
Invesco Net Zero Global Buy and Maintain Credit 2020-2035 Fund

(the “Fund”)

Sustainability-related disclosures

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Summary

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 Funds aim to capture credit risk premium and to generate a predictable set of cash flows over the life of the Funds while contributing to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner.

The investment team, Invesco Fixed Income (IFI), will implement a multi-faceted approach in order to align the Fund's investments with the definition of a Net Zero Investment Strategy set out by the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework (NZIF).

The Fund applies a rigorous ESG framework and climate risk considerations to guide its long-term investments. The Fund's ESG approach combines sector exclusions, sector-specific parameters, alignment assessments against global net zero goals and the selection of issuers with strong ESG characteristics.

The portfolio management approach will leverage external frameworks and climate expertise to deliver its mandate of decarbonising the Funds in-line with the goal of achieving net zero emissions by 2050. Coordination on engagement topics and oversight are provided by Invesco's Global ESG team ("the ESG Team").

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.

No sustainable investment objective

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

However, the Fund has 50% minimum allocated to sustainable investments (as further explained under “Environmental and social characteristics of the product.”)

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, 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 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

PAI No.	PAI Indicator	Portfolio Rollups
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
13	SA Board Gender Diversity _Percentage of Female Board Members-SFDR	Adjusted Weighted Average
14	ISS Controversial Weapons-Evidence of Activity-SFDR	% Weight of Portfolio
Sovereign		
15	SA Carbon Emissions Intensity-SFDR	Weighted Average
16	SA Any Country Social Violations-SFDR	No. of Counties involved in Violations; % of countries involved in violations
Optional Indicators		
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.

Environmental or social characteristics of the financial product

The Fund aims to capture credit risk premium and to generate a predictable set of cash flows over the life of the Fund while contributing to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner.

In relation to the Net Zero goal, the Fund will be managed to reduce portfolio greenhouse gas emissions over the long term with a trajectory that meets global decarbonisation pathways (mainly by referring to the Paris Aligned Investment Initiative's Net Zero Investment Framework).

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 Fund will select companies that meet the net zero alignment eligibility criteria set for the Fund.

Note that Invesco relies on third-party data providers to assess issuer's performance on the above criteria. In addition, it should be noted that the full weight of securities that meet the above criteria will count towards the Fund's sustainable investments total.

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, 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.

Investment Strategy

The Fund actively invests in corporate bonds worldwide. Its investment approach seeks to invest in companies that are committed to aligning their business models with the goal of achieving net zero carbon dioxide emissions by 2050. To this end, the Fund will invest in bonds from issuers that the investment manager believes can make real progress towards decarbonisation and delivering net zero. Finally, the Fund's investment approach is thematic in nature and the investment management team will pursue macro and sector-specific themes that they believe will enable the Fund to achieve an attractive yield.

The Fund will apply a multi-faceted approach to meet the requirements of a net zero investment strategy.

