Invesco

Article 8 exclusion framework

Executive summary

At Invesco we have looked to put in place minimum safeguards across multiple sub-funds of Invesco Funds (as listed below) to allow them to meet Article 8 requirements of the Regulation (EU) 2019/2088 on sustainability – related disclosures in the financial services sector (SFDR). To be classified as a so-called Article 8 product, the sub - funds need to promote among other things environmental and/or social characteristics while also ensuring that investee companies follow good governance practices.

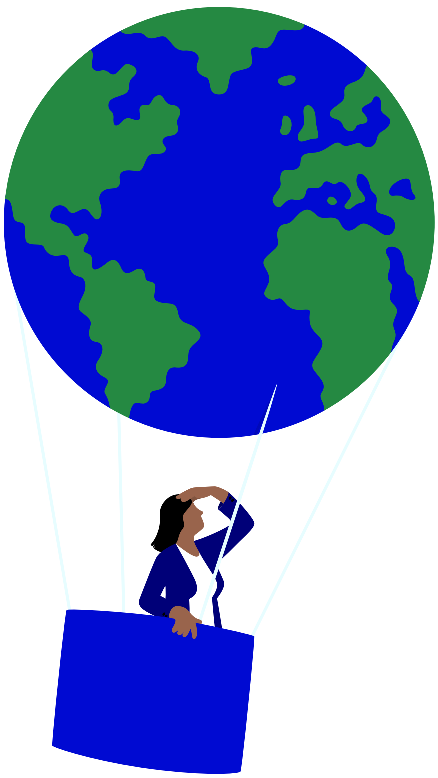
In order to meet such requirements, it was determined that we would look to exclude certain activities based on certain thresholds, which may be updated from time to time.

The list of activities and their appropriate thresholds to define the exclusion are articulated below:

UN Global Compact	Non-Compliant
International sanctions [1]	Sanctioned investments are prohibited
Controversial weapons	0% of revenue, including companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the NPT
Coal	Thermal Coal extraction: >=5% of revenue Thermal Coal Power Generation: >=10% of revenue
Unconventional oil & gas	>= 5% of revenue on each of the following: Arctic oil & gas exploration; Oil sands extraction; Shale energy extraction;
Tobacco	Tobacco Products production: >=5% of revenue Tobacco related products and services: >=5% of revenue
Others	Recreational cannabis: >=5% of revenue
Good governance	Ensure that companies follow good governance practices in the areas of sound management structures, employee relations, remuneration and tax compliance

[1] At Invesco we continuosly monitor any applicable sanctions, including those imposed by the UN/US/EU and UK. These sanctions may preclude investments in the securities of various governments/regimes/entities and as such will be included in our compliance guidelines and workflows [designed to ensure compliance with such sanctions]. The wording of international sanctions is something that we pay particular attention to as there are occasions where sanctions can exist in limited form, for example allowing investments in the secondary market.

In addition to sanctions targeting entire countries, there are other thematic regimes, which may focus for example on human rights, cyber-attacks, terrorist financing and corruption, which may apply to both individuals and/or entities/corporations.



For Invesco Japanese Equity Advantage Fund there is an additional exclusion on companies involved in military contracting. For the avoidance of doubt the exclusion applied here is intended to be compliant with the BVI requirements around military hardware.

Military Contracting	Military Contracting Overall >= 10% Small Arms Overall >=0%

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

While there is a broad coverage across the various systems, there is no one system that has complete coverage of the entire investment universe. As a result, investment teams will be responsible for conducting an assessment of companies for which data is not available, under the appropriate supervision and oversight of our investment compliance and ESG teams.

For the avoidance of doubt, this means that with the exception of those asset classes, which are not covered by the policy (ex: index derivatives/cash, cash equivalents, money market funds and government debt etc) the relevant sub-funds will be 100% covered and assessed against the exclusion framework.

Cash Management
Currencies, cash, cash equivalents and money market funds which are held for cash management/ liquidity purposes will not be assessed for compliance with the above framework. Where cash equivalents are held for investment purposes then they will be compliant with the framework.

Other Collective Investment Schemes
All collective investment schemes, with the exception of the money market funds as outlined above as well as other Article 8 or Article 9 sub-funds under SFDR, will need to be compliant with the framework on a look -through basis.

Derivatives
Index derivatives that are used for efficient portfolio management, hedging or investment purposes will not be assessed on a look – through basis, unless such index has a significant allocation to prohibited activities.

Single name derivatives will need to be compliant.

Securitised Debt
Securitised debt will be assessed based on the framework above with the exception of Collateralised Loan Obligations (CLOs), however, due to the nature of this asset class the certification process has been designed to ensure that we look at the property/ collateral in making an assessment as to whether the debt is eligible under the framework. (i.e. a revenue assessment does not make sense for Securitised Debt).

For the purposes of CLOs where look-through to the underlying is more difficult, we have leveraged the proprietary ESG framework adopted by our Bank Loans team with exclusions applied where the CLO manager scores below a pre-determined score threshold.

Government Debt
Government debt (with the exceptions of sanctions investments as mentioned above) are not covered by the policy, however, quasi-sovereign debt will be treated as corporate debt and therefore assessed against the framework.

