2021 UK Stewardship Code

April 2022

Introduction

Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.[1] The Financial Reporting Council's (FRC) UK Stewardship Code sets out twelve principles to which the FRC believes institutional investors should aspire.

As founding signatories and supporters of the FRC's Stewardship Code since 2010, Invesco has supported the development of good stewardship practices in the UK and beyond for many years. Our commitment to environmental, social, governance (ESG) investing is a key element of ambition to be the most client-centric asset manager. We recognise that ESG matters to many of our clients, and meeting our clients investment preferences matters to us. Through responsible stewardship, we believe ESG is an essential part of the solution to a sustainable future. Our commitment goes far beyond delivering elements of ESG at a functional level, it goes to the heart of the way we are working with our clients to realise the value they seek. It is this responsibility to our clients that aligns us with aim of the UK Stewardship Code, and that is why we are strong supporters of it.

This document describes Invesco's approach to stewardship in the UK and how our policy and procedures meet the requirements of the FRC's UK Stewardship Code (the Code).

Building on last year's UK Stewardship Code report[2], in this report, we detail examples of our stewardship practices in 2021. This report also provides useful links to relevant documents, codes, and regulation for those who would like to look further at the broader context of our policy and the Code, as well as our commitment to other initiatives in this area.

Sincerely,

Doug Sharp
Head of Invesco EMEA

Image source: Adobe Stock.

1 For more information on stewardship and the FRC's UK Stewardship Code, visit here.
2 Please find our 2020 UK Stewardship Code Report here.

The 2020 UK Stewardship Code

Contents

Principle 01

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

Invesco is an independent investment management firm privileged to manage **$1.61 trillion** in assets on behalf of clients worldwide.[1]

We have specialised investment teams managing investments across a comprehensive range of asset classes, investment styles and geographies, with over **8,000 employees** focused on client needs in **25 countries across the globe.**

[1] As of 31 December 2021.

Our Purpose, Culture and Values

Invesco's purpose is to deliver an investment experience that helps people get more out of life. We direct all our intellectual capital, global strength and operational stability towards helping clients achieve their investment objectives.

As a purpose-driven firm, we strive to continuously provide an exceptional investment experience, embrace diversity of thought and embody a passion to exceed. Our purpose shapes our culture, how we manage our clients' money responsibly, and how we strive to contribute to global sustainability.

We believe that diversity of thought supports the best outcomes for our people, our clients and our communities. This broad definition of diversity promotes employee well-being, equity and inclusion across our organisation, creating an environment where diversity of thought can thrive and distinguishing us from other firms within our industry.

To ensure that our employees can deliver on our clients' goals, we invest significantly in talent development, technology and tools and resources that help our employees reach their full potential, both personally and professionally. We are committed to improving diversity at all levels and in all functions across our global business, as evidenced by our CEO and Senior Managing Directors (SMDs) – the most senior leaders for key parts of our business – who all have diversity and inclusion as part of their annual performance goals.

We have a highly inclusive culture that reflects the broad diversity of thought across our organisation and encourages everyone to contribute to delivering value to clients.

We strive to create a culture that values the varied skills, expertise and unique perspectives of our highly motivated colleagues. We empower each employee to collaborate and find the best ideas and solutions for our clients as we work together across geographies and functions to achieve Invesco's purpose. We take our responsibility as a global corporate citizen seriously and support organisations in our local communities through both charitable contributions and hands-on volunteering activities.

Find out more

For more information on our commitment to our people, our communities and the environment, please see our latest Corporate Responsibility report.

ESG Statement of Beliefs

Our fundamental belief is that sustainable value creation is an essential part of the solution to a sustainable future and we consider environmental, social, and governance (ESG) investing integral to our strategic goals.

Our commitment goes far beyond delivering elements of ESG at a functional level, it goes to the heart of the way we are working with our clients to realise the value they seek.

We aim to integrate financially material E,S, and G factors into 100% of our AUM by 2023.[1] Invesco's success has been driven by our dedicated people – including our investment, sales and distribution teams, as well as our enterprise support functions distributed around the world. Our ability to serve clients and deliver an investment experience that helps people get more out of life starts with our own employees.

That's why we're committed to fostering a culture where diverse people and ideas thrive. This is one of our corporate responsibility ambitions, and it underscores how we achieve our Purpose. We take our responsibility as a global corporate citizen seriously and support organisations in our local communities through both charitable contributions and hands-on volunteering activities.

Ultimately, we are motivated by the belief that doing what is right for our people and the communities in which we operate helps us deliver positive outcomes for our clients and shareholders.

Find out more

For further assessment of how effective we have been in serving the best interests of clients and beneficiaries, please refer to reporting under Principle 6.

How do we ensure our investment beliefs, strategy, and culture enable effective stewardship?

ESG integration everywhere
Various aspects of ESG have an impact on sustainable value creation, as well as risk management. We aspire to incorporate financially material ESG considerations in all our investment capabilities and our processes and our investment teams have the final say in ESG matters. Our ESG philosophy is further described in Principle 7.

Benefiting from diversity of thought
We value diversity of thought, so our ESG implementation is not generic. Invesco's ESG capabilities are investment led with proprietary tools and practices developed collaboratively between our investment teams and our global ESG team. Our global ESG team further supports our investment teams by providing specialist insights on research, engagement, voting, integration, tools, client, and product solutions. Invesco's Chief Investment Officers and teams can leverage this resource to tailor, and have the capability to implement, ESG approaches relevant to their asset classes and investment styles.

Exercising our rights & responsibilities for value creation
At Invesco, we engage with issuers to enhance the sustainable value creation of assets. We exercise our rights and responsibilities as owners of capital and use our expertise to cast voting decisions in our clients' best interests. As a provider of both active and passive strategies, we amplify our active votes, as our passive vote typically follows the largest active holder.

Leveraging innovative technologies
We appreciate the power of technology, innovation, and data to scale our ESG integration and improve the support and information our investment teams receive. We have launched our own tools and systems to assist with research, portfolio reviews, portfolio optimisation, engagement, and proxy voting.

A focus on the environment
We offer a broad range of ESG capabilities for clients seeking strategies that align with their interests and investment objectives, including many focused on the environment. To help us better understand environmental issues and to help our clients navigate the energy transition, we joined other firms as a signatory to the Net Zero Asset Managers Initiative (NZAMI), which is committed to the global goal of reaching corporate net zero greenhouse gas emissions by 2050 or sooner.[2]

A commitment to solutions
Increasingly, our clients want us to provide the means for them to explicitly express their own ESG values through investment vehicles. We will continue to develop innovative solutions and products to deliver for them. We already manage approximately \$96bn[3] in ESG AUM (exclusionary/inclusionary/impact) and we will build on this experience.

Transparency
We have a deep belief in the need for transparency and to hold up a mirror to our own internal corporate commitment to ESG investing, as well as our corporate commitment to social responsibility. We will continue to evolve our investment and corporate disclosures and have taken a leading standard through these annual stewardship reports. Our ESG and CR reports can be found here.

[1] Invesco uses an internal framework to measure the level of ESG considerations as an influence on investment decision making. Currently, investment teams responsible for managing approximately 85% of Invesco's AUM have attained the ESG integration level defined as minimal but systematic integration.
[2] Source: Invesco, as of March, 2021. Read more about decision to join the Net Zero Asset Managers Initiative here.
[3] Source: Invesco as of 31 December 2021. Our definition of ESG AUM includes our ESG dedicated product offerings (including portfolios and mandates across a variety of strategies, geographies, and client types). To be included within the category of ESG AUM, a portfolio or account must have binding ESG criteria above minimum regulatory requirements. This characterisation is evaluated separately and discretely from any integration of ESG factors into the fundamental investment process. This classification approach includes portfolios or accounts ranging from those whose criteria may be simple exclusionary screens to thematic strategies to strategies that employ a multi-prong approach to ESG optimisation.

Business Model and Strategy

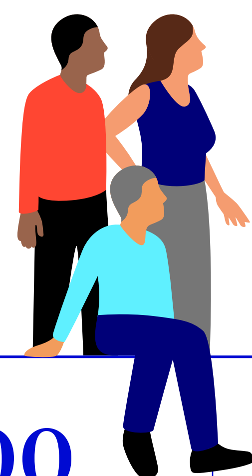
Invesco is an independent investment management firm privileged to manage **$1.61 trillion in assets on behalf of clients worldwide** (as of 31 December 2021). We have specialised investment teams managing investments across a comprehensive range of asset classes, investment styles and geographies, with over 8,000 employees focused on client needs in 25 countries across the globe.

We are focused on four key long-term strategic objectives designed to sharpen our focus on client needs, strengthen our business over time and help ensure our long-term success (see diagram to the right).

We are focused on executing our long-term strategy for the benefit of clients and our business. We continually invest in performance strength in high-demand capabilities supporting improved flow fundamentals, while driving greater scale and flexibility in our operating model to improve financial performance. We offer strategies across the full spectrum of asset classes tailored to the needs of institutional and retail investors. As well as equities, bonds and real assets, we have multi-asset strategies and liability-driven investments. We are keen to bring our comprehensive ESG expertise to support clients in developing ESG products. Increasingly, our clients want us to provide the means for them to explicitly express their own ESG values through investment vehicles.

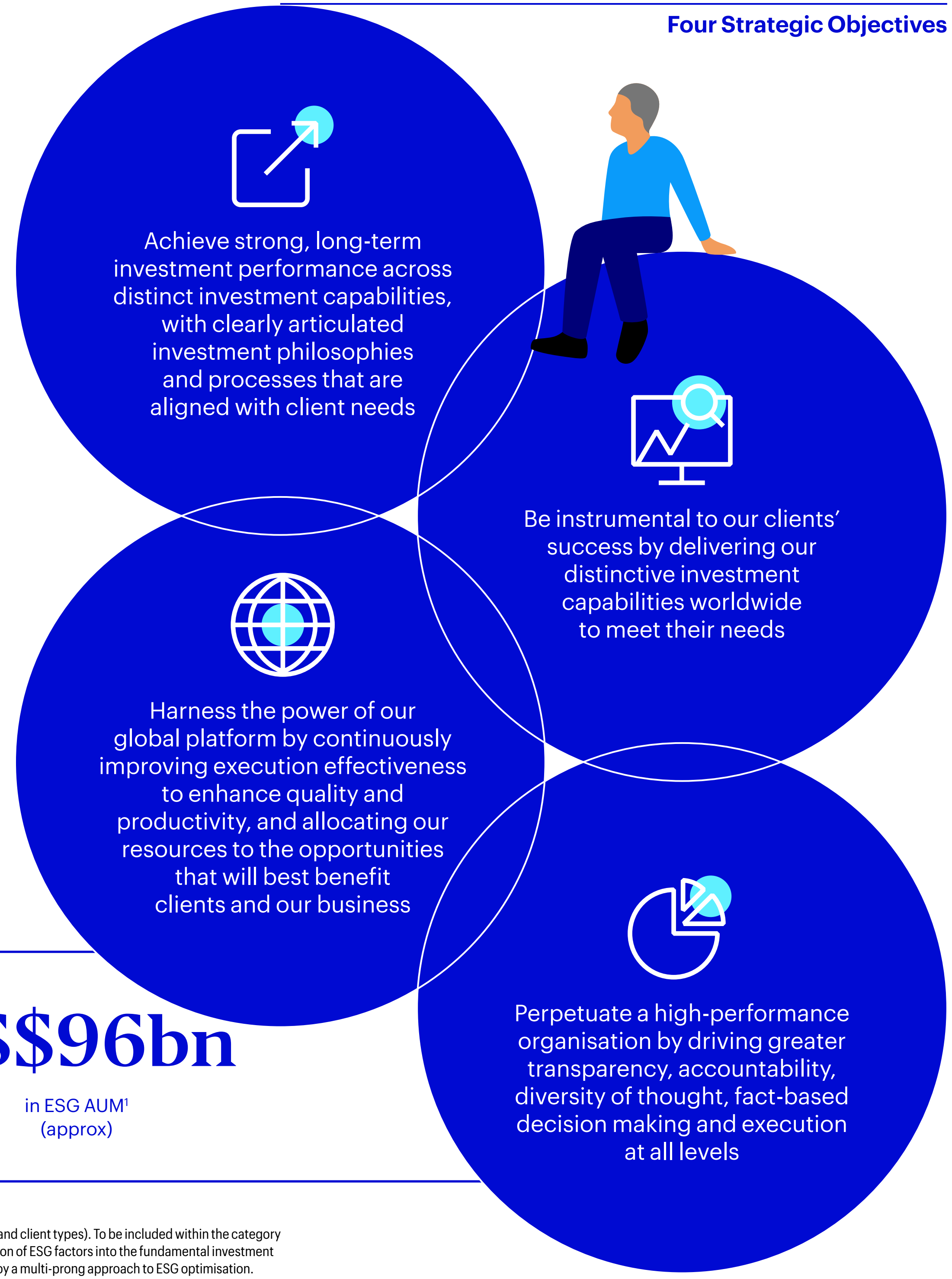
We have successfully worked with our clients to deliver ESG products through indexing, equity, fixed income, multi-asset, real estate and customised solution strategies. Our firm currently manages **approximately $96bn** in ESG AUM[1]. We will build on our experience to continue developing innovative solutions and products for our clients. For more information on our commitment to adopting and implementing responsible investment principles in a manner that is consistent with our fiduciary responsibilities to clients, please visit invesco.com/corporate/en/our-commitments/esg

For further assessment of how effective we have been in serving the best interests of clients and beneficiaries, please refer to reporting under Principle 6.



