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# Invesco Transition Global Income Fund

(the “Fund”)

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Sustainability-related disclosures

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UCITS have no guaranteed return and past performance does not guarantee the future ones.

# Summary

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

## **No significant harm of the sustainable investment objective**

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, 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, such company will be excluded from investment in the Fund.

## **Sustainable investment objective of the financial product**

The Fund aims to support the transition to a low carbon economy over the medium to long term with a view to achieving the long-term goals of the Paris Agreement.

## **Investment strategy**

To achieve its objectives, the two investment teams responsible for the management of the Fund employ a climate-based framework to select corporate and government bond issuers as well as equity of companies. The process also incorporates a traditional financial and company research-based methodology.

## **Proportion of investments**

At least 90% of the Fund will be in sustainable investments that contribute to an environmental objective.

## **Monitoring of sustainable investment objective**

The Fund's performance and adherence to its climate objectives is monitored.

The portfolio is also compared to the Climate Comparator (as further defined above) on a range of metrics such as carbon emissions, carbon intensity and sector specific indicators.

To demonstrate alignment with the long-term goals of the Paris Agreement, the Fund will report its carbon emissions intensity against the carbon emissions intensity of the blended equivalent Carbon Transition Benchmarks of the above indices i.e. 50% MSCI World ESG Climate Transition (EU CTB) Select Index (USD), (35%) ICE Global Corporate Climate Transition Index and (15%) ICE Global High Yield Climate Transition Index.

## **Methodologies**

The Fund uses a climate-based framework to select corporate and government bonds as well as equities that contribute to the investment objective of the Fund. The climate-based framework combines sector exclusions, sector-specific parameters and the selection of companies with stronger climate characteristics compared to their sector peers. 'Climate characteristics' means a range of data which reveals how carbon intensive companies are, how quickly they are decarbonising and other factors such as management's approach to climate risk in their business planning. The Fund seeks to achieve its objective of supporting the transition to a low carbon economy through investing in bonds and shares of companies which meet one or more of the following five key criteria:

- Companies that have a low carbon footprint, or are making significant progress in reducing their carbon footprint
- Green, sustainability-linked or transition bonds used to finance company's carbon reducing projects
- Companies linked to climate solution activities (including, but not limited to, renewable energy, electrification, and low carbon transport).
- Companies that have made commitments, and are, or are expected to be, on a net zero pathway
- Governments that have demonstrated strong environmental and social credentials

**Data sources and processing**

With regard to exclusions, in order to assess companies around controversial activities, Invesco uses a combination of Sustainalytics, MSCI and ISS (Institutional Shareholder Services). However, this can be supplemented with other service providers where appropriate.

With regard to sustainable investments, the investment team will use a proprietary climate-based framework which incorporates data from corporate bond issuers, including a wide range of climate and specifically carbon-oriented indicators. This data comes from a combination of ESG and industry specific data providers such as MSCI, CDP and Science Based Target Initiative.

**Limitations to methodologies and data**

There may be some limitations due to standardisation concerns, data integrity, data availability, timeliness of data, subjectivity in the interpretation, scope of data and reliance on estimates.

**Due diligence**

Data due diligence reviews are performed on data received from ESG data vendors to ensure that datasets are as complete as possible before ingestion into internal systems. In addition, our internal investment compliance process checks each new transaction against a list of eligible sustainable investments securities.

**Engagement policies**

The fixed income team's engagement consists of 3 aspects. First is any discussion of ESG topics with companies as part of the team's normal dialogue with issuers. That may be either in one-on-one meetings with management or as part of a broader investor group, for example on a financial results call. Second is any specific ESG issue that has arisen which could have a material impact on credit risk or returns in which we are lobbying for a particular outcome. This is a relatively rare occurrence and is often focused on specific governance issues. Third is the engagement effort that is specific to the Fund's strategy. This engagement effort is led by the team's ESG Analyst and is a targeted effort focusing on specific climate-related issues.

Please click [here](#) to access our engagement and global proxy voting policy.

**Attainment of the sustainable investment objective**

In order to demonstrate alignment with the long-term goals of the Paris Agreement, the Fund will report its carbon emissions intensity against the carbon emissions intensity of the blended equivalent Carbon Transition Benchmarks of the above indices i.e. 50% MSCI World ESG Climate Transition (EU CTB) Select Index (USD), (35%) ICE Global Corporate Climate Transition Index and (15%) ICE Global High Yield Climate Transition Index.

## No significant harm to the sustainable investment objective

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, 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, such company will be excluded from investment in the Fund.

