero.
3. The reduction in reported emissions required differs. Net zero targets must align to a 1.5°C science-based target, whereas the level of ambition of a carbon management plan for carbon neutrality is not specified.
4. The approach to residual emissions differs, with specific greenhouse gas removals required for net zero targets, whereas carbon offsets are accepted for carbon neutrality.

At this stage, the number of companies making a pledge to achieve net zero status is small but growing. The Fund has not set a minimum level of exposure to net zero issuers as its process is already designed to seek out those companies with strong climate characteristics, some of which are likely to be aligned to the temperature reduction goals even without making a formal commitment. However, it is likely that through the Fund’s climate objective and the increasing number of companies making net zero commitments, the Fund’s exposure to net zero aligned companies will grow over time.

6. Climate risk assessment for government debt

The Fund can invest in both developed market and emerging market sovereign debt as part of its investment strategy and the team also applies a quantitative and qualitative assessment to determine the most appropriate issuers from a climate perspective.

The starting point is Invesco's ESG quantitative tool, ESGIntel, which scores sovereign issuers on 23 indicators, of which 7 are environmental (including 3 focused on climate change), 8 social and 8 governance-focused. These indicators assess governments on a range of topics including carbon emissions, air quality, life expectancy, education and health.

Data is sourced from a number of intergovernmental organisations such as the UN and World Bank as well as specialists such as the International Energy Agency. Governments are scored relative to 5 separate groups: overall, IMF REO regions, (Europe, Asia, Middle East and Central Asia etc.), IMF Economy (advanced, low income emerging market etc.), Developed/Emerging Market and GDP cohort.

Data is converted to a scale (1–5 with 1 the best) and quintiled.

The team assesses the government scores. The Fund will not invest in governments scoring 4 and 5.

Stage 3: Credit analysis

Once an issuer has been judged as being suitable for inclusion from a carbon perspective, the investment team then assesses individual financial corporate credit risk. The team has 10 credit analysts who are organised by industry on a global basis.

		Years in team	Industry experience	
	Asad Bhatti CFA Charterholder	19 years	21 years	Emerging Markets
	Rhys Davies CFA Charterholder	18 years	19 years	Autos, Gaming, Rental, Distressed
	Julien Eberhardt CFA Charterholder	13 years	16 years	Banks: US, Europe, Japan
	Edward Craven Fellowship Chartered Accountant	10 years	18 years	Telecom, Media, Technology, Leisure
	Tom Hemmant Associate Chartered Accountant	10 years	19 years	Utilities, Energy, Infrastructure, Paper & Packaging
	Jessica Svantesson MA International Business	7 years	15 years	Infrastructure, Transport, Technology, Services, Leisure
	Thomas Moore CFA Charterholder	5 years	22 years	Retails, Consumer, Food
	Samir Patel CFA Level III Candidate	3 years	15 years	Banks (UK, Ireland, Nordics, Netherlands, Belgium, Spain, Portugal), Insurance
	Sarah Williams CFA Charterholder	2 years	7 years	General
	Ellie Mainwaring CFA Charterholder	1 year	6 years	General
	Matt Cottingham	<1 year	17 years	Chemicals, Metals & Mining, Building Materials, Construction
	Eoin Strutt	<1 year	2 years	ESG

Given the investment team's active approach and benchmark agnosticism, there are no predetermined rules that govern which credits analysts review, although given the size of the team's assets under management, smaller issuers are less likely to be attractive. Instead, it is the responsibility of both the fund managers and the credit analysts to generate investment ideas for review which can result from a range of different factors including a change in outlook, a change in price or new bond issues.

Although the research approach taken by the team's credit analysts will vary according to circumstance, when assessing a new issuer, the process begins with an understanding of the Offer of Memorandum which states the objectives, risks and terms of a bond issue. This is followed by a review of credit rating agencies reviews (where the issuer is already rated but not yet covered by the analyst) and attendance at a presentation given by the issuing company's management.

Given the size of the team's assets under management, the credit analysts are typically able to secure additional time with the issuer's management if needed.

