February 2024

Invesco Climate Adaptation Action Fund

(the "Fund")

Sustainability-related disclosures

Contents

Summary

The Fund is an actively managed fixed income impact fund.

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 invests in public and private corporate from issuers supporting developing countries that are particularly vulnerable to the effects of climate change. The UN estimates that adaptation costs for developing countries to address impact of climate change could cost up to $300B USD every year by 2030. However only 20% of climate financing today goes towards adaptation and resilience, with the majority focused on mitigation instead. In order for developing countries to prevent adverse climate impacts, greater financing towards adaptation is required.

The Fund aims to support the adaptation to climate change. As part of achieving its ESG criteria, the Fund aims to generate income and to a lesser extent capital appreciation. The Fund will invest in issuers that can be defined to have a specific and measurable adaptation or mitigation outcome. Overtime as market issuance grows, the Fund aims to catalyse capital to primarily invest in adaptation outcomes.

Whilst the Fund does not have sustainable investment as its objective, the Fund aims to allocate at least 50% of its portfolio in sustainable investments.

The Fund applies a rigorous impact assessment framework alongside ESG risk considerations to guide its long-term investments.

In order to assess and evaluate a potential investment's impact and alignment to the Fund's ESG criteria, every investment will first be evaluated by a Rio Markers screen followed by the Fund's Adaptation Impact Evaluation Framework (as more fully described in the below sections in this document and within the Appendix).

Rio Markers Screen

Assess **intended project objective** of investments relative to themes of adaptation and mitigation.

Adaptation Impact Evaluation

Assess **potential adaptation impact** of investment projects based on climate vulnerability, adaptation needs and evaluation of solutions.

Coordination on ESG and impact assessment and oversight are provided by Invesco's Global ESG team.

No sustainable investment objective

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

However, the Fund commits to invest at least 50% in sustainable investments to support longer-term adaptation to climate change in vulnerable developing countries (as further explained under "Environmental and social characteristics of the product").

The Fund uses the following relevant principal adverse impacts (PAI) indicators defined in Table 1 of Annex I of the regulatory technical standards for Regulation 2019/2088, being considered as materially relevant for the investment strategy, 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 Indicator	PAI Metric
Carbon Emissions	Scope 1 – 3 Emissions
Fossil Fuel Involvement	% of fund exposed to any fossil fuels revenue
Non-renewable energy	Share of non-renewable energy production and consumption %
Energy consumption intensity	Energy consumption intensity across range of sectors
Biodiversity	Activities negatively affecting biodiversity areas
Emissions to water	Weighted average emissions to water (tonnes)
Hazardous waste	Weighted average hazardous waste production (tonnes)
UNGC	Breach of UN Global Compact Principles and OECD Guidelines for Multinational Enterprises **UN Global Compact Principles** The UNGC consists of 10 Principles that define minimum fundamental responsibilities that companies are expected to meet in areas of human rights, labour, environment and anti-corruption. These principles are derived from Universal Declaration of Human Rights, International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and United Nations Convention Against Corruption. **The 10 UN Global Compact Principles are:** Human Rights Respecting human rights, as defined in international norms, requires companies to use due diligence to avoid infringing human rights ("do no harm") and to address adverse human rights impacts with which they are involved. • **Principle 1:** Businesses should support and respect protection of internationally proclaimed human rights • **Principle 2:** Businesses should make sure that they are not complicit in human right abuses Labour Rights Labour rights are human rights according to international conventions such as the Universal Declaration of Human Rights (UDHR). The UNGC provides four specific principles derived from the ILO Declaration on Fundamental Principles and Rights at Work, highlighting that companies are required to respect international (ILO) norms in this area. • **Principle 3:** Businesses should uphold freedom of association and effective recognition of right to collective bargaining

PAI Indicator	PAI Metric
UNGC (cont.)	• **Principle 4:** Businesses should uphold the elimination of all forms of forced and compulsory labour • **Principle 5:** Businesses should uphold the effective abolition of child labour • **Principle 6:** Businesses should uphold the elimination of discrimination in respect of employment and occupation Environment • **Principle 7:** Businesses should support a precautionary approach to environmental challenges • **Principle 8:** Businesses should undertake initiatives to promote greater environmental responsibility • **Principle 9:** Businesses should encourage the development and diffusion of environmentally friendly technologies Business Ethics Requires companies not only to avoid bribery, extortion and other forms of corruption, but also to proactively develop policies and concrete programmes to address corruption internally and within their supply chains. Companies that are involved in anti-trust activities, accounting fraud, taxation fraud, (illegal) tax evasion, money-laundering, and bribery and corruption with significant stakeholder impacts may be assessed as non-compliant. • **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact Principles and OECD Guidelines for Multinational Enterprises

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 manager’s proprietary analysis and research.

It is recognised that data in certain instances is limited and as a result the team may where deemed appropriate use proxies or data obtained directly from the issuer in order to consider the PAI indicators.

In such instances where the investment team have based their assessment on a qualitative analysis, this will be reviewed by the Global ESG team.

Environmental or social characteristics of the financial product

The Fund will support a blend of climate mitigation and climate adaptation in the early investment period. However, the main objective is to reduce the climate mitigation exposure and shift primarily to climate adaptation as the market structure evolves.

The Fund will target the following investment ratios into climate adaptation focused investments:

- End of ramp up period of 18 months: 55%
- End of Year 3: 70%
- End of Year 5: 80%
- End of Year 7: 100%

To measure this, the Fund will consider both the current and anticipated use of proceeds of the debt securities as a % of the total value of the Fund's debt securities (excluding any short-term debt securities utilised for cash management or liquidity purposes).

There is no guarantee that the Fund will reach the targets set out above. The Fund will invest in green, social, sustainability and sustainability-linked debt and help originate investment instruments tilted towards adaptation and resilience. In particular, the Fund is focused on:

1. **Adaptation Tilt**
   Adaptation is critical in reducing economic losses from climate risks, creating positive economic gains and deliver on additional environmental and social benefits. Achieving these benefits require supporting key projects improving climate resiliency including systems producing food, protecting and managing water and natural environment, building of cities and infrastructure and disaster protection.
2. **Developing Market Focus**
   Climate finance is most required in regions most vulnerable to climate impacts, particularly developing markets including Least Developed Countries (LDCs), Small Islands Developing States (SIDS) and African States. The Fund will focus on identifying green debt opportunities aligned with the countries' Nationally Determined Contribution (NDC) and Adaptation Plans if available, in developing markets.
3. **Public-Private Allocation**
   Public bonds tend to have a narrow focus on adaptation with most focused on climate mitigation. A combination of public and private instruments will be most impactful in assisting developing nations in climate adaptation. The Fund will target to invest in a combination of Public bonds, private placement bonds and certificates of participation.

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:

Rio Markers screen assesses the intended objective of each investment and whether the objectives and outcomes align to the Fund's longer-term goals in adaptation and interim focus on mitigation. Every investment would be assessed on whether climate adaptation or mitigation is a principal objective or significant objective and this is done by evaluating objectives stated as part of the issuance as well as whether the activities plans meet Rio Markers criteria.

	Factors Evaluated	Assessment Levels
Project Objectives (pass/ fail)	• **Context:** Sets out project specific context for the Rio theme. Fund's focused Rio themes are climate change adaptation, and/or climate mitigation. • **Statement:** Makes an explicit statement of intent to address the Rio theme • **Demonstration:** Articulates a clear and direct link between the context of the specific project activities and the Rio theme.	• **Fail:** is not targeted • **Pass**: is a significant objective; objective is explicitly stated but it is not the fundamental driver or motivation for undertaking it • **Pass:** Is a principal objective; objective is explicitly stated as fundamental in the design of, or the motivation for, the activity

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 (where relevant for the strategy pursued by the Fund as further described under the Section name "No sustainable investment objective"), 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.

Finally, the Fund considers principal adverse impacts on sustainability factors by carrying out a qualitative and quantitative review of 14 mandatory indicators as defined by the Sustainable Finance Disclosure Regulation (primarily the indicators as defined in Table 1 of the Annex I of the regulatory technical standards for Regulation 2019/2088 and subject to availability of data). Please refer to the pre-contractual disclosures embedded to the offering document and the annual report of the Fund for more information.

Investment Strategy

The Fund's investment process integrates macro and credit views into risk positioning, asset allocation views and key themes to guide investing. These are combined alongside analysis and due diligence on individual public bonds, private placement bonds and certificate of participation, taking into account credit risks and impact considerations.

In order to support the scaling up of climate adaptation, the Fund will also strive towards catalysing greater financing for climate adaptation. This will include:

- **Thought Leadership**
  Sharing industry thought leadership and insights relating to investing for adaptation including best practices relating to deal sourcing and impact evaluation and monitoring
- **Capacity Building**
  Supporting the development of knowledge, tools and capacity building on adaptation and disseminating such knowledge to the broader investor community and industry
- **Developing Partnerships**
  Developing partnerships with organizations like Global Center on Adaptation to jointly share ideas and help promote adaptation financing in the industry

Through the sharing of the learnings and best practices of the Fund to the industry, the Fund hopes to contribute to greater adaptation financing in the longer term.