### PAI Indicators used to assess Do No Significant Harm (DNSH)

PAI No.	PAI Indicator	Portfolio Rollups
1,2,3	ISS Scope 1 Emissions ISS Scope 2 Emissions ISS Scope 3 Emissions ISS Scope 1 Emissions (EUR) ISS Scope 2 Emissions (EUR) ISS Scope 3 Emissions (USD)	1. Total Emissions (Financed) Scope 1+2 2. Carbon Footprint Scope 1+2 3. Total Emissions Scope 1+2+3 4. Carbon Footprint Scope 1+2+3 5. WACI 1+2 6. WACI 1+2+3
4	SA Carbon – Fossil Fuel-Level of Involvement Range-SFDR	% of the Fund exposed to any fossil fuels revenue
5	SA Share of Non-Renewable Energy Production Percentage-SFDR	Adjusted Weighted Average
	SA Share of Non-Renewable Energy Consumption Percentage-SFDR	Adjusted Weighted Average
6	SA Energy Consumption Intensity Agriculture, Forestry & Fishing-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity Construction-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity Electricity, Gas, Steam & Air Conditioning Supply-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity Manufacturing-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Mining & Quarrying-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Real Estate Activities-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Transportation & Storage-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Water Supply, Sewerage, Waste Management & Remediation Activities-SFDR	Adjusted Weighted Average
	SA Energy Consumption Intensity _Wholesale & Retail Trade & Repair of Motor Vehicles & Motorcycles-SFDR	Adjusted Weighted Average
7	SA Activities Negatively Affecting Biodiversity Areas-SFDR	% Weight of Portfolio
8	SA Emissions to Water _Tonnes-SFDR	$((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Emissions to water}))/\text{Million EUR Invested}$ ; Same as Carbon footprint calculation
9	SA Hazardous Waste Production Tonnes-SFDR	$((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Hazardous Waste}))/\text{Million EUR Invested}$ ; Same as Carbon footprint calculation
10	SA Breach of UN Global Compact Principles & OECD Guidelines for Multinational Enterprises-SFDR	% Weight of Portfolio
11	SA Lack of Processes & Compliance Mechanisms to Monitor Compliance with UN Global Compact Principles & OECD Guidelines for MNEs-SFDR	% Weight of Portfolio
12	SA Unadjusted Gender Pay Gap _Percentage of Male Employees Gross Hourly Earnings-SFDR	Adjusted Weighted Average

PAI No.	PAI Indicator	Portfolio Rollups
13	SA Board Gender Diversity _Percentage of Female Board Members-SFDR	Adjusted Weighted Average
14	Controversial Weapons - manufacturer or intended use involvement	% Weight of Portfolio
<b>Sovereign</b>		
15	SA Carbon Emissions Intensity-SFDR	Weighted Average
16	SA Any Country Social Violations-SFDR	No. of Countries involved in Violations; % of countries involved in violations
<b>Optional Indicators</b>		
E	Lack of Carbon Emission Reduction Initiatives-SFDR	% Weight of Portfolio
S	Lack of Human Rights Policy-SFDR	% Weight of Portfolio

The Fund also excludes 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.

### Sustainable investment objective of the financial product

The Fund aims to support the transition to a low carbon economy over the medium to long term with a view to achieving the long-term goals of the Paris Agreement. The Fund seeks to achieve its sustainable objective by investing primarily in corporate and government bonds as well as equity of companies globally, where companies demonstrate stronger climate characteristics compare to their sector peers. The Fund invests in sustainable investments which contribute to the environmental objective of climate change mitigation within the meaning of EU Taxonomy.

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 prospectus and the annual report of the Fund for more information.

## Investment Strategy

### Five stage fixed income investment process

The investment team employs a five-stage investment process, combining traditional investment research alongside a climate focused selection process.

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1	<b>Macroeconomic assessment</b> <ul style="list-style-type: none"><li>• Top down macroeconomic assessment, conducted by the team's economist and macro specialists</li><li>• Fund managers develop their views on the general direction of yields and credit spreads*</li></ul>
2	<b>Identify issuers with strong climate characteristics</b> <ul style="list-style-type: none"><li>• Non-sustainable exclusions applied</li><li>• 'Climate Comparator' output</li><li>• Fundamental climate analysis</li></ul>
3	<b>Credit analysis</b> <ul style="list-style-type: none"><li>• Bottom up credit research conducted by the team's 11 dedicated corporate credit analysts</li><li>• Absolute and relative value analysis incorporated</li><li>• Green bond assessment</li></ul>
4	<b>Portfolio construction and risk management</b> <ul style="list-style-type: none"><li>• Fund manager responsibility – not tied to an index</li><li>• Risk continuously managed according to market conditions</li><li>• Strong risk monitoring infrastructure</li></ul>
5	<b>Climate reporting, engagement and ESG team oversight</b> <ul style="list-style-type: none"><li>• Portfolio measured and compared against the Climate Comparator using a range of indicators</li><li>• Industry initiatives, ESG team engagement, HFI's targeted approach</li><li>• Periodic reviews with Invesco's ESG team</li></ul>

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In the Macroeconomic assessment stage, 'credit spread' refers to the extra yield earned from a corporate bond, over a government bond of the same maturity.

#### Stage 1: Macroeconomic assessment

The starting point for the investment team's work is an appreciation of the key macroeconomic inputs that influence government and corporate bond markets. There is no 'house view' to which the team must adhere and the fund managers form their own opinions about key macroeconomic trends as they remain ultimately responsible for the Fund's risk profile and performance. Specifically, the aim of the team's macroeconomic work is for the team's fund managers to develop a view of the general direction and structure of interest rates and future trends in the general pricing of credit risk, rather than make point estimates of specific economic variables. To a large extent these broader views help influence the fund managers' overall appetite for credit and interest rate risk.

To assist the investment manager, the team has a dedicated economist and several macroeconomic analysts who produce and share research and facilitate team discussions. Team members assess a range of primary data sources, as well as engaging with independent economic research providers and investment bank economists. The team also benefits from the research produced by Invesco's Group Chief Economist's department. High frequency economic and survey data are assessed continuously either informally or more formally at the team's daily morning meetings. In addition, more in-depth economic research is produced and discussed at dedicated meetings or more formally at the monthly investment department meeting or the fixed income team's asset allocation group meeting.