The team's credit analysis encompasses a range of inputs that are presented in the table below.

Credit ratings	Moody's, S&P, Fitch
Operational	Management, competitive position, business outlook
Balance sheet	Capital structure, leverage, equity, cash, debt mix/maturity
Cashflow	EBITDA, capital expenditure, working capital, interest coverage
Protection	Covenants, asset value, franchise, banks

It is the role of the analyst to understand for each bond which of these considerations are the most important and warrant focus. The emphasis of the analyst's work is on understanding the evolution of credit metrics rather than on the numerical value of the ratios at a point in time. Moreover, the analyst needs to place both the risks of the company and the value of the bond in some context. How does this issuer compare to others in the sector? How much value does the bond offer relative to others from the same or similar issuers?

The credit analysts have the flexibility to work and present their assessment in a way that best suits the circumstances and the team does not employ a template model. Once the research is complete, analysts present their work to the fund managers, providing an informed opinion on which the fund managers can decide the attractiveness of the bond.

Value assessment

Once a deep and informed credit risk opinion has been established about a corporate borrower, absolute and relative risk and value judgements can be made.

The fund managers are ultimately responsible for determining which bond issues are selected for the portfolio. Bonds are not selected with reference to an index, but rather on merit of their value assessment and the balance of risk and reward according to the fund manager's judgement.

The investment team constantly seeks to understand why an investment opportunity may exist, including factors such as:

- The team's different assessment of a company's outlook to that of the market
- Market overreaction to one aspect of a company's situation
- The effects of ratings changes, such as moving between investment grade and non-investment grade
- Issuance patterns of the company such as the frequency and size of supply
- Mispricing of covenant protection (investors mis-interpreting particular protections awarded to bondholders or lack thereof)

In keeping with an absolute risk and return mentality, the investment team also considers the risk/return profile of a bond in relation to cash and government bonds. This aspect can be particularly important in periods in which the credit market as a whole can appear attractively or unattractively valued.

An appreciation of relative value enables the investment team to select the best value corporate bonds given pre-determined variables such as maturity, sector and credit rating. This also helps the team to identify credit trends and pricing anomalies.

Stage 4: Portfolio construction and risk management

The investment team employs a multi-faceted approach to oversight and risk management with processes bolstered and overseen by several independent controls. It is an integral part of the investment process and is the product of the following factors:

- Fund manager understanding: the fund managers effectively control bond-specific risk by ensuring the portfolio is always appropriately diversified. Continuous analysis of all holdings gives the fund managers a comprehensive understanding of the financial risks associated with any bond.

The team manages portfolio risk from the perspective of:

- Market risk
 - Currency exchange risk
 - Investing in assets traded on non-eligible markets
 - Use of financial derivative instruments
 - Counterparty risk
 - Use of warrants
 - Market liquidity risk
 - Interest rate risk
 - Issuer risk
 - ESG and climate risk
- Continuous monitoring: At the portfolio level, monthly performance and risk reports are produced by the Investment Oversight team, ensuring that the fund managers adhere to investment objectives, guidelines and parameters.
 - Chief Investment Officer (CIO) Challenge process: Invesco's essential belief is that fund management is a skill and the inherent risks taken in managing investments are those made by the fund managers themselves. Thus, no unnecessary restrictions exist that limit a fund manager's freedom to back his/her own convictions. A periodic meeting is held between the CIO and the individual fund managers which seeks to ensure that the fund managers are managing money in a way that adds value and that the risks taken in respect of the Fund are understood and are considered appropriate. The Investment Oversight team provides reports to facilitate this process.
 - In addition to the risk management procedures within the team and the investment centre, risk management is also conducted on an EMEA-wide level by the Operational Risk and Investment Risk Oversight teams.

Stage 5: Carbon monitoring and Invesco's Global ESG Team oversight

This step of the investment process is described in the section "Monitoring of environmental or social characteristics".