US$1.61tn	8,000	US$96bn
in assets on behalf of clients worldwide (as of 31 December 2021)	employees in 25 countries across the globe	in ESG AUM[1] (approx)

Four Strategic Objectives



[1] Invesco as of December 31, 2021. Our definition of ESG AUM includes our ESG dedicated product offerings (including portfolios and mandates across a variety of strategies, geographies, and client types). To be included within the category of ESG AUM, a portfolio or account must have binding ESG criteria above minimum regulatory requirements. This characterization is evaluated separately and discretely from any integration of ESG factors into the fundamental investment process. This classification approach includes portfolios or accounts ranging from those whose criteria may be simple exclusionary screens to thematic strategies to strategies that employ a multi-prong approach to ESG optimisation.

Principle 02

Signatories' governance, resources, and incentives support stewardship.

Our Governance Structures and Resourcing Our Stewardship Activities

Invesco has a governance structure across four dimensions which enables oversight and accountability for effective stewardship. Our Global ESG team acts as a centre of excellence, collaborating with our 11 investment centres and more than 45 different investment teams.

1. The Global Investment Council (GIC) comprises Chief Investment Officers and Managing Directors representing our global investment centres and asset classes. It is co-chaired by our CEO and our Senior Managing Director Head of Investments. The GIC drives the strategy and governance of our internal programmes. It provides oversight to our specialised investment teams and offers a balance of global expertise, support and connectivity. In this way, the GIC helps provide better outcomes for clients, with greater consistency over the long term.

2. Our Global ESG team of 22 professionals acts as a centre of excellence, responsible for leveraging best practices in ESG capabilities across Invesco. These include ESG integration, voting and engagement, supporting the distribution teams with client engagement, and advising product teams on ESG innovation. Therefore, the team is organised across four pillars: Client, Research, Proxy and Analytics. Located across the three regions of North America, Asia Pacific and EMEA, the Global ESG team provides support and analysis, while investment teams maintain discretion on portfolio decisions. Invesco's ESG efforts are also supported by our global proxy services team located in Hyderabad, India.

3. The GIC's ESG subcommittee specifically focuses on ESG investment issues. The incorporation of ESG considerations is conducted by investment teams on a team-by-team basis. This group comprises over 60 individuals from investment teams, operational teams and the Global ESG team. It enables collaboration on ESG matters between individual investment centres globally.

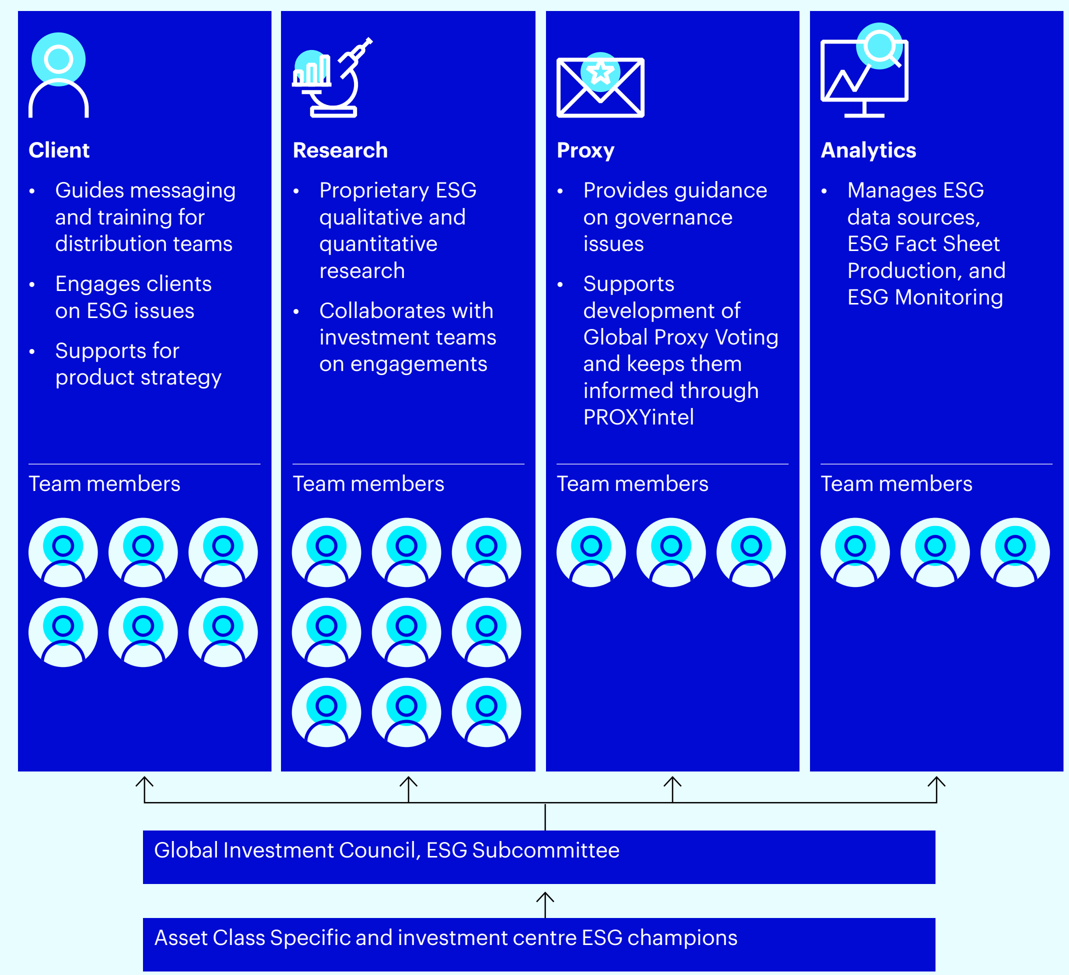
4. Several working groups have formed at various sectors of the organisation to ensure our ESG integration approach is purposeful, holistic and impactful. Some working groups are brought together to deliver an initiative or increase ESG integration efforts across an asset class or region. For example, in 2021, the Climate Initiatives Working Group (CIWG) focused on the implementation of the Net Zero Asset Manager's Initiative (NZAMI). Others focus on evergreen ESG priorities, including engagement. There is also a cross-organisational effort that brings in functional elements, such as products, marketing, regulatory affairs, technology and distribution.

As a large, global asset manager, Invesco believes our governance structure enables us to benefit from diversity of thought while maintaining globally consistent standards for stewardship. Our investment teams can leverage the resources of the Global ESG team and participate through the GIC ESG subcommittee and working groups, with oversight and accountability provided by the Global Investment Council (GIC). This structure enables our specialised investment teams to have the capability to implement ESG approaches relevant to their asset classes and investment styles, for the benefit our clients.

Providing capabilities to support our ambition

Led by the Global Head of ESG, the Global ESG team is organised across four pillars to ensure that the team is able to support ESG efforts across specific functions firm-wide. The Global ESG team's geographic structure positioned across three regions also ensures that most Invesco teams have an appropriate local contact. The Global Investment Council's ESG Subcommittee, asset class specific investment centres, and firm-wide functional units collaborate with Global ESG team members from each of the four pillars.

Our Global ESG Team



01
02
03
04
05
06
07
08
09
10
11
12

Our Global ESG Team's Capabilities: Seniority, Experience, Qualifications, Diversity and Training

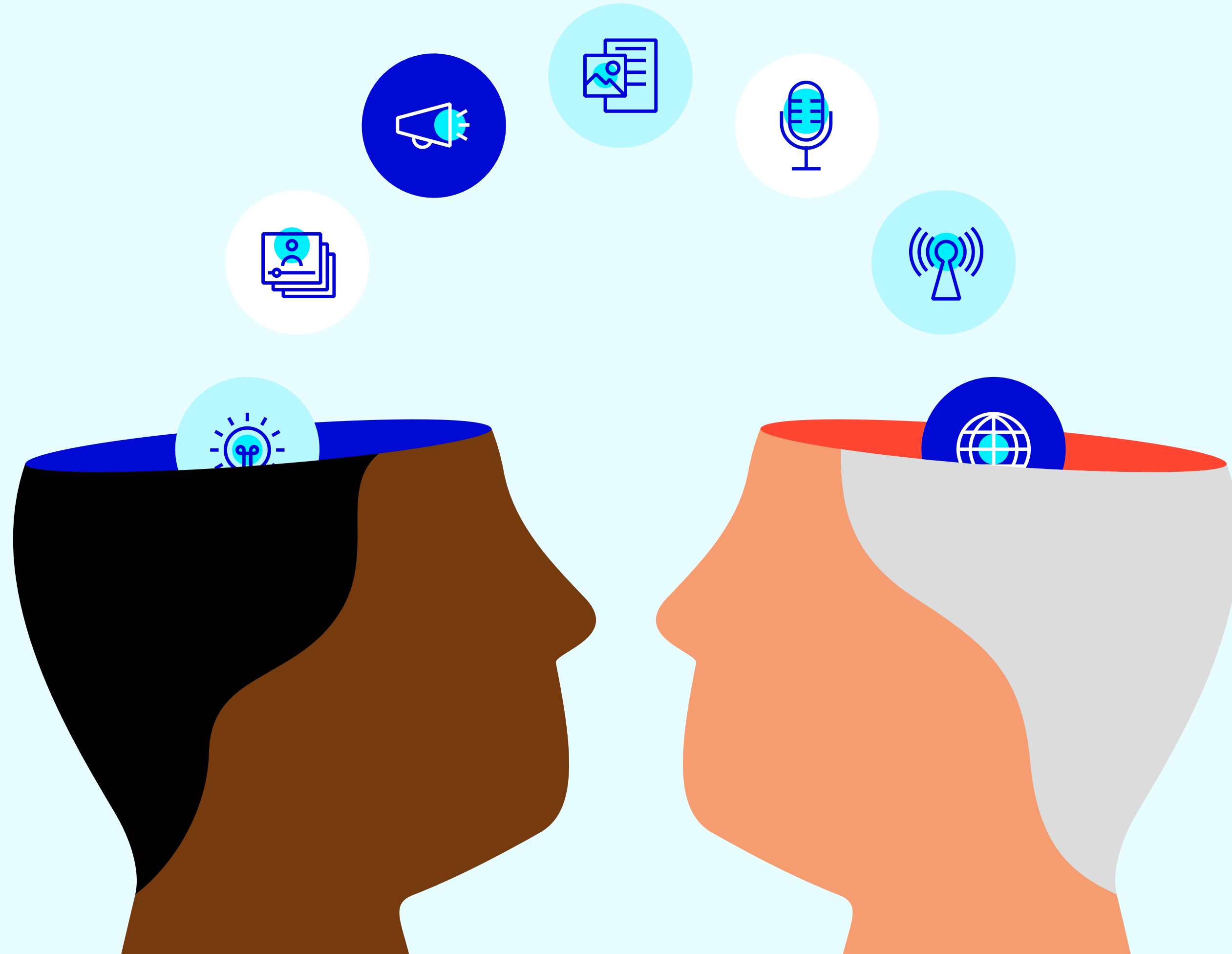
To meet the growing demands for ESG research, ESG data analytics, thought leadership, and support for analysts and portfolio managers, the Global ESG team expanded in 2021 to a team of 22 professionals (an increase of 9 additional full-time professionals from 2020).

Most of the senior team members have over 13 years of experience. The team covers a broad range of skills and relevant academic qualifications including research, environmental science, social sciences, and governance. The Global ESG team includes 35% women and speaks 12 languages.

Training

Training is an essential part of our commitment to ESG integration and keeping abreast of the rapidly evolving industry landscape. Our Global ESG team conducts meetings with Invesco's investment professionals to provide ESG training, frameworks, industry information, expertise, research, analysis, and updates regarding ESG activities. Each meeting is tailored for each investment team or centre based upon region, asset class and existing ESG capability.

Our Global ESG team also coordinates training sessions with ESG vendors and collaborates with investment professionals on in-depth research prior to issuer engagements. Internal communications include a monthly ESG newsletter, an ESG Resources website, postings to our intranet, podcast, video and email announcements. In addition, our continuing personal development training programme, which is available to all employees, includes ESG modules.



22	23	20	12	3	35%	13+
Team Members	Professional Certifications	Academic Disciplines	Languages	Regions	Women	Average Years of ESG Experience for Senior Team Members

These statistics are based on self-reported data provided by Invesco's Global ESG team, as of February 2022.

