

---

# Invesco Net Zero Global Investment Grade Corporate Bond Fund

(the “Fund”)

---

Sustainability-related disclosures

## Contents

|    |   |
|----|---|
| 02 | Summary   |
| 04 | No significant harm to the sustainable investment objective                 |
| 05 | Sustainable investment objective of the financial product                   |
| 06 | Investment Strategy   |
| 09 | Proportion of investments<br>Monitoring of sustainable investment objective |
| 10 | Methodologies   |
| 14 | Data sources and processing   |
| 15 | Limitations to methodologies and data                                       |
| 16 | Due diligence<br>Engagement policies  |
| 17 | Attainment of the sustainable investment objective                          |

# 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 contribute to the goal of achieving global net zero emissions by 2050 or sooner by investing in companies committed to this aim. It also seeks to deliver income together with long-term capital growth.

## **Investment strategy**

The Fund actively invests in corporate bonds worldwide. 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).

## **Proportion of investments**

The Fund will invest in sustainable investments for at least 90% of its portfolio contributing to an environmental objective.

## **Monitoring of sustainable investment objective**

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 sustainable investment objective will be primarily achieved through ongoing monitoring of two specific components by the investment manager:

- Progress towards Net Zero alignment as defined by the technical framework set out in the Net Zero Investment Framework.
- Absolute emissions performance against targets.

In addition to the above, dedicated ESG-focused portfolio reviews are in place to complement the existing risk-return portfolio review process.

## **Methodologies**

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 Fund's investment approach will follow the Net Zero Investment Framework (NZIF) as developed by the Paris Aligned Investment Initiative (PAII).

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.

The framework set outs six core criteria (plus four further criteria to be incorporated where possible) to establish 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.

**Data sources and processing**

With regards to exclusions, in order to assess companies around 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.

With regards to sustainable investments, the assessment is completed in alignment with the NZIF. Third-party research and data providers (such as MSCI, Sustainalytics, UN Global Compact compliance, ISS Climate Solutions) are used to provide broad market context and transparency on ESG issues for analysts.

**Limitations to methodologies and data**

There may be some limitations due to standardization 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**

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.

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

**Attainment of the sustainable investment objective**

The Fund has a reduction in carbon emissions in its objective as its objective is to contribute to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner. To achieve this sustainable investment objective, the Fund's investment approach will follow the Net Zero Investment Framework (NZIF) as developed by the Paris Aligned Investment Initiative (PAII).

## 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<br>ISS Scope 2 Emissions<br>ISS Scope 3 Emissions<br>ISS Scope 1 Emissions (EUR)<br>ISS Scope 2 Emissions (EUR)<br>ISS Scope 3 Emissions (USD) | 1. Total Emissions (Financed) Scope 1+2<br>2. Carbon Footprint Scope 1+2<br>3. Total Emissions Scope 1+2+3<br>4. Carbon Footprint Scope 1+2+3<br>5. WACI 1+2<br>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<br>_Agriculture, Forestry & Fishing-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Construction-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Electricity, Gas, Steam<br>& Air Conditioning Supply-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Manufacturing-SFDR  | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Mining & Quarrying-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity Real<br>Estate Activities-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Transportation & Storage-SFDR   | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Water Supply, Sewerage,<br>Waste Management & Remediation<br>Activities-SFDR  | Adjusted Weighted Average   |
|         | SA Energy Consumption Intensity<br>Wholesale & Retail Trade & Repair of<br>Motor Vehicles & Motorcycles-SFDR   | Adjusted Weighted Average   |
| 7       | SA Activities Negatively Affecting<br>Biodiversity Areas-SFDR  | % Weight of Portfolio   |
| 8       | SA Emissions to Water<br>Tonnes-SFDR   | $((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Emissions to water})) / \text{Million EUR Invested}$ ;<br>Same as Carbon footprint calculation                         |
| 9       | SA Hazardous Waste Production<br>Tonnes-SFDR   | $((\text{Market Value}/\text{EVIC}) * (\text{Tonnes of Hazardous Waste})) / \text{Million EUR Invested}$ ;<br>Same as Carbon footprint calculation                            |
| 10      | SA Breach of UN Global Compact<br>Principles & OECD Guidelines<br>for Multinational Enterprises-SFDR   | % Weight of Portfolio   |
| 11      | SA Lack of Processes & Compliance<br>Mechanisms to Monitor Compliance<br>with UN Global Compact Principles &<br>OECD Guidelines for MNEs-SFDR                        | % Weight of Portfolio   |
| 12      | SA Unadjusted Gender Pay Gap<br>_Percentage of Male Employees<br>Gross Hourly Earnings-SFDR  | Adjusted Weighted Average   |

