Responsible Investment Policy

Invesco Invesco Responsible Japanese Equity Value Discovery Fund

April 2021

Executive Summary

Contents

02 Executive Summary

03 ESG integration at Invesco Tokyo Investment Centre

05 Key ESG characteritics for the Responsible Japanese Equity Value Discovery Fund

09 Investment Process for the Invesco Responsible Japanese Equity Value Discovery Fund

12 Fund Facts

The Invesco Responsible Japanese Equity Value Discovery Fund (the fund) adopts a high-conviction active and ESG conscious approach to take advantage of overlooked transformations leading to sustainable corporate value creation underpinned by sound management and ESG initiatives among stocks that are attractively valued compared to their long-term potential. In other words, their price is attractive relative to their "normalised" earnings. In search of portfolio companies, the investment team seeks not cyclical but sustainable improvements in profit margins and capital efficiency where the portfolio manager and research analysts, who make an investment decision, undertake ESG risk and opportunity assessment. This approach distinguishes the strategy from other typical value funds. The consideration of sustainability characteristics is an integral part of every step of our investment process.

The investment process of the fund is based on three building blocks: Bottom-up Stock Selection, ESG Approach and Proxy Voting and Engagement.

01

Bottom-up Stock Selection

- In-depth fundamental analysis, including ESG risk and opportunity assessment, by highly experienced investment professionals
- Capitalise on transformations leading to sustainable corporate value creation among stocks that are attractively valued compared to their long-term potential

02

ESG Approach

- Investor-driven ESG integration
- Implement ESG characteristics using the in-house ESG score combined with the third-party research resources

03

Proxy Voting & Engagement

- Voting against election of top executives for companies whose ESG risks are likely to significantly impair the corporate value
- Entering into an active dialogue with companies on ESG strategies and performance

Our Focus

- Discover transformations leading to sustainable value creations regardless of macro and business cycles

Not Cyclical but Sustainable Improvements

- Scrutinize business models/strategies and ESG initiatives underpinned by sound management

Business Models/Strategies & ESG Initiatives

- High conviction built through regular proactive dialogues with companies to increase corporate value cooperatively

High Conviction backed by Dialogues

Source: Invesco. For illustrative purposes only.

ESG Integration at Tokyo investment centre

“

The investment team conducts ESG analysis based on information obtained through constructive dialogue with companies, as well as companies’ disclosures and third-party ESG research

ESG Integration process

At Invesco Japan, the Japanese equity investment team integrates ESG factors into the investment process. When making an investment decision, portfolio managers and research analysts assess ESG issues of portfolio companies. The investment team believes that the framework, where research analysts and portfolio managers who have the insights into portfolio companies carry out ESG research as part of investment decisions and engage in constructive dialogue directly with companies, as necessary, secures the effectiveness of stewardship activities as an active investor.

ESG related investment analysis is an integrated part of the investment process. As a long-term investor, the investment team believes that ESG information is an important factor to strengthen conviction in investment decisions. Therefore, in making final investment decisions, the investment team primarily focuses on qualitative analysis, including ESG strategies assessment, on top of the fundamental research based on financial information. The investment team conducts ESG analysis based on information obtained through constructive dialogue with companies, as well as companies’ disclosures and third-party ESG research.

As part of that process, the investment team seeks to identify material ESG issues for each company. Company research notes written by research analysts include sustainability comments from the ESG perspective as part of an investment case and ESG evaluation based on the material ESG risks and opportunities, the in-house ESG scores and the third party ESG research, where the investment team leverages information from the Global ESG team. The investment team deems them as one of the important factors to determine the sustainable growth of the corporate value in a holistic way. In general, the investment team aims to provide a forward-looking view that considers progress in ESG efforts.

Throughout the investment process, the investment team always seeks to deeply understand portfolio companies and their business environment, including ESG issues, and contribute to enhancement of corporate value and sustainable growth of these companies. The investment team conducts constructive dialogue, and purposeful engagement, with an aim to enhance the medium- to long-term return on investment for its clients. This comprehensive approach allows the investment team to combine findings on ESG related issues with other fundamental issues through the investment process and make appropriate investment decisions.

ESG Monitoring

The investment team has a quarterly review process on constructive engagements, where portfolio managers and research analysts discuss their engagement activity, assess progress in portfolio companies’ ESG practices and flag companies which they believe need further engagement on specific ESG subjects (engagement focus list). For each portfolio company, the investment team jointly determines key ESG risks and opportunities material to its business (ESG materiality) at the company level and carries out direct engagement with the company, aiming to achieve the sustainable growth of the corporate value.