## **Stage 2: Identify issuers with strong climate characteristics**

The identification of companies with strong climate characteristics is what gives this strategy its unique characteristic. The team considers those companies and governments that are leading the way towards a low carbon world through a combination of public policies and strategies designed to encourage or compel decarbonising activities, or by providing low carbon energy, goods and services.

### **1. Exclusions**

The Fund's ethos results in certain minimum standards both in terms of climate and general sustainable activities and more detail on the exclusion policy is set out below.

#### **Climate Comparator**

The Climate Comparator is a database of more than 2,000 companies which allows the fund managers and analysts to identify potential investment candidates. More detail on the Climate Comparator, which is also used by the equity team, is set out below.

### **2. Fundamental climate analysis**

The next step is to identify companies that are performing well versus their peers from a carbon perspective and therefore could be suitable potential investments for the Fund. The team consciously avoids a rules-based approach to determining which companies, from a climate perspective, are appropriate for the strategy. The process emphasises detailed research which allows informed judgement.

Companies are often very diverse entities which can make the application of arbitrary rules potentially counterproductive. For example, industry sectors have very different energy and carbon intensities and other than thermal coal and oil and gas, we do not exclude any particular sector purely on a climate basis. However non-climate exclusions prevent the fund from investing in some sectors including but not limited to, tobacco and cannabis. Furthermore, the extent of technological advances in climate technology also varies greatly across sectors. In other words, some sectors are able to rapidly decarbonise today whilst others are not. Even companies within the same industry sector have many individual characteristics, for example business mix or geographical location. Companies' emissions can be affected by a number of factors such as a company's general operating performance (how fast the company is growing), the extent to which a company's supply chain is vertically integrated, corporate actions, accounting methodology, data coverage and so on.

However, despite avoiding a rules-based approach, there are certain characteristics and traits that the strategy highlights. The process targets companies that can operate at a lower carbon intensity than their peers, that are decarbonising more rapidly than their peers, that operate in already-low carbon sectors, that are producing goods and services that directly support the transition to a low carbon economy, and that have management that recognise the challenges and opportunities of transition.

A judgement about a company, however, often involves trade-offs. For example, a company may have a higher carbon intensity than its peers but also be decarbonising more rapidly. A company may be more carbon intensive than its competitors but only because of its more encompassing emissions reporting. A company may not be decarbonising as rapidly as peers but it produces goods that directly support transition. For these reasons, each company is selected on its own merit, based on the portfolio managers' judgement of all the relevant climate factors.

### Stage 3: Credit analysis

Once an issuer has been judged as being suitable for inclusion from a carbon perspective, the investment team then assesses individual financial corporate credit risk. The team has multiple credit analysts who are organised by industry on a global basis.

Given the investment team's active approach and benchmark agnosticism, there are no predetermined rules that govern which credits analysts review, although given the size of the team's assets under management, smaller issuers are less likely to be attractive. Instead, it is the responsibility of both the fund managers and the credit analysts to generate investment ideas for review which can result from a range of different factors including a change in outlook, a change in price or new bond issues.

Although the research approach taken by the team's credit analysts will vary according to circumstance, when assessing a new issuer, the process begins with an understanding of the Offer of Memorandum which states the objectives, risks and terms of a bond issue. This is followed by a review of credit rating agencies reviews (where the issuer is already rated but not yet covered by the analyst) and attendance at a presentation given by the issuing company's management.

Given the size of the team's assets under management, the credit analysts are typically able to secure additional time with the issuer's management if needed. The team's credit analysis encompasses a range of inputs that are presented in the table below.

Credit ratings	Moody's, S&P, Fitch
Operational	Management, competitive position, business outlook
Balance sheet	Capital structure, leverage, equity, cash, debt mix/maturity
Cashflow	EBITDA, capital expenditure, working capital, interest coverage
Protection	Covenants, asset value, franchise, banks

For illustrative purposes only.

It is the role of the analyst to understand for each bond which of these considerations are the most important and warrant focus. The emphasis of the analyst's work is on understanding the evolution of credit metrics rather than on the numerical value of the ratios at a point in time. Moreover, the analyst needs to place both the risks of the company and the value of the bond in some context. How does this issuer compare to others in the sector? How much value does the bond offer relative to others from the same or similar issuers?

The credit analysts have the flexibility to work and present their assessment in a way that best suits the circumstances, and the team does not employ a template model. Once the research is complete, analysts present their work to the Fund managers, providing an informed opinion on which the fund managers can decide the attractiveness of the bond.



### Value assessment

Once a deep and informed credit risk opinion has been established about a corporate borrower, absolute and relative risk and value judgements can be made.

The fund managers are ultimately responsible for determining which bond issues are selected for the portfolio. Bonds are not selected with reference to an index, but rather on merit of their value assessment and the balance of risk and reward according to the fund manager's judgement.

The investment team constantly seeks to understand why an investment opportunity may exist, including factors such as:

- The team's different assessment of a company's outlook to that of the market
- Market overreaction to one aspect of a company's situation
- The effects of ratings changes, such as moving between investment grade and non-investment grade
- Issuance patterns of the company such as the frequency and size of supply
- Mispricing of covenant protection (investors mis-interpreting particular protections awarded to bondholders or lack thereof)

In keeping with an absolute risk and return mentality, the investment team also considers the risk/return profile of a bond in relation to cash and government bonds. This aspect can be particularly important in periods in which the credit market as a whole can appear attractively or unattractively valued.

An appreciation of relative value enables the investment team to select the best value corporate bonds given pre-determined variables such as maturity, sector, and credit rating. This also helps the team to identify credit trends and pricing anomalies.