| <b>PAI No.</b>             | <b>PAI Indicator</b>   | <b>Portfolio Rollups</b>  |
|----------------------------|--|---|
| <b>13</b>                  | SA Board Gender Diversity<br>_Percentage of Female Board<br>Members-SFDR | Adjusted Weighted Average   |
| <b>14</b>                  | Controversial Weapons - manufacturer<br>or intended use involvement      | % Weight of Portfolio   |
| <b>Sovereign</b>           |  |   |
| <b>15</b>                  | SA Carbon Emissions<br>Intensity-SFDR                                    | Weighted Average  |
| <b>16</b>                  | SA Any Country Social<br>Violations-SFDR                                 | No. of Countries involved in Violations;<br>% of countries involved in violations |
| <b>Optional Indicators</b> |  |   |
| <b>E</b>                   | Lack of Carbon Emission<br>Reduction Initiatives-SFDR                    | % Weight of Portfolio   |
| <b>S</b>                   | 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 contribute to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner. Listed global companies account for almost 20% of annual global emissions. Therefore, the Fund seeks to achieve its sustainable objective by investing primarily in investment grade corporate debt securities from global companies which, in the view of the investment manager, are in line with the requirements of a Net Zero investment strategy and meet the Fund's environmental, social and governance (ESG) criteria (as further defined below). The Fund invests in sustainable investments which contribute to the environmental objective of climate change mitigation within the meaning of EU Taxonomy.

## 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 attractive risk-adjusted returns. The Fund will apply a multi-faceted approach to meet the requirements of a net zero investment strategy.

| Element   | Description   |
|---|---|
| <p><b>Net Zero Alignment Spectrum</b></p>         | <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; 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.</p> <p>In particular, the Fund will invest principally in issuers who are:</p> <ul style="list-style-type: none"> <li>• achieving Net Zero;</li> <li>• aligned to a Net Zero Pathway</li> <li>• aligning towards a Net Zero Pathway or</li> <li>• committed to aligning</li> </ul> <p>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.</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><b>Not aligned issuers</b></p> <p>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.</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 not-aligned issuers will be key and the focus will be on a set of front-loaded milestones.</p> |
| <p><b>Climate Solutions</b></p>                   | <p>The Fund's investment in climate solutions may be expressed through its investments in companies where revenue and capital expenditure in climate change mitigation- and adaptation-related activities can be assessed directly. Regulatory efforts to standardize the categorisation of these activities such as the EU Taxonomy for Sustainable Activities will inform and guide the portfolio management team's assessments.</p>  |
| <p><b>Temperature Alignment</b></p>               | <p>The portfolio management team will analyse and optimise, where possible, the implied temperature warming measure of the Fund relative to the broader global corporate bond market.</p> <p>Due to its issuer selection approach, the Fund is expected to have a lower warming alignment than the broader market.</p>  |
| <p><b>Portfolio Emissions (Scope 1 and 2)</b></p> | <p>At inception, the Fund will seek to have lower total scope 1 and 2 emissions relative to the global corporate bond market (proxy for investment universe). The Fund's 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 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 (in addition to the DNSH assessment as explained in section "No significant harm to the sustainable investment objective") at the Fund level 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 from<br>1) Arctic oil & gas extraction,<br>2) Oil sands extraction,<br>3) Shale energy extraction                        | >5% of revenue on each component                   |
| <b>Weapons</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 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                                    |
| <b>Tobacco</b>                                 | Tobacco products production   | >=0% of revenue                                    |
|  | Tobacco Products Related Products/Services  | >=5% of revenue                                    |
| <b>Gambling</b>                                | Gambling Operations   | >=10% of revenue                                   |
|  | Gambling Specialised Equipment  | >=10% of revenue                                   |
|  | Gambling Supporting Products/Services   | >=10% of revenue                                   |

| Controversial Activities | Measure  | Excluded If      |
|--------------------------|--|------------------|
| 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  |

\*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.

## 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;

- **Transparency:** we expect companies to provide accurate, timely and complete information that enables investors to make informed investment decisions and effectively carry out their stewardship activities.
- **Accountability:** robust shareholder rights and strong board oversight help ensure that management adhere to the highest standards of ethical conduct, are held to account for poor performance and responsibly deliver value creation for stakeholders over the long-term.
- **Board Composition and Effectiveness:** focused on the director election process, board size, board assessment and succession planning, definition of independence, board and committee independence, separation of Chair and CEO roles, attendance and overboarding and diversity.
- **Long Term Stewardship of Capital:** Invesco expects companies to responsibly raise and deploy capital towards the long-term, sustainable success of the business.
- **Environmental, Social and Governance Risk Oversight:** focus areas include director responsibility for risk oversight, reporting of financially material ESG information, shareholder proposals addressing environmental or social issues and the ratification of board and/or management acts.
- **Executive Compensation and Alignment:** promote alignment between management incentives and shareholders' long-term interests. We pay close attention to local market practice and may apply stricter or modified criteria where appropriate.