Besides, in the quarterly portfolio review process, the Chief Investment Officer (CIO) and the ESG team also question or challenge portfolio managers about the ESG risks of an individual company that could have an impact on the sustainable growth of the corporate value based on the in-house ESG score combined with information from the Invesco Global ESG team and external ESG research, such as Sustainalytics, to see if a portfolio is not exposed to ESG risks that have a negative impact on the value of investment. The ESG team documents the review for the companies discussed in the meeting.

ESG Integration at Tokyo investment centre

“

Invesco Japan has established the Responsible Investment Committee and developed Proxy Voting Guidelines to oversee the control of the decision-making process concerning proxy voting.

Proxy Voting

At Invesco Japan, research analysts and portfolio managers, who actually make investment decisions and have the best insights into portfolio companies, conduct proxy voting. In order to vote proxies adequately, Invesco Japan has established the Responsible Investment Committee and developed the Proxy Voting Guidelines to oversee the control of the decision-making process concerning proxy voting. While the investment team may seek advice from an external service provider, investment professionals make voting decisions in principle, based on their proxy voting guidelines. The Responsible Investment Committee consists of members including Chief Investment Officer as the chair, as well as the Head of Compliance, Head of ESG Japan, investment professionals nominated by the chair and other members including persons in charge at the Client Reporting department.

The investment team strives to vote proxies on all portfolio companies. In voting proxies, they make decisions on proposals on the basis of whether they contribute to the sustainable growth of portfolio companies from all perspectives including ESG, taking into account the situation of each portfolio company and engagement with those companies. They review the proxy voting guidelines as appropriate to ensure that the contents contribute to the sustainable growth of the portfolio companies' corporate value. While the proxy voting guidelines are principles for their voting decisions, depending on the proposals, the investment team may make an exception if they conclude that such a decision is in the best interests of clients and beneficiaries after having constructive dialogue with the portfolio companies. In such a case, approval of the Responsible Investment Committee shall be obtained.

Engagement

The investment team believes that it is very important for portfolio managers and research analysts who make investment decisions to have an opportunity to engage in constructive dialogue with portfolio companies directly. As a long-term oriented investor, they focus on the sustainable growth of the corporate value, set up meeting opportunities with companies from the mid- to long-term perspective, obtain information necessary for investment decisions, and engage in various dialogues, as needed.

Accordingly, they have many opportunities to engage in various constructive dialogues including ESG strategies and performance in usual meetings with portfolio companies, even though specific agendas have not been set in advance.

Additionally, the investment team collaborates with the Asian Investors Group on Climate Change (AIGCC) and Climate Action 100+ as a leading participant. Other initiatives the investment team participates in include ACGA, TCFD Consortium, 30% Club Japan Investor Group and ESG Disclosure Study Group.