Element	Description
Net Zero Alignment Spectrum	<p>All portfolio assets will be classified as either material emitting or low impact following the implementation guidance of the NZIF. Using the NZIF methodology, holdings will be classified across the net zero alignment spectrum.</p> <p>The initial focus will be on setting 5-year targets for each category. This target setting will be a function of several inputs; IFI's understanding of each issuer and its potential to commit and execute against net zero alignment, an engagement component that is designed to push companies to make greater progress.</p> <p>In particular, the Funds will invest principally in issuers who are:</p> <ul style="list-style-type: none"> • achieving Net Zero; • aligned to a Net Zero Pathway • aligning towards a Net Zero Pathway or • committed to aligning. <p>For issuers in sectors that are considered material emitting, the Funds will aim to target 100% of holdings to be either aligned to net zero or at net zero by 2040 to achieve increasing levels of net zero alignment.</p> <p>Investment in issuers that sit along the net zero alignment spectrum will therefore be based on our assessment of their current business model and their expected progress on decarbonisation. Alternatively, we will invest in the bonds of the issuer where the use of proceeds is clearly directed towards climate solutions aimed at mitigation of or adaptation to climate change using our sustainable bond framework.</p> <p>Not aligned issuers</p> <p>The Funds will have some flexibility to invest a proportion in issuers who are currently non-aligned with net zero but, in the view of the Investment Manager, will be moving towards a commitment and/or alignment. This must be on a timetable which will make them contributors to carbon reduction and thus appropriate for the portfolio. In conjunction with an engagement schedule, the investment manager will set accelerated timelines for such issuers to demonstrate commitment to align, which will lead to divestment if not met.</p> <p>To assess the investment in such instruments, the Investment Manager will focus on various catalysts such as (1) Change in management; (2) Change in corporate strategy; (3) Committing to setting emission targets under SBTi; (4) Stakeholder pressures; (5) Regulatory Pressures (EU taxonomy); (6) Organic growth in business lines linked to decarbonisation; (7) Technology advances enabling core operations to be transitioned; (8) Sector pressure with peers already making commitments. Moreover, engagement with non-aligned issuers will be key and the focus will be on a set of front-loaded milestones.</p>
Climate Solutions	<p>The Funds' investment in climate solutions may be expressed through their investments in companies where revenue and capital expenditure in climate change mitigation- and adaptation-related activities can be assessed directly. Regulatory efforts to standardise the categorisation of these activities such as the EU Taxonomy for Sustainable Activities will inform and guide the portfolio management team's assessments.</p>
Temperature Alignment	<p>The portfolio management team will analyse and optimise, where possible, the implied temperature warming measure of the Funds relative to the broader global corporate bond market.</p> <p>Due to their issuer selection approach, the Funds are expected to have a lower warming alignment than the broader market.</p>
Portfolio Emissions (Scope 1 and 2)	<p>At inception of the Net Zero strategy, the Funds will seek to have lower total scope 1 and 2 emissions relative to the global corporate bond market (proxy for investment universe). The Funds' focus on net zero alignment and achieving broad-based real world emissions reduction allows investment in high emitting companies as long as credible decarbonisation plans are in place and being executed upon. This is how this approach differs from low carbon portfolios which typically avoid high emitting companies or sectors through exclusions. For alignment-based Funds, it is not as relevant to set carbon footprint targets relative to the market.</p> <p>We will continue to evaluate potential methodologies and better data sources to enable accurate target-setting of scope 3 emissions.</p>

Reflecting the reality that net zero by 2050 is a multi-decade transition process, the Fund's investments will be primarily spread across issuers at different levels of net zero maturity (as outlined above) where Fund assets are expected to be increasingly allocated to companies at high levels of net zero alignment in the medium term. Portfolio alignment expectations in the short to medium term will reflect the investment management team's expectations for how fast each company held may progress against its net zero plans, which may be subject to change. Much of this focus will be on companies in high emitting sectors where progress will be most meaningful to the goal of reducing global emissions. Nevertheless, the Fund will have targets for the alignment of its high emitting holdings to be hit by 2030 and 2040. These are;

- By 2030: At least 90% of the financed emissions of the Fund from high emitting sectors will be from companies considered to be achieving net zero, aligned to a net zero pathway or if not at this stage, the subject of ongoing engagement (by Invesco or by Invesco as part of collective industry efforts). We will disclose the target for companies at net zero or aligned to a net zero pathway separately in Fund's literature.
- By 2040: All emissions financed by the fund from material emitting sectors will be from companies that are either achieving net zero emissions already or are aligned to a net zero pathway. In the case of the Fund, it is anticipated that at least 95% of assets from material emitting sectors will be achieving net zero emissions or aligned to a net zero pathway at the maturity of the Fund.

In addition to considering the net zero profile, exposure to climate solutions and the credit fundamentals of each issuer, the investment team also follows a comprehensive ESG framework to guide the bond selection process.

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

1. Sector exclusions

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. These elements are described in more detail below.

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

Controversial Activities	Measure	Excluded If
UN Global Compact	Overall Global Compact Compliance	Assessed as being Not Compliant with any principle
Coal	Thermal Coal Extraction	>=5% of revenue
	Thermal Coal Power Generation	>=10% of revenue
Unconventional Oil & Gas extraction	Revenues from 1) Arctic oil & gas extraction, 2) Oil sands extraction, 3) Shale energy extraction	>5% of revenue on each component
Weapons	Revenue from illegal & controversial weapons (anti-personnel mines, cluster munition, depleted uranium, biological/chemical weapons etc.)	>0% of revenue
	Military Contracting Weapons	>=5% of revenue
	Military Contracting Weapons related products and services	>=5% of revenue
	Small Arms Civilian customers (Assault Weapons)	>=5% of revenue
	Small Arms Military / Law Enforcement	>=5% of revenue
	Small Arms Key Components	>=5% of revenue
	Small Arms Retail/Distribution	>=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
Tobacco	Tobacco products production	>=5% of revenue
	Tobacco Products Related Products/Services	>=5% of revenue