Investment in systems, processes, research and analysis

ESG is a strategic effort and commercial imperative for Invesco.
As such, we invest in our ESG capabilities for the benefit of our clients.

As well as the additional hires which have enhanced the capacity of the team to conduct research and analysis, we have invested in systems, and processes which enhance the ESG integration process. An example of this in 2021 was our focus on the lifeblood of any ESG-aware investment decision — ESG data. We continued to build out our proprietary tools (see Page 34) and developed ESGCentral, a proprietary cloud based ESG data and analytics platform to enable our investment teams to have customised portfolio analytics bringing in more than 40 ESG data sources, 52,000 companies, and 2,500 ESG metrics[1].

Our Use of Service Providers

Invesco uses external service providers to support our stewardship activities, including ESG rating providers, proxy research, business involvement screening, carbon data and more. Data from these service providers feed into our proprietary tools and support in-house ESG research and analysis, which enables investment teams to make better informed decisions. For example, Invesco's ESG research platform for corporates and sovereigns, ESGintel, leverages ESG data from external research providers including Bloomberg, FactSet, ISS, CDP, Sustainalytics, SBTi, Transparency International's corruption perception index, Transition Pathway Initiative, World Governance Indicators, and others. Then, ESGintel applies Invesco's internally developed methodology and a sector and sub-sector materiality lens to data on ESG topics, ensuring that companies are evaluated on the most relevant financially material ESG topics according to their business activities. As shown by this example, external service providers are primarily used as an additional, complementary source of ESG information to enhance Invesco's own research and analysis processes.

For further information on how our other proprietary tools leverage our service providers' research, please refer to reporting under Principle 7. For further information on how we monitor and hold service providers to account, please refer to reporting under Principle 8.

Our ESG Research Providers, Tools and Technology

A broad platform

ESG Research Providers

Sustainalytics	MSCI	Bloomberg	ISS
Sell-side Research	Carbon Disclosure Project	Planetrics	Transition Pathway Initiative (TPI)
Science Based Targets Initiative	Carbon Underground 200	SG Analytics	Vigeo Eiris
Equileap	Just Capital	Morningstar	Nikko Research Center
Climate Bonds Initiative	International Energy Agency	Net Zero Tracker	UN Human Development Index
Transparency International	Worldwide Governance Indicators (WGI)	Sustainable Development Goals (SDG) index	Environmental Performance Index
CA100+	Proxy Insight	FAIRR	

Proxy Voting Research and Vote Recommendations

Glass Lewis	ISS	IVIS (UK Equities)

Our Proprietary Tools

ESGintel	FocusIntel	ESGCentral	PROXYintel	Vision

Source: Invesco, as of February 2022. For illustrative purposes only. ISS: Institutional Shareholder Services.
FAIRR: Farm Animal Investment Risk & Return. IVIS: Institutional Voting Information Service. MSCI: Morgan Stanley Capital International.

[1] Source: Invesco, as of March 2022.

01
02
03
04
05
06
07
08
09
10
11
12

Workforce Incentives

Invesco has an overall compensation philosophy that seeks to align individual awards with client and shareholder success. This philosophy serves as the basis for the firm's compensation decisions and the design of compensation plans for the firm's investment professionals.

While all of the firm's compensation plans adhere to Invesco's compensation philosophy, each investment team's plan is tailored to help ensure consistency with its stated investment philosophy and client objectives. The firm routinely measures its practices against industry benchmarks. The plans are competitively positioned with a meaningful mix of cash and deferred compensation vehicles to attract, motivate, and retain high-calibre investment professionals and appropriately align with long-term client and shareholder success.

As outlined in the Invesco's Global Renumeration Policy, the measurement of performance used to determine incentive pools includes an adjustment mechanism to take into account all relevant types of current and future risks – including sustainability risks integrated within the investment process of Invesco's investment centres subject to the EU's Sustainable Finance Disclosure Regulation (SFDR).

Current Year Awards are annual awards structured as a mix of cash and deferrals into Invesco stock and Invesco investment portfolios, as applicable. These awards reflect investment results consistent with stated client investment objectives and non-quantitative factors (such as, individual performance, risk management and teamwork).

The majority of the award is investment performance-driven, based on the success of the team's overall investment results, as measured against client and firm benchmarks. A portion of the award is discretionary. Deferred awards vest pro-rata over a four-year term.

Long-Term Awards are annual awards of Invesco stock which are 100% deferred. These awards recognise long-term potential for future contributions to Invesco's long-term strategic objectives. The awards encourage retention and align the interests of the investment professional with those of shareholders. These awards vest pro-rata over a four-year term.

Effectiveness of our governance structures and processes in supporting stewardship

Invesco believes our governance structures and processes are effective because they enable us to benefit from diversity of thought while maintaining globally consistent standards for stewardship. The Global ESG team receives ongoing feedback from across the organisation, including through surveys, to understand how they can support the organisation's ESG efforts to this effect.

In 2021, the expansion of the Global ESG team, the development of our proprietary ESG data analytics tools, the development of our good governance principles, and the update to our Global Proxy Voting Policy were all ways we demonstrated our commitment to investing in our stewardship capabilities. The expansion of the Global ESG team to include asset class specific specialists has been particularly helpful to provide additional support to areas such as real estate and fixed income. Beyond simply developing our proprietary tools, we are implementing ESG training to ensure they can be used effectively across the organisation and support our aspiration of 100% ESG integration (of financially material E, S, and G factors) across all investment capabilities by 2023.[1] For example, we believe there is scope to increase the number of trainings on ESGintel and ESGCentral with various ESG working groups and investment teams. For further information on the development of our good governance principles and the update to our Global Proxy Voting Policy, please refer to Principle 5 and 12.

As demand continues to grow for ESG research, analysis, and engagements, we recognise there is scope to improve our processes over time. For example, governed by the Engagement working group, we are scaling and improving our engagement capabilities to meet demand by coordinating across investment teams and diversifying our approach through letter-writing. Expanding our capabilities in this area will support our participation in various industry initiatives and enable us to continue to meet regulatory requirements, including required engagement on Principle Adverse Impacts (PAIs) as part of the EU's Sustainable Finance Disclosure Regulation (SFDR).

The formation and disaggregation of these ESG working groups is one way that our governance process maintains adaptability and enables Invesco to focus on ESG priorities as they evolve.

[1] Invesco uses an internal framework to measure the level of ESG considerations as an influence on investment decision making. Currently, approximately 85% of Invesco's investment teams have attained the ESG integration level defined as minimal but systematic integration.

Cathrine De Coninck-Lopez
Global Head of ESG

"We are making significant progress on our ESG investing journey. Real momentum is building, and ESG features in daily discussions with clients, portfolio managers, and the world's smallest and largest corporates."

01
02
03
04
05
06
07
08
09
10
11
12

Principle 03

Signatories' manage conflicts of interest to put the best interests of clients and beneficiaries first.

Conflicts of Interest

We endeavour to maintain and operate effective organisational and administrative arrangements while taking all appropriate steps to prevent and manage conflicts of interest whose existence may damage the interests of clients. Under Invesco's Global Code of Conduct, Invesco entities and individuals must act in the best interests of clients and must avoid any situation that gives rise to an actual or apparent conflict of interest.

Invesco seeks to prevent conflicts and, where they cannot be prevented, seeks to ensure that its clients are treated in a fair manner. Invesco's approach to conflicts management is to have appropriate measures in place to effectively identify and manage conflicts, ensuring the interests of clients are not adversely impacted. Examples of arrangements in place to facilitate conflicts management include conflicts registers, processes, detailed conflicts assessments where required, training, and governance arrangements with appropriate oversight. From a proxy voting perspective, arrangements are in place to identify and manage potential conflicts to ensure Invesco casts votes to serve our clients' best interests.

The following are examples of situations where Invesco has taken steps to identify and manage the potential conflict:

- Invesco may have relationships with third parties who may be issuers of securities held in portfolios managed by Invesco
- Invesco may have relationships with clients who may be issuers of securities held in portfolios managed by Invesco
- Invesco staff may sit on Boards of issuers where the underlying securities may be held in portfolios managed by Invesco
- Members of the Board (of an issuer held in portfolios managed by Invesco) may sit on the Invesco Board

Please refer to our EMEA Conflicts of Interest Policy found on our website.

Invesco maintains policies and procedures that deal with conflicts of interest in all of its business dealings. In relation to conflicts of interest that exist in its stewardship and proxy voting activities, these policies can be found in the Global Policy Statement on Corporate Governance and Proxy Voting found on our website. Please refer to Principle 12 for information on our proxy voting approach.

Invesco seeks to continuously improve processes where relevant in delivering its aim of achieving good client outcomes. For example, in 2021 the Global ESG team partnered with legal and compliance teams across all three regions (NA, EMEA and APAC) to initiate a review of our global proxy voting conflict of interest process and material firm-level business relationships and thresholds.

“

Invesco seeks to continuously improve its aim of delivering an investment experience that helps people get more out of life.

How Invesco applied its conflicts of interest policy in 2021

A potential conflicts of interest was identified in the voting process for an insurance company ('issuer') and its board member up for re-election at the June AGM. Such key business relationships are monitored to seek to ensure conflicts are appropriately managed and voted according to Invesco's Global Proxy Voting Policy. As such, the global proxy services team cast voting decisions in line with Invesco's good governance principles and internally developed voting guidelines. Companies identified as conflicted are monitored and updated periodically by Invesco's global proxy services team to seek to ensure an updated view is available when conducting conflicts checks.

Principle 04

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Market-Wide Risks: Our Thematic Focus Areas

We've identified some key thematic areas which we address through our risk management process, including stakeholder and industry engagement. These include:

1. Climate & sustainable finance

2. Geopolitical risks

3. Financial market integrity & resilience

4. Digitalisation of financial markets

Image source: Adobe Stock.

01
02
03
04
05
06
07
08
09
10
11
12

Climate Change and Sustainable Finance

Invesco has made notable progress in enhancing processes for monitoring, evaluating, and managing financially material climate-related risks.

Integrating Climate Risks into the Investment Process: Our three lines of defence

Access to climate-related and carbon-related data is essential to our investment risk process. All investment centres have access to such data, either directly or through our Global ESG team's data analytics colleagues. Our Global ESG team also screens the full range of Invesco holdings to identify companies that are high-risk from the perspective of decarbonisation. We use Sustainalytics, a carbon analysis screening tool, to ensure we focus our climate-related engagement efforts, which continued to be scaled up during the period covered in this report.

Our approach to climate-related investment risk can be thought of in terms of three separate lines of defence:

1.

Our first line of defence comprises our Portfolio Managers and Analysts, who assess climate-related issues for their respective asset classes. They draw on available data as an input to their proprietary ESG rating methodologies to augment other ESG metrics already used by investors. Sourced from various data providers, external scores may also be used by investment teams that analyse climate change risk. The main providers are Sustainalytics, Customer Data Platform, Institutional Shareholder Services (ISS), MSCI and the Climate Bond Initiative. Customer Data Platform also offers research to complement that available from sell-side brokers. An assessment may lead to dedicated engagement with a company or issuer. Some investment teams are also integrating ESG and climate risks into their formalised CIO oversight processes.

2.

Our second line of defence includes our functions and teams dedicated to investment compliance. These provide monitoring and oversight of all ESG risk, including climate change risk.

3.

Our third and final line of defence is internal audit of the overall ESG practice, not specifically climate change.

Image source: Adobe Stock.

01
02
03
04
05
06
07
08
09
10
11
12

Stakeholder Engagement

At Invesco, we are committed to engaging in policy and regulatory initiatives to promote high standards in sustainable finance. The following section describes how we've worked with other stakeholders in this area and our specific role in relevant industry initiatives. We recognise our participation, and the industry initiatives we are involved in, have varying levels of effectiveness. We see our involvement as a journey, and build on our previous work to promote the continued improvement of the functioning of financial markets. Our engagement has focused on different themes including: ESG data and disclosure, product disclosure and labelling, and taxonomies.

ESG data and disclosure

- Following on from the publication of our white paper calling for improved ESG reporting and data in September 2020, we continue to engage with policymakers on introducing consistent and high quality ESG reporting. This includes:
  - Responding to the International Financial Reporting Standard's (IFRS) consultation on the establishment of the International Sustainability Standards Board (ISSB) and engaging directly with the IFRS through our membership of the IFRS Advisory Council.
- We responded to the Financial Conduct Authority's (FCA) consultation on Enhancing climate-related disclosures by standard listed companies, which also sought views on ESG data and rating providers.
- We are responding to the U.S. Securities and Exchange Commission's (SEC) consultation in enhancing climate related disclosure.
- We are engaging through our trade associations on the EU's proposal for a Corporate Sustainability Reporting Directive.
- Linked to this theme, we have also contributed to work on ESG ratings and data providers, including responding to the Questionnaire from International Organization of Securities Commissions' (IOSCO) Sustainability Taskforce on ESG ratings and data providers (submitted in February 2021), arguing in favour of IOSCO developing a common set of principles or recommendations to ensure coherent approaches are taken by national and regional regulators in their approach to ESG data and ratings providers and contributed, through the International Regulatory Strategy Group's (IRSG) ESG workstream to the IRSG's report on ESG Ratings and ESG Data in Financial Services (published in Feb 2022, but with much of the preparation completed during 2021).