Process for assessing good governance practices of investee companies

Companies are assessed on a range of good governance principles which may vary, for example due to differing business profiles or operating jurisdictions. Investment teams have the ability to utilise both qualitative and quantitative measures with appropriate action taken where material concerns around governance exist. Broadly, the investment team's approach to good governance is focused on 6 key themes, which shape the assessments carried out by the investment team. These are;

1. Transparency: we expect companies to provide accurate, timely and complete information that enables investors to make informed investment decisions and effectively carry out their stewardship activities.
2. Accountability: robust shareholder rights and strong board oversight help ensure that management adhere to the highest standards of ethical conduct, are held to account for poor performance and responsibly deliver value creation for stakeholders over the long-term.
3. Board Composition and Effectiveness: focused on the director election process, board size, board assessment and succession planning, definition of independence, board and committee independence, separation of Chair and CEO roles, attendance and overboarding and diversity.
4. Long Term Stewardship of Capital: Invesco expects companies to responsibly raise and deploy capital towards the long-term, sustainable success of the business.
5. Environmental, Social and Governance Risk Oversight: focus areas include director responsibility for risk oversight, reporting of financially material ESG information, shareholder proposals addressing environmental or social issues and the ratification of board and/or management acts.
6. Executive Compensation and Alignment: promote alignment between management incentives and shareholders' long-term interests. We pay close attention to local market practice and may apply stricter or modified criteria where appropriate.

Proportion of investments

Under normal market circumstances, the Fund will make investments aligned with the environmental or social characteristics for minimum 70% of its portfolio and 30% will be invested in money market instruments or cash for liquidity management purposes. 10% minimum of the Fund's net asset value will be invested in sustainable investments contributing to environmental objectives.

For the avoidance of doubt, any derivatives used by the Fund (regardless of purpose) will not be taken into consideration in this calculation. As a result, the calculation is therefore intended to represent the physical investments and holdings of the Fund.

Monitoring of environmental or social characteristics

The Fund is monitored from a performance perspective and to ensure that it meets its climate objectives.

The Fund's benchmark for performance comparison purposes is a composite index consisting of 75% ICE BofA Global Corporate Bond Index (USD Hedged) and 25% ICE BofA Global High Yield Index (USD Hedged). While the composite benchmark is not consistent with the ESG characteristics of the Fund, it is a suitable proxy for the wider investment universe and therefore it is likely that the majority of issuers in the Fund are also components of the composite benchmark. As an actively managed fund, this overlap will change and this statement may be updated from time to time. The fund managers have broad discretion over portfolio construction and therefore it is expected that over time the risk return characteristics of the Fund may diverge materially to the benchmark.

The Fund's benchmark for climate comparison (not performance) purposes is the Climate Comparator which consists of companies drawn from the ICE BoAML Global Corporate Index (GOBC) and the ICE BoAML Global High Yield Index (HWOC).

The portfolio is also compared to the Climate Comparator for a range of metrics such as carbon emissions, carbon intensity, as well as a number of sector specific indicators. The proportion of the Fund in green and sustainability-linked bonds and companies that have made Net Zero commitments will also be calculated.

In order to assess companies around the above controversial activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate.

Invesco's Global ESG team's Oversight

The investment team also benefits from the advice and expertise of Invesco's Global ESG Team which meets periodically to review the portfolio and ensure that it is meeting its climate objectives, discuss upgrades to the Climate Comparator and investment process and co-ordinate on engagement with the management of companies relevant to the Fund.

When there are proposed changes to the ESG metrics used, a formal sign off procedure takes place that includes members of the global ESG team, investment team, product, and legal team.

Methodologies for environmental or social characteristics

As described in the section “Investment Strategy”, screening will be employed to exclude issuers that do not meet the Fund’s criteria, including, but not limited to, the level of involvement in certain activities such as fossil fuels (including thermal coal extraction, thermal coal power generation, extraction of tar sands and oil shale, Arctic drilling, and unconventional oil and gas activities) as well as non-climate-related sectors such as unconventional weapons and tobacco. The Fund also excludes companies that are involved in severe controversies pertaining to environmental, social, governance (ESG). Such exclusions may depend on the activity, from zero tolerance to exclusions based on percentage of revenue or other measures and may be updated from time to time.