Controversial Activities	Measure	Excluded If
Gambling	Gambling Operations	>=10% of revenue
	Gambling Specialised Equipment	>=10% of revenue
	Gambling Supporting Products/Services	>=10% of revenue
Adult Entertainment	Adult Entertainment Production	>=10% of revenue
	Adult Entertainment Distribution	>=10% of revenue
Cannabis	Revenues from the production of or sales of recreational cannabis products	>=5% of revenue

2. Good governance assessment

The Fund's investment approach will seek to avoid issuers with governance structures and standards that are assessed by our credit analysts as not meeting acceptable minimum standards. Our assessments examine whether features consistent with sound governance practices are present such as independent boards, diversity in board composition 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 net zero assessment framework, particularly with respect to setting corporate decarbonisation strategy, lobbying and oversight of climate planning and executive remuneration targets.

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;

1. **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.
2. **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.
3. **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.
4. **Long Term Stewardship of Capital:** Invesco expects companies to responsibly raise and deploy capital towards the long-term, sustainable success of the business.
5. **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.
6. **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.

Proportion of investments

The Fund will allocate at least 70% of its assets to investments aligned with the environmental and social characteristics it promotes (#1 Aligned with E/S characteristics) and 30% maximum may be invested in money market instruments or cash for liquidity management purposes (#2 Other). 50% minimum of the Fund's NAV will be invested in sustainable investments (#1A Sustainable) contributing to environmental and/or social objective.

Sustainable investments in the context of the Fund's objective of contributing to the goal of delivering net zero carbon emissions are defined by the technical framework (the net zero alignment spectrum) applied to establish investee companies' commitments to net zero as the initial criteria for eligibility.

Monitoring of environmental or social characteristics

The Fund pursues a transition strategy which focuses on companies committed to decarbonising their business models in a manner consistent with the goal of net zero carbon emissions by 2050. Measuring progress against this environmental characteristic will be primarily achieved through ongoing monitoring of two specific components by the investment manager.

- 1. Progress towards Net Zero alignment as defined by the technical framework set out in the Net Zero Investment Framework (NZIF).** This assessment framework enables the investment manager to categorise each company held in terms of the degree of progress made in transitioning their business model towards a permanently net zero aligned state. Companies held are expected to meet the criteria for being fully aligned to a net zero pathway by 2025. This means decarbonisation is fully integrated into their business strategy, robust (preferably science-based) targets for annual decarbonisation are in-place and emissions disclosures facilitate transparent assessment of emissions performance relative to targets. The investment manager will assess investee companies progress against these criteria on an ongoing basis.
- 2. Absolute emissions performance against targets.** The Fund's environmental characteristics is meant to contribute to the reduction of absolute global emissions by financing companies with credible commitments to decarbonise in-line with the rate that the net zero goal requires for their business model. The investment manager will assess progress towards the Fund's sustainable objective by monitoring actual emissions reported by investee companies initially on an annual basis based on current disclosure standards. Emissions performance will be assessed initially in terms of direct emissions (defined by Scope 1 and 2 emissions) but we expect to include Scope 3 emissions in the future as disclosure improves.

