

# Sustainable Investment Policy

**Invesco Quantitative Strategies**  
Invesco Energy Transition Fund

April 2022



# Executive Summary

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Invesco Energy Transition Fund (the Fund) has sustainable investment as its objective as covered under Article 9 of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

The Fund aims to contribute towards the global transition towards lower-carbon sources of energy and achieve long-term capital growth.

The Fund invests in companies which contribute to the environmental objectives of usage of renewable energy. This includes companies active in the production of renewable energy, the distribution of it, the development of renewable power stations and green mobility as a main source of energy usage.

Such “clean” or “enabling” companies are identified via a sophisticated Natural Language Process (NLP) technique which assesses the company’s exposure towards these themes based on unstructured news data. The identification of companies via NLP focuses on two areas:



### Clean energy theme

Focus on the production and supply of clean energy including but not limited to renewable energy sources such as wind, solar, green hydrogen or tide. This includes companies providing the technology and the supply for clean energy production, sustainable energy storage as well as clean energy utilities and energy companies.



### Energy transition & efficiency theme

While clean energy is an important enabler to transition to a low carbon economy, the fund additionally focuses on energy transition and efficiency management. This includes the areas such as low carbon technologies, smart grid and green mobility.

Companies with significant hits are then screened to ensure they a) either already have significant revenue derived from clean energy and climate change activities<sup>1</sup> or b) are the leaders in energy transition<sup>2</sup> and are expected to develop significant business activities in that area. Furthermore, ESG criteria are applied to ensure that a company is not only positively exposed to transition themes in the news, but also fulfils defined ESG standards, especially the “do not significant harm” principle. In a final portfolio construction step, the balance sheet quality and the price momentum of the companies is reviewed to create a financially sound portfolio.

<sup>1</sup> Based on Vigeo Eiris Social Goods and Services involvement data.

<sup>2</sup> Based on Vigeo Eiris Energy Transition Score.

# 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 customised 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:

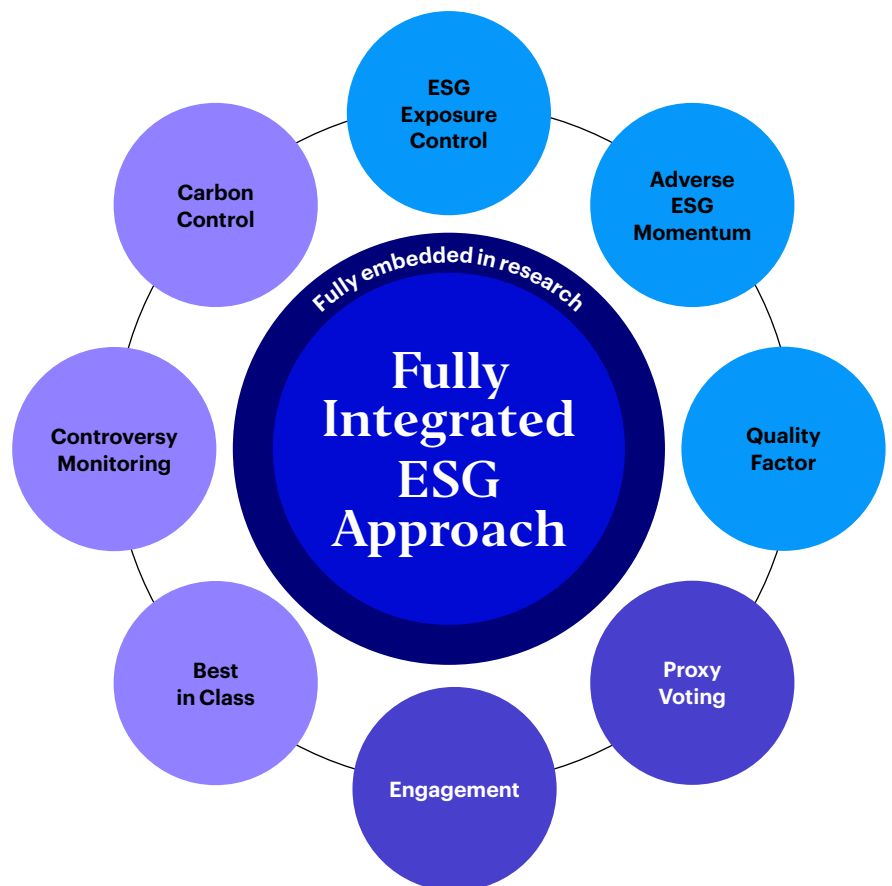
- Explicit and implicit consideration of key ESG aspects in the portfolio construction
- Active dialogue with companies through engagement programs and investor-oriented proxy voting with Invesco's proprietary proxy voting platform
- Offering optionality to implement additional, customized ESG criteria