The investment team will also use positive screening based on its proprietary rating system to identify corporate where the issuers activities positively contribute to the transition to a low carbon economy (being the Climate comparator as further described in the section “Investment Strategy”). Such issuers include, but are not limited to, companies that have a low carbon footprint, or have made, or are making, progress towards lowering their carbon footprint. As mentioned above, whilst the Fund will typically invest in companies which have better scores than their peers in the climate comparator (scoring at 4 or better on a rating from 1 to 5 (1 being the best scoring)), the Fund is permitted to invest in lower scoring companies and/or companies not included in the climate comparator, however the Investment Manager must justify their inclusion in the portfolio.

Similarly, for government debt, whilst the Fund will typically invest in sovereigns which have better scores than their peers in the climate comparator (ranking from the 30th percentile or higher), the Fund is permitted to invest in lower scoring sovereigns, however the Investment Manager must justify their inclusion in the portfolio.

Securities Lending

To the extent the Fund engages in securities lending, the Fund will reserve the right to recall securities in advance of an important vote. In addition, the investment manager will ensure that any collateral received is aligned with these sustainability-related disclosures.

Data sources and processing

Exclusion and negative Screening – Details

In order to assess companies around the above-mentioned controversial activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate.

Sustainable Investments – Details

To attain its environmental characteristics, the Investment Manager will use a proprietary climate comparator which incorporates data from corporate bond issuers, including a wide range of climate and specifically carbon-oriented indicators. This data comes from a combination of ESG and industry specific data providers such as MSCI, CDP and Science Based Target Initiative. This data is then weighted to create a sector relative sector between 1–5 for each issuer.

For the PAI indicators used to assess whether the sustainable investments cause significant harm (DNSH) to a relevant environment or social objective, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) as well as qualitative research and/or engagement, to assess whether the sustainable investments of the Fund cause significant harm (DNSH) to a relevant environmental or social investment objective. It is recognised that data in certain instances is limited and as a result the team may where deemed appropriate use proxies or where the data set is so limited as to not be representative of the investment universe to prioritise other actions, such as engagement to help increase the pool of data available.

Due diligence monitoring is done to ensure data providers are providing on-time deliverables such as ESG data, research and recommendations. Invesco conducts these due diligence meetings with select service providers as necessary. Invesco is constantly evaluating vendors to ensure our investment teams/clients are provided with the current information and our expectations are met. When we identify an issue or our expectations are not met, our teams report the issue and follow up with the service provider to resolve it.

Invesco uses multiple datasets from different sources and it is difficult to generate the proportion of ESG data that is estimated. Certain categories of ESG data are more likely to be estimated (such as scope 3 emissions, certain business involvement categories, etc) due to a lack of consistent disclosure among issuers. Because of this, ESG data that is directly disclosed by an issuer is given preference over data that is generated by a vendor using a proxy, estimation model, industry average, or other means. Invesco is committed to review the current ESG datasets that are used and will continue work with vendors to improve upon both the timeliness and accuracy of data that is used in construction of our ESG products. This data review is an ongoing process that involves members of our investment teams, ESG research team, ESG data analytics team, and our investment technology team.

Limitations to methodologies and data

The Fund is permitted to have up cash, money market instruments and long exposure to derivatives (such as index CDS), which do not conform to the climate methodology.

Considerations of a Climate Comparator

It is important to recognise where a quantitative approach has limitations. These include both limitations with each individual metric, the lack of data and in some instances, data which may be misleading.

For example, a company's absolute emissions may be affected by corporate actions, or by its general operational performance rather than efforts to reduce emissions. The extent to which a company owns its supply chain (upstream raw material sourcing and downstream distribution) can significantly affect how a company calculates its emissions. The quantitative approach also struggles to judge diverse sectors or diversified companies. It also has a tendency to look backwards and miss companies about to undergo change. Private companies are a feature of fixed income markets, a group of companies where data is often sparse.