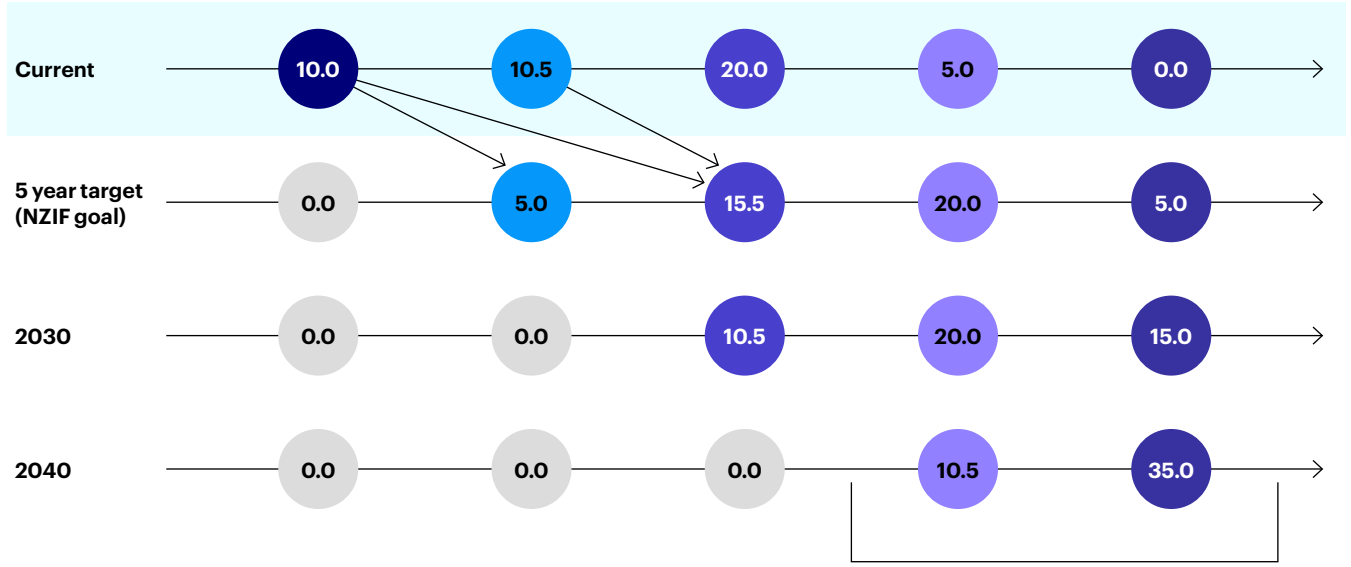
In addition to the above, dedicated ESG-focused portfolio reviews are in place to complement the existing risk-return portfolio review process. The ESG team leads each review meeting which is attended by IFI investment managers, credit research analysts and the fixed income risk team. The scope of the review meeting covers portfolios with ESG objectives and also portfolios without explicit ESG objectives. Portfolios are reviewed in terms of alignment with Net Zero commitment and pathway, issuer level ESG exposures, carbon data, highest carbon emitters and UN Global Compact compliance.

As a key component of our approach to Net Zero, Invesco has committed to ongoing and regular reporting of Net Zero progress and related outcomes. The frequency of this report is intended to be annual and will include an aggregated view of our committed assets and the relevant indicators, including Net Zero related engagement activity. This report will be compiled using the Invesco Net Zero framework. Additional reporting may be undertaken at the strategy level but that is still to be determined.

Alignment status of high emitting issuers (current & targets)

Portfolio weight (%)

- Not aligned
- Committed to aligning
- Aligning towards a net zero pathway
- Aligned to net zero pathway
- Achieving net zero



NZIF goal is for all assets in material sectors to be either at or aligned to net zero by 2040

Source: Invesco. For illustrative purposes only.

Please note that the above are not binding targets and the graphic is intended for illustrative purposes only. The investment manager will provide updates on the Fund's actual 5-year alignment targets for exposures to high emitting companies through periodic fund marketing materials. NZIF will continue to develop in the years ahead and as such, the investment approach of the Fund will reflect any future enhancements.

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

Methodologies

Net Zero Investment Framework

The Fund's investment approach will follow the Net Zero Investment Framework (NZIF) as developed by the Paris Aligned Investment Initiative (PAII). The NZIF was created as a means of translating the goals of the Paris Agreement into practical guidance for asset managers and asset owners. It is designed to support the decarbonisation of the real economy, help minimise the negative impacts of climate change, and seize investment opportunities from addressing climate change.

To be considered aligned to the temperature goals of the Paris Agreement, the NZIF sets out that investment manager should commit to the goal of achieving net zero portfolio emissions by 2050 or sooner and adopt an investment strategy consistent with this goal. There are two core components for a net zero investment strategy;

1. To decarbonise investment portfolios in a way that is consistent with achieving global net zero greenhouse gas (GHG) emissions by 2050.
2. To increase investment in the range of 'climate solutions' needed to meet that goal.

