

# Responsible Investment Policy

Invesco Energy Transition Fund

April 2021



# Executive Summary

## Contents

- 02 Executive Summary
- 03 Holistic ESG consideration in the investment process
- 08 Investment Process
- 09 Fund Facts

The fund invests in companies which contribute positively to a transition to a low carbon economy or are developing solutions which enable the transition for the economy. 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:

01

## Clean energy theme

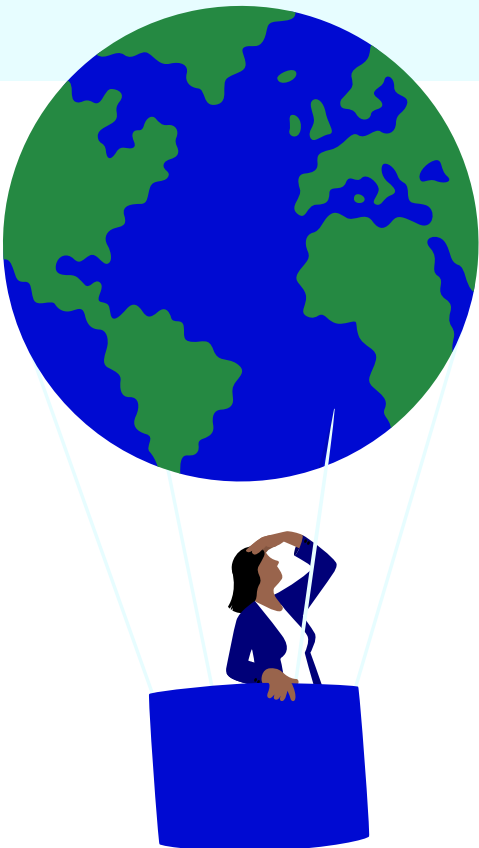
Focus on the production and supply of clean energy including but not limited to renewable energy sources such as wind, solar, green hydrogen or tide. This includes companies providing the technology and the supply for clean energy production, sustainable energy storage as well as clean energy utilities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

02

## 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.

After the NLP process, further 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 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. During this step, the process overweights companies that already have a positive contribution to low carbon transition based on a universal Energy Transition Score.



# Holistic ESG consideration in the investment process

Invesco Quantitative Strategies (IQS) follows a fully integrated ESG (environmental, social, governance) investment process which is built on a longstanding experience in customized ESG solutions, active engagement with companies and the Invesco proxy voting approach.

The team considers explicit and implicit key ESG aspects in their multi factor optimization process on a single stock, portfolio, and risk management level.

Besides incorporating proprietary aspects of governance within the Quality factor, all portfolios implement a dedicated ESG exposure control during portfolio construction and an adverse ESG momentum measure to restrict companies which face weak ESG scores and significant ESG downgrades, respectively.

Beyond a broad-based integration across all portfolios, a carbon control can be applied during portfolio construction to obtain a better overall carbon footprint in comparison to an underlying benchmark or investment universe.

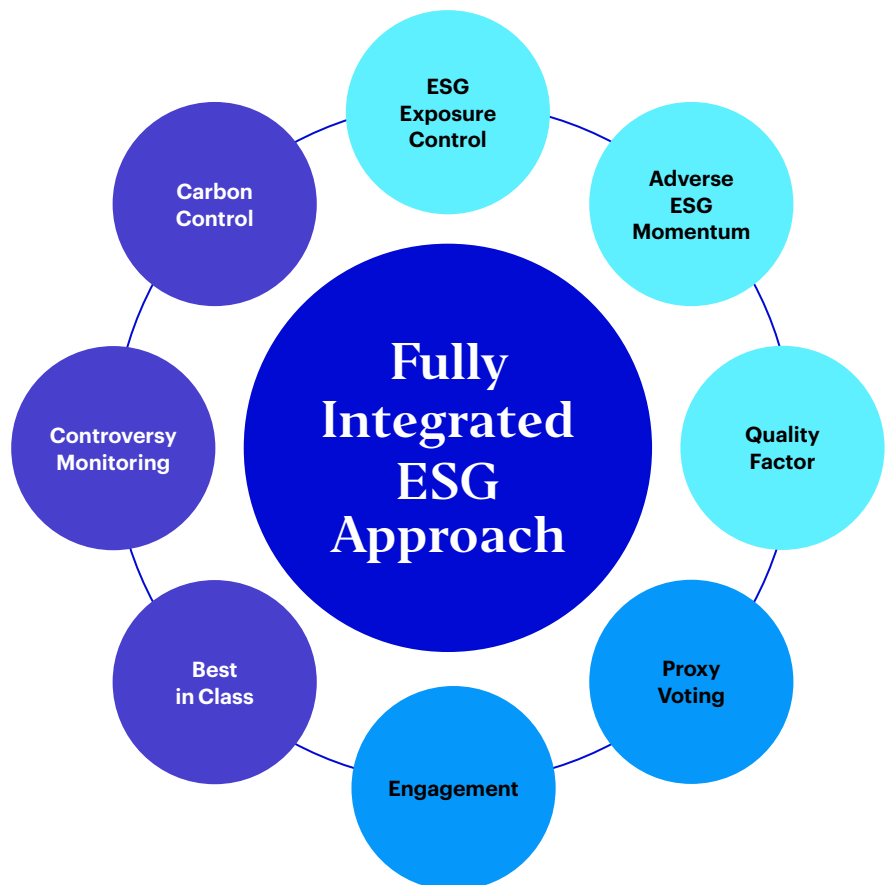
Additional customized ESG criteria in form of best-in-class and controversy monitoring can be implemented to meet client specific ESG requirements, as well as internationally recognized norms, conventions and renowned ESG quality labels.