Data overwrite
It is recognised that service providers may be backwards looking on their data and company assessment. As a result, to ensure that we are not wholly reliant on data vendors, a process has been established to allow investment managers to challenge the data. Any scenario where the data vendor assessment is overruled will go through a comprehensive review process with any reasons being clearly documented.

Counterparty Selection
While some counterparties may be excluded as investable entities under the above exclusion framework due to failure on one or more screens, it is felt that restricting their use as counterparties would impose an undue burden on the sub- funds and would impair our ability to ensure best execution.

Disinvestment period
Where a previously eligible company subsequently fails an appropriate screen, subject to secondary validation the investment teams will ensure disinvestment within a period of 60 days, subject to liquidity/regulatory and other factors. At all times the best interests of shareholders will be taken into consideration.

Companies with clear transition plans
While the purpose of the framework is to exclude companies that operate primarily in certain industries, we recognise that some companies may be on a transition path and an immediate exclusion may not be in the best interests of shareholders. Investment teams along with the ESG team at Invesco have developed a framework to assess such companies based on objective and evidence -based criteria to ensure that any company where the hard data is overwritten can be justified.

Green bonds from ineligible entities
Bonds such as green bonds, climate bonds, social bonds as well as sustainability – linked bonds from companies that would ordinarily be ineligible may be eligible for inclusion by the sub- funds, subject to appropriate discussions between the investment and ESG teams.

Securities Lending
To the extent the funds engage in Securities Lending the sub-funds will reserve the right to recall securities in advance of an important vote. In addition, the manager will ensure that any collateral received is aligned with this policy.

For further details on:

ESG Integration / Sustainably **click here**

Engagement and Proxy Voting policy **click here**

List of sub-funds of Invesco Funds covered by the above Article 8 exclusion framework as well as expected proportion of investment universe excluded (expected universe is based on the number of issuers)

Fund Name	% of Issuers Excluded
ASEAN Equity Fund	5%–10%
Asia Asset Allocation Fund	5%–10%
Asia Consumer Demand Fund	5%–10%
Asia Opportunities Equity Fund	5%–10%
Asian Equity Fund	5%–10%
Asian Flexible Bond Fund	5%–10%
Asian Investment Grade Bond Fund	5%–10%
Belt and Road Debt Fund	5%–10%
Bond Fund	0%–5%
China A-Share Quality Core Equity Fund	5%–10%
China A-Share Quant Equity Fund	5%–10%
China Focus Equity Fund	5%–10%
China Health Care Equity Fund	0%–5%
Continental European Equity Fund	0%–5%
Continental European Small Cap Equity Fund	0%–5%
Developed Small and Mid-Cap Equity Fund	0%–5%
Emerging Market Corporate Bond Fund	5%–10%
Emerging Market Flexible Bond Fund	5%–10%
Emerging Markets Bond Fund	5%–10%
Emerging Markets Equity Fund	5%–10%
Emerging Markets Local Debt Fund	0%–5%
Emerging Markets Select Equity Fund	5%–10%
Euro Bond Fund	0%–5%
Euro Corporate Bond Fund	0%–5%
Euro Equity Fund	0%–5%
Euro High Yield Bond Fund	0%–5%
Euro Short Term Bond Fund	0%–5%
Euro Ultra-Short Term Debt Fund	5%–10%
Global Consumer Trends Fund	0%–5%
Global Convertible Fund	0%–5%
Global Equity Fund	5%–10%
Global Equity Income Fund	0%–5%
Global Flexible Bond Fund	0%–5%
Global Focus Equity Fund	5%–10%
Global High Yield Short Term Bond Fund	0%–5%
Global Income Fund	5%–10%
Global Income Real Estate Securities Fund	0%–5%
Global Investment Grade Corporate Bond Fund	5%–10%
Global Founders & Owners Fund	5%–10%
Global Small Cap Equity Fund	0%–5%
Global Total Return (EUR) Bond Fund	0%–5%
Gold & Special Minerals Fund	5%–10%
Greater China Equity Fund	5%–10%
India All-Cap Equity Fund	5%–10%
India Bond Fund	5%–10%
India Equity Fund	5%–10%

Fund Name	% of Issuers Excluded
Japanese Equity Advantage Fund	0%–5%
Metaverse Fund	0%–5%
Nippon Small Mid Cap Equity Fund	0%–5%
Pacific Equity Fund	5%–10%
Pan European Equity Fund	0%–5%
Pan European Equity Income Fund	0%–5%
Pan European Focus Equity Fund	0%–5%
Pan European High Income Fund	0%–5%
Pan European Small Cap Equity Fund	0%–5%
PRC Equity Fund	5%–10%
Real Return (EUR) Bond Fund	0%–5%
Sterling Bond Fund	5%–10%
UK Equity Fund	0%–5%
UK Investment Grade Bond Fund	0%–5%
US High Yield Bond Fund	0%–5%
US Investment Grade Corporate Bond Fund	5%–10%
USD Ultra-Short Term Debt Fund	10%–20%

For further details on:

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