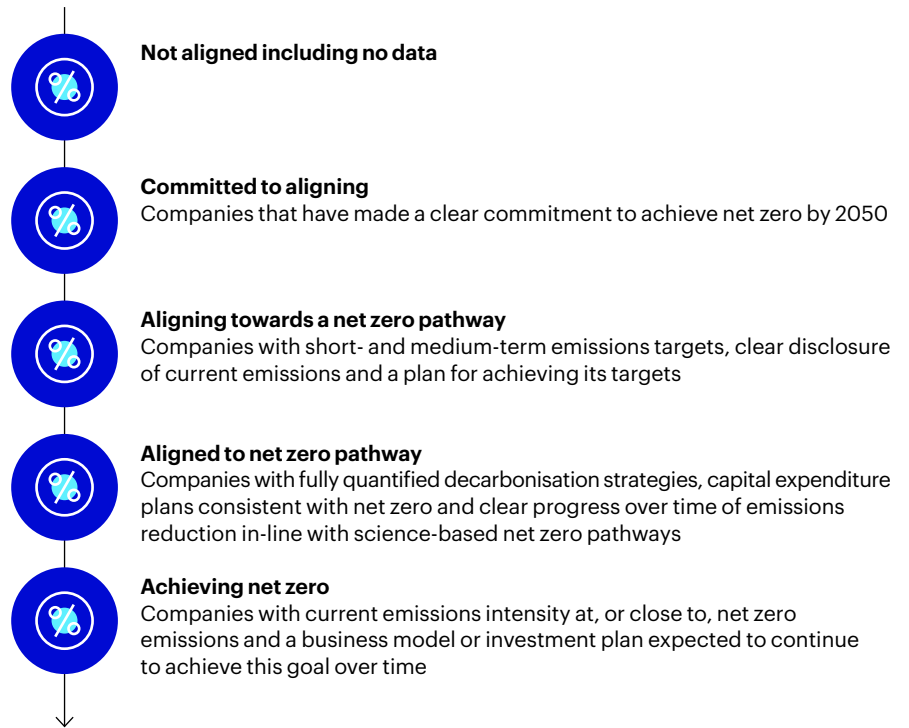
Under the NZIF, investment manager assesses how closely aligned issuers in their investment universe are to achieving net zero. An issuer is defined as "Achieving Net Zero" when its current emissions intensity is at, or close to, net zero emissions and it has a business model or investment plan that is expected to continue to achieve this goal over time. The framework establishes six core criteria (plus four further criteria to be incorporated where possible) to aid investment manager in making the net zero alignment assessment of each issuer. The Fund's investment process assesses companies against these criteria in order to categorise their net zero alignment status as part of its issuer selection process.

The criteria encapsulate the current and forward-looking characteristics that companies with meaningful commitment to the goal of net zero should exhibit. These are;

Alignment criteria

1 Ambition	The company has set a long-term goal consistent with achieving net zero emissions by 2050
2 Targets	The company has explicit short- and medium-term emissions reduction targets covering its scope 1, 2 and material scope 3 emissions
3 Emissions performance	The company demonstrates that its current emissions intensity performance (scope 1, 2 and material scope 3) meets targets that it has set with reference to climate science-based approaches
4 Disclosure	The company discloses its scope 1, 2 and material scope 3 emissions
5 Decarbonisation Strategy	The company has a quantified plan setting out measures deployed to meet its GHG reduction targets, proportion of green revenues and increases in green revenues
6 Capital Allocation Alignment	The company's capital expenditures are clearly consistent with the goal of achieving net zero

Issuers can fall into one of five categories across a spectrum of net zero alignment depending on the extent of criteria met. These are represented below.



The focus of the framework is primarily on material emitting sectors which are those sectors which account for the majority of global industrial greenhouse gas emissions. Importantly, financial and real estate companies are classified as material emitting.

Few companies currently exist that operate with emissions and business models in-line with the requirements of a net zero world but the process of committing to that goal has begun. The approach provides a means for investment managers to assess where companies are on that journey, set alignment targets and engage proactively with companies over time to encourage a real world reduction in emissions. It is important to highlight that the framework does not set out specific sector or business activity exclusions. The rationale for this is that an orderly transition of the global economy to low carbon will require all sectors to be supported on the transition journey. Investment managers may set exclusions at their discretion on sectors or activities that are fundamentally incompatible with a low carbon world (for example, coal extraction and coal-based power production).

The Fund's investment approach is constructed with two net zero-connected targets in mind.