## 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 dialogue with companies and investor-driven proxy voting using Invesco's proprietary Proxy Voting Platform
- Offering optionality to implement additional, customized ESG criteria tailored towards the client's needs
- 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 controlling for financial criteria such as the quality of a firm. The team has identified that some signals within the Quality factor show positive correlation to governance factors. These Quality signals prefer companies with a high balance sheet quality which, for example, buy back shares and do not show disproportionate balance sheet growth. Governance factors also prefer companies in which management acts in the interests of shareholders and does not pursue unprofitable business projects.

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

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

Additionally, the team uses the ESG Exposure Control. During the regular rebalancing the ESG exposure of the equity portfolio is managed against the exposure of the Fund’s equity benchmark, hence the MSCI All Country World. 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.

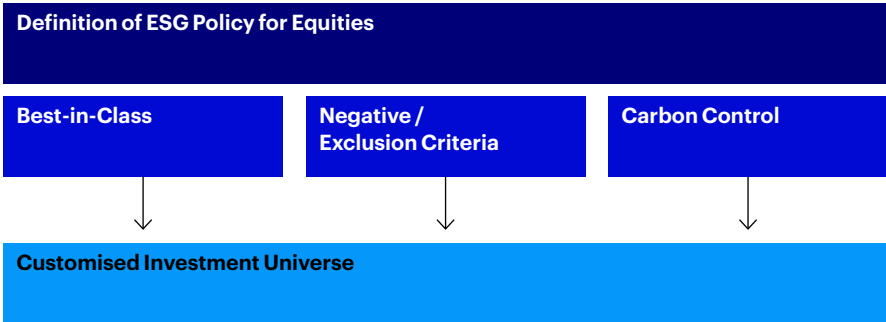
## Customised ESG

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 client specific definition of over 250 ESG criteria
- Global universe of over 6,000 companies



Source: Invesco. For illustrative purposes only.

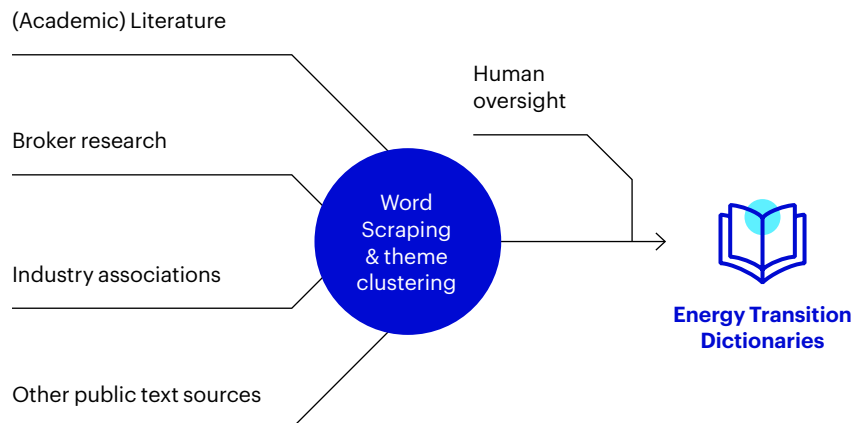
# Approach to Energy Transition

The Fund enables the investor to build up exposure to the topic **Energy Transition**. The Fund invests in the thematic areas of “Clean Energy” as well as “Energy Transition & Efficiency”. These topics are subject to constant development and undergo enormous progress driven by research from academia and companies.