### Green, sustainability-linked and transition bonds

The Fund will also invest in a range of green bonds where an investment opportunity is identified and, given the rapid growth and development of this market, there is no upper limit to how many green bonds will be held in the Fund.

The investment team assesses green bonds to ensure they meet acceptable standards. To do this, the team follows the International Capital Markets Association criteria.

Bonds are scored on four criteria: the use of proceeds, management of proceeds, reporting, and external verification.

A green bond can score 1 – 10 and the investment team will invest in green bonds that score 4 or more.

	Score	Definition
Use of proceeds	0 – 4	Are qualifying projects clearly identified? Is refinancing permitted, if so for how long? Is there committee oversight?
Management of proceeds	0 – 2	Are proceeds held in a separate account? Is there a timeline for distribution of proceeds?
Reporting score	0 – 3	Is there regular reporting on the project? Is the report published? Is the project audited?
External verification	0 – 1	Is the bond verified by an external party?
<b>Total</b>	<b>/10</b>	

Data is sourced from a number of intergovernmental organisations such as the UN and World Bank as well as specialists such as the International Energy Agency. Governments are scored relative to 5 separate groups: overall, IMF Regional Economic Outlook (REO) regions, (Europe, Asia, Middle East and Central Asia etc), IMF Economy (advanced, low-income emerging market etc), Developed/Emerging Market and Gross Domestic Product (GDP) cohort.

Data is converted to a scale (1–5 with 1 the best) and quintiled.

The team assesses the government scores. The Fund will not invest in governments scoring 4 and 5.

For the avoidance of doubt, government securities held for the purposes of liquidity or duration management may not meet such requirements.

#### Stage 4: Portfolio construction and risk management

The aim of the portfolio construction process is to gain exposure to the most attractive ideas within the investment parameters of each portfolio and to express the fund manager's views on fixed interest markets, sectors, industries, regions and themes which are all considerations in the portfolio construction process.

##### Asset allocation

The fixed income fund managers will decide the Fund's asset allocation between bonds and equities. The team follows an unconstrained investment approach. This enables them to adapt to changing market conditions and alter the Fund composition accordingly.

Individual bond weightings are decided on a case-by-case basis using qualitative judgement and analysis.

The team believes this creates a portfolio sufficiently diverse to reduce risk and improve liquidity whilst maintaining its active nature. The number of securities held will vary according to the underlying investment strategy and preponderance of investment ideas. Generally, when the fund managers find more attractive opportunities in sectors of the market with a higher credit rating, the Fund will tend to be less diversified. Conversely, if more attractive opportunities are found in the higher yielding areas of the market, the Fund will tend to be more diversified. However, these are general considerations rather than tightly defined rules.

The investment team employs a multi-faceted approach to oversight and risk management with processes bolstered and overseen by several independent controls.

It is an integral part of the investment process and is the product of the following factors:

- The fund managers effectively control bond-specific risk by ensuring the portfolio is always appropriately diversified. Continuous analysis of all holdings gives the fund managers a comprehensive understanding of the financial risks associated with any bond.

The team manages portfolio risk from the perspective of:

- Market risk
- Currency exchange risk
- Investing in assets traded on non-eligible markets
- Use of financial derivative instruments
- Counterparty risk
- Use of warrants
- Market liquidity risk
- Interest rate risk
- Issuer risk
- ESG and climate risk

- Continuous monitoring: At the portfolio level, performance and risk reports are produced by the Investment Risk team, ensuring that the fund managers adhere to investment objectives, guidelines and parameters.
- Chief Investment Officer (CIO) Challenge process: Invesco's essential belief is that fund management is a skill and the inherent risks taken in managing investments are those made by the fund managers themselves. Thus, no unnecessary restrictions exist that limit a fund manager's freedom to back his/her own convictions. A periodic meeting is held between senior investors and the individual fund managers which seeks to ensure that the fund managers are managing money in a way that adds value and that the risks taken in respect of the Fund are understood and are considered appropriate.

#### Stage 5: Carbon monitoring

This step of the investment process is described in the section "Monitoring of environmental or social characteristics".

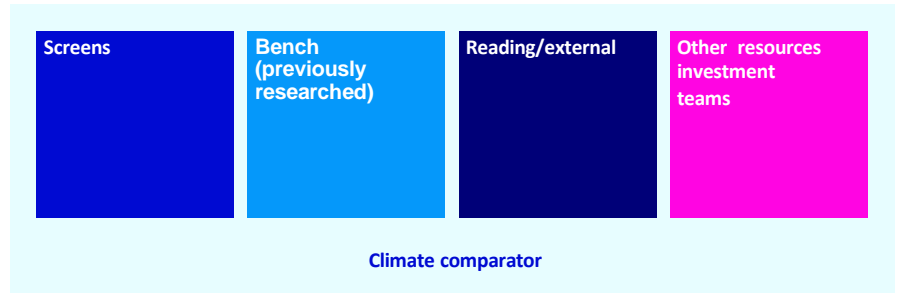
### Five stage equity investment process

The investment team employs a five-stage (IDEAS) investment process, combining traditional investment research alongside a climate focused selection process.

#### Stage 1: Identify

- The team applies non-sustainable exclusions as further explained below.
- Once the above exclusions have been applied, the team screen and search for ideas that embrace the key climate principles which are foundational to the Fund, whilst fulfilling the desired quality, cash generation and valuation characteristics of the Fund.
- A key element of the process is the use of the 'Climate Comparator', as detailed below, which scores companies in the investable universe on their climate credentials.
- The Climate Comparator is both a source of ideas itself and a check on the climate credentials of ideas from other sources.