Product disclosures and labelling

- In 2021, we recognised opportunities to enhance sustainable product labelling and disclosure. We took several steps to support the expansion of our ESG-focused product suite to ensure that our product offering supported client choice.
- To support this work, we commissioned consumer research to assess advisors and retail investors' understanding and attitudes to sustainable investing, the findings of which have informed our internal product labelling and disclosure work. We have also leveraged the findings of this research in our responses to regulatory initiatives including:
  - The FCA's Discussion Paper on Sustainability Disclosure Requirements and investment labels, supporting the development of more in-depth corporate and investment product sustainability disclosures, as well as offering detailed feedback on the FCA's initial proposals for an investment product categorisation and labelling regime.
  - European Securities and Markets Authority's (ESMA) work on defining disclosures under the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy for sustainable funds
  - The SEC's work on the fund naming rules as it applies to ESG funds
- Invesco staff are active member of the FCA's Disclosures and Labels Advisory Group (DLAG), which advises the FCA on the development of labelling and disclosures for sustainable investment products.

Taxonomies

- We continue to engage with EU policymakers on the development of the EU Taxonomy, including the publication of a white paper setting out our views on how to reform the EU Taxonomy to be a more powerful and useable tool for investors to finance the transition to a sustainable economy.
- Building on our experience in the EU, our Head of EU Government Relations and Public Policy was invited in June 2021 to represent financial services users on the UK's Green Technical Advisory Group advising the UK Government on the development of its own Green Taxonomy.
- We have also been tracking developments in other jurisdictions around the world and contributed to the International Platform on Sustainable Finance's consultation on the development of a Common Ground Taxonomy (CGT).

Climate-Related Industry Initiatives

IIGCC
The Institutional Investors Group on Climate Change

Invesco is a member of the Institutional Investors Group on Climate Change (IIGCC). The IIGCC is a European body facilitating investor collaboration on climate change, effectively serving as a conduit for investors to advocate a prosperous, low-carbon future. In 2021, we joined the Policy Steering Committee. Through membership of this committee, we contribute to regulatory and policy developments by engaging on finance and climate policy at the global, EU and national levels across Europe.

Climate Action 100+
Global Investors Driving Business Transition

Invesco contributes to ClimateAction100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Since 2020, Invesco has engaged with a major energy company. As detailed in Principle 10 & 11, in 2021, we engaged with the company on to mitigate material climate risks.

TCFD
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Invesco is a supporter and discloser to the Task Force on Climate-Related Financial Disclosures (TCFD). Our most recent report aligned with the TCFD recommendations can be found here.

In March 2021, we joined the Net Zero Asset Managers Initiative (NZAMI). As a signatory, we are committed to supporting the global goal of reaching net zero GHG emissions by 2050. We recently disclosed our initial AUM commitment and initial targets to the IIGCC.

Geopolitical Risks

Invesco addresses geopolitical risks by tracking political developments, developing thought leadership around elections, and participating in industry dialogue.

In particular, the focus in 2021 centred on the continued evolution of the COVID pandemic, the impact of inflation and political and legislative development in key markets, including the US infrastructure bill and the elections in Germany.

In 2021, we took the following actions to respond to geopolitical risks.

- Our Global Investors Forum (GIF) (see Page 22 for further detail) hosted several calls.
- We published the first Political and Regulatory Outlook in December 2021, setting out our views on key political, fiscal and regulatory issues that were likely to influence markets and investment decisions in 2022.

As outlined on Page 22, this was a key step we took to improve our thought leadership work on geo-political risks, in response to our assessment of effectiveness of previous region-by-region analysis.

Image source: Adobe Stock.

Image source: Adobe Stock.

Financial market integrity and resilience

Throughout 2021, both directly and via our Trade Associations, Invesco engaged with and contributed to the work of global, regional and local policymakers and regulators on navigating the financial market implications of the COVID-19 pandemic and enhancing the resilience of the non-bank financial intermediation (NBFI) sector.

Transparent, well-functioning and resilient markets are crucial to our business, our clients and investors, and to the economy at large, and ensuring the effective framing of regulatory and supervisory frameworks governing financial markets, and those operating within them, remains a key public policy priority for Invesco.

- For example, we responded to the Financial Stability Board's (FSB) consultation on policy proposals to enhance money market fund (MMF) resilience, advocating in particular for the removal of regulatory provisions that exacerbate rather than mitigate redemption pressures during periods of economic stress and enhancements to the transparency and functioning of short-term funding markets globally. We also responded in a similar manner to the European Securities and Markets Authority (ESMA) consultation on the effectiveness of the EU MMF Regulation.
- For each consultation, we also contributed to the various responses of our key Trade Associations including the Investment Company Institute (ICI), the Institutional Money Market Funds Association (IMMFA) and the European Fund and Asset Management Association (EFAMA).
- Invesco also responded to the International Organisation of Securities Commissions (IOSCO) industry survey on exchange-traded funds (ETFs) to facilitate the organisation's work in understanding the role that ETFs, in particular fixed income ETFs, play in financial markets during periods of market stress, contributing to the publication of a Thematic Note in August 2021. It highlighted the resilience of most ETFs across various market segments, as well as the emerging consensus that fixed income ETFs could provide useful pricing information to the wider market during periods of market stress.
- Invesco also submitted data to and engaged directly with the joint Bank of England and Financial Conduct Authority (FCA) industry survey on liquidity management practices in UK-domiciled open-ended investment funds, contributing to the publication of a joint report in March 2021.

Digitalisation of financial markets

The disruptive effect of emerging technologies on financial markets represents both an opportunity and a challenge to Invesco, our clients and investors. At the same time, the global regulatory landscape governing financial market activities underpinned by these emerging technologies continues to develop apace, with policymakers and regulators across the globe legislating in areas including data sharing and operational resilience, artificial intelligence and e-identification, and distributed ledger technology (DLT) and digital assets.

Understanding and engaging with relevant developments in this area is therefore crucial to ensuring that we are well-positioned to take advantage of the opportunities presented by digitalisation; to manage any additional risks arising from the integration of new technologies into financial markets; and to comply with evolving regulatory expectations globally.

- As such, Invesco has developed strong collaborative relationships with a number of academic and industry partners, including the Cambridge Centre for Alternative Finance (CCAF) and the Digital Assets Council for Financial Professionals (DACFP). Invesco proudly sponsored the publication of the CCAF's Global Alternative Finance Market Benchmarking Report in June 2021.
- We also participated in a number of relevant industry fora, and contributed to TheCityUK's engagement with and response to the HM Treasury consultation and Call for Evidence on the UK's regulatory approach to crypto assets and stablecoins, as well as the Association of the Luxembourg Finance Industry (ALFI) survey on crypto assets.

Image source: Adobe Stock.

Our Processes: Supporting Our Response to Market Wide Risks through Multiple Workstreams

Our Risk Management Framework

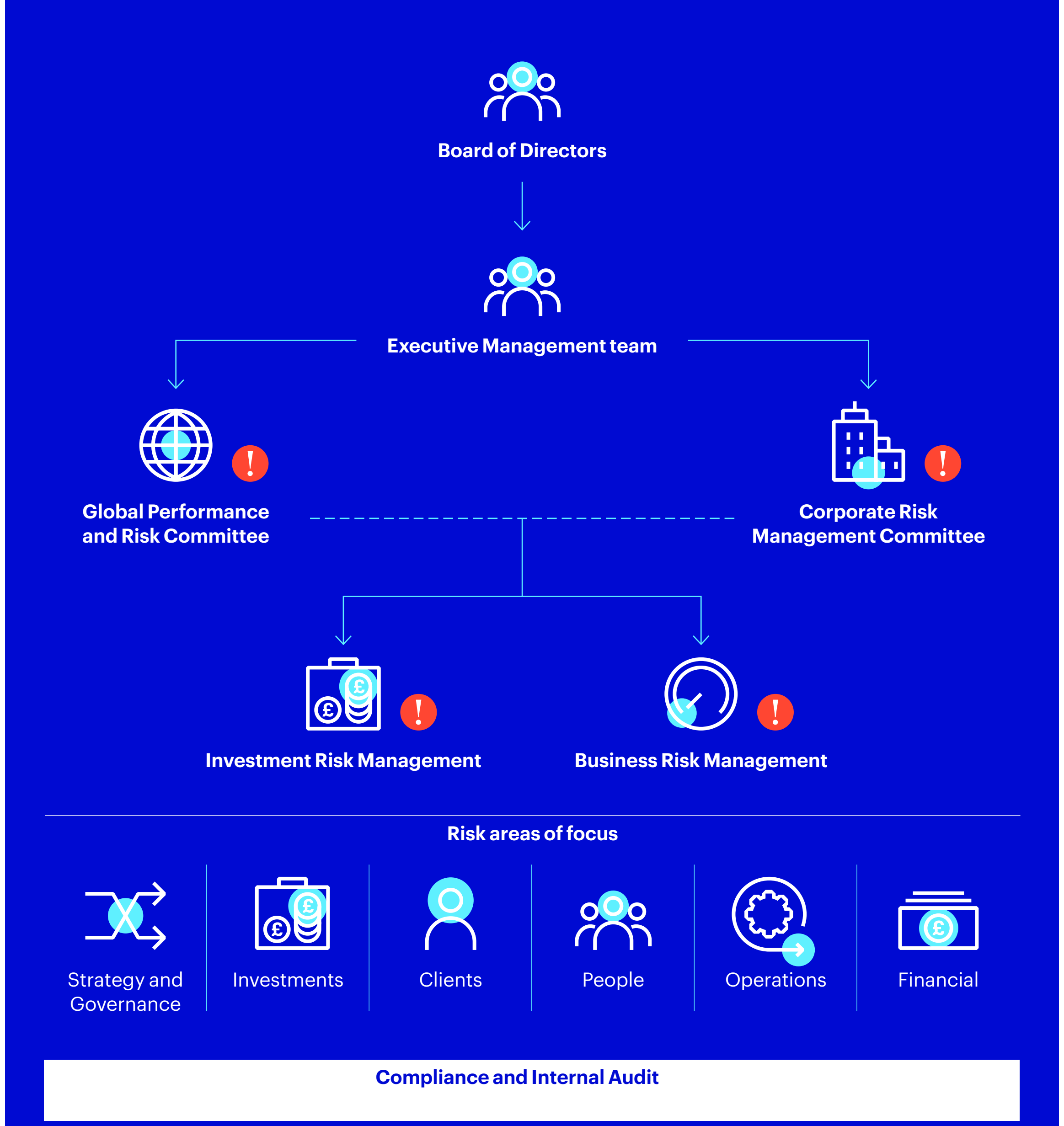
We are committed to continually strengthening and evolving our risk management activities to ensure they keep pace with business change and client expectations. We believe a key factor in our ability to manage through challenging market conditions and significant business change is our integrated and global approach to risk management. This risk management framework enables our investments to be aligned accordingly, given the market-wide risks we identify.

Invesco's Executive Management team is responsible for establishing our culture and creating awareness that risk management is everyone's responsibility. As such, Executive Management, with oversight of Invesco's Board of Directors, is responsible for establishing and maintaining the Company's risk management framework, and for ensuring that risk management is embedded in our day-to-day decision making, as well as our strategic planning process.

Our global risk management framework supports our focus on key risks in all areas of our business, including strategy and governance, investments, clients, people, operations and financial risk, and enables consistent and meaningful risk dialogue up, down and across the company.

Our risk management framework leverages two primary governance structures: (i) our Global Performance and Risk Committee oversees the management of core investment risks; and (ii) our Corporate Risk Management Committee oversees the management of all other business and strategy related risks. A network of regional, business unit and specific risk management committees, with oversight of the Corporate Risk Management Committee, provides ongoing identification, assessment, management and monitoring of risk to ensure both broad and in-depth, multi-layered coverage of the risks existing and emerging in the various domains of our business.

Image source: Adobe Stock.



Source: Invesco.

Invesco's Global Investor Forum (GIF)

The GIF is designed to enhance connections across our investment teams with specialisations across different investment styles, geographies, asset classes and investment approaches. This forum enhances thought provoking discussions on companies, regions, or industries that our teams are researching. We do this with the goal of delivering better results for our clients. As such, it enables Invesco's investment teams to discuss market wide risks and may help to inform how they align their investments accordingly. In 2021, the GIF Operating team organised 45 calls, with several external speakers. This culminated in the annual GIF summit which consisted of 13 calls on topics covering topics such as: different political landscapes, ESG as a commercial imperative, and investment landscapes in specific geographic regions.