## 1. Theme identification & dictionary creation

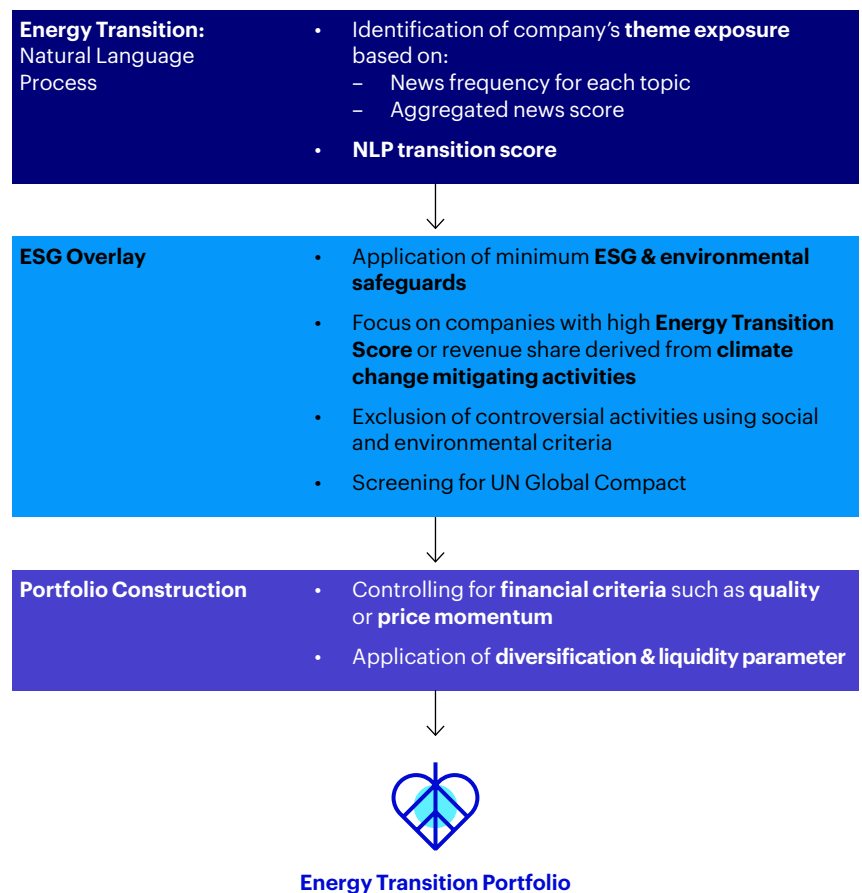
A major challenge is the creation of up-to-date dictionaries which capture developments in science and technology as well as the market on energy transition. The team uses word scraping techniques, which read various sources such as (academic) literature, broker research, or other professional articles coming from industry associations and identifies relevant, new terms for various topics in the area of energy transition. In order to identify new trends and technologies early on, the IQS team regularly updates the Fund's dictionaries. Once the dictionaries are updated, they are checked by the research and portfolio management team before they are released for the NLP process.

The advantage of this process is that huge amounts of data can be easily processed and new developments and resulting terms can be systemically found and integrated into the Fund management process without human biases.



## Holistic ESG consideration in the investment process

### 2. Systematic investment process to build up the theme exposure in a responsible manner



After the creation of the thematic dictionaries, the IQS team uses NLP tools to analyze the Ravenpack news data package. The NLP identifies companies which show news exposure to the defined transition themes. These themes include, among others, energy efficiency, energy transition, green mobility, clean energy production (solar, wind, other renewable sources) as well as energy storage. The news hits are set in relation to the overall news volume of a company to identify the importance of the theme for a firm. Subsequently, the team creates a proprietary aggregated thematic score, the *NLP transition score*. This score serves as a starting point for the portfolio construction in the final step.

In the second step, the team reviews the compliance with the ESG criteria of the Fund. Companies which show a low environmental score and overall ESG score or show business involvements in defined controversial activities (as listed in the appendix) will be excluded from the theme portfolio independent of their *NLP transition score*. Furthermore, the team applies an UN Global Compact screening to avoid investment in companies which fail to adhere to the norm's 10 principles.

Furthermore, the process selects companies contributing to the environmental objectives of the Fund by a screening process based on the revenues a company derives from activities in energy transition and clean energy, using the Vigeo Eiris Social Goods and Services dataset. If a company does not already have a significant share of its revenues associated with climate change mitigation related activities, it must demonstrate its potential to be a leader in energy transition. The latter item is measured using the Vigeo Eiris Energy Transition Score, a measure for a company's readiness to transition to a low carbon economy based on current results and the strategy. Finally, the IQS team constructs the portfolio using their proprietary *NLP transition score* as anchor for the portfolio weighting process. More precisely, the stock weighting is based on the relevance of a theme for a company and the company relevance for a theme and is based on the amount of news hits as identified by our NLP approach.

The process is designed to consider only firms that are already active or are expected to be active in the relevant fields.