Fund Investment Process

Fund Governance

1. Define Universe	**Exclusions framework and E&S Risk assessment** **Public Debt – Universe Creation** Sustainable, Social, Green and Sustainability-linked bonds focused on adaptation or mitigation **Private Placements – Deal Sourcing** Deal sourcing on private placement bonds focused on climate adaptation through partner network
2. Impact Evaluation	Assessing deals on 1. Rio Markers and 2. Adaptation Impact Evaluation Framework
3. Macro & Credit Analysis	• Assessing macro and credit risks incl. Sustainability/Social/ • Green bonds and other labelled bonds assessment framework
4. Portfolio Management	Portfolio construction taking into account impact, risk, performance
5. Trading & Execution	Trading and deal execution and implementation

1. Define investment universe – global platform and local expertise

Exclusions framework
The Fund will exclude the following sectors and business activities that are inconsistent with the ESG criteria of the Fund sector exclusions as follows, which may evolve over time:

Controversial Activities	Measure	Excluded If
UN Global Compact	10 principles of UN Global Compact	Non-compliant
Coal	Thermal Coal extraction	>=0% of revenue
	Thermal Coal generation	>=0% of revenue
Conventional Oil & Gas	Oil and Gas Production – All Subcategories (Exploration and Production, Refining, Storage, Transportation)	>=0% of revenue
	Oil and Gas Generation	>=0% of revenue
Unconventional Oil & Gas extraction	Revenues from 1) Arctic oil & gas extraction, 2) Oil sands extraction, 3) Shale energy extraction	>=0% of revenue
Nuclear	Nuclear Supporting Products & Services	>0% of Revenue
Weapons	Revenue from illegal & controversial weapons (anti-personnel mines, cluster munition, depleted uranium, biological/chemical weapons etc.)	>=0% of revenue
	Military Contracting Weapons	>=0% of revenue
	Military Contracting Weapons related products and services	>=0% of revenue
	Small Arms Civilian customers (Assault Weapons)	>=0% of revenue
	Small Arms Military / Law Enforcement	>=0% of revenue
	Small Arms Key Components	>=0% of revenue
	Small Arms Retail/Distribution	>=0% of revenue
	Companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty (NPT)	>=0% of revenue
Tobacco	Tobacco products production	>=0% of revenue
	Tobacco Products Related Products/Services	>=0% of revenue
	Tobacco Products retail	>=0% of revenue
Cannabis	Involved in the recreational cannabis industry	>=0% of revenue
Gambling	Gambling Operations	>=0% of revenue
	Gambling Specialised Equipment	>=0% of revenue
	Gambling Supporting Products and Services	>=0% of revenue
Adult Entertainment	Adult Entertainment Production	>=0% of revenue
	Adult Entertainment Distribution	>=0% of revenue
Alcohol	Alcoholic Beverages Production	>=0% of revenue
	Alcoholic Beverages Related Products/services	>=0% of revenue
	Alcoholic Beverages Retail	>=0% of revenue

Certain green, social, & sustainability- linked debt from issuers that would ordinarily be ineligible due to involvement in restricted activities may be eligible for inclusion by the Fund. This is subject to appropriate discussions between the investment and ESG teams on the specific debt's / bond's eligibility and alignment with the ESG framework of the Fund.

Ancillary Exclusions

Controversial Activities	Measure	Excluded If
Activities subject to international conventions or agreements, such as:	Production of or trade in products containing PCBs	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
	Production of or trade in pharmaceuticals, pesticides/herbicides and other hazardous substances subject to international phase-outs or bans	
	Production of or trade in ozone-depleting substances	
	Transboundary movement of waste prohibited under international law except for non-hazardous waste destined for recycling	
	Trade in wildlife or wildlife products regulated under the CITES Convention;	

Controversial Activities	Measure	Excluded If
Activities subject to international conventions or agreements, such as: (cont.)	Activities prohibited by host country legislation or international conventions relating to the protection of biodiversity resources or cultural heritage	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
	Production or trade in or use of unbonded asbestos fibres or asbestos-containing products	
	Shipment of oil or other hazardous substances in tankers which do not comply with IMO requirements	
Peat	Investments into search, extraction, production, distribution, processing and promotion of peat	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
Fossil fuel	Activities that increase use of fossil fuels and/or prolong the technical or economic lifetime of heat and power production using fossil fuels, except for back-up in power generation plants, for household cooking purposes and for processes where feasible alternatives do not exist	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
Unsustainable fishing methods	Blast-fishing; drift-net fishing or trawling in the marine environment	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
Biofuel projects	Biofuel projects based on feedstock grown on land with high carbon content or biodiversity value	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
	Biofuel projects using a feedstock for production of liquid biofuels (where the overall climate and development benefits would be higher by using the same feedstock unprocessed)	
	Biofuel projects using solid biomass fuels from forests, planted or natural having a carbon cycle incompatible with the Paris agreement	
	Biofuel projects with production area over 75ha	
Commercial Logging	Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity
Forest products	Production or trade in wood or other forestry products other than from sustainably managed forests	Assessed through active research based on publicly disclosed or issuer-reported information as participating in the described activity

The exclusionary screening process will utilize the above to determine issuer ineligibility; however, on a case-by-case basis, issuers may be assessed and deemed eligible if exposure levels are determined to be de minimis and immaterial to the project or projects funded by the capital raised.

Additional environmental and social risk considerations
In addition to its proprietary framework, the Investment Manager also recognises the importance of assessing issuers alignment to international standards. Consequently, an analysis of each issuer relative to the relevant IFC Performance Standards will be incorporated into the investment process, in order to mitigate against Environmental and Social risks.

There are eight IFC Performance Standards (as revised in January 2012), listed as follows:

- PS-1: Assessment and Management of Environmental and Social Risks and Impacts
- PS-2: Labor and Working Conditions
- PS-3: Resource Efficiency and Pollution Prevention
- PS-4: Community Health, Safety and Security
- PS-5: Land Acquisition and Involuntary Resettlement
- PS-6: Biodiversity Conservation & Sustainable Management of Living Natural Resources
- PS-7: Indigenous Peoples
- PS-8: Cultural Heritage

For financial intermediaries, the IFC Guidance note on financial intermediaries will be used as reference to categorize the E&S risk profile of the investments, such as FI-2 and FI-3.

In addition, the Investment Manager may apply other standards where these are deemed relevant to the investment e.g. the Equator Principles for project related financing.

The Investment Manager intends to utilise the output of this analysis as part of determining the engagement agenda with issuers. Depending on the materiality and severity of any gaps, this could range from being a pre-condition of investment to encouraging further conformity to the performance standards on a post investment basis.

It should be recognised that in order to perform the assessment, the Investment Manager will be reliant on information being made available from the issuer in many instances. This information will be supplemented or corroborated using publicly available information where available, however in certain instances the Investment Manager will need to consider investment in the absence of the specific information directly attributable to each of the performance standards. Such instances would result in these aspects then being prioritised with issuers as part of the ongoing engagement process.

The Investment Manager will monitor the development of international standards in this area and may evolve the Fund's E&S risk framework and monitoring practices as existing standards are enhanced and new ones emerge.

Invesco Fixed Income (IFI) team uses a common ESG Grade approach in order to rate each issuer's ESG credentials.

These ratings are typically a function of scores across the three pillars of environmental, social and governance factors. Pillar scores are structured on a 1 – 5 scale:

1	2	3	4	5
Leading on most areas	Among sector leaders on some areas with stable/ improving trend	At global sector norms with stable trend or balanced risk factors	Among sector laggards on some areas with stable/ weakening trend	Lagging on most areas

At the time of purchase based on ratings determined by the IFI global credit research team, companies with any E, S or G pillar score of 5 (worst on the Fund's 1 – 5 scale) are also excluded as eligible investments for the Fund.

Issuers will be monitored in relation to adherence to the exclusionary framework over the life of the Fund and in the event that a breach of the exclusionary framework develops post purchase, such issues could be disinvested. However due to the illiquid nature of some of the issues, it may not be possible to disinvest or where it is not in the best interests of the Fund, engagement efforts will encourage rectification and such issuers could be deprioritised for future refinancing or issuance opportunities.

Public debt
The Fund will actively look for green, social, sustainability and sustainability-linked bonds with substantial contribution to climate adaptation in developing countries.

Green, social, sustainability and sustainability-linked bond with substantial contribution to climate mitigation may be considered in the near term, but the exposure is expected to reduce and shift to climate adaptation as the market structure shifts.

The definitions of substantial contribution to climate change adaptation and mitigation are based on the Impact Reporting Framework for definitions of project categories (as further explained in section "methodologies for environmental or social characteristics" for details).

Private Placements sourcing platform and strategy
The Fund will actively source for highly structured and highly collateralised private placement bonds geared towards climate adaptation. Both fundamental, such as credit enhancements and guarantee structures, etc., and climate adaptation impact will be taken into consideration. This is done through identifying and partnering with a network of partners to best access deal opportunities.

2. Evaluation of investment opportunities via Rio Markers and Adaptation Impact

Each investment will be assessed first by a Rio Markers screen followed by using Invesco's Adaptation impact evaluation scorecard to prioritize funding direction and maximize adaptation impact (see section "methodologies for environmental or social characteristics" for details).

Invesco's proprietary Adaptation Impact evaluation scorecard is an innovative framework, providing the investment team with a valuable tool to assess adaptation investments transparently and consistently. As the market evolves, the framework may evolve accordingly.

From the end of the ramp up period (18 months) until the end of the investment period, 25% of the NAV will be invested in securities which have a Principal Objective of "Climate Change Mitigation" and/or "Climate Change Adaptation".