The sources of investment ideas are shown below:



For illustrative purposes only.

#### Stage 2: Determine

The team conducts an initial fundamental screen to determine the most promising investment ideas. The team seeks answers to six key questions:

- Understand the carbon intensity of the respective industry and what are the most appropriate measures to gauge decarbonisation progress
- Is this company a leader in net zero approach or is there evidence that the company is committed to transitioning towards lower CO<sub>2</sub>?
- What are the key risks, including ESG?
- Are the business economics attractive and sustainable? Is the balance sheet healthy and accounting clean?
- Are management aligned with us? Do we trust them to allocate capital efficiently and do they have measurable and achievable carbon goals?
- Does this fit our return requirements?

The "Determine" phase is based on the investment team's lessons learned over 20 years. It is designed to fail ideas fast that are likely to have a low probability of success and accelerate ideas which pass certain criteria where we have enjoyed high hit rates in the past. Ideas are prioritised based on their climate-related characteristics. Should an idea pass this stage, it moves to "Evaluate" phase.

### Stage 3: Evaluate

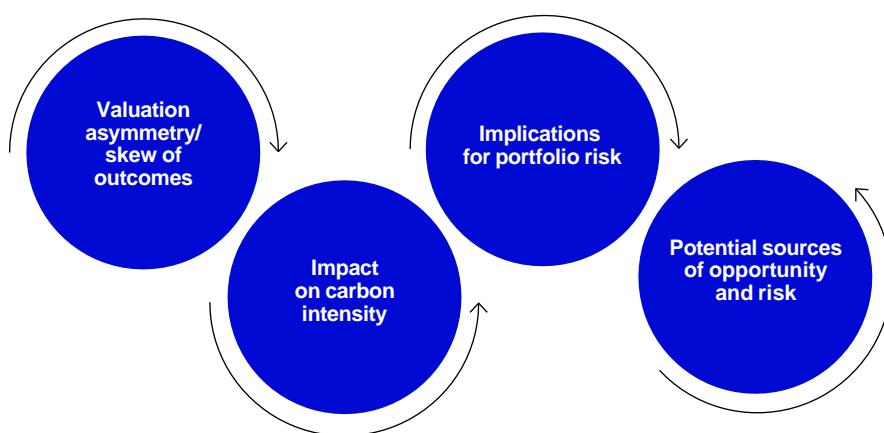
The team undertakes a deep dive examination of the company, with a focus on collaboration and challenge across the team:

- Carbon/climate analysis
- Broad ESG analysis
- Investment case summary
- Accounting quality
- Industry analysis- fundamental and climate specific
- Competitive advantages and capital deployment
- Valuation: is there asymmetry, do we have a differentiated view?
- Management track record, approach to climate, insider ownership and incentives
- Risks

A report and proprietary model are produced which focus on the long term (3-5 years+) expectations for both the financial and non-financial targets.

### Stage 4: Approve

The team assess the individual stock idea in the context of the overall portfolio. Ultimately, portfolio returns should be driven by idiosyncratic stock selection, thus any new idea must be considered in terms of overall portfolio shape. The team use several tools to analyse factor bias, correlation, and exogenous macro-economic impacts on the portfolio. The team believe this gives the portfolio the best chance to perform in a variety of market conditions.



For illustrative purposes only.

### Stage 5: Structure

The Fund seeks to achieve the objective of supporting the transition to a low carbon economy while generating an attractive financial return.

The highest conviction names are those that have demonstrated a pathway to lower carbon emissions or are already operating at low carbon intensity and where there is significant total shareholder return potential. The equity portfolio will remain focused on c.40-45 stocks with position sizing based on meritocracy.

## Fund-wide climate aspects

### Investment selection process: Climate Comparator

To help in the assessment of prospective investments, the team uses an Invesco developed proprietary sector-based Climate Comparator which incorporates data from over 2,000 companies, incorporating a wide range of climate and specifically carbon-oriented indicators.

Examples of indicators include the percentage change in a company's carbon emissions, different measures of carbon intensity, the percentage change in a company's intensity and measures of carbon emissions relative to an output such as power.

Each company's performance in each indicator is converted to a sector-relative 1–5 score (1 being the best). The indicator scores are then summed to produce an overall sector-based 1–5 rating. In cases where data is missing, those indicators are excluded from a company's overall score.

The weights applied to each indicator are determined by its importance based on the team's judgement. The weights of each indicator can also be tailored to individual sectors. For example, the CO<sub>2</sub>/kwh indicator is given a 60% weighting for the electric utility sector but is not included in other sectors.

Below is an example of how an electric utility company is scored based on the indicators that are applied to that sector. This company scores particularly well on its low use of thermal coal and its assessment by the Transition Pathway Initiative, a climate-focused organisation that assesses companies on the basis of their carbon intensity and management's approach to dealing with climate change.

Electric utility sector indicators	Weighting	Data	Score
CO <sub>2</sub> mt per MWH	60%	0.32mt	2
CDP Grade <sup>1</sup>	15%	A-	2
Transition Pathway Initiative Assessment <sup>2</sup>	15%	4	1
MSCI Low Carbon Transition Management Score <sup>3</sup>	10%	6.60	1
<b>Overall score</b>			<b>1.8</b>

<sup>1</sup> CDP rates companies based on their environmental disclosure and environmental risk management.