1. Set a **5-year goal** for increasing % AUM invested in assets in material emitting sectors that are;
 1. net zero, or
 2. meeting criteria to be considered 'aligned' or
 3. 'aligning' to net zero

By 2040: 100% of assets to be i) net zero or ii) aligned, by 2040.

2. At least 70% of emissions in material emitting sectors must be either;
 1. net zero,
 2. aligned, or
 3. subject of direct or collective engagement and stewardship actions

By 2030: Increase threshold target to at least 90% by 2030, at the latest. Disclose the proportion of assets considered i) net zero and ii) aligned, separately to assets under engagement/stewardship.

Net Zero Alignment assessment

All portfolio assets will be classified as either high emitting or low emitting following the implementation guidance of the Net Zero Investment Framework (NZIF). Using the NZIF methodology, holdings will be classified across the net zero alignment spectrum. The initial focus will be on setting 5-year targets for each category. This target setting will be a function of several inputs; Invesco's understanding of each issuer and its potential to commit and execute against net zero alignment, an engagement component that is designed to push companies to make greater progress. In particular, the Fund will invest principally in issuers who are:

- Achieving Net Zero;
- Aligned to a Net Zero Pathway
- Aligning towards a Net Zero Pathway or
- Committed to aligning.

For issuers in sectors that are considered material emitting, the Fund will aim to target 100% of holdings to be either aligned to net zero or achieving net zero by 2040 to ensure increasing levels of net zero alignment.

Investment in issuers that sit along the net zero alignment spectrum will therefore be based on our assessment of their current business model and their expected progress on decarbonisation. Alternatively, we will invest in the bonds of the issuer where the use of proceeds is clearly directed towards climate solutions aimed at mitigation of or adaptation to climate change using our sustainable bond framework.

How do we define high emitting sectors?

Material or high emitting sectors are; electricity utilities, oil & gas, oil & gas distribution, coal mining, autos, airlines, shipping, aluminium, cement, pulp & paper, steel, chemicals, diversified mining and other industrials including technology hardware, aerospace & defence, construction machinery, heavy electrical equipment and more. In addition, the Fund will also consider financials and real estate as high emitting sectors that need to be in scope to achieve its net zero aim.

Not aligned issuers

The Fund will have some limited flexibility to invest a small proportion in issuers who are currently not aligned with net zero but, in the view of the investment manager, will be moving towards a commitment and/or alignment. This must be on a timetable which will make them contributors to carbon reduction and thus appropriate for the portfolio. In conjunction with an engagement schedule, the investment manager will set accelerated timelines for such issuers to demonstrate commitment to align, which will lead to divestment if not met. To assess the investment in such instruments, the investment manager will focus on various catalysts such as (1) Change in management; (2) Change in corporate strategy; (3) Committing to setting emission targets under SBTi; (4) Stakeholder pressures; (5) Regulatory Pressures (EU taxonomy); (6) Organic growth in business lines linked to decarbonisation; (7) Technology advances enabling core operations to be transitioned; (8) Sector pressure with peers already making commitments. Moreover, engagement with not-aligned issuers will be key and the focus will be on a set of front-loaded milestones.

Divestment

While we recognise that the circumstances of each company will be different depending on the nature of their business model, their sector and other factors, our approach to divestment is ultimately guided by the urgency for action implied by climate change science, which emphasises meaningful progress being made this decade. What does this mean in practice? It is our belief that the decarbonisation of business models for our investee companies in net zero aligned strategies must be largely evident by the middle of this decade. By this, we mean that companies should have detailed short, medium- and long-term emissions targets by this point and be reporting audited emissions performance against these goals annually. Other elements that need to be present are a fully quantified decarbonisation strategy that is overseen by the company's board and senior leadership as well as alignment of capital expenditure (or new financing strategy in the case of financials) and lobbying with the goal of net zero.

This philosophy for divestment is informed by the path dependencies associated with global temperature warming scenarios. Reductions achieved now and in the near term will have significant cumulative benefits over the long term. We are realistic that the path to net zero alignment will not be the same for each investee company in a net zero labelled Fund. For companies making new net zero commitments, it is reasonable, in our view, for the elements that demonstrate full alignment to net zero (outlined previously) to be in place within a period of 3-5 years after an initial net zero commitment is made. Continuous engagement with companies ensures progress can be monitored.

