# Invesco Investment Management Limited
# Approach to integration of sustainability risks

## Background

The Disclosure Regulation is a wide-ranging piece of European legislation, which imposes various obligations on "financial market participants" in relation to environmental, social and governance ("**ESG**") matters. The Disclosure Regulation applies to Invesco Investment Management Limited as the management company for Invesco Markets Plc, Invesco Markets II Plc, Invesco Markets III Plc and Invesco Liquidity Funds Plc.

A "Sustainability Risk" is an environmental, social or governance event or condition that Invesco considers could have a material negative impact on the financial value of one or more investments in a fund. To achieve Invesco's strategic objectives, it is necessary to pursue investment strategies involving varying degrees of Sustainability Risks. Invesco is committed to ensuring it has robust systems and processes to enable its Investment Teams to take Sustainability Risks into account when making investment decisions in a way that best serves its clients, complies with the investment objectives, investment strategies and risk limits of the funds and seeks continuous improvement in this area.

Invesco has a breadth of additional marketing documents and guidelines pertaining to our ESG activities available http://etf.invesco.com/ and www.invescoglobalcash.com.

## Definitions

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| **Article 8 fund** | A fund that, in accordance with the criteria outlined in Article 8 of SFDR, promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics and provided that the companies that the Fund invests in follow good governance practices. |
| **Article 9 fund** | A fund that, in accordance with the criteria outlined in Article 9 of SFDR has sustainable investment as its objective. |

## Invesco Markets Plc, Invesco Markets II Plc and Invesco Markets III Plc

Invesco's approach to integrating a consideration of Sustainability Risks into its investment decision-making process will vary depending on the strategy adopted by the funds.

The majority of the UCITS ETFs are passively managed and either physically hold the securities included in the reference index which they track ("physical replication funds"), or synthetically replicate the performance of the reference index which they track ("synthetic replication funds"). As UCITS ETFs, any reference index is required to represent an adequate benchmark for the market to which it refers with a universe of index components selected on a basis that is clear to investors.  Each reference index is created by a third-party index provider in accordance with this and, as the strategy for the funds that are passively managed is to track or replicate the reference index, changes to the portfolios of the funds are driven by changes to the reference index in accordance with its published methodology rather than by an active selection of stocks by the investment manager. Accordingly, the investment manager does not exercise discretion to actively select / deselect stocks. Therefore, for the majority of passively managed UCITS ETFs, there is no integration of sustainability risks into the investment manager's investment process. Even where the fund is utilizing a sampling strategy to replicate the index, ESG considerations are not incorporated into the sampling approach as the fund's objective is to achieve the performance of the relevant reference index and decisions driven by ESG factors could be less effective in achieving this goal.

To the extent that a passively managed UCITS ETF is considered to be an Article 8 or Article 9 fund, Sustainability Risks may be incorporated into the index provider's methodology. The index provider's methodology may include

assessment of individual companies/issuers against an ESG criteria, including consideration of Sustainability Risks. For further information on how Sustainability Risks are incorporated into the methodology and information on the index provider's methodology, please refer to the section "General Description of the Reference Index" in the relevant fund Supplement.

The use of derivatives will be consistent with a fund's investment policy as set out in the relevant supplement. Sustainability Risk is not specifically contemplated in the context of use of derivatives, except in relation to Article 8 and Article 9 funds. For physical replication funds which are considered to be Article 8 or Article 9 funds, any use of derivatives will be consistent with the sustainability criteria of the fund. For synthetic replication funds which are considered to be Article 8 funds, the investment manager will decide to what degree the physical holdings of the fund will be managed in keeping with the environmental and social characteristics of the reference index. Currently, ESG criteria is not considered when selecting counterparties. Counterparties are selected based on an assessment of counterparty risk and creditworthiness in accordance with the requirements of the Central Bank.

All actively managed UCITS ETFs integrate a consideration of Sustainability Risks in the investment decision making process. The investment manager integrates Sustainability Risks by identifying ESG related factors that could have a material financial impact on the performance of the security. For further information on how Sustainability Risks are incorporated into these strategies, please refer to the relevant fund Supplement.

Exposure to Sustainability Risk does not necessarily mean that the investment manager will refrain from taking or maintaining a position in the investment. Rather, the investment manager will consider the assessments together with other material factors in the context of the investee company or issuer and the investment objective and policy of the fund.

When launching new ETFs, the investment manager's product development process will take into account the rewards and benefits of adopting an ESG benchmark, along with, where possible, an assessment of Sustainability Risks. Assessments of Sustainability Risks are not conclusive and do not necessarily mean that the investment manager will refrain from tracking a benchmark. Rather, Sustainability Risks are some of the considerations used by the investment manager in analysing the commercial viability of a new fund.

## Invesco Liquidity Funds Plc

The investment manager's approach to integrating a consideration of Sustainability Risks into its investment decision-making processes is founded on three central pillars: (i) focus on financially material risks; (ii) research basis and (iii) a systematic approach.

The investment manager integrates Sustainability Risks into investment decisions through a multi-step process. The process starts with the identification of Sustainability Risk indicators considered to be financially material to a given issuer or industry, in the context of the relevant investment objective and policy. Investments of each fund will be assessed and/or assigned scores for these identified indicators, using proprietary Invesco methodologies, depending on the strategy. These assessments will be taken into account in investment decisions, and also in any engagement activities.

Assessments of Sustainability Risk do not necessarily mean that the investment manager will refrain from taking or maintaining a position in the investment. Rather, the investment manager will consider the assessments together with other material factors in the context of the investee company or issuer and the investment objective and policy of the relevant fund.

## Proxy voting policy

The Manager adheres to the Invesco Global Proxy Voting policy. Invesco views proxy voting as an integral part of its investment management responsibilities. The proxy voting process at Invesco focuses on protecting clients' rights and promoting governance structures and practices that reinforce the accountability of corporate management and boards of directors to shareholders.

Invesco's good governance principles outline Invesco's views on best practice in corporate governance and long-term investment stewardship. These principles have been developed by Invesco's global investment teams in collaboration with the Global ESG team. The broad philosophy and guiding principles inform Invesco's approach to investment stewardship and proxy voting. These principles are not intended to be exhaustive or prescriptive.

For actively managed funds, the voting decision lies with the relevant investment teams and analysts with input and support from the Global ESG team and Proxy Operations functions. Invesco's proprietary proxy voting platform facilitates implementation of voting decisions and rationales across global investment teams. Invesco's good governance principles, governance structure and processes are designed to ensure that proxy votes are cast in accordance with clients' best interests.

The passively managed UCITS ETFs will typically vote in line with the majority holder of active-equity shares held by Invesco. Invesco refers to this approach as "Majority Voting". This process of Majority Voting ensures that passively managed UCITS ETFs benefit from the engagement and deep dialogue of our active investors, which Invesco believes benefits shareholders in passively- managed UCITS ETFs. In the absence of overlap between the active and passive holders, the passive holders vote in line with our internally developed voting guidelines. Portfolio managers and analysts for accounts employing Majority Voting retain full discretion to override Majority Voting and to vote the shares as they determine to be in the best interest of those accounts, absent certain types of conflicts of interest.