Thought Leadership

At Invesco, we recognise our position as a bridge between industry practitioners and academia, for the benefit of our clients. Our Global Thought Leadership team collaborates with internal teams to produce content that leverages practitioner expertise, responds to the needs of our clients, and stays abreast of policy, governmental, and regulatory developments. We also partner externally with a broad network of academic scholars and other practitioners from across the asset management industry to deliver quality research and contribute to broader conversations. There is an increasing rise in the supply of and demand for ESG-related thought leadership for the asset management industry. At Invesco, we strive to contribute to the ESG conversation in a meaningful way that reflects the interests and needs of our clients.

UNIVERSITY OF CAMBRIDGE
Judge Business School

Our Partnership with Cambridge Judge Business School

In 2017, Invesco and Cambridge Judge Business School established a 10-year collaboration to support investment research activities. As of March 2022, Cambridge expert speakers have participated in over 50 Invesco client events globally, connecting with over 2,000 Invesco clients at 21 different cities across North America, EMEA & APAC.

For example, in 2021, we collaborated on a video series entitled 'Game changers'. Innovation and disruption are increasingly transforming economic and financial activity at global, national, firm and household levels. The macro, the geo, and the national political implications are as significant as those of past industrial revolutions, which themselves remoulded the world. Game changers brings together thought leaders including lord Browne (former BP CEO), Dame Stephanie Shirley (gender-equality trailblazer and philanthropist) and Tilly Franklin (University of Cambridge CIO).

Industry Involvement

Invesco recognises the importance of working with other stakeholders and participating in relevant industry initiatives to promote the continued improvement of functioning financial markets. We participate in trade associations, collaborative engagement initiatives, and government sponsored groups.

We engage with regulators and policymakers globally to address ESG and other market risks. These efforts are supported by our public affairs and government relations regional teams, who work with teams across Invesco to ensure advocacy work is thoughtful, relevant, and impactful.

For example, we are involved in over 40 initiatives which have helped us shape and accelerate our progress on critical ESG-related industry issues. Through our membership of various organisations, we contribute to dialogue and help form industry positions on ESG market issues and help perspectives on stewardship, as well as promote market integrity and efficiency.

Notable examples of our 2021 participation with industry initiatives are detailed below, and we have also included examples in our thematic focus areas.

Signatory of: PRI Principles for Responsible Investment

Invesco has been a PRI signatory since 2013. Throughout 2021, we have participated in various committees and groups contributing knowledge and expertise from our daily activities. For example, Invesco participates on the PRI Global Public Policy Group. The group meets quarterly and discusses ongoing regulatory and policy developments relating to ESG issues. In particular, we've engaged with the PRI team in particular to support their advocacy in relation to ESG data and reporting, including contributing to their position paper on the EU's Corporate Sustainability Reporting Directive and discussion with their project team on delivering meaningful data.

BBP Better Buildings Partnership

In 2021, Invesco joined the Better Buildings partnership, a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock. As a member we attend quarterly meetings and other subject matter specific working groups, including a Biodiversity working group and a Net Zero working group.

EFAMA

Invesco is a corporate member of EFAMA, the European Fund and Asset Management Association. In 2021, Invesco contributed to the Sustainable Finance Committee and helped to develop and implement the EU's sustainable finance initiatives.

UKSIF UK Sustainable Investment and Finance Association

Invesco is a member of the UK Sustainable Investment and Finance Association (UKSIF) which brings together the UK's sustainable finance and investment community. Our Global Head of ESG sits on the UKSIF Board of Directors.

Effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets

In 2021, we reviewed our processes internally and identified a number of opportunities to enhance the effectiveness of our advocacy, response, and thought leadership in relation to market-wide and systemic risks. For example, to enhance the coordination and effectiveness of our policy advocacy on market-wide risks with governments and regulators across the regions in which the business operates, Invesco is establishing a Global Head of Public Policy role. We anticipate that this role will help strengthen Invesco's advocacy impact in relation to risks including climate change and market integrity.

In addition, through 2021 we identified opportunities to deepen our engagement with policymakers in relation to addressing climate-related risks. For example, in the UK, Invesco employees are now contributing to the HM Treasury-sponsored Green Technical Advisory Group (GTAG – advising on the development and implementation of the UK's Green Taxonomy) and the FCA-sponsored Disclosures and Labels Advisory Group (DLAG – advising on the development of investment product sustainability labels).

Furthermore, in relation to our thought leadership work on geo-political risks, we recognised the opportunity to enhance our previous region-by-region analysis of political and regulatory risks. Therefore, in 2021, Invesco published its first Global Policy Outlook to accompany Invesco's Investment Outlook. The Policy Outlook summarises the policy and regulatory risks and issues from around the globe that we expect to dominate in 2022. We will continue to work on these areas of enhancing coordination, deepening our engagement, and providing global analysis to enhance our effectiveness in promoting well-functioning financial markets.

Principle 05

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Review and Improvement of Stewardship Policies

Invesco reviews policies on a frequent basis to ensure they are enabling effective stewardship and maintaining a high level of integrity, consistency and accuracy for the times.

For example, in 2021, Invesco's Policy Statement on Global Corporate Governance and Proxy Voting was reviewed and its updated version was published in early 2021. The Global ESG team works in collaboration with other teams across the firm on these reviews to ensure there is consistency and that the policy is applicable firm-wide. For example, in 2021, amendments to the Invesco's Policy Statement on Global Corporate Governance and Proxy Voting were proposed by investment teams and the Global ESG team, scrutinised and subject to approval by the GIC's ESG Subcommittee. In 2021, we established our good governance principles. The creation of these principles followed a similar process to the above. For further information on the Global Proxy Voting Policy and the good governance principles, please refer to Principle 12.

Internal Assurance

Invesco's Internal Audit department provides independent, objective assurance and advisory services that are designed to add value and improve the firm's operations. Internal Audit provides these services on an ongoing basis through a systematic, disciplined and risk-based approach to evaluate and improve the effectiveness of risk management, control and governance processes. All business units, including ESG investing and proxy voting activities globally, are subject to periodic Internal Audit oversight.

In each of Invesco's Regional Compliance teams, team members who focus on compliance monitoring work closely with other members of the Regional Compliance team on the assessment of key risks and the testing of policies, as well as the development of an annual testing plan. The testing plan seeks to assess compliance in key risk areas of the firm. This could also include looking to avoid duplication of testing and considers other control reviews, including Internal Audit. Invesco's Compliance Monitoring team aims to apply testing standards consistent with regulatory risk that may be prevalent in each region, and reports findings to senior management of Compliance and the impacted business functions.

For example, in 2020, our internal audit conducted a review of our Stewardship in the UK. The review focused on governance, integration of stewardship within the investment processes, monitoring and oversight, and reporting and disclosure. In 2021, Invesco Internal Audit and Regional Compliance teams were part of a group that flagged the SEC ESG Risk alert and have worked with Invesco's ESG team on a review of our industry affiliations to ensure best practices are met on how we report on these groups. This is an ongoing Internal Audit review of ESG to assess key aspects of ESG started in 2021, with areas of focus including 1) Disclosures, 2) Portfolio Management, and 3) Monitoring Programme. We chose to utilise our internal audit and regional compliance functions because of both teams' accessibility and deep knowledge of Invesco as a business, which we believed would deliver greater insight into the quality of our effectiveness in these stewardship areas. This approach not only ensures that Invesco's stewardship practices are subject to objective, independent assurance, and compliance monitoring, but also that regulatory risks and required improvements can be communicated to the Global ESG team efficiently.

Review and Improvement of Stewardship Reporting

Alongside policy reviews and assurance, Invesco has released certain reports to further our commitment to adopting and implementing responsible investment principles in a manner that is consistent with our fiduciary responsibilities to clients. These include Invesco's Environmental, Social and Governance Investment Stewardship Report, Corporate Responsibility Report and our Climate Change report in line with the Task Force on Climate-Related Financial Disclosures. These documents are described in further detail in Principle 6 and are available on our website at invesco.com/corporate/about-us/esg.

Invesco is committed to maintaining the highest standards of integrity and accountability in the stewardship of our affairs. Invesco ensures our stewardship reporting is fair, balanced and understandable by taking several actions. For example, these reports comply with all relevant legal requirements, and we ensure that our reporting is accurate through our review of processes and governance. To ensure we take a 'fair and balanced' approach, we have made sure that the engagement examples fairly represent a cross-section of our activities across asset classes and geographies. Therefore, case studies can be found in Principle 7, 9, 10, and 11.

We have communicated examples of differing outcomes, including those engagements where there was not always the desired result and we have escalated or are monitoring closely. Report drafts are often circulated by the Global ESG team to the GIC's ESG Subcommittee for sign-off, with appreciation of the reporting requirements. We also ensure that we communicate with all our clients by informing them through our global corporate website of any new or developing reports in line with our stewardship commitments.

We recognise that proper and effective corporate governance is important to shareholders and other stakeholders. We have strong policies and standards, including Invesco's comprehensive Code of Conduct, designed to safeguard the interests of Invesco's clients, ensure compliance with applicable laws and provide accountability and control systems commensurate with our firm's business activities.

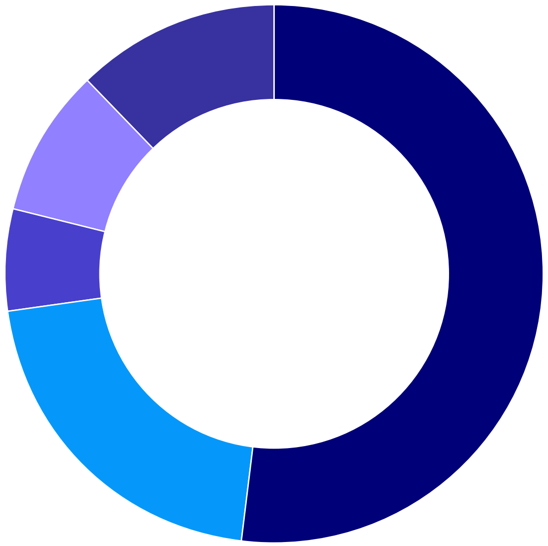
Principle

06

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

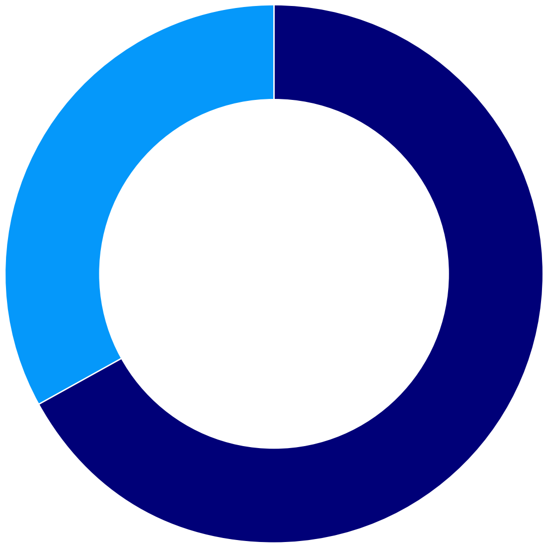
Breakdown of Our Assets Under Management and Client Base

Breakdown of AUM by Asset Class Q4 2021



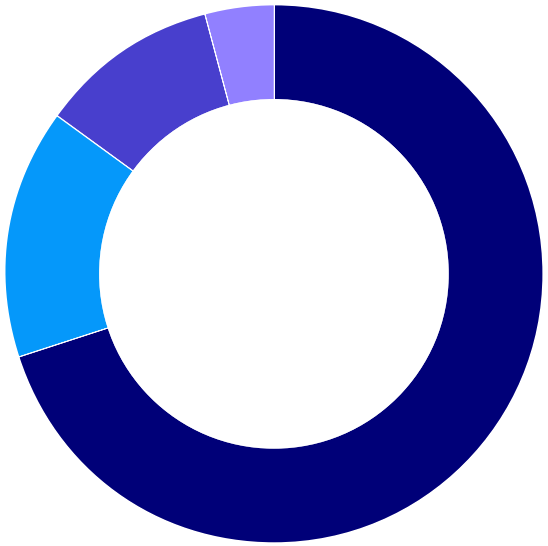
	31 December 2021	%
Equity	$841.6	52
Fixed Income	$334.8	21
Balanced	$88.6	6
Money market	$148.8	9
Alternative	$197.1	12
Total	**$1,610.9**	**100**

Breakdown of AUM Active vs. Passive Q4 2021



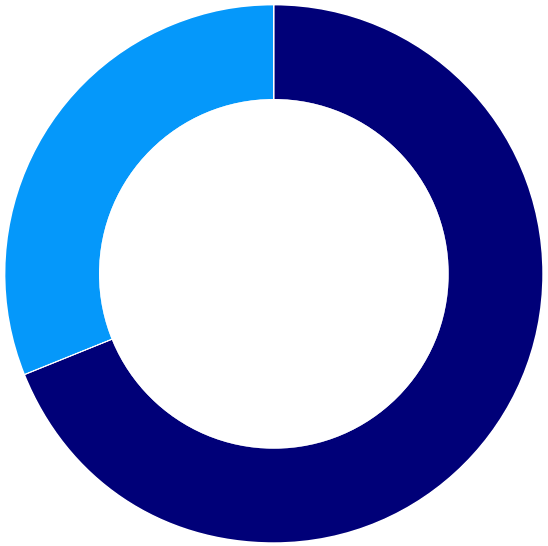
	31 December 2021	%
Active	$1,082.5	67
Passive	$528.4	33
Total	**$1,610.9**	**100**

Geographic Breakdown of AUM by Client Domicile Q4 2021



	31 December 2021	%
Americas	$1,132.5	70
Asia Pac	$247.3	15
EMEA ex-UK	$171.5	11
UK	$59.6	4
Total	**$1,610.9**	**100**

Channel Breakdown of our Client Base Q4 2021



	31 December 2021	%
Retail	$1,106.5	69
Institutional	$504.4	31
Total	**$1,610.9**	**100**

"ESG means different things to different people. We provide a broad range of capabilities and products, which enables clients to align their ESG values with investment."