3. Macro & Credit analysis

Macro research views provide a consistent starting point. The macro research team's process is designed to determine global growth dynamics and financial conditions using a global macro top-down approach. Risk control is focused on duration, currency, volatility, credit risks, liquidity management and impact project. The focus will be on the trade-off between impact, credit risk and reward with longer-term outlook at the country level. The team's conclusions establish the macroeconomic backdrop for credit research, asset allocation and overall risk positioning.

Public bonds
Credit research teams conduct bottom-up analysis with the aim of providing portfolio managers with actionable security-level recommendations. This analysis is based on a fundamental assessment of issuers' credit worthiness, a holistic ESG assessment, analysis of individual securities' relative value. Issuers with material ESG concerns are flagged by analysts and reflected in the fundamental recommendation on that issuer.

Invesco's proprietary sustainability, social and green bonds assessment framework will be used to assess all bonds in the Fund (see).

Private placement
The underwriting process of private placement bonds is as below:

Underwriting

Screening
- Issuer analysis and preliminary deal analysis
- Impact Framework and measurement
- Climate resilience assessment
- Top down: Key country and industry trends and risks
- Bottom up: credit analysis
- Preliminary deal terms

Analysis & Structuring
- Structuring to maximize impact and development
- Identification of projects and pipelines
- Impact reporting requirements
- Quality of cash flows and guarantee languages
- Investment sizing and portfolio construction
- Ensuring governance systems in place at issuer

Investment Decision
- Finalize structure, terms, covenants, and detailed legal documentation
- Complete legal, accounting, financial, ESG, and business due diligence
- Deal execution plan (timeline, hedging methodology etc.)

Investment & ESG Teams

4. Portfolio construction and management– platform tool kit & portfolio management

IFI's portfolio managers (the "Investment Manager") have full accountability and responsibility for implementing views from across the platform to achieve their climate adaptation impact, performance and risk objectives. Using their experience and judgment, they develop the Fund's adaptation tilt toward vulnerable countries, from a wide array of recommendations from across IFI's platform. The Investment Manager will select issuers for investment based on Invesco's assessment of their adaptation impact evaluation framework.

The Investment Manager constructs portfolios using sophisticated risk management tools as well as regular input from independent risk management professionals. The Fund's extensive ESG framework and impact metrics monitoring are built into the portfolio construction and compliance systems used.

As the market evolves and more impact opportunities present themselves, it is intended that the portfolio will gradually shift to 100% debt instruments with adaptation and resilience projects use of proceeds.

The portfolio will initially be focused on developing countries. Over time, it is intended to gradually shift to a balance of small island developing states, least developed countries, and Africa.

5. Trading & execution

Invesco's experienced traders provide market intelligence and execute trade ideas. Together with derivative specialists, these trading professionals help portfolio management teams determine the most efficient ways to implement views, and they provide valuable insights into the practicalities of execution and implementation.

Good Governance

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

- **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.
- **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.
- **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.
- **Long Term Stewardship of Capital:** Invesco expects companies to responsibly raise and deploy capital towards the long-term, sustainable success of the business.
- **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.
- **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.

Fund Governance

Throughout the investment process, the Fund's strategy, investments and operations are supported by the Invesco's ESG oversight and governance.

Technical Advisory Committee
The Technical Advisory Committee serves as an advisory group for the fund

- **Composition:** The committee will be comprised of experts on environmental and climate adaptation finance including but not limited to i) scientific expertise on climate adaptation, ii) expertise in scaling and deploying sustainable and development finance and iii) technical expertise in impact assessment and monitoring. This committee will be selected by Invesco and includes representation from partner organisations relevant to the Fund's climate change adaptation focus such as the Global Center on Adaptation.
- **Role:**
  - The Technical Advisory Committee serves to provide recommendations and suggestions to the Investment Manager including on latest market trends and developments, global best practices in adaptation finances, technical support on deal sourcing and project evaluation and impact assessment. The Investment Manager will consider these recommendations accordingly and use these inputs to help continually refine the Fund's strategy, sustainability-related disclosures and operations as appropriate overtime. These strategic guidance and industry insights shared by the committee will help support and reinforce the ESG objective and profile of the Fund in scaling up adaptation financing.
  - The Technical Advisory Committee will be solely an advisory committee that will not be involved in the management or day-to-day operations of the Fund. The active management of the Fund including on strategy setting, investment process and sustainability-related disclosures implementation will be solely handled by the Investment Manager.

ESG Oversight
Additionally, the Global ESG Team will also help provide ESG oversight, coordination and support for the Fund. This includes but are not limited to:

- **ESG evaluation for deals:** Reviewing all deals on impact and ESG considerations together with the Fixed Income Investment Team
- **ESG and Impact Portfolio Reviews:** The Global ESG Team will also hold ESG and Impact Reviews on the Fund's portfolio holdings with the investment team
- **Impact Evaluation:** Helping with the review on impact evaluation pre-investment and impact monitoring post-investment.
- **ESG Considerations:** Reviewing of self-certification for potential data gaps and reviewing of investment team challenges on such decisions
- **Engagement Support:** Supporting on defining engagement priorities and impact monitoring for holdings of the Fund

Proportion of investments

The Fund will make investments aligned with its environmental and social characteristics for minimum 70% of its assets and 30% maximum may be invested in money market instruments or cash for liquidity management purposes. A minimum of 50% of the Fund's portfolio will be invested in sustainable investments contributing directly to environmental and/or social 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.

It should be noted that due to the nature of the strategy of the Fund, the Fund may not adhere to the above allocation during the ramp-up period of 18 months (from the day of the launch of the Fund) where cash may be held until investments are deployed as well as during the run-off period of 5 years where no new investment will be made except for cash management purposes (following the investment period).

Monitoring of environmental or social characteristics

Monitoring

Fund's Impact Reporting Framework
To align the Fund towards the impact objective of supporting climate adaptation, the Fund will report to investors on an annual basis based on the following Impact Reporting Framework.

Illustrative Fund Impact Reporting Framework

Overall	Project types	Impact
Adaptation • $USD invested • # of bonds or projects supported • % allocated to green vs. sustainability bonds for adaptation and mitigation	**Adaptation & Mitigation Projects include** Climate Change Adaptation, Sustainable water and wastewater mgmt, Sustainable living natural resources and land use, Terrestrial and aquatic biodiversity, Green buildings, Renewable Energy, Energy Efficiency, Pollution Prevention & Control, Clean Transportation, and more...	**Adaptation** Metrics include: Annual Water Savings (M^3), Area Flooding Protected (KM^2), Area Habitat Restored (M^2), Biodiversity (# of species), Annual Wastewater Treated (M^3), # of people benefited, and more...
Mitigation • $USD invested • # of bonds or projects supported • % allocated to green vs. sustainability bonds for adaptation and mitigation	**Project Objectives** Alignment of objectives to impact based on Rio Markers	**Adaptation** Metrics include: Renewable Energy Generated (Mwh), GHG Emissions Avoided (T CO_2), Amt waste handled (Tonnes of waste), GHG Emissions Reduced (T CO_2), Energy Capacity Added (MW), and more...

The Fund would report on:

1. **Fund Allocation**
   The breakdown of funding and projects allocated between adaptation versus mitigation needs with an intentional goal to scale allocation towards adaptation over time. The Fund would also report on allocation by sustainable bond type; namely across sustainable, social, green, and sustainability linked debt instruments.

2. **Project Breakdown**
   - **Types of Projects:** breakdown of different project undertaken by the issuers
   - **Objective alignment:** Analyse how project objectives align to impact through use of Rio Markers assessment

3. **Impact Metrics**
   Corresponding impact metrics delivered by each project

Project Categories

The Fund will also monitor on project allocation in the following areas:

1. **Project Types**
   Details the aggregated breakdown of project categories reported by issuers in their annual impact and allocation reporting. Project categories definition are aligned with ICMA's Green and Social Bond Principles[1]; these would be dependent on the projects invested by the Fund but examples of project categories include but are not limited to:

Project Category	Details	Adaptation	Mitigation
Climate Change Adaptation	• Including efforts to make infrastructure (including but not limited to water systems, power systems, transport systems) more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems	Y	
Sustainable water and wastewater management	• Including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation	Y	Y
Sustainable living natural resources and land use	• Including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection • or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation • or restoration of natural landscapes	Y	Y
Terrestrial and aquatic biodiversity	• Conservation including the protection of coastal, marine and watershed environments	Y	Y
Green Buildings	• Buildings that meet regional, national or internationally recognized standards or certifications for environmental performance	Y	Y
Renewable Energy	• Including production, transmission, appliances and products		Y
Energy Efficiency	• Such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products		Y
Pollution Prevention and Control	• Including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy		Y
Clean Transportation	• Such as electric, hybrid, public, rail, non-motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions		Y

[1] ICMA Green Bond Standards https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/ Green-Bond-Principles_June-2022-280622.pdf

Impact Metrics

Additionally, the Fund will also assess and monitor adaptation and mitigation impact metrics of each project. Impact metrics are based ICMA's Harmonized Framework for Impact Reporting[2] and are dependent on the projects invested by the Fund; examples of potential metrics include but are not limited to:

Impact Focus	Impact Metric	Illustrative Details
Adaptation	Annual Water Savings (M^3)	Annual water savings for example from: • reduction in water losses in water transfer and/or distribution • reduction in water consumption of economic activities (e.g. industrial processes, agricultural activities including irrigation, buildings, etc.) • water reuse and/or water use avoided by waterless solutions and equipment, (e.g. for sanitation, cooling systems for power plants, industrial processes, etc.)
	Area flooding protected (Km^2)	Reduction in land loss from flooding or flood damage
	Area of Habitat restored (M^2)	Protecting terrestrial and marine natural habitats through maintenance/safeguarding/increase of protected area/OECM/ habitat in km^2
	Biodiversity	# of affected individuals or species
	Annual volume of wastewater treated or avoided (M^3)	Annual amount of: • wastewater treated to appropriate standards or raw/ untreated wastewater discharges avoided • wastewater avoided, reused or minimised at source
	Increased agricultural productivity	• Increase in agricultural land using more drought resistant crops in hectares • Area cultivated by precision agriculture in km^2 • # of people benefiting from measures implemented
	Landscape conservation/Restoration	• Number of indigenous species, flora or fauna (trees, shrubs and grasses...) restored through the project • Maintenance/safeguarding/increase of natural landscape area in urban areas in km^2 and in % for increase
Mitigation	Renewable Energy Generated	Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)
	GHG Emissions avoided (Tonnes CO_2)	Annual GHG emissions avoided in tonnes of CO_2 equivalent/b
	Amt of waste separated, collected, disposed or treated (tonnes of waste)	Collection and treatment or disposal of waste (according to country legislation compatible with internationally recognised standards): • Waste that is separated and/or collected, and treated (including composted) or disposed of in an environmentally sound manner before and after the project. (This presumes no leakage of contaminants.)
	GHG emissions reduced (tonnes CO_2)	Annual GHG emissions reduced in tonnes of CO_2 equivalent/b
	Energy Capacity added (MW)	Capacity of renewable energy plant(s) constructed or rehabilitated in MW
	Energy Savings (Mwh)	Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)/a

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

[2] ICMA Harmonized Framework for Impact Reporting https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf

Reporting

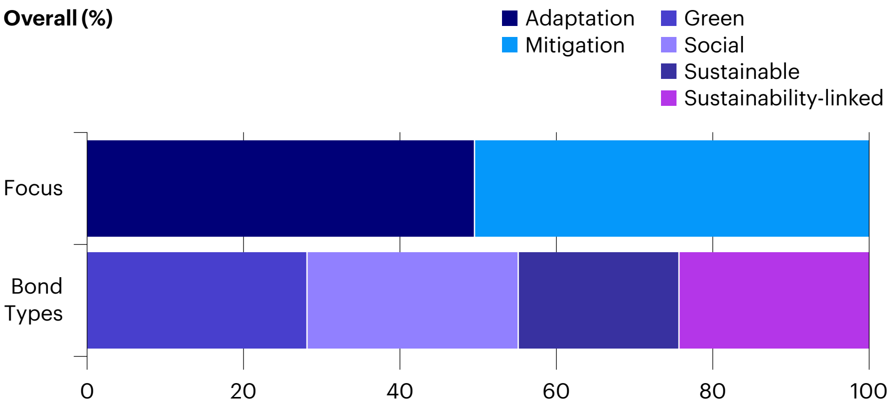
- **Cadence:** The Fund will provide annual impact reporting summarizing aggregated impacts achieved by holdings of the Fund based on the Impact Reporting Framework. Such reporting will be available on the website of the management company (invescomanagementcompany.lu).
- **Report Contents:** Report will cover aggregated fund metrics as well as highlights of project details with reference to the Impact Reporting Framework covered above.

Overall

Amount Invested	$XM USD
Adaptation	
Adaptation & Mitigation	

Amount Invested	X
Adaptation	
Adaptation & Mitigation	

Overall (%)



Selected Highlights From Portfolio

Illustrative Fund Impact Reporting Framework

Issuer	Investment Amt	Project	Type	Project Category	Rio Markers Score	Project Milestones	Key Impact
Issuer A	$XM USD	Project A	Adaptation	Sustainable living natural resource/ land use	X	XX certification farmland	Annual water savings of X m^3 X M^2 Habitat restored
		Project B	Adaptation	Sustainable water/ wastewater mgmt	X	Installed water treatment with annual recycling volume of -X m^3	Annual vol of wastewater treated or avoided
Issuer B	$XM USD	Project C	Adaptation	Terrestrial and aquatic biodiversity	X	Coastline protection deployed	X Area of Habitat restored (M^2)
		Project D	Adaptation/ Mitigation	Renewable Energy	X	Installed XX capacity of YY	XX renewable energy generated

Methodologies for environmental or social characteristics

To ensure a consistent process on evaluating climate change adaptation investments, the Fund will use its proprietary framework to assess each investment opportunity. The framework is focused on:

- **Climate vulnerability screening:** focus on scientific studies of physical climate risk; Analyse climate vulnerability and resilience in a forward looking perspective.
- **Assessing adaptation needs:** focus on target population, region or ecosystem; How climate change may impact project profitability and long-term viability; Design risk retention and transfer mechanisms.
- **Evaluation of adaptation solutions:** protection against climate change and recovery from the impact of climate change; Commercial readiness of adaptation and resilient solutions; Defining impact reporting metrics.

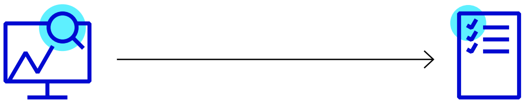
	Level	Factors Evaluated	Definition
Climate Vulnerability Screening (level 0–3)	3	• GAIN Vulnerability Score • Extreme Weather risks (drought, storm surge, landslides, flooding and sea-level rise) • Risk of climate events happening • Consequence of climate change in physical risks, transition risks, litigations risk: (Negligible, Minor, Moderate, Major, Extreme) • Use of climate modelling and robustness	**Level 0** Business as usual even in extreme climate scenarios **Level 1** Low climate vulnerability **Level 2** Medium climate vulnerability **Level 3** High climate vulnerability
Assessing Adaptation Needs (level 0–3)	3	• Adaptive capacity: GAIN Income Group • GAIN Readiness Score • Magnitude of Adaptation needs required financially • Identification of target population, region, eco system	**Level 0** No adaptation needs identified **Level 1** Low adaptation needs **Level 2** Medium adaptation needs **Level 3** High adaptation needs
Evaluation of Adaptation Solutions (level 0–4)	4	• Ability to low consequence of Climate Change (High, Medium, Low) • Commercial viability of solution • Cost benefit ratio: Financial value of climate change benefit versus financial cost • Impact intensity • Impact reporting provided and clear KPIs with monitoring mechanism • External technical expertise applied • Execution risk in implementing adaptation solutions	**Level 0** Weak adaptation needs **Level 1** Multi-benefit adaptation options **Level 2** Flexible adaptation options **Level 3** Low regrets adaptation options **Level 4** No regrets adaptation options
Result (out of 10)	10		

Based on this framework, the Fund screens and assesses each adaptation investment opportunity it is presented. **The minimum threshold for inclusion would be score of 6 with minimum score of 2 for each category at the point of purchase.** Note that this framework is applied toward the adaptation Use of Proceeds within each debt security and this will be used in conjunction with Invesco's Fixed Income's (IFI) sustainability, social and green bonds framework and common principles for ESG research (appendix). Adaptation categories is defined in the Impact Reporting Framework above.

The adaptation Impact Evaluation framework will be reviewed on an ongoing basis whilst any post purchase reductions in the evaluation will not necessarily lead to disinvestment, this will be utilised as a trigger for further engagement with the issuer.

Fund's Approach to assessing investment's impact

In order to assess and evaluate a potential investment's impact and alignment to the Fund's ESG criteria, every investment will first evaluated by a Rio Markers screen followed by the Fund's Adaptation Impact Evaluation Framework.



Rio Markers Screen

Assess **intended project objective** of investments relative to themes of adaptation and mitigation.

Adaptation Impact Evaluation

Assess **potential adaptation impact** of investment projects based on climate vulnerability, adaptation needs and evaluation of solutions.