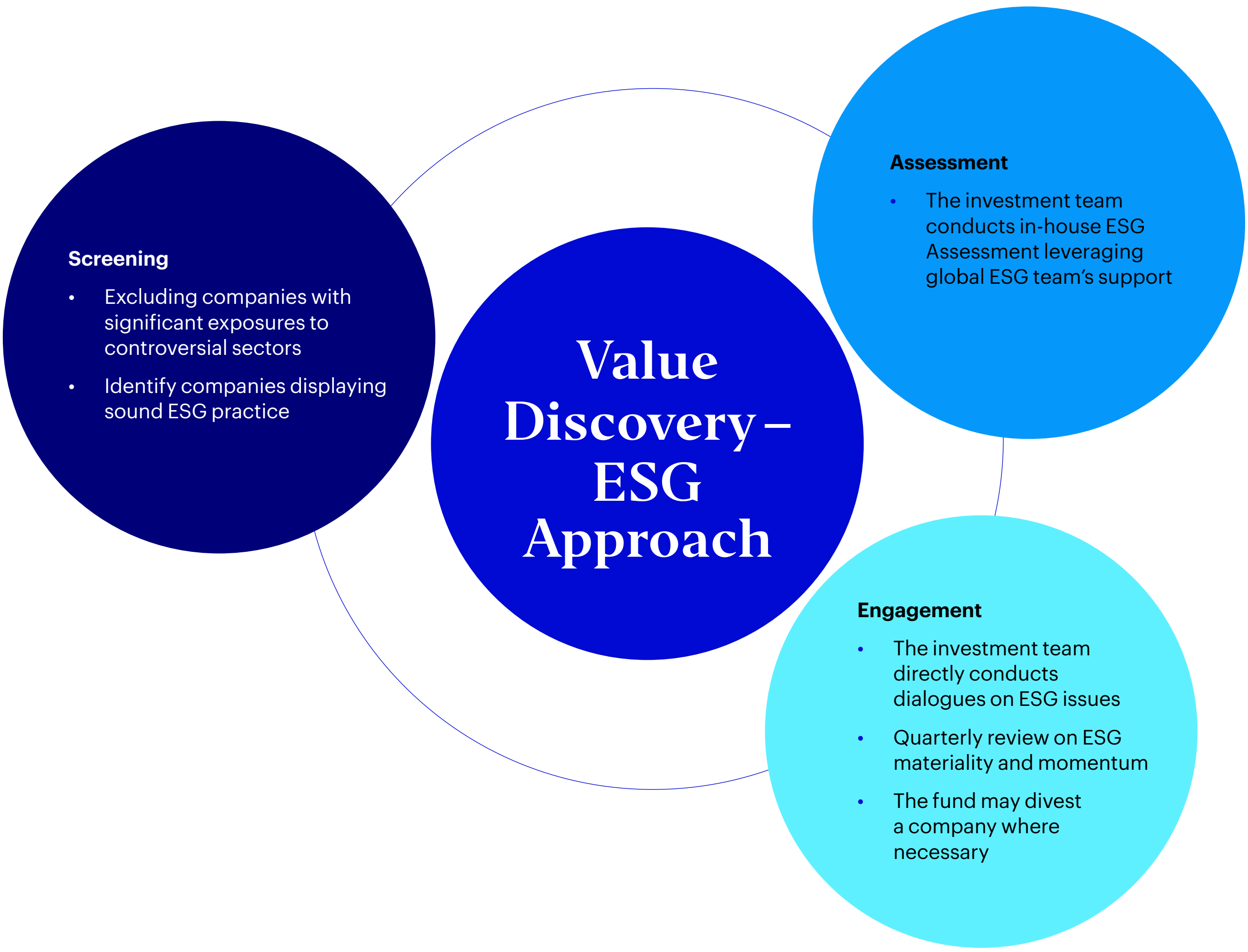
Key ESG characteristics for the Responsible Japanese Equity Value Discovery fund

In addition to the standard ESG integration and the ESG risk and opportunity assessment by portfolio managers and research analysts, the Responsible Japanese Equity Value Discovery Fund implements further ESG characteristics in the investment process:

Exclusion and negative screening
Companies or sectors 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 United Nations Global Compact principles.

Positive screening
Companies that display sustainable management, as well as sustainable products or services, are identified. The in-house ESG score, ranging from climate efficiency, low water consumption, human rights, labour safety and satisfaction to board structures and capital efficiency, is used to select companies with sound ESG practice.

ESG assessment and engagement
The portfolio manager and the ESG team assess ESG materiality and momentum of portfolio companies, identify "deep-dive" ESG engagement names and monitor progress in their ESG practices and performance on a quarterly basis.



Key ESG characteristics for the Responsible Japanese Equity Value Discovery fund

Exclusion and negative screening – Details

Using Sustainalytics Product Involvement and ISS ESG data, the investment team defines a set of ESG criteria with the support from the Global ESG team. Exclusion and negative screening can be used to eliminate companies that fail to meet certain ESG criteria. In the event that a company is not covered by third-party vendors, the investment team will evaluate whether investment in the company is line with the with the ESG policy.

The Invesco Responsible Japanese Equity Value Discovery Fund uses the following exclusion criteria:

	Controversial Activities	Excluded if
Coal & unconventional oil & gas supply	Thermal coal extraction	>=5%
	Arctic oil & gas exploration extraction	>=5%
	Oil sands extraction	>=5%
	Shale energy extraction	>=5%
Conventional oil & gas	Oil & gas extraction companies	>=10%*
Electricity generation	Max. Carbon emission intensity (gCO^2/kWh)	>393
	If carbon intensity data is not available, then: Thermal coal power generation	>=10%
	Oil & gas generation	>=25%
	Nuclear production	>=25%
Weapons	Controversial weapons	No involvement
	Nuclear weapons	No involvement
	Military contracting weapons	>=5%
	Military contracting weapon-related products and/or services	>=5%
	Small arms civilian customers (assault weapons)	>=5%
	Small arms military/law enforcement customers	>=5%
	Small arms key components	>=5%
	Small arms retail / distribution	>=5%
Tobacco	Tobacco product production	>=5%
	Tobacco product related products/services	>=5%
	Tobacco products retail	>=5%
Adult Entertainment	Adult entertainment production	>=10%
	Adult entertainment distribution	>=10%
Gambling	Gambling operations	>=10%
	Gambling specialised equipment	>=10%
	Gambling supporting products/services	>=10%
UN Global Compact	Overall global compact compliance	Non Compliant

*Oil & gas extraction companies that derive more-than 40% revenue from activities related to natural gas extraction or renewable energy sources may be exempted.

Key ESG characteristics for the Responsible Japanese Equity Value Discovery fund

Positive Screening – Details

The in-house ESG score defines companies with sound ESG practice among stocks consisting of the TOPIX index (representing about 2,000 issuers) on a semi-annual basis. Each E, S and G score is equally weighted to populate the total ESG score, and the top 70% of this overall universe is eligible and the worst 30% is excluded from the fund's investment universe. The current scoring metrics are outlined below. If the fund invests in a non-TOPIX constituent, the stock should be ranked in the top 70% according to the in-house ESG score.

ESG Data Components

E
Score

- CO^2 intensity per revenue
- Corporate Social Responsibility (CSR) report
- Climate change policies
- Water intensity per revenue
- Waste management and recycling policies
- Sets SDG targets

S
Score

- Signatory of UN global compact
- Human right policies
- Initiative to reduce social risks in its supply chain
- Quality assurance process and recall procedures
- Health and safety policies
- Conducts employee training on CSR
- Executive compensation score
- Percentage of women on the board

G
Score

- Board structure based on the percentage of independent board member
- Capital efficiency based on the level of ROE

The in-house ESG scoring is primarily run using the third-party ESG data vendors (Bloomberg, ISS and Toyo Keizai) systematically and data components that are widely available across the universe. Meanwhile, if the ESG data of a portfolio company/new investment opportunity is not available from these vendors' platforms, the portfolio manager, research analysts and the ESG team may manually refer to the company's disclosure or Toyo Keizai and send an ESG questionnaire to the company to score them. Such manual adjustments are ratified by the Responsible Investment Committee, which supervises stewardship activity at Invesco Japan, and logged.

The investment team goes through the re-ranking process on the investment universe on a semi-annual basis. If a portfolio company falls into the worst 30% of the TOPIX Index constituents, the investment team engage with the company and internal stakeholders to validate whether downgrade is appropriate. In the event the downgrade is confirmed then the position will be sold as soon as practicable.

ESG Assessment and Engagement

For the Responsible Japanese Equity Value Discovery Fund, the portfolio manager and ESG team conduct a quarterly ESG review to assess the ESG materiality and momentum of portfolio companies. They plan the engagement agenda for a portfolio company based on its ESG materiality and the in-house ESG score, highlight companies which they believe have material ESG issues, targets ESG dialogues towards these "deep-dive" names and monitor progress in their ESG initiatives and performance. Engagement activity with a portfolio company is logged, allowing portfolio managers and research analysts to track ESG dialogue history for each portfolio company. The ESG review meeting summary is documented on a quarterly basis to track progress in engagement with "deep-dive" names. If the portfolio manager and research analysts eventually arrive at the conclusion that the material ESG risks persist, the fund may divest the company.

the top 70% of this overall universe is eligible and the worst 30% is excluded from the fund's investment universe

Key ESG characteristics for the Responsible Japanese Equity Value Discovery fund

Any issues identified will be addressed as part of our company engagement, including our quarterly ESG review meetings as well as via proxy voting

ESG Materiality and Policy

At Invesco Japan, the investment team believes material ESG issues and approaches to deal with them depend on the business environment, growth stage and other factors of each company. They aim to identify ESG opportunity and risks (ESG materiality) for each portfolio company through constructive dialogue with a company based on in-house research combined with information from the Global ESG team and external ESG resources, such as Sustainalytics, ISS, Toyo Keizai, Bloomberg and IR Japan.

For the Responsible Japanese Equity Value Discovery Fund, the following ESG factors are identified as material ESG risks and opportunities to affect a company's sustainable corporate value growth, to strengthen conviction in an investment case and are the focus of engagement.