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.



## Proportion of investments

The Fund will invest in sustainable investments for at least 90% of its portfolio contributing to an environmental objective. 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.

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. The Fund follows a transition strategy in which the absolute emissions of the companies held in the portfolio are expected to decline annually in-line with the pathway required by climate science to limit global warming to 1.5° above pre-industrial levels.

It should be noted that 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 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 sustainable investment objective 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. 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. Investment manager will assess investee companies progress against these criteria on an ongoing basis.
2. Absolute emissions performance against targets. The Fund's sustainable objective is 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.

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

### 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 decarbonization 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.

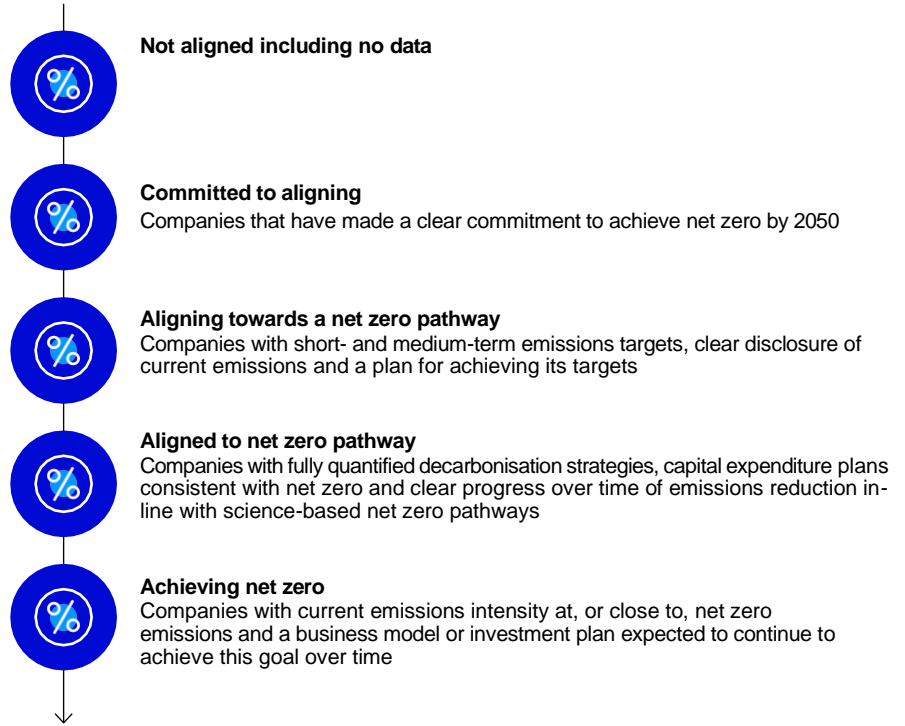
The framework establishes six core criteria (plus four further criteria to be incorporated where possible) to aid investment manager in making the net zero alignment assessment of each issuer. The Fund's investment process assesses companies against these criteria in order to categorise their net zero 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

|                                       |  |
|---------------------------------------|--|
| <b>1 Ambition</b>                     | The company has set a long-term goal consistent with achieving net zero emissions by 2050  |
| <b>2 Targets</b>                      | The company has explicit short- and medium-term emissions reduction targets covering its scope 1, 2 and material scope 3 emissions   |
| <b>3 Emissions performance</b>        | 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 |
| <b>4 Disclosure</b>                   | The company discloses its scope 1, 2 and material scope 3 emissions  |
| <b>5 Decarbonisation Strategy</b>     | 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                              |
| <b>6 Capital Allocation Alignment</b> | 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;
  - a. net zero, or
  - b. meeting criteria to be considered 'aligned' or
  - c. '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;
  - a. net zero,
  - b. aligned, or
  - c. 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 primarily 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, MSCI 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:

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

Net Zero alignment assessments also reference external industry initiatives such as the 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 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.

As of 31 December 2024, 25.24% of the scope 3 emissions of companies held by the Fund are estimated/modelled by an external data vendor (ISS).