Therefore, whilst the output of the Climate Comparator is a vital component, it is not the sole determinant of which companies qualify for the universe of potential investment candidates. When identifying companies with strong climate characteristics, understanding and contextualising data is critical and as a result, the team uses a combination of research resources including the team's credit analysts, its dedicated ESG research analyst and Invesco's Global ESG Team which consists of specialist research analysts.

We permit investment in companies which are not in the Climate Comparator in instances that we can justify, either because we have sufficient climate-related data on the company from other sources, or where a company's core activity is supporting transition.

Nonetheless, we believe there are numerous advantages of using a Climate Comparator approach to analyse companies in a systematic and thorough way. It is an efficient way of identifying the broad trends in a sector, it can help us understand which companies are leading and lagging in the drive towards decarbonisation, and identify those companies whose record is mixed and may warrant further investigation. The Climate Comparator will evolve to accommodate advances in data reporting and also facilitates the comparison between the Fund and the benchmark.

In addition, at the portfolio level, the Fund is expected to achieve a lower (better) Climate Comparator score than the Fund's benchmark by a minimum of 10% although this is not a fund target or a constraint and the Fund is actively managed.

Due diligence

There are multiple levels of controls in place to ensure that the Fund meets its environmental and social characteristics and maintains a minimum of 10% of holdings allocated to sustainable investments. The first step in this due diligence process is a review of the data received from ESG data vendors to ensure that each update file is as complete as possible before ingestion into internal systems. This includes an analysis of the changes between the current data file and previous data files, highlighting significant changes and potentially requesting confirmation of these changes.

In addition to the data quality assurance process mentioned above, our internal investment compliance process checks each new transaction against a list of eligible securities and calculates if the transaction is not aligned with environmental and social characteristics and/or result in a breach of the minimum 10% sustainable investments threshold.

The investment team researches companies to ensure that the climate attributes are suitable for the Fund. For further information, please refer to the section "Investment Strategy" above.

Any changes to the ESG criteria of the Fund must be reviewed and approved by Invesco's ESG client strategies team. This team is composed of ESG professionals with experience working with both clients and portfolio managers in the creation of ESG-labelled or related products. This process ensures that the criteria selected represent industry best practices for ESG-related products.

Engagement policies

Engagement with issuers

Invesco engages directly with companies to better understand their positions and their future intentions and lobby for change where Invesco believe it is necessary. Although engagement as pure debt investors can be challenging, Invesco's ownership of both equity and debt can often be used to increase our voice as a stakeholder. Engagement is carried out on a case-by-case basis by relevant analysts and strategically with co-ordination through Invesco's Global ESG team.

Investment teams at Invesco are supported on many ESG engagement activities by a centralised team of ESG professionals. Invesco's Global ESG team is led by the Global Head of ESG. Reporting to the Global Head of ESG is the Director of ESG Research, who leads the ESG analyst team who focus on this ESG company engagement activity. 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.

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 investment teams 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 with the issuer if it is deemed to be necessary; or (c) engage directly with the issuer and serve as a liaison. Invesco's ESG team will arrange contact between the relevant investment teams and issuers when and if it is deemed necessary. Any ESG engagement meeting is added to a centralised 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 the relevant investment teams across Invesco to ensure that companies are questioned on the key ESG topics. The ESG team produces an Engagement Report for these meetings which is shared via the Bloomberg platform for all relevant investment teams to access. Invesco is also a member of several organisations that facilitate collective dialogue with companies and continues to assess other collective engagements that we would like to work more closely with in the future:

- Invesco is a signatory to Climate Action 100+ and is taking a leading investor role on one company and a participative role on at least 6 other companies.
- Invesco joined the Investor Tailings Initiative when it was first launched in 2019. Invesco signed letters that were 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. Invesco has engaged with companies on these topics as part of its ongoing one-to-one ESG engagements.

Please click [here](#) to access our engagement and proxy voting policy.

Version	Date	Details of change
1.0	16 December 2022	Creation of the document
1.1	7 July 2023	Updated for inclusion of thermal coal power generation exclusion and binding Climate Comparator criteria / score