<sup>2</sup> Transition Pathway Initiative Assessment assesses companies' preparedness and management of climate risk as well as their carbon performance.

<sup>3</sup> MSCI proprietary measure of how well a company manages risk and opportunities related to the Low Carbon Transition.

The Fund will typically invest in companies which have better scores than their peers in the climate comparator (scoring at 2.5 or better on a rating from 1 to 5 (1 being the best scoring)). Although the Fund is permitted to invest in lower scoring companies and/or companies not included in the climate comparator, the Investment Manager must justify their inclusion in the portfolio.

Similarly, for government debt, the Investment Manager will use a proprietary sovereign climate comparator which incorporates data on a range of climate and specifically carbon-oriented indicators. The Fund will typically invest in sovereigns which have better scores than their peers in the climate comparator (ranking from the 30<sup>th</sup> percentile or higher). Although the Fund is permitted to invest in lower scoring sovereigns the Investment Manager must justify their inclusion in the portfolio.

In instances in which the investment team judges that the quality of the data for certain indicators in specific industries is poor, those indicators can be excluded. A good example of this is banks' scope 3 emissions. In this case, banks' efforts to calculate their funded emissions are in their nascency and comparative data is not yet available. Instead, the focus is on banks' willingness to engage with industry initiatives, a qualitative assessment of their policies towards funding emissions intensive sectors and other qualitative assessments.

### **Fundamental Research: Invesco's Global ESG team**

In addition to the Climate Comparator, the investment team also benefits from the fundamental research capability of not only the team's credit analysts but also Invesco's Global ESG team.

Invesco's Global ESG team consists of a number of specialists, who conduct fundamental research in co-ordination with Invesco's investment teams. Fundamental climate and carbon research is directed towards those companies for which the investment team judge that further investigation is warranted, for example where data is sparse, or inconclusive, or where the investment team believe that the historic data does not properly capture the investment opportunity to support future carbon reduction.

Research involves an assessment and contextualisation of the carbon data, understanding a company's carbon reduction strategy, their objectives and success to date. The views of the ESG team analysts and investment analyst are then considered by the fund managers who are able to make an informed judgement about the appropriateness of a security.

### **Net zero emissions alignment**

The Fund will also invest in companies that have made net zero pledges. The Carbon Trust, a well-known authority on climate change, defines 'net zero' as 'achieving a state in which the activities within the value-chain of an organisation result in no net impact on the climate from greenhouse gas emissions.'

Companies and governments often set 2050 as their 'net zero' goal to align with the Intergovernmental Panel on Climate Change (IPCC)'s own global goal of carbon neutrality. However, with such a long timeframe it is important that companies set out a clear roadmap with interim targets.

At this stage, the number of companies making a pledge to achieve net zero status is small but growing.

The Fund has not set a minimum level of exposure to net zero companies as its process is already designed to seek out those companies with strong climate characteristics, some of which are likely to be aligned to the temperature reduction goals even without making a formal commitment. However, it is likely that through the Fund's climate objective and the increasing number of companies making net zero commitments, the Fund's exposure to net zero aligned companies will grow over time.

### **Other key ESG elements reflected in the Fund**

In addition to exposure to companies with strong climate characteristics and considering the net-zero profile, additional elements to the Fund's ESG framework that will be reflected through the portfolio construction process are:

1. Sector exclusions. Systemically excluding sectors and business activities that are inconsistent with the sustainability or socially responsible objectives.
2. Good governance assessment. Companies 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 companies for good governance practices using both qualitative and quantitative measures, with appropriate action taken where material concerns around governance exist.

Exclusion criteria and negative criteria can be used to eliminate companies that fail to meet certain ESG criteria, while positive criteria can be used to identify companies which are particularly characterised by sustainable economic development, positive products, or processes.

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

### 1. Sector exclusions

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

Controversial Activities	Measure	Excluded If
<b>UN Global Compact</b>	Overall Global Compact Compliance	Assessed as being Not Compliant with any principle
<b>Coal</b>	Thermal Coal Extraction	>=5% of revenue
	Thermal Coal Power Generation	>=10% of revenue
<b>Unconventional Oil &amp; Gas extraction</b>	Revenues, production capacity or actual production from 1) Arctic oil & gas exploration extraction, 2) Oil sands extraction, 3) Shale energy extraction	>5% of revenue from any sub-category
<b>Conventional Oil &amp; Gas</b>	Oil & gas exploration, production, refining, transportation and/or storage	=25% of revenue
<b>Military</b>	Revenue from illegal & controversial weapons*	>0% of revenue
	Military Contracting Weapons	>=5% of revenue
	Military Contracting Weapons related products and services	>=5% of revenue
	Small Arms Military / Law Enforcement	>=5% of revenue
	Companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty (NPT)	>=0% of revenue
<b>Tobacco</b>	Tobacco products production	>=0% of revenue
	Tobacco Products Related Products / Services	>=5% of revenue
<b>Cannabis</b>	Revenues from the production of or sales of recreational cannabis products	>=5% of revenue
<b>Civilian Firearms</b>	Small Arms Civilian customers (Assault Weapons)	>=5% of revenue
	Small Arms Retail / Distribution	>=5% of revenue
	Small Arms Key Components	>=5% of revenue

\*The Fund will not knowingly finance cluster munitions, munitions and weapons containing depleted uranium, and anti-personnel mines, as well as biological and chemical weapons. This includes in particular not knowingly investing in any form of securities issued by an entity the main activities of which are the manufacturing, use, reparation, sale, exhibition, distribution, import or export, storing or transport of cluster munitions, munitions and weapons containing depleted uranium, and anti-personnel mines as well as biological and chemical weapons, and the Directors of Invesco Funds will therefore implement relevant internal investment guidelines.