## 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 criterion to Government debt.

The Net Zero Investment Framework sets out six core criteria for asset managers to assess the alignment status of investee companies and four non-core criteria which should be assessed if possible. Core criteria encompass climate ambition, emissions disclosure, emissions performance and corporate strategy assessments pertaining to the level of granularity in a company's decarbonisation and evidence that its capex or financing activities in the case of financials are aligned to the net zero ambition. Emissions data is typically disclosed with long time lags of up to 12 months complicating contemporaneous assessments of decarbonisation progress but this is not a material consideration as it is the multi-year cumulative progress and direction of emissions that is more important to the overall fund objective rather than discrete years. Other limitations on emissions data relate to M&A activity and how to assess the like-for-like decarbonisation journey of entities that have combined.

Scope 3 emissions may be modelled in some cases by the third party data provider. Methodologies to calculate financed and facilitated emissions by banks and other financial companies have been developed (such as the GHG Accounting and Reporting Standard developed by the Partnership for Carbon Accounting Financials) but adoption and implementation by issuers remains at an early stage.

### More generally, ESG data and methodologies can present certain limitations:

#### Standardization Concerns

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

#### Data Integrity

ESG data accuracy is contingent on reliable company disclosures.

#### Data Availability

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

#### Timeliness of Data

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

#### Subjectivity in Interpretation

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

#### Scope of Data

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

#### Reliance on Estimates

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

Despite these limitations, ESG data remains essential to our investment analysis and does not affect how the Fund meets its 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 sustainable investments securities and calculates if the transaction will result in a breach of the sustainable investment objective of the Fund.

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 investment manager 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 a 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:

- 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.
- 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.
- 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:

#### **i. 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.

#### **ii. 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.

### **Attainment of the sustainable investment objective**

The Fund has a reduction in carbon emissions in its objective as its objective is to contribute to the goal of achieving global net zero greenhouse gas emissions by 2050 or sooner.

As the Fund does not passively track a Paris-Aligned Benchmark or a Climate-Transition Benchmark, the Fund intends to attain the objective of reducing carbon emissions in view of achieving the long-term global warming objectives of the Paris Agreement by following 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.

The Fund will report its carbon emissions intensity against the carbon emissions intensity of the blended equivalent Carbon Transition Benchmarks of the ICE Global Corporate Climate Transition Absolute Emissions Index USD Hedged. Please find the methodology of the index here: [Index methodology - MSCI](#).

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;

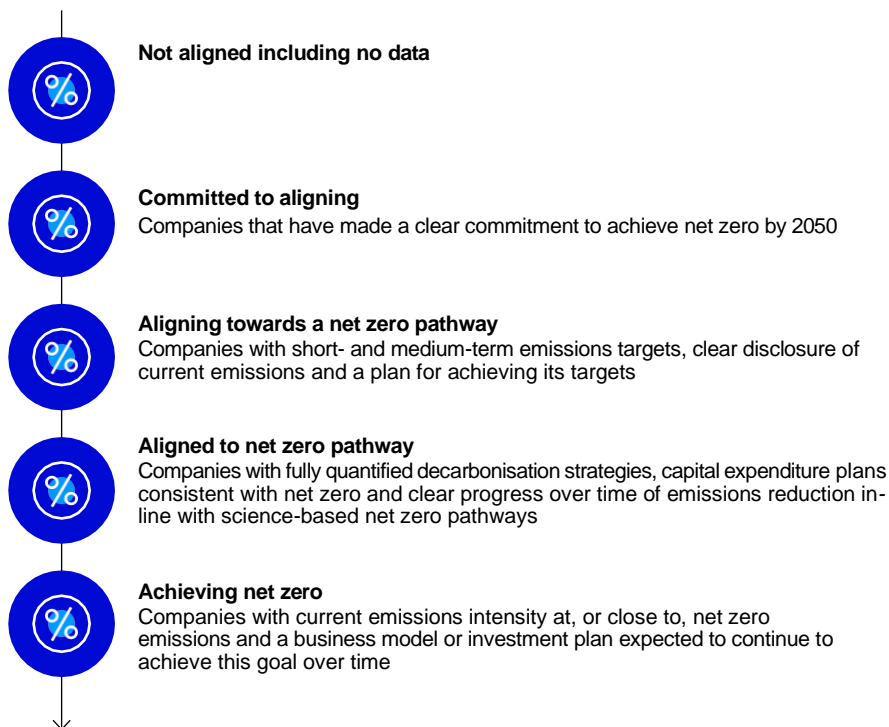
1. To decarbonise investment portfolios in a way that is consistent with achieving global net zero greenhouse gas (GHG) emissions by 2050.
2. To increase investment in the range of 'climate solutions' needed to meet that goal.