Corporate Governance
Corporate governance plays a critical role in governing Environmental and Social policies to achieve sustained growth of corporate value. It is vital that company has a robust management structure in place and as a result, the investment team assesses the company's board structure, independence of the board and succession planning. It is crucial that the board of directors mandated by shareholders determines the long-term business strategies and oversees its execution. To do so, the investment team believes that the board should be independent and have diversified members satisfying a skill matrix. Besides, a proper succession plan should be in place.

In addition, the investment team considers other important factors, including remuneration structure, an effectiveness of capital policy, initiatives to achieve the sustainable society as well as tax compliance are among the areas the investment team investigates.

Climate Change
Climate change is one of the biggest environmental challenges, which every company should deal with. To manage climate risks as well as opportunities, a company should determine an agenda aligned with its industry, business regions and business portfolios, establish and execute climate change strategies/policies and disclose these policies and assessments on a regular basis.

Besides, given that coal and unconventional oil and gas pose significant risks of green gas emissions and investing in these industries could set back investing in renewable energy technology and infrastructure, the Responsible Japanese Equity Value Discovery Fund excludes these names from its investment universe.

Human Capital Management
In order to attract and retain the right talent and achieve the sustainable growth of corporate value, healthy employee relations are essential. Companies should commit to proper labour standards, transparent diversity policies and effective human capital management strategies (including employee training and corporate culture), set key performance indicators, assess achievements and disclose such standards, strategies and policies coupled with assessments on a regular basis. Besides, they need to embrace all stakeholders as well as social matters within a company's entire supply chain.

Any issues identified will be addressed as part of our company engagement, including our quarterly ESG review meetings as well as via proxy voting. If any material issues described above persist, the fund may divest the company.

ESG Oversight Committee

There is an ESG committee in place to provide the appropriate oversight of the effectiveness and compliance of the policy, as well as provide independent challenge to any ESG matter.

Scope of the ESG policy, including usage of derivatives and cash management

The ESG characteristics defined in this policy, covering exclusions, negative and positive screening as well as materiality assessments, are applied to the entire portfolio of equity investments of the fund.

The fund may enter into financial derivative instruments for efficient portfolio management and hedging purposes only, and as such the derivatives may not be fully aligned with the ESG guidelines in terms of negative and positive screening.

However, there will be no unaligned derivative positions held for investment purposes.

The fund is managed on a fully invested basis and cash investments are residual, held for technical reasons and not for investment purposes. As such financial institutions where the cash is held, and cash instruments are not specifically assessed on their sustainability characteristics.

Investment Process for the Responsible Japanese Equity Value Discovery Fund

At Invesco Japan, the investment team takes a 100% bottom-up approach. On-the-ground industry/company fundamental research conducted by seasoned and skilful Japanese equity specialists is the heart of the investment process and the most value-adding component. The team's in-house research focuses on the three areas summarised below.

01

Will current changes lead to sustainable corporate value creation?
The investment team searches out changes in a comprehensive manner, covering sales, cash flow, cost structure and capital efficiency, and evaluate what contributes to these changes and how these contributors bring about changes. Their goal is to determine whether these financial statements changes are indicative of a transformation to create sustainable value.

02

Can business models and strategies enable sustainable value creation?
Strong but flexible business models and strategies enable a company to maintain a competitive advantage and increase corporate value regardless of macro and business cycles. The investment team scrutinises companies' business models and strategies and looks into whether and how they achieve sustainable value creation.

03

Will management's ESG commitment bolster sustainable value creation?
Without management capability and commitment, great business models and strategies cannot create sustainable corporate value. As such, the investment team places great emphasis on assessing management capability and its commitment to aligning strategies and operations with an ESG agenda, allowing a company to adapt well to macro/industry/micro changes and maximise shareholder returns.

Investment universe

In summary, the investment team seeks not cyclical but sustainable improvements in profit margins and capital efficiency underpinned by sound management and solid business models/strategies, where the investment team takes into account ESG opportunities and risks. This distinguishes the fund from other typical value funds.

The chart below illustrates the investment process embodying the three focal points above.