For the avoidance of doubt, by virtue of applying the above exclusions, the Fund complies with the exclusions referred in CDR (EU) 2020/1818 with regards to minimum standards for EU Climate Transition benchmarks.

The Fund will also take into account an exclusion list provided by investors on a periodic basis. The list will be reviewed by the investment team and it is at its discretion as to whether securities on the list will be excluded from the investment universe. The full exclusion list is available to shareholders upon request from the management company (Invesco Management S.A).

The Fund can invest in nuclear power.

## **2. Good governance assessment**

The Fund's investment approach will seek to avoid issuers with governance structures and standards that are assessed by our analysts as not meeting acceptable minimum standards. Our assessments examine whether features consistent with sound governance practices that could include, but would not be limited to, board independence, and tenure, and comprehensive safeguarding policies on employee relations, operational practices, business ethics and relationships with other key stakeholders such as local communities. Governance assessments are also embedded in the Fund's climate assessment framework, particularly with respect to the setting of a corporate decarbonisation strategy.

To ensure a minimum standard of governance amongst investee companies, the Fund will avoid investing in those that have a governance score of 5 as measured by our proprietary ESG scoring tool, which scores companies 1–5 (with 1 being the best) against 18 governance-specific indicators.



## Proportion of investments

The Fund will invest 90% minimum in sustainable investments that have an environmental objective not aligned with the EU Taxonomy. 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 securities downgraded below the minimum proprietary ESG rating may still be held in the Fund (for the avoidance of doubt, while the downgraded securities can be held, there will be no additional purchase of such securities if they are not compliant with the minimum proprietary ESG rating). In addition, if a security has become illiquid to the point where there is no willing buyer or the issuer has for example defaulted/ undergoing a restructure or filed for bankruptcy protection after the point of purchase, these assets may still be held in the Fund until they can be sold/removed.

## Monitoring of sustainable investment objective

The Fund is monitored from a performance perspective and to ensure that it meets its climate objectives.

The Fund's benchmark for performance comparison purposes is a composite index consisting of 50% MSCI World Index (Euro Hedged), 35% ICE BofA Global Corporate Bond Index (Euro Hedged) and 15% ICE BofA Global High Yield Index (Euro Hedged). While the composite benchmark is not consistent with the ESG characteristics of the Fund, it is a suitable proxy for the wider investment universe and therefore it is likely that the majority of securities in the Fund are also components of the composite benchmark. As an actively managed fund, this overlap will change and this statement may be updated from time to time. The Investment Manager has broad discretion over portfolio construction and therefore it is expected that over time the risk -return characteristics of the Fund may diverge materially from the benchmark.

The portfolio is also compared to the Climate Comparator (as further defined above) for a range of metrics such as carbon emissions, carbon intensity, as well as a number of sector specific indicators.

In order to demonstrate alignment with the long-term goals of the Paris Agreement, the Fund will report its carbon emissions intensity against the carbon emissions intensity of the blended equivalent Carbon Transition Benchmarks of the above indices i.e. 50% MSCI World ESG Climate Transition (EU CTB) Select Index (USD), (35%) ICE Global Corporate Climate Transition Index and (15%) ICE Global High Yield Climate Transition Index.

## Invesco's Global ESG team's Oversight

The two investment teams responsible for the Fund meet with Invesco's Global ESG team to review the portfolio and challenge the investment teams' climate rationales for selected investments. Whilst the ESG team has no formal authority over the Fund, it could voice any concerns about the climate aspects of the Fund to the CIO as part of the Fund's CIO Challenge process. The meetings occur twice a year and are minuted.

When there are proposed changes to the ESG metrics used, a formal signoff procedure takes place that includes members of the global ESG team, investment team, product and legal team.

## Methodologies

As described in the section "Investment Strategy", screening will be employed to exclude issuers that do not meet the Fund's criteria, including, but not limited to, the level of involvement in certain activities such as fossil fuels (including thermal coal extraction, extraction of tar sands and oil shale, Arctic drilling, and conventional oil and gas activities) as well as non-climate-related sectors such as unconventional weapons and tobacco.

The Fund also excludes companies that are involved in severe controversies pertaining to environmental, social, governance (ESG). Such exclusions may depend on the activity, from zero tolerance to exclusions based on percentage of revenue or other measures and may be updated from time to time.

The investment team will also use positive screening based on its proprietary rating system to identify corporate where the issuers activities positively contribute to the transition to a low carbon economy (being the Climate Comparator as further described in the section "Investment Strategy"). Such issuers include, but are not limited to, companies that have a low carbon footprint, or have made, or are making, progress towards lowering their carbon footprint.

As mentioned above, whilst the Fund will typically invest in companies which have better scores than their peers in the climate comparator (scoring at 2.5 or better on a rating from 1 to 5 (1 being the best scoring)), the Fund is permitted to invest in lower scoring companies and/or companies not included in the climate comparator, however the Investment Manager must justify their inclusion in the portfolio.

### Securities Lending

To the extent the Fund engages in securities lending, the Fund will reserve the right to recall securities in advance of an important vote. In addition, the investment manager will ensure that any collateral received is aligned with these sustainability-related disclosures.