Under the NZIF, the 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;

| <b>Alignment criteria</b> |                                     |  |
|---------------------------|-------------------------------------|--|
| <b>1</b>                  | <b>Ambition</b>                     | The company has set a long-term goal consistent with achieving net zero emissions by 2050  |
| <b>2</b>                  | <b>Targets</b>                      | The company has explicit short- and medium-term emissions reduction targets covering its scope 1, 2 and material scope 3 emissions   |
| <b>3</b>                  | <b>Emissions performance</b>        | 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 |
| <b>4</b>                  | <b>Disclosure</b>                   | The company discloses its scope 1, 2 and material scope 3 emissions  |
| <b>5</b>                  | <b>Decarbonisation Strategy</b>     | 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                              |
| <b>6</b>                  | <b>Capital Allocation Alignment</b> | 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;
  - a. net zero, or
  - b. meeting criteria to be considered 'aligned' or
  - c. 'aligning' to net zero

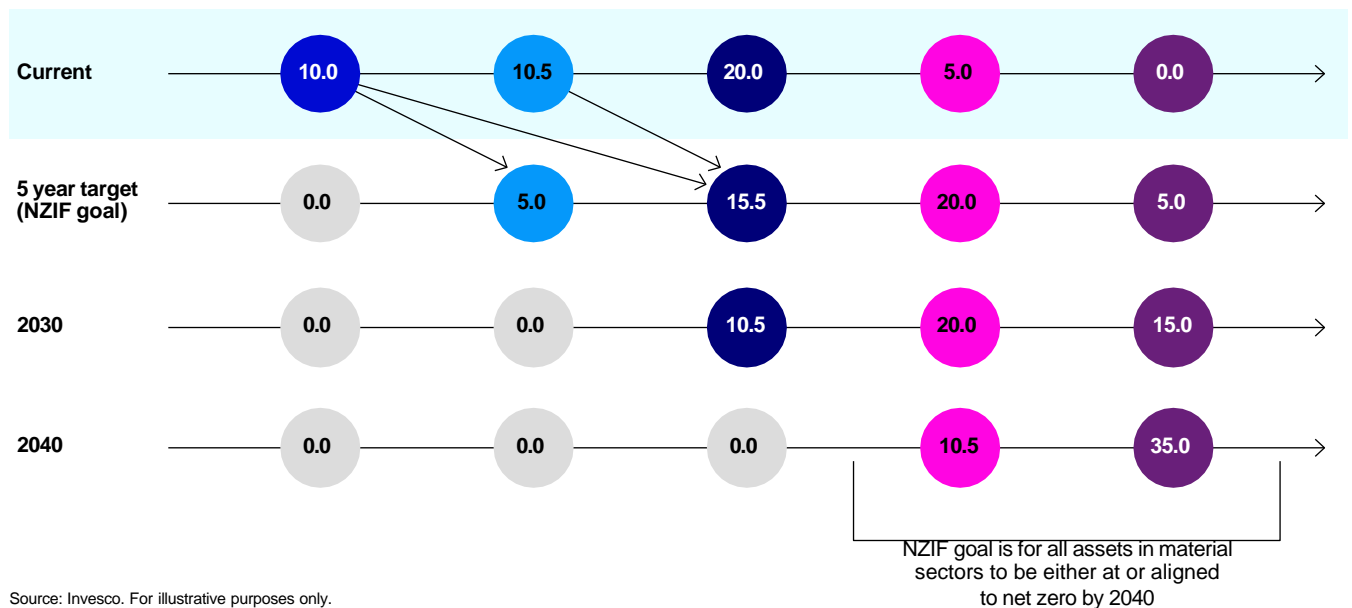
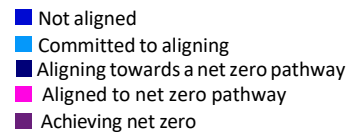
**By 2040: 100% of assets to be i) net zero or ii) aligned, by 2040.**

2. At least 70% of emissions in material emitting sectors must be either;
  - a. net zero,
  - b. aligned, or
  - c. 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.**

#### Alignment status of high emitting issuers (current & targets)

Portfolio weight (%)



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.

| <b>Version</b> | <b>Date</b>      | <b>Details of change</b>  |
|----------------|------------------|---|
| 1.0            | 16 December 2022 | Creation of the document  |
| 1.1            | 11 May 2023      | Amendment to engagement approach section  |
| 1.2            | March 2024       | Enhancement of the section "Data sources and processes" and "Limitations to methodologies and data"   |
| 1.3            | 15 July 2024     | Various clarifications  |
| 1.4            | 31 July 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. Inclusion of a climate transition benchmark to report on its carbon emissions intensity. |