Alex Chan
Head of ESG Client Strategy APAC

Our Approach to Clients

Invesco's diversity within its investment strategies is fundamental to offering clients a variety of approaches to the implementation of ESG that reflect their needs. This includes time horizons that may vary depending on the strategy.

We have a client-focused approach in the definition, design, and delivery of investment solutions, with the capability to manage ESG solutions tailored to clients through customised portfolios and products. Invesco delivers our distinctive investment capabilities worldwide to meet their needs.

Invesco conducts detailed surveys that give us insight into our client and beneficiary needs on stewardship and investment. We have found that surveys are effective because they provide feedback from many clients on several key topics at any one time. For example, in 2021, we surveyed 161 financial advisers and 201 advised investors to get their view on ESG.[1]

This study particularly focused on client perceptions of ESG investing and what we can do to improve their engagement. We also engaged with clients through regular meetings. This additional approach of direct dialogue allows us to have in-depth conversations with our clients and to understand their current and evolving stewardship requirements. In 2021, the Global ESG team were involved in more than 150 client meetings.

During 2021, Invesco developed ESG products consistent with Invesco's core values and capabilities and at the same time delivered several customised client solutions with a focus on ESG factors, strategies and themes.

We recognise that our clients have differing levels of requirements for stewardship and investment policies. All our investment teams are focused on strategically developing client-centred investment solutions that align with ESG market opportunities, identifying potential strategies for ESG conversion or new launches, and introducing innovative ESG investment strategies based on Invesco resources and capabilities. For example, in 2021, we launched or converted more than 40 ESG products, including over 20 ETFs.

Invesco's ETFs

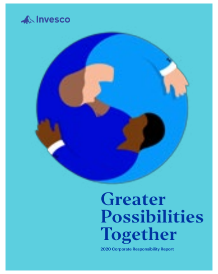
Having managed ETFs for 16 years, Invesco has been a leader in the ESG ETF space, bringing many innovations to investors. Today, our line-up includes fixed income, equity and alternative ETFs, as well as asset allocation solutions that enable investors to diversify across various asset classes. Our passive ETFs focus on well-known market indexes, mirroring their composition and providing investors with full transparency into the investment process. Our ESG ETF suite includes a wide diversity of ETFs because we know one size doesn't fit all. We know that every investor has unique goals, so our line-up of products aims to help investors pursue their specific objectives, all while enjoying the benefits of ETFs – lower costs, flexibility, greater transparency and tax efficiency. The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

We also provide periodic reports to our clients about our stewardship and investment activities, and the outcomes of these activities to ensure we are meeting our stewardship reporting requirements. Some examples of these types of reports include our:

Environmental, Social and Governance Investment Stewardship Report
This annual report provides an overview of our stewardship practices globally. It highlights how our ESG integration differs across asset classes, details our proxy voting and engagement approach, and provides detailed case studies.

Climate Change Report
This annual report is produced in line with the recommendations of the Task-Force on Climate-Related Financial Disclosures (TCFD). It describes the notable progress we have made to enhance our processes for monitoring, evaluating and managing material climate-related risk and opportunities at the investment level.

Corporate Responsibility Report
This annual report describes our corporate sustainability efforts which complement our ESG stewardship and investment activities.



Invesco Real Estate Global ESG+R Report
This annual report presents Global Environmental, Social, Governance, and Resilience ("ESG+R") approach, integration, and key achievements which are a testament to our industry leadership in responsible investing over the past decade.

Invesco vote disclosure
For more information on our vote disclosures, please visit invesco.com/corporate/about-us/esg

We also provide Invesco's clients additional reports and disclosures, such as an ESG fund overview, upon request.

[1] Survey conducted January 2021. The quoted number of participants all responded/participated in the research.

Glen Yelton
Head of ESG Client Strategy EMEA & NA

> ESG investing is a highly complex subject, one that needs a carefully thought-out approach. At Invesco, we partner with our clients to provide effective ESG solutions that fit their specific needs.

Effectiveness of Our Approach to Clients

We believe our methods for understanding client needs were effective during 2021, but we periodically review and look for ways these could be improved. Invesco has multiple Client Research teams who help evaluate our effectiveness in this area. The purpose of these teams is to make sure we not only understand what our clients' needs and expectations are, but why, ensuring we deliver relevant and differentiated experiences.

Our Client Research teams conduct research with personal investors on ESG marketing seeking to understand how investors think about each component (E,S,G) and also conduct separate activity among both advisors and personal investors specific to ESG SMAs (separately managed accounts). We also use third-party research sources to monitor and track how we're perceived in the industry as an ESG provider by audience (financial advisors, personal investors, and institutional investments) including NMG, RepTrak, Cogent, SS&C, Cerulli.

In 2021, our Client Research teams developed a 'Voice of Client' programme called 'Invesco Listens' in which we leverage software as a service technology to evaluate the experience prospects/clients have on our digital properties (content, tools, thought leadership) to identify gaps and opportunities for improvement. Rolled out initially in the United States in mid-2021, the programme collected feedback from 4,545 advisors, investors and institutions during the year. It is in the process of being rolled out across other regions.

Invesco's survey results also signal areas we can focus on to meet our clients' stewardship needs. The 2021 survey described on the previous page provided insights that investors could benefit from more guidance on sustainable investing and that knowledge levels in this area remain nascent, with jargon and inconsistent terminology being a key barrier.[1] Given these insights, we intend to conduct further research into clients' views and use this information to tailor the content we provide to our clients, both institutional and non-institutional.

More broadly, as an investment firm, we recognise that one of the key indicators of alignment with client interests is the flow of AUM. At a firm-wide level, we evaluate the effectiveness of our approach to clients through this measure.

Image source: Invesco.

[1] Survey conducted January 2021. These findings are specific to the participants who responded and participated in the research.

Case Studies: Meeting Our Clients' Needs

01

Invesco Quantitative Strategies (IQS) Low Volatility Investing

This case study demonstrates the IQS team's efforts to take account of client and beneficiary needs and leverage their experience for the benefit of clients.

The client objectives of low risk, high returns and ESG integration provide a triangle of challenges in a portfolio context. The IQS team has developed a process that combines defensive positioning through a low-volatility approach with return-generating potential through a multi-factor overlay, combined with the fully integrated consideration of ESG objectives from start to finish.

Low volatility investing is attractive to clients who want to position their equity portfolio defensively, for example in a rising interest rates environment, decreasing its sensitivity to market swings. Also, on a risk-adjusted basis, low volatility stocks tend to outperform their higher-risk peers over time. However, this style of investing comes with drawbacks in the context of ESG integration as it tends to have a higher exposure to the utilities, energy and materials industry sectors, which generate the largest contribution to greenhouse gas emissions. Also, lower risk tends to come with lower expected returns, a feature that can be effectively addressed through exposure to other factors, such as value, momentum, or quality. However, maximising factor exposures could inadvertently affect ESG objectives again if the interactions are not well-understood or change through time.

Our process utilises two key advantages of systematic investing: diversification and transparency. Instead of putting all objectives in a black box and letting a model figure out everything or seeing ESG considerations as an afterthought to portfolio construction, we separate the objectives of risk reduction and return enhancement and prioritise ESG throughout: 1) we build an ESG-screened low volatility anchor portfolio, and 2) we add other factor exposures in a controlled manner. ESG and factors are perfect partners: our multi-factor model focuses on quantifiable security characteristics instead of specific names, allowing us to replace bad ESG factors with otherwise similar-looking good ones.

Our ESG criteria focus on environmental issues while avoiding significant harm in both the social and governance pillars. We filter out companies that lack the ability to transform into a low-carbon economy, compared to their regional and industry peers. Additional controversy screening uses data on frequency, severity and responsiveness of companies. Without altering the risk/return profile of the strategy, we reduced carbon emissions by 50% compared to a market-weighted benchmark[1]. An added advantage of our stepwise methodology is that, in line with client objectives, we can customise the applied ESG screens.

The team analysed the approach utilising MSCI Climate VaR[2] under a 1.5°C and a 2°C global warming scenario and found that compared to a conventional low volatility strategy, the bias towards higher carbon emissions and higher risk of stranded assets is effectively mitigated.

Our systematic but active management style enables us to engage with companies on ESG matters in close collaboration with the Global ESG Team.

1 Risk and Reward 2021, 2nd and 3rd Issue.
2 VaR (Value-at-Risk).

Case Studies:
Meeting Our Clients' Needs

02
Invesco Real Estate (IRE)

Through client engagement, Invesco Real Estate (IRE) demonstrates how we approach client needs and take action to ensure all requirements are covered.

Manager accountability
Fundamental throughout IRE's separate account systems. IRE's objective is to generate consistent performance and avoid capital loss, while increasing the opportunity for capital appreciation. Over the years, IRE has developed a disciplined account management system to pursue this goal. The success of this system is driven by both its investment governance structure and investment disciplines as described below.

Investment Committee
The Investment Committee comprises real estate professionals from each investment discipline–Portfolio Management, Research, Acquisitions, Underwriting, Closing Services, Asset Management and Dispositions. Each investment opportunity is subjected to an exhaustive review and approval by the Committee. Unanimous consent is required for approval of each prospective investment.

Investment Plan
The Investment Plan specifically outlines the client's goals, objectives and guidelines during the next 12-month period and includes investment strategy, target markets, debt strategies, asset management focus and dispositions necessary to achieve the client's goals in a prudent manner.

Report Card
IRE uses an annual Report Card to provide accountability to its clients. The Report Card serves as an objective measurement of performance against the Investment Plan and is presented to the client each year.

Time Horizons

Time horizons greatly differ depending on the product that is offered and the region it is offered in. Time horizons and investment objectives are calculated using multiple time periods and different market cycles dependent on the specific product offered. Invesco integrates stewardship and investment to align with the investment time horizons of our clients.

The investment horizon for individual themes is dependent on several factors including global credit and market cycles, fundamentals, technical, and valuations. In general macro themes are expected to play out over a medium-term time horizon. However, the team expects to modulate overall portfolio beta and individual factor sensitivities with a shorter-term outlook of approximately three months to one year.

An example of how long-term time horizons benefit Invesco comes from one of our investment teams:

The investment team's long-term time horizon enables them to invest in a broader investment opportunity set, which include small and mid-cap companies. While investing in small and mid-cap companies is not alone a panacea for generating excess returns, the ability to invest in a broader range of securities increases the team's opportunity set and therefore, improves their odds of finding enough quality businesses trading at attractive valuations.

Image source: Adobe Stock.

Principle 07

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Stewardship and Investment

As investors in global equities, corporate and sovereign fixed income, real assets as well as multi-asset strategies, we recognise the differences between asset classes and geographies. We apply ESG principles in a variety of ways, depending on the asset class and strategy.

In general, teams incorporating ESG into their investment process consider ESG as one input to their process, as part of the investment selection, evaluation of ideas, company dialogue and portfolio monitoring. As such, assessment of financially material ESG aspects is incorporated into the wider investment process as part of a holistic consideration of the investment risk and opportunity.

The core aspects to our ESG philosophy include materiality, ESG momentum and engagement.

1. Materiality

The concept of materiality refers to consideration of ESG issues on a risk-adjusted basis and in an economic context.