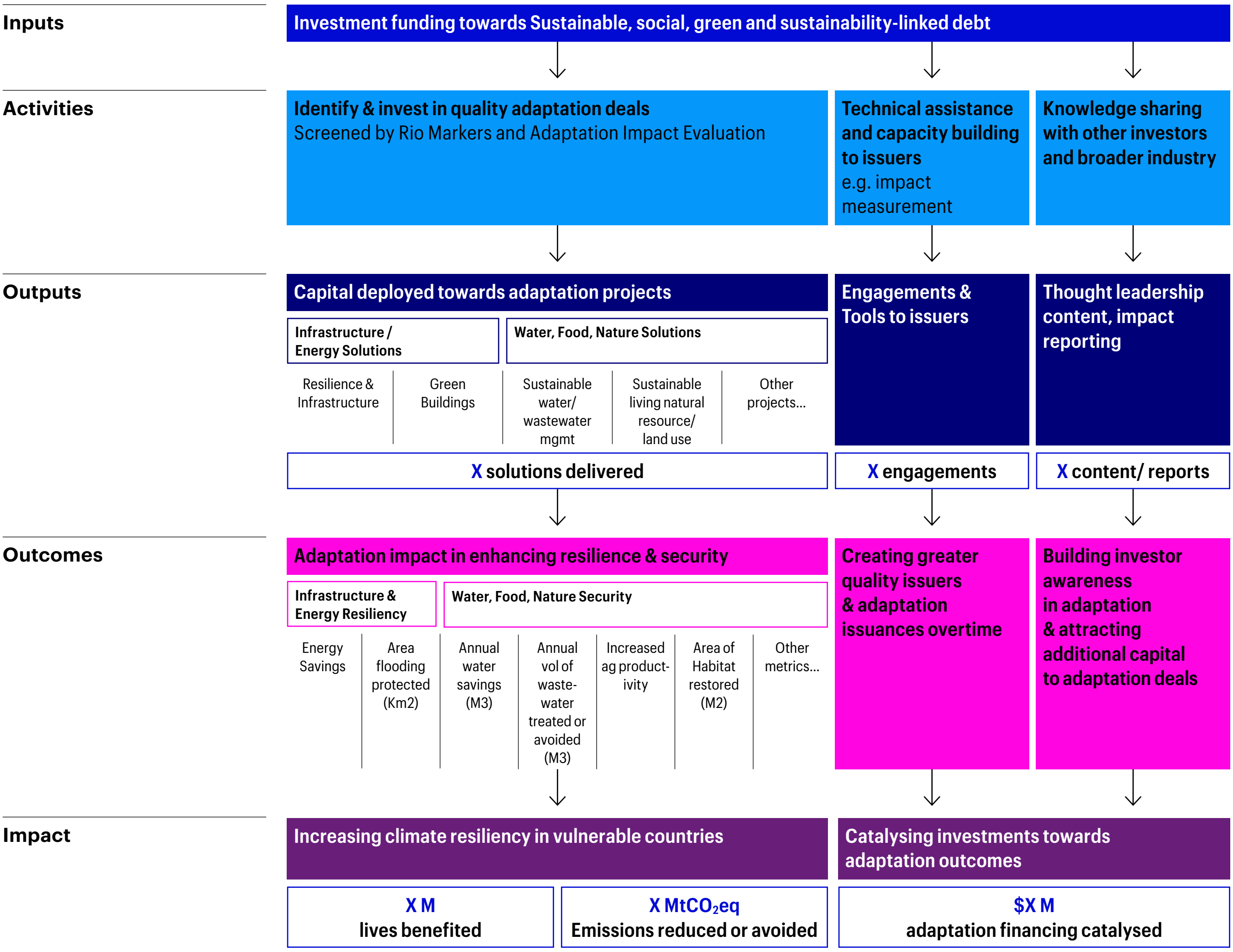
Rio Markers Screen

The Rio Markers are the first screen for any investment in the Fund.

They constitute a stepwise minimum framework comprising of a) context, b) statement and c) demonstration. The investment project must have a "significant" or "principal objective" for either "Climate Change Mitigation" and/or "Climate Change Adaptation" to pass the Rio Markers screen.

	Level	Factors Evaluated	Definition
Project Objective (pass/fail 0–2)	2	**Context:** Sets out project specific context for the Rio theme. Fund's focused Rio themes are climate change adaptation, and/or climate mitigation.	**Fail** Is not targeted
		Statement: Makes an explicit statement of intent to address the Rio theme.	**Pass** Is a significant objective
		Demonstration: Articulates a clear and direct link between the context of the specific project activities and the Rio theme.	**Pass** Is a principal objective

The Fund's key objective is to support the adaptation to climate change. As part of achieving its ESG criteria, the Fund aims to generate income and to a lesser extent capital appreciation. This is done primarily by progressively increasing investments into adaptation projects (see example categories in Impact Reporting Framework) delivering on specific adaptation outcomes (see example metrics in Impact Reporting Framework) while also supporting climate mitigation in the near-term.



Fund's goal is to support longer-term adaptation to climate change in vulnerable developing countries; key longer-term impacts:

1. **Vulnerable countries increase resilience/ better adapted to climate impacts**
   - Measured by lives benefitted while also having emissions reduced/ avoided
   - Adaptation financing towards projects safeguarding infrastructure, energy, water, food, nature with impact on areas protected, water/ energy savings, ag productivity
2. **Mobilizing greater capital to adaptation outcomes**
   - Creating pipeline of quality adaptation projects with relevant ESG considerations/ reporting

Source: Invesco Analysis.

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 MSCI, Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance, however, this can be supplemented with other service providers where appropriate.

Sustainable Investments – Details

For the qualitative checks and the selection criteria:

- **Public issuers**
  Data will be aggregated from issuer reporting and 3rd party data providers such as NASDAQ Sustainable Bond Network (NSBN) on a yearly basis
- **Private Placements**
  The Fund will coordinate with issuers to report back annually on impact metrics on projects based on the Impact Reporting Framework.
- **No data**
  Where no data is available, the Fund will engage with corresponding issuers to better assess and evaluate on project progress and provide support for issuers to improve reporting overtime.

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 data obtained directly from the issuer in order to consider the PAI indicators. In such instances where the investment team have based their assessment on a qualitative analysis, this will be reviewed by the Global ESG Team.

Due diligence monitoring is done to ensure data providers are providing on-time deliverables such as ESG data, research and recommendations. Invesco conduct 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

Cash management

Cash, or cash equivalents and money market funds may be held by the Fund for liquidity and cash management purposes. Such positions which may not meet the Fund's sustainability-related disclosures.

For the avoidance of doubt, where the Fund invests in short-dated instruments issued by individual issuers (for example, bank term deposits) as part of the active investment strategy rather than liquidity position, each issuer will meet the sustainability-related disclosures outlined above.

As mentioned in the section "Portion of Investments", it should be noted that due to the nature of the strategy of the Fund, the Fund may not adhere to the targeted allocation during the ramp-up period of 18 months (from the day of the launch of the Fund) where cash may be held until investments are deployed as well as during the run-off period of 5 years where no new investment will be made except for cash management purposes (following the investment period). However, this should not prevent the Fund to meet its targeted environmental characteristics.

Derivatives

The Investment Manager will use derivatives in the Fund for hedging, efficient portfolio management (EPM) and investment purposes. Where derivatives are employed for investment purposes i.e. to enhance the active return of the Fund, the Investment Manager will carry out an assessment on the underlying assets to ensure that they are consistent with the environmental and social characteristics detailed above. However derivatives utilised for hedging and efficient portfolio management (EPM) may not meet the Fund's sustainability-related disclosures, however the Investment Manager will continue to monitor market developments on sustainability-aligned derivative instruments and will evaluate new instruments as they arise.

Principal adverse impact indicators

As mentioned in the section "Environmental and social characteristics of the financial product", the Fund considers principal adverse impacts on sustainability factors by carrying out a qualitative and quantitative review of 14 mandatory indicators as defined by the Sustainable Finance Disclosure Regulation (primarily the indicators as defined in Table 1 of the Annex I of the regulatory technical standards for Regulation 2019/2088 and subject to availability of data). Disclosure of principal adverse impacts information may be more limited in nature for private companies that issue bonds that are consistent with the Fund's climate change adaptation focus and while improving disclosure on these indicators will form part of the ongoing engagement process with these issuers, consideration of these indicators in these cases is on a best efforts basis.

ESG data and methodologies can present certain limitations:

Standardization concerns: Varying ESG reporting methodologies across companies can impede comparative analytics and evaluations.

Data integrity: ESG data accuracy is contingent on reliable company disclosures.

Data availability: Selective ESG disclosure by entities can limit the insight into potential ESG-related risks and opportunities.

Timeliness of data: The reporting lag in ESG data can impact the ability to react promptly to shifting scenarios.

Subjectivity in interpretation: The inherent subjectivity of ESG factors can lead to varied interpretations, thereby posing challenges to maintaining consistent ESG-related investment strategies.

Scope of data: ESG reporting is not standardized among issuers. This lack of standardization means that there can be a difference in available data between issuers.

Reliance on estimates: Largely due to lack of standardization in disclosure and the potential data gaps found in certain ESG related datasets, many ratings and analyses often rely on estimates. This has the benefit of filling in missing information in a dataset, however the various methodologies behind these estimates introduce an additional level of complexity. Direct company disclosure is always preferred.

Despite these limitations, ESG data remains essential to our investment analysis and does not affect how the Fund meets its environmental or social characteristics. We incorporate ESG data as part of a comprehensive analysis process alongside key elements such as financial performance and market trends. In addition, we conduct multiple checks on the data prior to it being loaded into our proprietary ESG platform. Our investment analysts and portfolio managers have the ability to challenge the ESG data, overseen by a dedicated team of independent ESG analysts. This multifaceted approach diminishes the potential impact of data limitations.

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 50% 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 50% sustainable investments threshold. 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 objectives

Aligned with the Fund's objective to scale up climate adaptation impact overtime, engagement with issuers play an important role in supporting and collaborating with issuers to execute projects to deliver on adaptation impact. Some of the potential engagement priorities include:

- **Impact Target Setting**
  Collaborating with issuers to define adaptation impact metrics, targets and milestones
- **Impact Monitoring and reporting**
  Monitoring on issuers' impact reporting and actual project and impact progress; supporting issuers on impact measurement and data gaps in impact reporting; discussions with issuers' on project implementation challenges, delays and deviations from initial plans or targets.
- **ESG Considerations**
  Collaborating with issuers to increase relevant ESG disclosures and potentially supporting on addressing potential ESG risks such as with regards to Principal Adverse Impact indicators, the relevant IFC Performance Standards" or recent ESG-related controversies identified.
- **Capacity Building**
  Providing guidance and technical support on matters relating to project execution and impact assessment and delivery.