Approx. 2,000 Securities	Approx. 1,300 Securities	Approx. 200–400 Securities	Approx. 80–100 Securities	Approx. 80–100 Securities
Liquidity Screening Market capitalization JPY 30 billion or more	**Valuation Screening** Relative Historical Valuation: • Price/Book OR • Price/Earnings	**Fundamental Screening** Signs of Changes • ROIC Trend • Cash Accumulation • SGA Ratio • Management • Business Model	**Financial Analysis/Valuation** Earnings projection • Normalization • ROE/ROIC Factors for sustainable growth • Sustainability • Visibility • Management • Business/Life Cycle	**Portfolio Construction** Conviction • Valuation • Liquidity • Diversification
ESG Negative/Positive Screening		**ESG Assessment**		**ESG Engagement**
• Excluding companies with significant exposures to controversial sectors • Top 70% is eligible based on the proprietary ESG score		• Materiality from both risk and opportunity perspectives • Momentum		• Constructive dialogues • Quarterly ESG review

The number of securities is the long-term historical average and the information presented represents how the portfolio management team generally applies their investment processes under normal market conditions and is for illustrative purposes only. Source: Invesco as at 31 March 2021.

Investment Process for the Responsible Japanese Equity Value Discovery Fund

Eligible companies must derive at least

2,000

securities

“

The process determines the core research universe of approximately 80-100 stocks

01

Step 1: Liquidity Screening

The first step is to screen the entire universe of approximately 2,000 securities, all listed stocks on the First Section of the Tokyo Stock Exchange to control liquidity risk. Illiquid microcap stocks with a market capitalization of less than JPY 30 billion (approximately US$ 300 million) are excluded at the initial stage.

02

Step 2: Valuation & ESG Screening

Valuation screening adopts two valuation multiples, price to earnings (P/E) and price to book (P/B) ratios, to define a pool of attractively valued stocks. Stocks in the cheapest quartile compared to the market as well as historical averages based on these two criteria are selected.

ESG screening consists of:

- Negative screening: Companies, which fail to fulfil certain ESG criteria, including but not limited to the level of involvement in certain activities such as coal, fossil fuels, tobacco, adult entertainment, gambling and weapons, or which do not meet UN global compact principals, are excluded.
- Positive screening: Companies that display sustainable management, as well as sustainable products or services, are identified. The in-house ESG score, which leverages the third-party ESG data vendors, including ISS, Bloomberg, Toyo Keizai and ranges from climate efficiency, low water consumption, human rights, labour safety and satisfaction to board structures and capital efficiency, is used to select the top 70% companies with sound ESG practice in the TOPIX index or wider Japanese universe where appropriate.

This process narrows down investment candidates to a subset of approximately 200 to 400 undervalued stocks.

03

Step 3: Fundamental Screening

The research analysts and portfolio manager jointly carry out an initial fundamental assessment to identify investment candidates with potential for a transformation to bolster sustainable corporate value creation. The investment team conducts financial statement analysis, such as efficiency in capital investment, cash generating power and operating margin improvement, as well as management quality, business model/strategies and ESG initiatives to seek “changes” leading to a transformation. The process determines the core research universe of approximately 80-100 stocks.

Investment Process for the Responsible Japanese Equity Value Discovery Fund

04

Step 4: In-depth Fundamental and Valuation Research

To unearth investment opportunities, the investment team scrutinizes "transformations" which they believe lead to sustainable corporate value creation but which the market currently overlooks. To identify attractively valued stocks compared to long-term fundamentals, the research analysts and portfolio manager jointly carry out comprehensive company analysis with a focus on five types of transformations as follows::

- Evolve a product portfolio
- Develop product innovation and create a new market
- Strengthen core competencies and gain market share
- Geographical expansion
- Business portfolio/organizational restructuring

The investment team conducts a high-level assessment of business models/strategies and management quality and commitment which underpin such transformations to create corporate value. Essential features they seek are summarized below.

- Flexible but strong business models and strategies adapting to changes in market environments
- Effective business portfolio management to strengthen its business models and strategies
- Efficient capital allocation to improve ROE/ROIC and balance sheets.

On top of that, ESG risk and opportunity assessment is undertaken directly by the investment team who is responsible for taking investment decisions. ESG materiality criteria include:

Corporate Governance

- Business strategy to sustain corporate value creation
- Board structure to ensure sound corporate governance
- Top management commitment to high or improving capital efficiency
- Adequate and consistent capital structure management
- Business ethics

Environment

- Carbon emission control and reduction
- Sustainable use of resources
- Waste and recycle management protecting healthy ecosystem

Social

- Product governance to eliminate unintended risk
- Human rights and labour safety/ satisfaction policy
- Human capital management and diversity policies to attract and retain talent

Forward-looking assessment, including ESG momentum, in other words, any plans to change the shape of the company's business and operations, could be attached to the ESG risk and opportunity assessment if the investment team concludes that it is appropriate.