2. Momentum

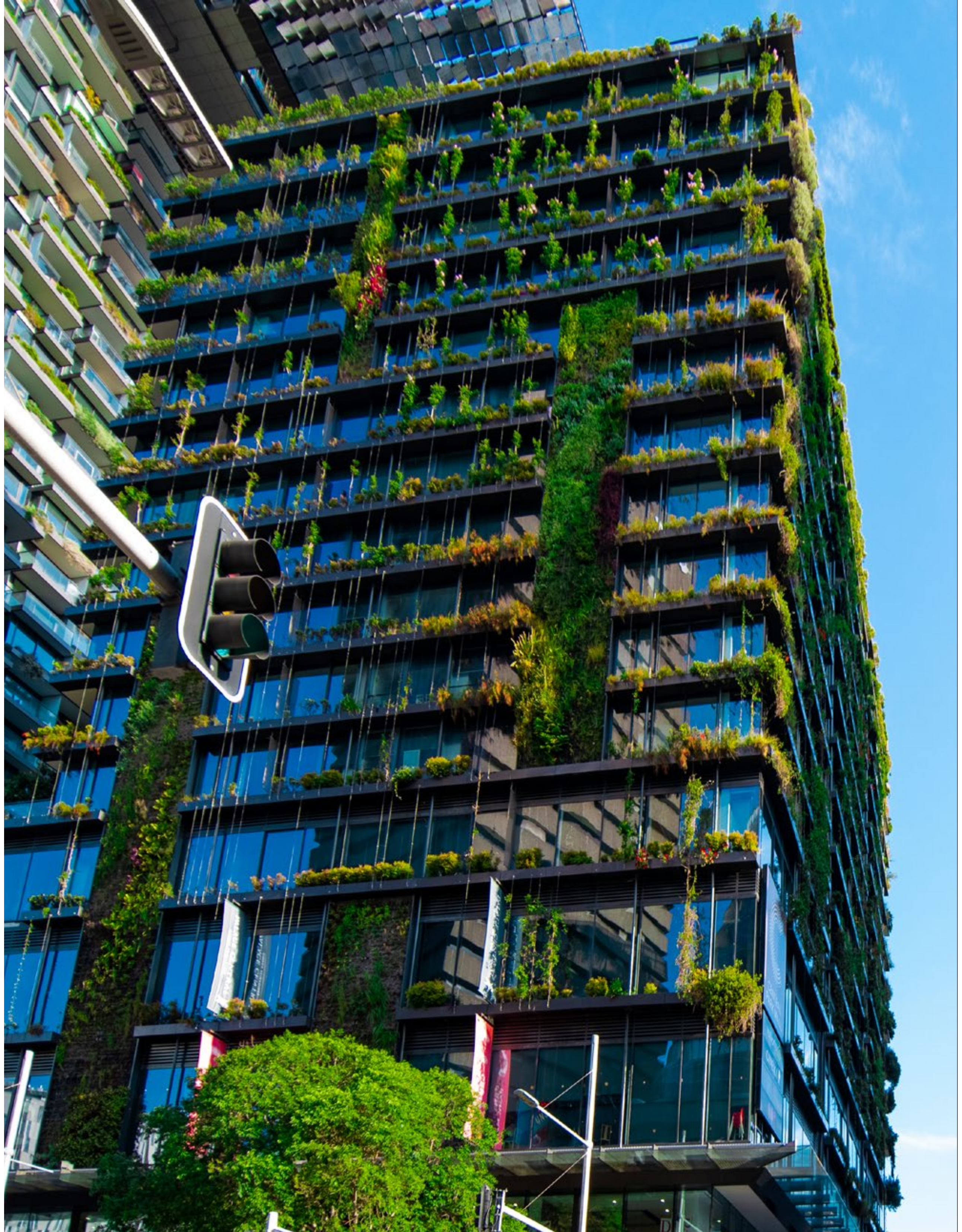
The concept of ESG momentum, or improving ESG performance over time, is particularly interesting in our view.

3. Engagement

We engage with issuers to enhance the sustainable value creation of assets. We exercise our rights and responsibilities as owners of capital and use our expertise to cast voting decisions in our clients' best interests. As a provider of both active and passive strategies, we amplify our active votes, as our passive vote typically follows the largest active holder.

Dialogue with portfolio companies is a core part of the investment process for our fundamental teams. As such, we often participate in board-level dialogue and are instrumental in giving shareholder views on management, corporate strategy, transparency and capital allocation, as well as wider ESG aspects. The starting point for our company level ESG research is the analysts and portfolio managers, who will look at a variety of factors. These will differ per asset class, sector, geography and company, and will typically be one component of an overall investment view. Based on this initial view, where the portfolio managers and analysts wish for more detailed ESG information, our Global ESG team can provide proprietary analysis. Crucially, while there is global support, decisions are ultimately made by our investment managers and analysts – the people who know their asset classes and sectors best. ESG integration is an ongoing strategic effort and investment teams will vary in the level of ESG integration. We aspire to incorporate financially material E, S, and G factors in all of our investment capabilities and processes.

Image source: Adobe Stock.



Our Proprietary Tools: Using Innovation for ESG Integration

We believe having quality data about Environmental, Social and Governance (ESG) factors is critical for effective investment analysis. In 2021, we enhanced our ESG data and analytics capabilities, by building out and updating our proprietary tools – ESGintel, FocusIntel, PROXYintel and ESGCentral. This key step has enhanced our firm-wide processes to integrate stewardship and investment, including financially material ESG issues.

ESGintel

Launched in 2020, ESGintel is a proprietary ESG research and ratings platform that provides insights on key ESG topics for corporate and sovereign issuers across a range of metrics and data points. The tool enhances the ESG investment process by:

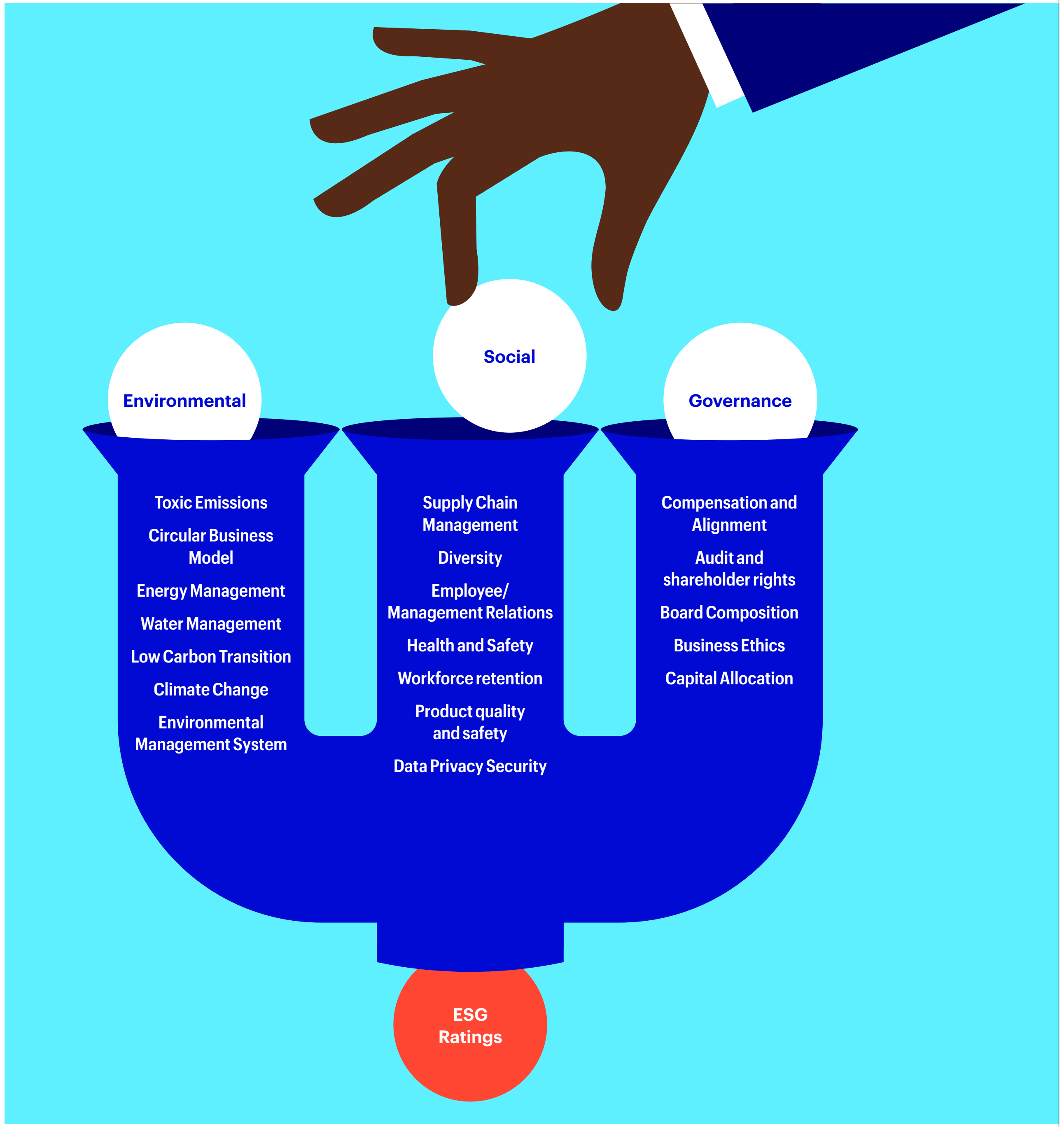
- Highlighting ESG factors with potential investment implications
- Store ESG engagement notes
- Facilitating ongoing monitoring of issuer progress towards sustainable value creation

ESGintel Corporate Ratings

ESGintel corporate provides users with ESG ratings based on Invesco's internally developed methodology, ratings trends, momentum information, and access to the underlying company-level data. A sector and sub-sector materiality lens is applied within the framework, ensuring that companies are evaluated on the most relevant ESG topics according to their business activities. These ESG topics are outlined on the previous page. A variety of underlying indicators feed into the topic-level assessments, providing a holistic view in each of these key areas. Topic-level ratings are aggregated into both environmental, social or governance theme ratings, and input, operations, and output value chain ratings. Value chain rating assessments offer a different perspective on corporate ESG performance, evaluating sustainability factors at various stages of the production process and supply chain. An overall ESG rating is also computed using the topic-level ratings.

ESGintel ratings are provided on a 1-5 scale at the overall, theme, value chain, topic and indicator levels. Computations are based on absolute, sector/sub-sector relative or region relative performance as appropriate, specified on an indicator-by-indicator basis. These ratings are updated monthly to reflect the most current information available. In addition to ratings, company rankings are provided at the sub-industry and country levels. The ESGintel platform has built-in analytical capabilities that enable point-in-time and historical comparisons between companies and user selected peers.

Statistical approximations are used to further supplement coverage, where appropriate. This process leverages a machine learning algorithm to impute missing datapoints for a company based on data observations at companies with similar characteristics. ESGintel's transparent interface highlights where such approximations are used and enables analyst scrutiny of the underlying inputs.



Sovereign Intel

Invesco has also expanded ESGintel beyond corporate ratings to cover other asset classes, including sovereign debt. With over 20 inputs, SovereignIntel generates a score for countries across E, S and G categories, which can then be aggregated into an overall ESG score. SovereignIntel provides an internal rating, a rating trend, and a global ranking out of 160 countries.

Engagement Notes

Another recent ESGintel platform development means that investment teams can now upload any of their own company-level ESG research or engagement notes to share this insight with others across Invesco. Using this function, the Global ESG Research team has uploaded all its historical ESG research and engagement reports, so these are now all available on the platform.

FocusIntel: Prioritizing Issuers for Engagement

Using ESGintel's research and data points, the ESG research team maintains FocusIntel, a list of highest ESG risk issuers across all of Invesco's aggregated holdings. Ownership and ESG risk materiality criteria are applied on the aggregated holdings and the issuers are segregated into High/Medium/Low buckets, signifying the ESG risk of issuers.

ESGCentral

While ESGintel is primarily used as a research and engagement tool at the issuer level,ESGCentral is a one-stop solution for all ESG data and various ESG capabilities across Invesco including ESG portfolio analytics, principle adverse impact indicators, net zero climate initiative and ESG screening. ESGCentral brings in 40+ ESG data sources together covering more than 52,000 companies and over 2,500 ESG data metrics and has the ability to integrate them with Invesco's ESG-integrated portfolios and benchmarks to provide a holistic portfolio-level ESG analytics capability. The platform's data-fuelled ESG insights highlight ESG opportunities and risks within the portfolios. The platform enables users to screen the portfolios for positive and negative ESG screens, net zero, Article 8, sustainable/responsible investing and other ESG frameworks. Through these capabilities, the platform supports ESG compliance, risk management, ESG reporting, and regulatory initiatives such as SFDR and TCFD. As a result, ESGCentral provides clear differentiation to Invesco's ESG approach and integration.

Vinay Muppana
Senior ESG Specialist,
Data Analytics

> "Improving our data analytics is an important way we can scale our ESG integration and ESGCentral enables portfolio managers with ESG insights to actively shape their ESG approach.