Structure and Cadence

- **Strategy meetings**
  Sets out upcoming engagement priorities across the fund based on percentage holdings of issuers, existing project and impact progress, potential material risks or opportunities identified.
- **Review meetings**
  Evaluation and review of engagement KPIs and updates on key engagement meetings held previously and setting priorities and milestones.
- **Ad hoc meetings**
  Whenever new information and development come forward, ad-hoc engagement may be arranged.
- **Attendees**
  Meetings will be attended by fund portfolio management team along with Global ESG team and IFI research team.
- All engagements will be documented.

Engagement Process

Pre-issuance
Focus on sourcing information, representations or undertakings with respect to environmental and social risks, setting expectations on project impact and impact reporting; where possible to request inclusion of contractual obligations on ESG information

- **Public Issuance**
  More focused on communicating importance of ESG and impact to issuers where required as well as the Fund's impact reporting framework.
- **Private placements**
  Active dialogue with prospective issuers to understand on project impact.
  Where possible, to request for inclusion of contractual obligations on issuer in terms of quarterly impact reporting based on our impact reporting framework.
- **External partners**
  Engagement with external partners, such as local institutions and expert NGOs, as part of the due diligence process of the issuers.

Post-issuance
Meetings will be arranged with selected issuers where focus of engagements will include:

- **Project use of proceeds**
  Understanding project implementation status and evaluating use of proceeds.
- **Impact metrics**
  Reporting on impact metrics to-date
- **Capacity building**
  Sharing of global best practices relating to project execution and monitoring, impact evaluation and risk management
- **Milestones**
  Understanding and identifying clear upcoming project and impact milestones for the next 6-12 months
- **Monitoring environmental and social risks**
  Targeted dialogue around industry specific environmental and social risks and controversy mitigation, engagement on specific issuer related environmental and social risks which have been identified and monitoring in relation to remediation plans and measures where appropriate

For reference, a sample engagement questionnaire is as follows.

Engagement Table
Key areas for engagement with issuers on impact

	Category[1]	Key Questions[2] Examples
What	**Use of proceeds & Project Eligibility** • What are key project categories? • What are key project details (e.g., targets deliverables and sustainability objectives? **Project targets** • What are key project target deliverables and sustainability objectives?	E.g., targets, timeline, capacity, tech
Who	**Target beneficiaries** • Who are key target beneficiaries? • Where is project being delivered?	E.g., XX plant or XX farm in XX province, XX country
How much	**Project status/Management of Proceeds** • What are key project milestones and key project activates that have been completed? • If there are any delays, what are key causes and plans required ahead?	E.g., XX capacity installed, XX certifications achieved
Contribution	**Project Outcomes/Reporting** • What are key impact metrics that has been achieved? • What are key outcomes from project delivery as compared to targets set? • Any data gaps in reporting or support required?	Based on Impact Reporting Framework • E.g., X annual water savings (M^3). X area flooding protected (Km^2)
Risks	**Risks** • What are key implementation challenges and potential risks to project delivery? • Any key PAIs or ESG related risks or controversies that needs to be addressed? • Milestones: What are key next steps and priorities ahead?	E.g., project roadblocks, project drop-offs in future, impact magnitude, impact assessment

Source: [1] Impact Frontier / Impact Management Project's Five Dimension of Impact. [2] With reference to Green Bond Principles.

Review and monitoring

- The Fund will monitor project and impact progress of each issuer based on impact reporting and engagement meetings. Issuers that require additional support would be prioritized for subsequent engagement.
- Issuers not making satisfactory progress despite engagement efforts could be disinvested from where possible and if this is in the best interests of the Fund. Where not possible to disinvest or where it is not in the best interests of the Fund, such issuers could be deprioritised for future refinancing or issuance opportunities as engagement efforts continue.
- For issuers with prospective refinancing or new issuance, timing and scheduling of meetings can be more targeted to increase impact of engagement.

Appendix 1

How is ESG integrated into investment process at Invesco Fixed Income

IFI has comprehensive ESG philosophy and framework on credit issuers. Although the Fund focuses on climate adaptation bonds, the below contents provide a guidance to IFI standard ESG implementation.

ESG Overview

IFI's investment approach emphasises proprietary research and focuses on fundamental valuation to support the active management of our clients' portfolios. ESG integration is strongly consistent with this investment focus. IFI has chosen to integrate ESG analysis into its investment process because it believes that investment risk management is improved by evaluating issuers in a structured manner across these additional dimensions and ultimately, risk-adjusted returns can be enhanced for all clients. ESG integration can also enhance returns through the identification of sustainability-linked opportunities.

Developing an independent, proprietary view on each issuer's performance across environmental, social and governance factors is the core objective of IFI's approach. To this end, IFI seeks to deliver on this mandate through investments in its platform, processes and people.

The fixed income landscape is wide and varied. It encompasses securities issued by countries, companies, securitised debt, loans undertaken by private companies and many other forms of assets. Geographical, structural and regulatory differences mean that data availability, ESG awareness and management engagement levels are highly diverse. As a result, while our underlying approach to ESG remains constant, the path to arriving at an ESG-based assessment necessarily differs to account for the constraints and challenges of a particular asset class. Our approach follows a structured framework where quantitative measures are just one input used by analysts to arrive at a qualitative assessment of where each issuer stands relative to its global sector peers.

ESG Infrastructure

We have developed a fully integrated solution for ESG information, which enables our portfolio managers to be ESG aware, with the ability to optimise as required. This has been achieved by connecting the ESG data stored in our research database with our portfolio management system so that PMs can view the ESG metrics as part of their primary workflow in evaluating portfolio risk and constructing trades. This is a combination of IFI proprietary ESG scores and those of recognised ESG rating providers.

Common Principles for ESG Research

Our approach to ESG is rooted in a belief that evaluating environmental, social and governance criteria leads to better long-term risk-adjusted returns. With this in mind, we look for a combination of **materiality** and **momentum**.

- **Materiality** means being clear about the ESG considerations that have the potential to impact most significantly on an issuer's ability to meet its debt obligations. In keeping with Invesco's overarching approach to responsible investing, we integrate ESG into our fundamental research processes. This benefits our clients by providing an independent assessment of each investment's suitability for strategies, thus complementing ratings from third-party providers or expanding the investable universe for issuers that lack external coverage. In addition, our global standards for research and investment decision-making allow for ESG considerations to be applied across asset classes, thereby enhancing comparability for multi-sector fixed income portfolios.
- **Momentum** means using our expert analysis to determine which issuers are outpacing their peers in making progress around ESG considerations. We believe that a link may exist between positive momentum in ESG characteristics and improving creditworthiness, which is advantageous for fixed income prices. Importantly, we encourage momentum by engaging with issuers. We work with Invesco's Global ESG team and other experts to engage with issuer management and provide our views on matters such as corporate strategy, transparency, capital allocation and ESG concerns. Again, reflecting Invesco's overall approach, we see active ownership as a vital element of our fiduciary responsibilities.

ESG Grades
IFI uses a common ESG Grade approach across public fixed income markets in order to ensure clear communication of each issuer's ESG status.

These ratings are typically a function of scores across the three pillars of environmental, social and governance factors. Pillar scores are structured on a 1-5 scale:

1. Leading on most areas
2. Among sector leaders on some areas with stable/improving trend
3. At global sector norms with stable trend or balanced risk factors
4. Among sector laggards on some areas with stable/weakening trend
5. Lagging on most areas

For our proprietary ESG Grade, the scale definition is as follows:

A. All pillar scores above the sector median

B. Majority of pillar scores above the sector median

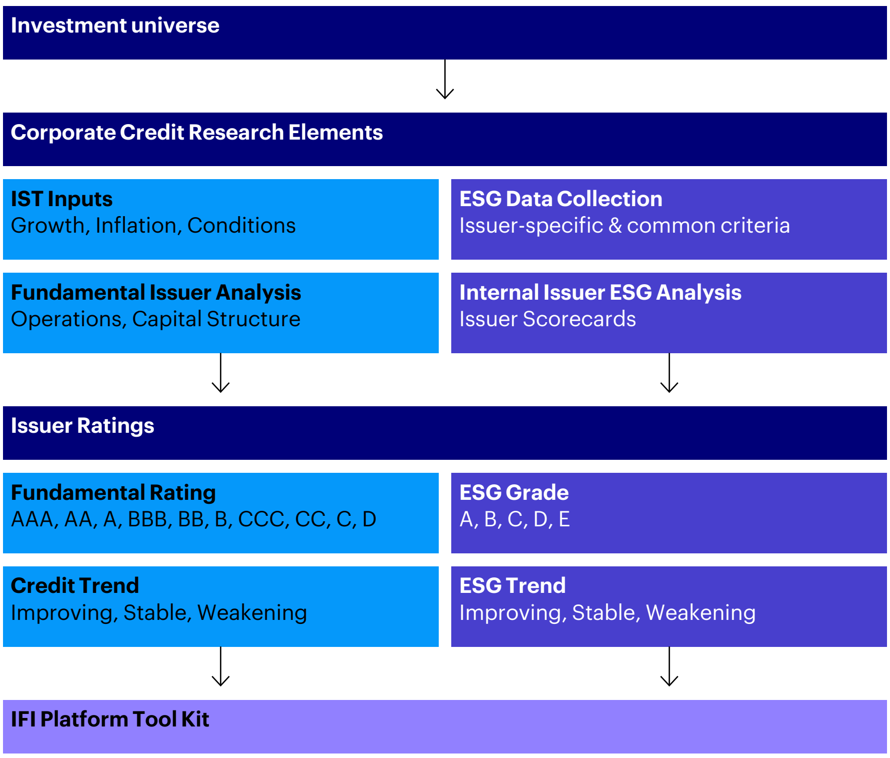
C. Balanced pillar scores around the sector median

D. Majority of pillar scores below the sector median

E. All pillar scores below the sector median

ESG Analysis for Corporate Bonds
IFI's credit analysts are responsible for evaluating the ESG drivers for the companies that they cover and conducting ESG-based analysis alongside their fundamental financial analysis and as part of their investment recommendation process. Each credit analyst is tasked with publishing an overall ESG Grade for issuers under their coverage. Issuers are scored at environmental, social and governance pillar level which support an overall trend and grade assessment. Oversight is provided through the construct of our Global Corporate Research team with industry sector teams assessing appropriate material risk factors to provide a reference framework. Our analysts are focused on identifying risk factors that could be financially material – these may be common to all industry participants or unique to a specific issuer.