## Holistic ESG consideration in the investment process

In this portfolio construction step, the team is also controlling for factor criteria such as quality and price momentum to avoid being the investment in very low quality and strongly declining companies. Furthermore, the portfolio construction process is subject to diversification constraints to limit the exposure to a single issuer. The Fund aims to reduce the weighted average carbon intensity by at least 30% compared to the MSCI World All Country Index. Derivatives, which are utilized to gain exposure to capital markets have to fulfill 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.

The product does not structurally invest into fixed income securities neither issued by states nor by corporates. The Fund does 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.

# Other key ESG elements reflected in the Invesco Energy Transition Fund

Additional elements to the Fund's ESG framework that will be reflected through the portfolio construction process are:



## **Sector exclusions**

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



## **Good governance assessment**

Invests in companies with good governance via the strong engagement and proxy voting policy and some exclusions cover the good governance aspect as well.

These elements are described in more detail below.

## **Sector Exclusions**

### **Exclusion and negative criteria**

By applying these criteria, companies, sectors or countries are excluded from the investment universe which fail to fulfil certain ESG criteria or that violate international norms and standards according to the definitions of the International Labour Organisation (ILO), the OECD or the United Nations.

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

In order to ensure that the investments of the Fund do not significantly harm other environmental and social objectives, the Fund will employ screening to exclude issuers that do not meet the Fund's criteria on a range of other environmental and social metrics, including but not limited to the principal adverse impacts required to be considered pursuant to the applicable EU regulation and the level of involvement in those activities. In this context, the Fund uses the following exclusion criteria, which may evolve over time.



## Other key ESG elements reflected in the Invesco Energy Transition Fund

The Invesco Energy Transition 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 come 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 including upstream (exploration and production), midstream (processing and transport) and power generation from fossil sources	<b>&gt;=5%</b>
	Structural increase of fossil activities over 3 years	<b>Yes</b>
<b>Environmental strategy</b>	Company's commitment to define clear objectives and appropriate measures to ensure management of the environmental impacts of products and services	<b>Insufficient environmental strategy</b>
<b>Bio-diversity</b>	Controversies in the field of endangering biodiversity	<b>Yes</b>
<b>Water</b>	Controversies in the field of protecting water resources	<b>Yes</b>
<b>Waste Management</b>	Controversies in the field of waste management	<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>
	Structural increase of fossil activities over 3 years	<b>Yes</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>

## Other key ESG elements reflected in the Invesco Energy Transition Fund

Additional sectorial exclusions are applied at the Fund level which may evolve over time:

	Controversial Activities	Excluded if
<b>Chemicals of concern</b>	Production of restricted chemicals	<b>0%</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>Civilian Firearms</b>	Manufacture or sale of civilian firearms or related products	<b>&gt;=10%</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 & financing of cluster munition or anti-personnel landmines	<b>0%</b>
<b>Tobacco</b>	Turnover from production and distribution	<b>&gt;=10%</b>
	Turnover from production	<b>&gt;=5%</b>
<b>Recreational Cannabis</b>	Involvement in recreational cannabis	<b>&gt;=5%</b>

## Good Governance

### IQS Process and Philosophy

IQS has and remains steadfast in its belief that strong governance is the cornerstone for long-term prosperity and sustainably delivering against stakeholders' expectations.

To ensure our philosophy of Good Governance we first identify the companies which violate this principle by systematically screening for controversies within the investable universe.

We are able to do this by evaluating an extensive volume of news data for violations of Good Governance. These violations are aligned with the UN Global Compact and severe controversies in the area of human rights, labour relations and labour rights and community involvement and also covers tax compliance. Violations of these controversies and an inability to resolve in a timely manner lead to a company being excluded from the investable universe and disinvested in case of a holding.

## Other key ESG elements reflected in the Invesco Energy Transition Fund

### Proxy Voting

Invesco's Proxy Voting approach is governed by the Global Proxy Voting Policy<sup>3</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 the "fund manager portal". The platform streamlines the proxy voting and ballot reconciliation processes, as well as related functions, such as share blocking and managing conflicts of interest issuers. This enables fund managers to vote in an efficient manner, increase transparency, share knowledge and effectively influence corporate practices and behaviours.