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

### • Sustainable Investments – Details

To attain the Fund's sustainable investment objective, the investment team will use a proprietary Climate Comparator (as further described in the section "Investment Strategy") which incorporates data from corporate bond issuers, including a wide range of climate and specifically carbon-oriented indicators. This data comes from a combination of ESG and industry specific data providers such as MSCI, CDP and Science Based Target Initiative. This data is then weighted to create a sector relative score between 1-5 for each issuer.

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 where the data set is so limited as to not be representative of the investment universe to prioritise other actions, such as engagement to help increase the pool of data available.

Due diligence monitoring is done to ensure data providers are providing on-time deliverables such as ESG data, research and recommendations. Invesco conducts 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 equivalent positions in the Fund will be held for technical reasons such as providing liquidity to the Fund's investors. Money market funds will be held by the Fund as they represent the most efficient vehicle for meeting the liquidity needs of investors. However, meeting the broader ESG policy of the Fund is not currently possible through money market funds currently available and therefore, investors should note that this technical exception for liquidity exposures will apply.

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.

### Derivatives

The investment manager will use derivatives in the Fund for hedging, efficient portfolio management (EPM) and investment position-taking.

Derivatives for investment purposes will meet the Fund's sustainable investment objective, while, in the absence of qualified instruments in the market, derivatives for hedging and efficient portfolio management may not always be wholly aligned with the Fund's sustainability-related disclosures.

### 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.

### Considerations of a Climate Comparator

It is important to recognise where a quantitative approach has limitations. These include both limitations with each individual metric, the lack of data and in some instances, data which may be misleading.

For example, a company's absolute emissions may be affected by corporate actions, or by its general operational performance rather than efforts to reduce emissions.

The extent to which a company owns its supply chain (upstream raw material sourcing and downstream distribution) can significantly affect how a company calculates its emissions. The quantitative approach also struggles to judge diverse sectors or diversified companies. It also has a tendency to look backwards and miss companies about to undergo change. Private companies are a feature of fixed income markets, a group of companies where data is often sparse.

Therefore, whilst the output of the Climate Comparator is a vital component, it is not the sole determinant of which companies qualify for the universe of potential investment candidates. When identifying companies with strong climate characteristics, understanding and contextualising data is critical and as a result, the team uses a combination of research resources including the team's credit and equity analysts, its dedicated ESG research analyst and Invesco's Global ESG team which consists of specialist research analysts.

We permit investment in companies which are not in the Climate Comparator in instances that we can justify, either because we have sufficient climate-related data on the company from other sources, or where a company's core activity is supporting transition.

Nonetheless, we believe there are numerous advantages of using a Climate Comparator approach to analyse companies in a systematic and thorough way. It is an efficient way of identifying the broad trends in a sector, it can help us understand which companies are leading and lagging in the drive towards decarbonisation and identify those companies whose record is mixed and may warrant further investigation. The Climate Comparator will evolve to accommodate advances in data reporting and also facilitates the comparison between the Fund and the benchmark.

Despite these limitations, ESG data remains essential to our investment analysis and does not affect how the Fund meets its sustainable investment objective. 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 sustainable investment objective. 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 the sustainable investment objective.

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

### The Fund

The Fund does not use engagement as a means to achieve its sustainable investment objective.

### General

The fixed income team's engagement consists of 3 aspects. First is any discussion of ESG topics with companies as part of the team's normal dialogue with issuers. That may be either in one-on-one meetings with management or as part of a broader investor group, for example on a results call. Second is any specific ESG issue that has arisen which could have a material impact on credit risk or returns in which we are lobbying for a particular outcome. This is a relatively rare occurrence and is often focused on specific governance issues. Third is the engagement effort that is specific to the Fund's strategy. This engagement effort is led by the team's ESG Analyst and is a targeted effort focusing on specific climate-related issues. This engagement effort is reported upon.

As the global equity team manage a relatively concentrated portfolio, it has the ability to engage with companies on all ESG issues. The team collaborates with Invesco's ESG team and regularly meet companies to discuss and advise on ESG issues; through engagement, the global equity team provides management teams' with their expectations of the progress and change they require as shareholders. From a climate perspective, the global equity team believes that active engagement can provide an additional and effective tool in achieving their aim of transitioning to a lower carbon economy. The team holds companies to account on their promises and targets and actively encourage a link between executive remuneration and climate targets.

Please click [here](#) to access our engagement and global proxy voting policy.

## Attainment of the sustainable investment objective

In order to demonstrate alignment with the long-term goals of the Paris Agreement, the Fund will report its carbon emissions intensity against the carbon emissions intensity of the blended equivalent Carbon Transition Benchmarks of the above indices i.e. 50% MSCI World ESG Climate Transition (EU CTB) Select Index (USD), (35%) ICE Global Corporate Climate Transition Index and (15%) ICE Global High Yield Climate Transition Index. Please find the methodologies of the index providers [here](#) and [here](#).

<b>Version</b>	<b>Date</b>	<b>Details of change</b>
1.0	16 December 2022	Creation of the document
1.1	7 July 2023	Updated for inclusion of binding Climate Comparator criteria / score
1.2	18 January 2024	Updated to include clarification that government securities held for the purposes of liquidity or duration management are not subject to the ESG criteria of the fund
1.3	15 July 2024	Various clarifications
1.4	1 December 2024	Enhancement of the "Summary" section
1.5	24 March 2025	Updates to various sections in light of the ESMA Guidelines on funds' names using ESG or sustainability-related terms, including a Fund's name change.

**UCITS have no guaranteed return and past performance does not guarantee the future ones.**