Overview of ESG Grade elements for corporate bonds
The starting point for ESG assessment is at the industry level. Our Global Sector teams set out common ESG risk factors for each industry, and individual analysts work within this framework on each issuer in their coverage area while also seeking to identify any idiosyncratic ESG risks to which individual issuers might be exposed.



By integrating the assessment of different risk factors across the ESG spectrum into our fundamental research process, our primary goal is to be able to identify ESG risks that may have a potentially material impact on an issuer's ability to service its debt in the future. The ESG process for corporate credit is initially structured at the sector level with each IFI global credit sector team establishing key risk factors under the environmental, social and governance pillars – see financials example above. This provides a common framework for assessing all issuers across our research coverage universe.

We use third-party research and data to provide broad market context and transparency on ESG issues for analysts. Our research platform collates multiple sources (examples listed below) to present IFI analysts with a comprehensive dashboard of information, which forms a baseline for the proprietary ESG assessment ultimately.

Examples of data sources incorporated:

- MSCI E, S & G Scores, Industry percentiles and weights
- Sustainalytics Risk scores and category summary data
- Global Compact compliance or violation fields (MSCI and Sustainalytics)
- ISS Climate Solutions – Scope 1 to 3 emissions and science-based emission targets
- Controversies – MSCI & Sustainalytics data feeds

At the issuer level, data availability, disclosure rules and management engagement levels can vary dramatically across each global sector. When placed alongside the fact that issuers themselves have unique features in terms of business models, the weighting of ESG factors in each issuer assessment must be approached with specialist insight. In our research process, the qualitative judgment of the credit analyst is central to determining whether an ESG factor is evolving in a manner that may compromise an issuer's financial indicators and ultimately, its creditworthiness.

ESG analysis output
For each issuer, there are three outputs from the ESG assessment carried out by the credit analyst.

1. **ESG Pillar Scores**
   Pillar scores are structured on a 1 to 5 scale. Issuers in the top quintile relative to peers on a pillar with improving momentum are assigned a 1 score. The worst performing (bottom quintile) issuers received a 5 score.
2. **Overall ESG Grade**
   Ratings are expressed on an A to E letter scale. A rated issuers typically will have all pillar scores above their sector median.
3. **ESG Trend Assessment**
   Assessed as "Improving", "Stable" or "Weakening" within a forward-looking rolling 12-18 month time horizon.

These outputs are also accompanied by a qualitative ESG assessment written by the analyst, which outlines notable elements contributing to the pillar scores, overall ESG grade and trend assessment. ESG Grades for each issuer are published alongside credit fundamental ratings and security recommendations on Invesco Fixed Income's global research platform.

For banking sector, where applicable, the commitment to the Equator Principles and corresponding implementation will be reflected in the ESG research report and the investment team of the Fund will take into consideration of such factor.

Assessing Sustainability, Social and Green Bonds
As the Fund will invest in sustainable debt and help originate investment instruments tilted towards adaptation and resilience, all debt securities in the Fund will be aligned with Invesco's proprietary sustainability, social, and green bonds assessment process.

As sustainability, social and green bonds have seen increased issuance as well as interest from clients, Invesco has developed its own specialized templates to aid in analysing bonds in these categories. This facilitates dynamic assessments of primary issuance to take place and timely decision-making on whether to participate for client accounts.

An overview of the assessment process for these bonds is provided below.

Philosophy	Criteria for Green/Social	Criteria for SLBs	Overall evaluation summary	Review
We assess sustainable bonds against ICMA criteria. We use the UN SDGs to define what can be considered 'green', 'social', and 'sustainable'	Use of proceeds: Score 0 – 4	Mapping of KPIs to UN SDGs: Score 0 – 4	Total 8 – 10: Maximum alignment	Ongoing assessment to ensure proceeds have been spent in line with proposal at time of issuance and/or KPIs are on track.
	Management of proceeds: Score 0 – 2	Difficulty of achievement: Score 0 – 2	Total 4 – 7: Sufficient alignment	
	Reporting: Score 0 – 2	Financial penalty for failure: Score 0 – 2	Total 0 – 3: Minimum alignment	
	External verification: Score 0 – 2	External verification & reporting: Score 0 – 2		

After completing the assessment, IFI analysts input these scores into our investment research platform to provide portfolio managers with guidance as to the alignment of sustainability bonds at the time of issue and on an ongoing basis as deemed necessary.

Rio Markers Description
As part of the fund's investment process, the fund evaluates and assesses each investment on alignment to adaptation and/or mitigation objectives. This evaluation includes a Rio Marker Assessment to determine eligibility for inclusion. The assessment is based on the OECD's "DAC Rio Markers for Climate" handbook. It includes an evaluation of each investment's explicit project objectives and activities to evaluate if they qualify as adaptation and/or mitigation with a principal or significant objective.

In terms of the process, the assessment begins with 1. issuance analysis and alignment to adaptation/ mitigation followed by 2. scoring on objective type:

1. **Mapping to adaptation vs mitigation**

   Issuance analysis: Starting point for Rio Marker analysis is in understanding the issuance details, in particular we would look at the:

   Project objectives: understanding the intended environment (and social) goals that the issuance is hoping to achieve

   Use of proceeds: looking at the categories in which the issuance would be used for. Typically we also look for alignment to globally recognized frameworks such as ICMA Green Bond Principles or IFC Guidelines for Blue Finance

   Specific project activities: looking at proposed list of project activities under each use of proceed category

   Mapping to adaptation vs mitigation: Based on the issuance details, we would conduct a Rio Markers assessment using OECD DAC (Development Assistance Committee) Rio Markers for Climate Handbook as a reference to assess linkages to adaptation and mitigation:

   For each use of proceed category/ project activity, evaluation would be done **using the OECD DAC guidance by sectors to assess if the use of proceeds/ project activity supports mitigation or adaptation (or both) outcomes**; if a certain project activity aligns with the guidance for mitigation and/ or adaptation, then it will be a pass on Rio Markers for that mitigation and/ or adaptation indicator

2. **Principal vs Significant objective:** The next step would be evaluating **if it is a significant or principal objective** and that is determined by looking back at the project objectives where an activity is marked as principal objective if the goals of mitigation or adaptation is explicitly stated as fundamental objective in the design of the activity and marked as significant if it is not the fundamental driver for undertaking the activity

   For the purposes of this fund, the investment projects must have a "significant" (score of 1) or "principal objective" (score of 2) for either Climate Change Mitigation and/or Climate Change Adaptation to pass the Rio Markers screen.
   As mentioned, the Rio Markers screen is only one part of the investment process, this is complemented by broader ESG considerations as well as in-depth analysis on Adaptation Impact Evaluation.

Appendix 2

Invesco Climate Adaptation Action Fund ("ICAAF" or the "Fund")'s Diversity, Equity & Inclusion ("DE&I") Policy

1. **Invesco's DE&I Approach**
   Diversity, equity and inclusion is a focus for Invesco. We embed DE&I goals across the business and engage employees in our business resource groups. Along our journey there has been a strong focus on creating a truly inclusive workplace – to increase a sense of belonging and create a culture where anyone can flourish, and to enable us to deliver the best outcomes for our clients. We work to ensure that DE&I is appropriately reflected by who we are and how we operate.

   Our commitment to DE&I starts from the top. Our DE&I Executive Committee is led by our CEO, with membership consisting of the full Invesco executive team, Chief Human Resources Officer, head of communications and the DE&I team. Invesco leaders have annual performance goals that drive DE&I priorities within their business units and across the firm. Additionally, each year we give employees the opportunity to shape our DE&I efforts through our global "Your Voice" pulse surveys.