## Holistic ESG consideration in our investment process

### Integrating key aspects of ESG

We consider ESG at several layers in our investment process:

- Standardized explicit and implicit incorporation of ESG key aspects into our investment process
- Active dialog with companies and investor-driven proxy voting using Invesco's proprietary Proxy Voting Platform
- Offering optionality to implement additional, customized ESG criteria



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.

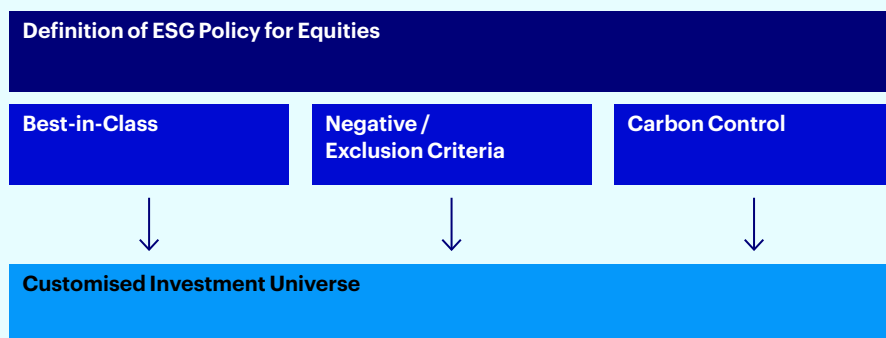
### Customised ESG

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



Source: Invesco. For illustrative purposes only.



The team's research has shown that companies that experienced severe downgrades tend to underperform their peers in the following months

In the Invesco Energy Transition Fund, the ESG focus includes exclusions and negative criteria.

#### 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 certain international norms and standards according to the definitions of the International Labour Organisation (ILO), the OECD or the United Nations.

Using the Datalab provided by Vigeo Eiris, 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, whilst positive criteria, can be used to identify companies, which are particularly characterised by sustainable economic development activities, positive products or processes.

## Holistic ESG consideration in the investment process

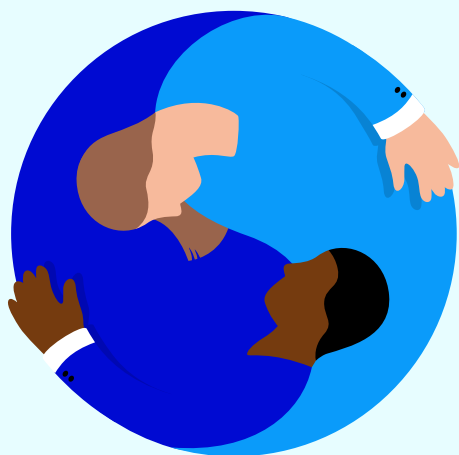
The Invesco Energy Transition Fund uses the following exclusion criteria:

	<b>Controversial Activities</b>	<b>Excluded if</b>
<b>Coal</b>	Turnover derived from thermal coal mining	<b>&gt;=10%</b>
	Turnover derived from burning coal for power generation	<b>&gt;=10%</b>
	Proportion in electricity generation fuel mix from coal	<b>&gt;=10%</b>
<b>Unconventional oil &amp; gas</b>	Revenues that comes from projects or the extraction of tar sands and oil shale, as well as the proportion of reserves in tar sands or oil shale	<b>0%</b>
	Involvement in fracking activities	<b>Yes</b>
	Involvement in arctic drilling activities	<b>Yes</b>
<b>Fossil fuel industry</b>	Revenues are derived from fossil fuel industries	<b>&gt;=10%</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>Chemicals of concern</b>	Production of restricted chemicals	<b>0%</b>
<b>Bio-diversity</b>	Controversies in the field of endangering biodiversity	<b>Yes</b>
<b>Pollution</b>	Controversies in the field of preventing and managing of accidental pollution or soil pollution	<b>Yes</b>
<b>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>Community involvement</b>	Controversies in the field of community involvement (including e.g. impact of operations on the local economy, responsible tax strategy, transfer of technology and skills)	<b>Yes</b>
<b>Nuclear power</b>	Turnover from nuclear power	<b>&gt;=5%</b>
	Proportion in electricity generation fuel mix from nuclear power	<b>&gt;=5%</b>
<b>Civilian Firearms</b>	Manufacture or sale of civilian firearms or related products	<b>&gt;=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>UN Global Compact</b>	Fail to pass the global compact screening	<b>Yes</b>

## Holistic ESG consideration in the investment process



in the Invesco Group as this reflects the relationship and dialogue that active managers within the group have with investee companies



In addition to the exclusion and negative criteria, the Investment Manager will also use screening to identify issuers with sufficient practice and standards in terms of energy transition for inclusion in the Fund's universe, as measured by their ratings relative to their peers. For this positive screening approach, the Invesco Quantitative Strategies Team

uses the Energy Transition score from Vigeo Eiris, as well as other overall environmental and ESG scores. The Energy Transition score seeks to inform on a company's strategic approach to reducing their emissions and to adapt their business model to address the risks and opportunities tied to the transition to a low carbon economy.

## Proxy Voting

Invesco's Proxy Voting approach is governed by the Global Proxy Voting Policy, 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.



Source: Invesco. For illustrative purposes only.

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 above.

<sup>1</sup> <https://www.invesco.com/corporate/dam/jcr:472ccfeb-b3cc-411e-9996-afd238caa7ad/Invesco-Global-Proxy-Policy-Statement-June-2019.pdf>

## Holistic ESG consideration in the investment process

### Engagement

IQS enters regularly into dialogue with carefully selected target companies via the Global Engagement Service of 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 be differentiated between the following two methods:

1. 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.
2. 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

#### Global Engagement Service

- Engagement with up to 30 companies a year
- Pooling of interest of different asset managers

#### Theme-based engagement

- Water
- Climate change
- Bribery & corruption
- Supply chain labour standards
- Human rights

#### Controversy-led engagement

Encourages companies to fully address allegations of corporate breaches of global norms and conventions

Source: Invesco. 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.

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



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# Investment Process

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.

01

## Theme identification & dictionary creation

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.

02

## 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. Companies with sufficient thematic exposure and characteristics are eligible for inclusion and 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 low energy transition, environmental and ESG scores or show business involvements in defined controversial activities and adverse impacts, and which do not meet minimum ESG and environmental safeguards (as listed in section 2 of this policy) 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.

Finally, the IQS team constructs the portfolio using their proprietary NLP transition score as anchor for the portfolio weighting process. Additionally, the holdings are reweighted using an Energy Transition Score. The Energy Transition Score is a measure for a company’s ability to transition to a low carbon economy based on current results and the strategy. The process is designed to overweight companies which show a higher Energy Transition Score, while it reduces the weight of firms which score low on this metric. Within this 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. 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.

### Energy Transition: Natural Language Process

Identification of company’s **theme exposure** based on

- News frequency for each topic
- Aggregated news score

### NLP transition score

### ESG Filters

- Application of minimum **ESG & environmental safeguards**
- Exclusion of controversial activities using social and environmental criteria
- Screening for UN Global Compact

### Portfolio Construction

- **Positive reweighting** using the **Energy Transition Score**
- Controlling for **financial criteria** such as **quality or price momentum**
- Application of **diversification parameter**



Energy Transition Portfolio



# Fund Facts

## Invesco Energy Transition Fund

Investment Centre	Invesco Quantitative Strategies team
Fund Manager	Manuela von Ditfurth Erhard Radatz
Contracted Vehicle Type	SICAV
Domicile Country	Luxembourg
SICAV Launch Date	01/02/2001
Repositioned Date	08/04/2021
Fund Volume	USD 91.2mn

Source: Invesco as at 31 March 2021.