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

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

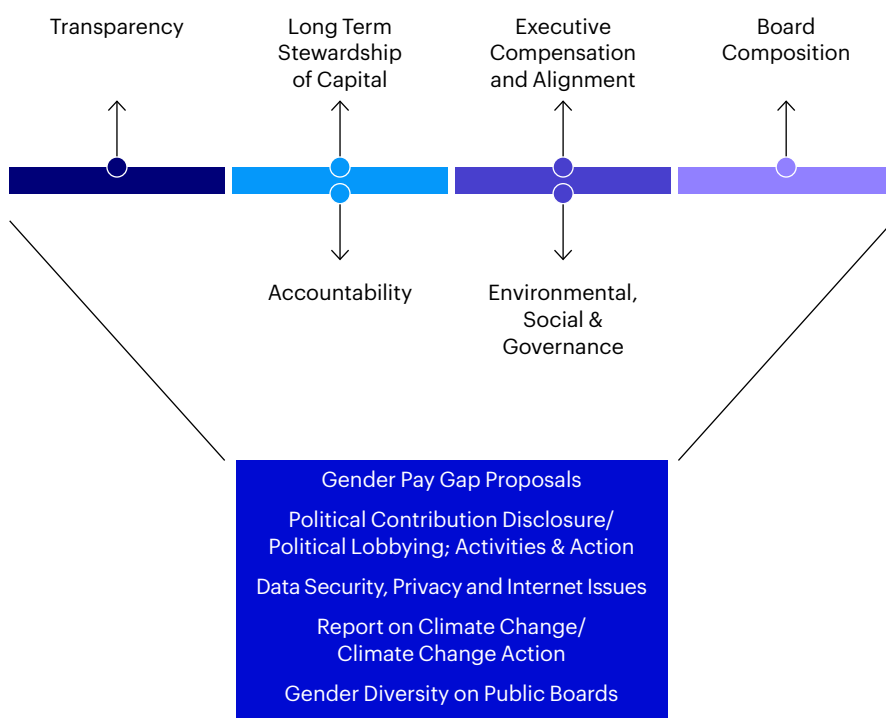
Where none of the ESG topics listed above are affected, IQS will generally follow the voting decision taken by the biggest active equity holder ("Majority Voting") in the Invesco Group as this reflects the relationship and dialogue that active managers within the group have with investee companies. In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

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

The IQS team furthermore reviews proxy votes from their strategy and actively supports the Climate Action 100+ initiative with their voting.

### Proxy Voting – Our good Governance Principles

Support of ESG shareholder proposals through Invesco's PROXYintel



<sup>3</sup> <https://www.invesco.com/content/dam/invesco/corporate/en/pdfs/regulatory/Proxy-Policy-2022.pdf>

Source: Invesco. For illustrative purposes only.

Other key ESG elements reflected in the Invesco Energy Transition Fund

Engagement

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

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

IQS’ engagement priorities can 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 recognised standards and conventions and correspondingly improve their company guidelines.

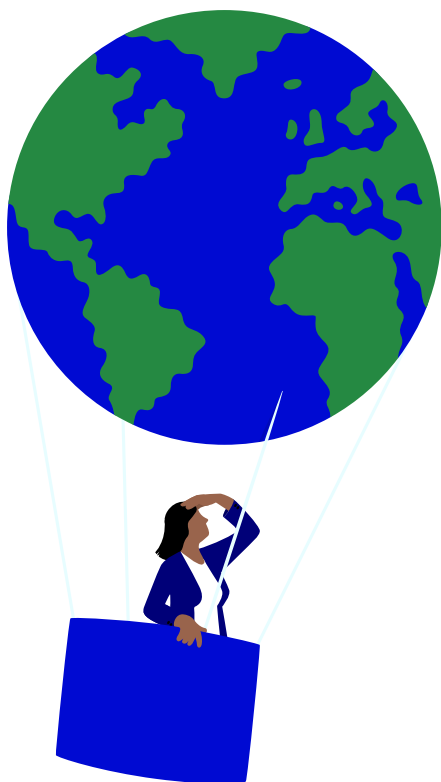
Engagement

Direct dialogue with companies



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

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



# Fund Facts

## Invesco Energy Transition Fund

Investment Centre	Invesco Quantitative Strategies
Fund Manager	Manuela von Ditzfurth, Erhard Radatz and Tim Herzig
Contracted Vehicle Type	SICAV
Domicile Country	Luxembourg
Launch Date	Original Fund Launch Date: 1 February 2001
Reposition to Energy Transition	8 April 2021
Transition to article 9	29 April 2022
Fund volume	USD 62.0m as at 31 March 2022

Source: Invesco as at 29 April 2022.