   Our DE&I focus areas:

   - **People:** Increasing diversity and representation through recruitment and development
   - **Client & community:** Making progress in our industry and our communities
   - **Purpose & priorities:** Making diversity and inclusion integral to who we are and how we operate
   - **Belonging:** Ensuring an inclusive culture where all colleagues feel safe and supported

   Spotlight on gender:

   - Attracting a diverse candidate pool – and building an inclusive place to work and grow – are priorities at Invesco. We implement a number of activities and partnerships to change the racial and gender composition of our workforce and build the pipeline of diverse talent for our company and the industry at large.
   - The Invesco Women's Network (IWN) - The IWN provides leadership and advocacy to strengthen Invesco's diverse and inclusive culture while supporting opportunities to engage, develop and attract women.
   - As a firm we are committed to build a diverse and inclusive talent pipeline and some of the key metrics that we track include:

     Committed to people[1]

37%	36%	12	55%
of senior managers are women	Board diversity in terms of gender and race	employee-led BRGs	of 2022 U.S.-based hires were people of colour

[1] Invesco CSR Report 2022
[Invesco 2022 Corporate Responsibility Report]

Broader DE&I Initiatives:
Invesco supports several initiatives to drive our culture of inclusion:

- **#CountMeIn:** A self-identification campaign that gathers a more complete picture of our workforce and helps ensure we are supporting all of our employees.
- **Business resource groups (BRGs):** To help us embed DE&I values throughout every aspect of our organization, Invesco invests in a variety of BRGs – grassroots employee networks that represent our diverse cultures and identities. These BRGs create opportunities for employees to connect, learn and develop; engage in our local communities; and support diverse recruitment. These include the Invesco Women's Network, Invesco Pan-Asian Professionals Network, Invesco Black Professionals Network and others.
- **Learning and Development:** Ongoing L&D opportunities that advance our DE&I across our organization are a core part of our strategy, including unconscious bias training and mentoring.
- **Research Partnership with the University of Cambridge:** Invesco has partnered with the University of Cambridge to complete a research project that looks to build a holistic understanding of DE&I, specifically within the context of the investment management industry.

2. **Background on ICAAF**
The objectives of the Fund are to create a viable climate-smart asset class in emerging markets and developing countries by increasing the financial bond market's capacity to develop, analyze and invest in climate adaptation projects or technologies, and access dedicated funding for these projects via best market practices with bond issuances. Specifically, the Fund aims to:

    1. Establish a unique partnership between Invesco and the private sector to catalyze and accelerate the achievement of climate objectives by crowding-in lower-cost capital to finance required investment in developing countries;
    2. Stimulate climate investment at national, regional and local levels by channeling finance through banks and local partners to maximize impact on the real economy;
    3. Amplify the impact of public funds with the involvement of the Development Financial Institutions ("DFIs") to stimulate the rapid and efficient deployment of climate-smart investment to advance both DFIs' and ICAAF's mandates
    4. Boost domestic financial market capacity in developing countries to support and achieve Sustainable Development Goals ("SDG");
    5. Deploy comprehensive advisory services to improve financial sector credibility, stability and durability;
    6. Disseminate best practices in environmental, social and governance areas to build more robust and market-based enabling environments; and
    7. Create with DFIs and institutional investors the first movers in the vital frontier of supporting climate-smart investments through the establishment of the first dedicated climate adaptation bond asset manager specialized in developing countries.

ICAAF will constitute a portfolio of developing country's climate adaptation debt instruments issued by public and private placement bonds and be a visible force to expand the climate bond market and the number of first-time, and then repeat, climate bond issuers in developing country. It is expected that the Fund's deployment will create a demonstration effect which will catalyze overtime a significant amount of investment flow in the still nascent, climate-smart asset class, including sustainable and gender-targeted "orange" bonds, and hence increase resources made available for climate financing needs and with a gender focus. ICAAF intends to play a significant role in scaling up this market through (i) continued private placement bond issuances, (ii) support for issuance and direct investments in green, social or sustainability linked debt + including blue, orange bonds issued by entities active in developing countries, and (iii) launching highly visible and catalytic initiatives such as the proposed Fund.

3. ICAAF's DE&I & Gender Strategy

Climate & Gender in focus
IPCC's AR6 WG2 report[1] includes looking at gender dimensions on climate-related impacts, where impacts of extreme climate events tend to affect women more disproportionately. Funding for adaptation projects with a gender lens has the potential to also increase women's economic freedom and decision-making capacity, enhance their agency and empower them for wider impact. Gender equality is thus also key to ending extreme poverty and boosting shared prosperity in a sustainable manner. Sustainable development requires transformation of distribution of opportunities, resources and choices for males and females so that they have equal power to shape their lives and contribute to their families, communities, and countries.

ICAAF's gender strategy will consider 4 dimensions:

i. Improving human endowments- health, education and social protection.

ii. Removing constraints for more and better jobs.

iii. Removing barriers to women's ownership of and control over assets.

iv. Enhancing women's voice and agency.

Including a D&I lens as part of the Fund can have a longer-term impact not just on adaptation outcomes but broader sustainability and social outcomes especially relating to gender.

3.1. DE&I evaluation as part of Adaptation Impact framework – inclusion of gender considerations in investment process

In the world of climate adaptation, ICAAF specifically looks at Women and the Sustainable Development Goals. We understand that achieving gender equality and women's empowerment is an integral part of the roadmap for making progress on each of the 17 SDG goals that have been adopted by world leaders. Only by safeguarding those rights across all goals we can get to justice and inclusion and sustainable economies. Thereby recognizing the vital connections between gender and social equity and climate change. In the ICAAF's search for climate adaptation solutions during our screening process, we will make the linkages between women's empowerment and effective climate adaptation action.

To ensure a consistent process on evaluating climate change adaptation investments, ICAAF will use its proprietary framework to assess each investment opportunity. The framework is focused on:

- **Climate vulnerability screening:** focus on scientific studies of physical climate risk; Analyse climate vulnerability and resilience in a forward looking perspective.
- **Assessing adaptation needs:** focus on target population, region or ecosystem; How climate change may impact project profitability and long-term viability; Design risk retention and transfer mechanisms.
- **Evaluation of adaptation solutions:** protection against climate change and recovery from the impact of climate change; Commercial readiness of adaptation and resilient solutions; Defining impact reporting metrics.

When assessing adaptation needs, the investment team will focus on target population, region or ecosystem. ICAAF will prioritize Women and therefore projects focus on Women as beneficiaries will have a higher score in the adaptation impact evaluation, assuming everything else equals.

When assessing adaptation solution, the investment team will prioritize investments with robust gender considerations and real world impact. Investments will score highest within the DE&I assessment for the planned fulfilment of 2X Criteria via Entrepreneurship, Leadership, Employment, Consumption categories at the point of purchase. Investments will get higher score if they take into account the 4 dimensions above.

[1] IPCC AR6 WG2 Chapter 7: Health, Wellbeing and the Changing Structure of Communities | Climate Change 2022: Impacts, Adaptation and Vulnerability (ipcc.ch)

3.2 **DE&I Monitoring & Impact reporting – measuring gender related impact of ICAAF and promotion of gender impacts in regular engagements**
ICAAF is expected to contribute to a range of SDGs, most notably SDGs aligned to climate adaptation overtime alongside mitigation in near-term. The Fund will also commit to engage from the onset with issuers on broader sustainability and social contributions including on areas relating to D&I, such as:

- **SDG #5 Gender equality:** Achieving gender equality and empower all women and girls.
- **SDG #8 Decent work and economic growth:** promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Within ICAAF's investments, some assets might have more impact on gender equality than others. For example, access to modern and clean energy supply reduces indoor pollution and health hazards caused by diesel generators and burning of kerosene, allows families to save more on energy costs and invest these savings in education, and empowers women as they have electricity to grow their micro-businesses. Similarly, access to safe water and sanitation solutions allows for meeting the basic human need for health and well-being, empowering women to grow their micro-businesses and to ensure education needs of the family are fulfilled. Studies have shown that clean energy projects and safe water and sanitation projects to address problems of lack of energy or electricity and water access often have disproportionately positive impact on women's and children's lives.

Specific metrics relating to diversity & gender will be monitored; including:

1. **Entrepreneurship & leadership**
   e.g. % of female ownership/ founders, % senior management; aim is to look for organizations that are owned/led/head of department with at least 30% women
2. **Reach**
   e.g. # of beneficiaries or employment opportunities created; aim is to reach at least 25% as number of beneficiaries being women and girls.
3. **Allocation**
   e.g. % of allocation to Orange bonds or related instruments

During the life of ICAAF, regular engagements with issuers will take place to ensure continued monitoring and reporting of the adaptation impacts. The gender related impacts will be highlighted and promoted to the issuers throughout the lifecycle of the investments as the engagements occur.

Investments will be prioritized according to our assessment of adaptation solutions, including 2X fulfillment and alignment with the gender dimensions set forth in ICAAF's DEI Policy.

3.3. **Industry thought leadership & capacity building – awareness raising and capacity building focused on gender**
In order to support scaling up of climate adaptation and broader sustainability impact, the Fund will also develop relevant industry thought leadership and capacity building.

- **Thought leadership:** sharing industry insights relating to scaling adaptation and sustainability impact and best practices. Impact case studies can be produced as part of the knowledge products of the Fund.
- **Capacity Building:** Supporting the development of knowledge, tools and capacity building on adaptation and disseminating such knowledge to broader investor community and industry. ICAAF and its TAC will also foster dedicated sharing on climate adaptation solutions and best practices spanning Green Bond Principles and impact reporting for investments beneficiaries and for financial industry's professionals. Having diversity in the target investments will allow a wider group of beneficiaries to have access to these sharings and can use the knowledge to advance their leadership in climate solutions and in their career.
- **Industry collaborations:** participating in relevant industry bodies and collaborating to jointly share ideas and promote adaptation financing in longer-term.

Version	Date	Details of change
1.0	February 2024	Creation of the document