Incorporating all fundamental analysis above, the investment team makes two-year point estimates and normalized forecasts for earnings, cash flow and balance sheets and produce research reports with recommendations (Buy/Accumulate/Hold/Reduce/ Sell). In the normalized forecasts, they estimate financial statements when a company realizes its potential under normal circumstances. The stock research reports also include the sustainability comments from the ESG perspective as part of an investment case and ESG evaluations written by research analysts based on first-hand information from company meetings, company disclosure and the in-house ESG score combined with information from the Global ESG team and the third-party ESG research resources. Fundamental analysis and earnings forecasts are constantly discussed and examined by the investment team in informal and formal meetings, including a one-on-one meeting with the portfolio manager and a weekly investment team meeting.

The source of alpha is to detect "changes" leading to a "transformation", which is currently underestimated by investors, and to capitalize on the valuation gap between a current stock price and its long-term value.

"

The investment team conducts a high-level assessment of business models/strategies and management quality and commitment which underpin such transformations to create corporate value

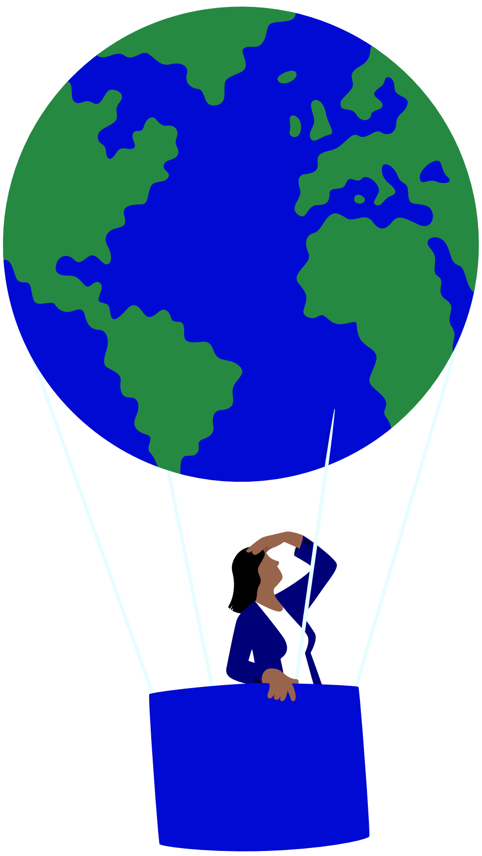
05

Step 4: In-depth Fundamental and Valuation Research

Based on thorough fundamental and valuation analysis, the portfolio manager builds a concentrated portfolio with 40-60 high conviction stocks. The investment team tends to stick with winning stocks as they sustain strong corporate value creation keeping their prices attractive compared to their normalized forecasts.

Risk control is built in the investment process. For this concentrated portfolio, thorough bottom-up fundamental research, including ESG assessment, and valuation discipline are a primary risk control measure. In addition, the investment team typically keeps the portfolio weight of a single position up to 5% at purchase for diversification purposes.

Furthermore, the portfolio manager and ESG team conduct a quarterly ESG review to assess the ESG materiality and momentum of portfolio companies. They plan the engagement agenda for a portfolio company based on its ESG materiality and the in-house ESG score, highlight companies which they believe have material ESG issues, target ESG dialogues towards these "deep-dive" names and monitor progress in their ESG initiatives and performance. Engagement activity with a portfolio company is logged, allowing portfolio managers and research analysts to track ESG dialogue history for each portfolio company. The ESG review meeting summary is documented on a quarterly basis to track progress in engagement with "deep-dive" names. If the portfolio manager and research analysts eventually arrive at the conclusion that the material ESG risks persist, the fund may divest the company.



Fund Facts

Invesco Responsible Japanese Equity Value Discovery Fund

Investment Centre	Invesco Tokyo Investment Centre
Fund Manager	Daiji Ozawa, CIO, MD, CFA
Contracted Vehicle Type	SICAV
Domicile Country	Luxembourg
SICAV Launch Date	30/09/2011 (Original fund launch 25/05/1993)
Repositioned Date	08/04/2021
Fund Volume	JPY 10.5bn

Source: Invesco as at 31 March 2021.