The decision to divest must only be made after all reasonable attempts to encourage and observe change in the investee company have been exhausted. Ultimately, the decision to divest will be based on a combination of qualitative judgment and quantitative data. The decision to divest will be the output of a process overseen by the Global ESG team.

Once the decision to divest has been made, the investment team will have a 12-month window to exit their positions to ensure that this can be executed in an orderly manner which maximises value for investors.

For the avoidance of doubt, investment manager can choose to exit an investee company for investment reasons at any time.

ESG research

IFI has developed its own ESG methodology and grading system to provide clear and consistent outputs for investment managers. Each issuer receives a proprietary overall ESG Grade, accompanied by sub-ratings covering the three pillars of E, S and G. In addition, ESG momentum is captured through trend assessments, which provide further guidance for investment managers in the same way that creditworthiness trend assessments do for fundamental credit ratings.

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

- **Sustainable Investments – Details**

The process to determine if an investment should be considered a sustainable investment is described in “Environmental or social characteristics of the financial product and “Investment Strategy”.

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:

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

Net Zero alignment assessments also reference external industry initiatives such as the Climate Action 100+ Net Zero Benchmark, Transition Pathway Initiative and Science Based Targets Initiative.

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.

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 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 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 net zero policy of the Fund is not possible through money market funds currently available and therefore, investors should note that a technical exception to this policy 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 policy 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 Net Zero and ESG criteria, while, in the absence of qualified instruments in the market, derivatives for hedging and efficient portfolio management may not always be wholly aligned with this criteria.

Sovereign debt

The Fund's exposure to Government debt will be ancillary in nature and will be used to manage Fund duration and liquidity at the overall Fund level. As a corporate bond fund, the investment manager does not apply a specific exclusion criteria to Government debt.

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 10% 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 10% 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

Net Zero and engagement with issuers

Engagement approach

Our approach to engagement, which is carried out on behalf of the client assets in our net zero labelled products, is guided by the reality that to address climate change and limit global warming, carbon emissions must be reduced in absolute terms across the global economy. We will invest in companies that we believe can make the transition to lower carbon business models in a manner that is consistent with the goal of net zero carbon emissions by 2050. Our approach will be broad-based and invest across a range of sectors including energy intensive areas. Some holdings will be high emitters and responsible for a large share of global emissions while others will have lower carbon footprints.

Net zero is fundamentally about putting the global economy on a pathway to halving emissions by 2030 and eliminating them on a net basis by 2050, but it is a pathway that starts now. Our engagement process respects the urgent need for action in the short term.

Engagement principles for the Fund:

1. Financed emissions are defined in terms of the absolute total carbon emissions (Scope 1, 2 and 3) of each issuer held. We do not view emissions relative to portfolio market value weight or the percentage of Enterprise Value owned. Every dollar invested in an issuer's bonds enables its business model to operate and generate emissions. We will engage with the largest absolute emitter in the portfolio as a priority even if it is the smallest position held.
2. We will commit to engage with issuers representing at least 70% of the total emissions financed by the portfolio (based on the definition above). We will engage with at least the top 10 emitters in the portfolio if the 70% target is met by fewer companies due to concentration or issuer selection.
3. Additionally, we will commit to engage with all companies held in sectors defined as high emitting that have yet to make net zero commitments

Invesco's engagement approach

We engage directly with companies to better understand their positions and their future intentions. This is carried out tactically by relevant analysts within IFI and strategically with co-ordination through the ESG team. Invesco has established a global process to ensure that our ESG targeted engagements are a collaboration between the ESG team and the investment teams across Invesco who may have interest in the issuer:

1. Internal assessment and coordination: The ESG team consults with the appropriate investors and reviews the ESG Engagement focus list and decides whether to (a) gather feedback on a topic and provide that feedback to an issuer, (b) schedule a call if it is deemed to be necessary, or (c) engage directly and serve as a liaison. The ESG team will set up the calls with investors and issuers when and if a call is deemed necessary. Any ESG engagement meeting is added to a centralized calendar that investment teams can access.
2. Research and follow up: The ESG research team conducts in depth ESG research in preparation for these meetings and discusses with holders across Invesco to ensure that companies are questioned on the key ESG topics. The ESG team writes up an engagement summary report for these meetings which is then shared on multiple investment platforms for all Invesco investors to access.

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

Version	Date	Details of change
1.0	16 December 2022	Creation of the document
1.1	11 May 2023	Amendment to engagement approach section