	ESGintel	ESGCentral	Vision	FocusIntel	PROXYintel
Description of Tool	A research tool integrating third-party ESG data and Invesco's views on material	A cloud-native ESG platform to enable our investment teams to have holistic, customised portfolio-level ESG analytics capabilities	A cloud-based portfolio management platform allowing investors to make better informed investment decisions, considering their specific ESG considerations	An updating list of highest ESG risk issuers across all of Invesco's aggregated holdings	A global knowledge-share platform tracking proxy votes and rationales across Invesco with respect to individual companies and proxy issues
Scale of Analysis	Issuer-level data	Portfolio-level, issuer-level data	Portfolio-level data	Issuer-level data	Issuer-level data
Outputs	• An overall ESG rating out of 5 • E,S, and G scores • Peer comparison and historical comparison • Engagement notes	• Portfolio-level analytics, monitoring, and screening • Support for risk management and regulatory compliance (e.g. SFDR) • ESG reporting	• Modelling assets and liabilities • Portfolio optimisation • Portfolio analytics	• A list of highest risk ESG companies • Clear indicators of why the issuer is deemed high risk (e.g., CA100+ involvement)	• Votes cast • Vote Rationales
Used by investment teams primarily to	Research a company's ESG profile prior to or during the investment process to integrate ESG risks into investment decisions	Analyse portfolios to understand ESG opportunities and risks compared to benchmarks using 40+ ESG data sources. Screens portfolios for various ESG Screens like net zero, Article 8, sustainable/responsible investing and various ESG Frameworks	Enhance their understanding of a portfolio's risk-exposure, develop consistent return expectations, model liabilities, design optimised portfolios, evaluate portfolios taking into account investors' ESG considerations	Identify whether they have a high-risk holding and coordinate with the Global ESG team to scale a targeted engagement	Execute proxy voting decisions, view how other shareholders within Invesco have voted and share knowledge with respect to individual companies and proxy issues

Equities

We analyse the magnitude of ESG risks impacting a company's financial integrity, brand/reputation, long-term profitability, and value creation. In our fundamental investment research, we analyse how companies address key financially material to assess incremental change.

As part of our ongoing portfolio monitoring and risk management, we have access to updates to ESG ratings so we can continuously evaluate changes. Financially material ESG issues are considered alongside other risks and valuation drivers to help identify better-managed companies that are well positioned to succeed in the long term. Evaluation of financially material ESG aspects may be incorporated into the wider investment process as part of a holistic consideration of the investment risk and opportunity.

Our equity investment teams can rely on a mixture of external ESG data and internal proprietary ESG ratings, such as ESGintel. Our view of material ESG aspects per sector underpins this research. This allows our investment managers to understand companies' opportunities and risks from as many angles as possible.

We believe our combination of ESG ratings and in-depth research enables our portfolios to deliver a value proposition to clients seeking an ESG collaborator for equity investments.

Image source: Adobe Stock.

Equities – US Core Equities

The US Core Equity team incorporates ESG factors into its overall assessment of a company's relative attractiveness, with a focus on identifying ESG issues that could be material to a company's financial performance.

An assessment of ESG materiality is part of stock discussions, with an emphasis on determining what are the critical ESG issues that could put the company at risk, or potential positive ESG attributes that could be supportive of a company's prospects. Some of the areas the team typically focuses on include business practices, government/regulatory trends, environmental footprint/GHG emissions, corporate governance, human safety, community impact, and revenue/cost opportunities, among others. Special emphasis is placed on highlighting and monitoring ongoing controversies. The team takes all these issues into account when determining the risk profile of a company and its overall attractiveness as an investment opportunity. Ongoing monitoring includes periodic reviews with Invesco's ESG team of all portfolio holdings to identify companies at risk from an ESG perspective.

The US Core Equity team's analysts and portfolio managers can then follow up with individual companies to learn more about what managements are doing to improve their companies' ESG risk profile. For example, in 2021, the team engaged with a US materials company whose operations have a very high environmental footprint and a history of employee safety lapses. The team held a video call with the management team to discuss how the company was working to improve their emissions, employee safety, community relations, and disclosures in the company's sustainability report.

Participants from the Invesco side included a portfolio manager, industry analyst and an ESG analyst, providing a well-rounded view of the company's fundamental and ESG picture. During the call, the US Core Equity team discussed carbon emission disclosure and ongoing lawsuits related to a chemical compound produced by a subsidiary that has since been divested. Management highlighted that their carbon emissions profile compares favourably to its competitors and the company plans to disclose carbon reduction targets for the first time in 2022. They also plan to publish science-based targets in 2023. Regarding ongoing lawsuits, management elaborated that the maximum fine would be split between themselves and two other companies so their fraction of the potential fine was likely to be manageable. Regarding employee safety, management believes the increase in fatalities in 2020 was an outlier and discussed specific initiatives they have undertaken to ensure the safety of their employees.

The additional information the team was able to glean from talking to the company's management helped allay our ESG concerns and increased our understanding of the risks surrounding our investment in this company. The team sees this as a good example of a positive feedback loop, where our fundamental ESG research helps make our conversations with companies' managements more productive, and thereby reinforces our understanding of a company's risk profile.

Please refer to Principle 9 for further examples of engagement case studies.

Image source: Adobe Stock.

Equities – Invesco Japan Equities

At Invesco Japan, portfolio managers and research analysts directly engage in dialogue with investee companies and determine the ESG materiality of each company, which characterises our stewardship activities. We have also internally developed our Proxy Voting Guideline to cast and manage proxy votes. These features are aligned with our investment process that portfolio managers and research analysts – who have insights into the investee companies – integrate stewardship activities as part of investment decisions based on the potential for sustainable corporate value growth. We believe this is the best way to gauge both financial and ESG opportunities and risks and make sensible investment decisions accordingly. We aim to consistently undertake stewardship activities focusing on corporate value growth potentials from long-term investing perspectives to contribute to revitalising the entire investment chain.

We believe that the important ESG issues (materiality) of companies and the desired approach to deal with them vary by the business environment, growth stage, and other factors. Taking into account such situations, we determine ESG materiality using in-house research combined with external resources based on information obtained through constructive dialogue with companies.

An example of our recent stewardship initiatives is a discussion with an IT and industrial conglomerate, which we have selected as an engagement focus company for Climate Action 100+, on new business opportunities, leveraging its leading position in ESG initiatives. The company explained that the top management promoted a climate change strategy consulting business, and the company collaborated with a financial institution to launch internal carbon-pricing services. We will continue to engage and monitor whether the company can expand such environmental-related businesses overseas and such business partners. We communicated our decision to vote against top management at the AGM, which appointed only one independent outside director, and shared our Proxy Voting Guideline while highlighting the governance issues. The company eventually added another outside director. Please refer to Principle 9 for further examples of engagement case studies.

ESG Integration at Tokyo Investment Centre

Carried out directly by portfolio managers and research analysts to strengthen conviction in a stock from long-term perspectives

Tokyo Investment Centre

Fundamental Research
- Assess sustainability as part of investment case for a company
- Evaluate ESG risks and opportunities
- Identify ESG financial materiality

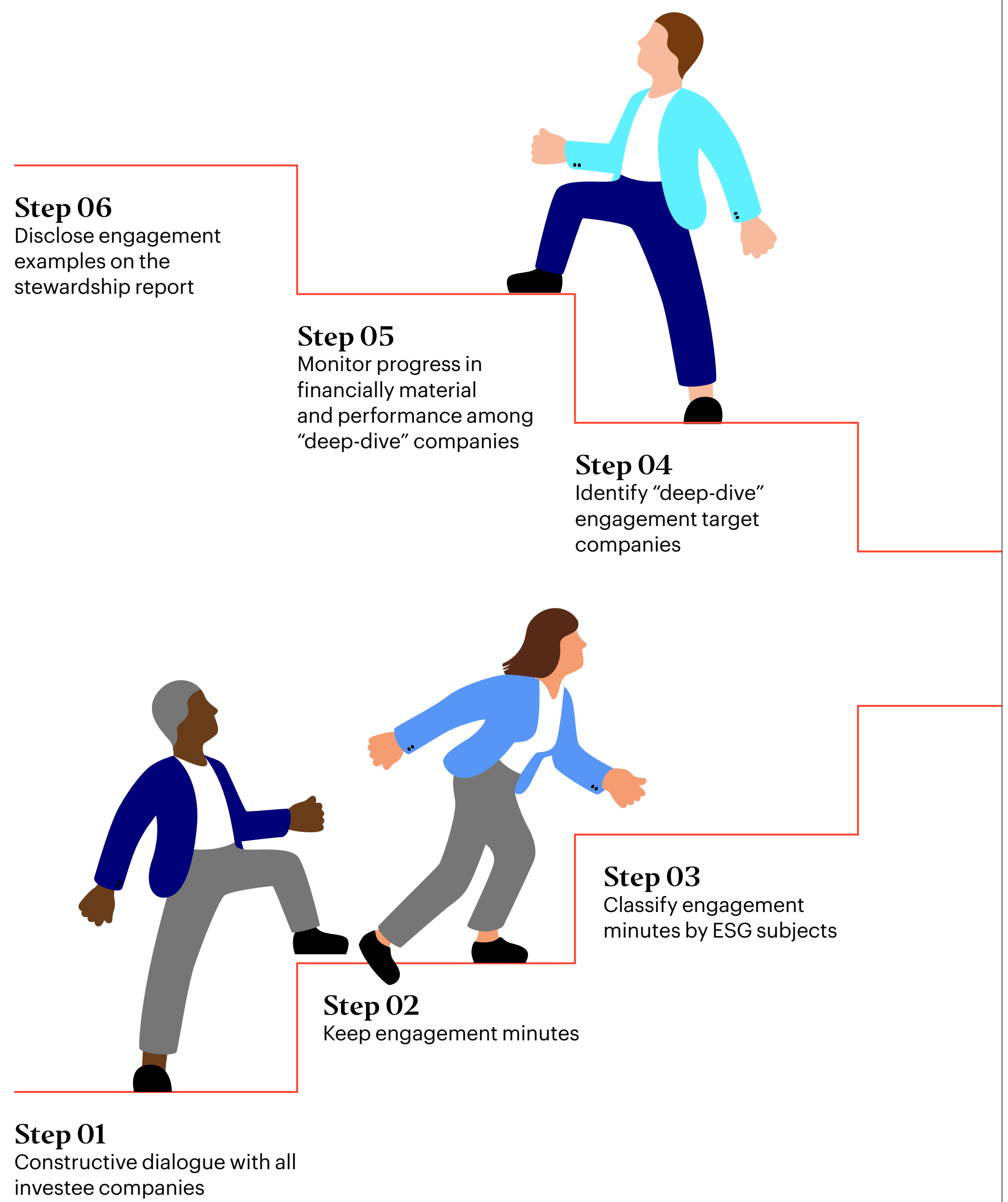
Engagement
- Engage with all portfolio companies
- Focused engagement with companies with specific ESG issues

Monitoring
- Regular portfolio review including ESG risks
- Regularly monitor stewardship activities including engagement and proxy voting on ESG issues
- In-house ESG Score

Proxy Voting
- In-house proxy voting guideline
- Vote decisions aligned with corporate value enhancement
- ESG is taken into consideration for all votes

Provided for illustrative purposes only. As at 31 December 2021. Any investment decision should take into account all the characteristics of the fund as described in the legal documents. For sustainability related aspects, please refer to invescomanagementcompany.lu

Our Engagement Process Step by Step



Equities – Invesco Asia ex Japan Equities

The Invesco Asia Equity Investment team is committed to being a responsible investor. We believe that ESG issues can have an impact on sustainable value creation and that companies with ESG potential may present investment opportunities. ESG-related investment risk analysis is fully integrated within the investment process. With the investment team's focus mainly on bottom-up stock selection, there is a strong emphasis on proprietary company research through detailed fundamental analysis.

The investment team's proprietary stock analysis focuses on quantitative factors as well as qualitative factors. An assessment of financially material ESG factors is required to form the basis of the investment team's analysis and a risk rating (5 tiers spanning low risk, low-medium risk, medium risk, medium-high risk and high risk) is assigned to reflect the investment team's views on ESG impacts. Fair value will be adjusted to reflect our concerns on material ESG risks and used as guidance to portfolio construction. The starting point for company-level ESG research is our portfolio managers and research analysts, who will look at a variety of factors. These will differ by industry, geography, and company, and will typically be one component of an overall investment view. Our Head of ESG, Asia ex- Japan, may also provide inputs to the research.

The approach focuses on the material ESG issues identified at the company level. We identify issues that can influence the supply chain, manufacturing process, distribution channel, operations and finally the product/service itself.

The Invesco Asia Equity Investment team conducts various periodic meetings. In the weekly regional in-depth stock discussion meetings, detailed research and analysis are summarised and documented in the Stock Research. Stock Research Discussion Notes (SDRNs) currently include an ESG section that provides a fair assessment of the impact of ESG factors on the company with an internal ESG rating. During these meetings the investment team challenges the investment thesis, including material ESG issues.

In the process, the investment team will actively engage with investee companies to question or challenge them about ESG issues that could have an impact on their fundamentals. We interact with companies regularly in various forms of meetings on ESG issues, exercising both ownership rights and voice to effect changes. Ongoing engagement is to ensure that we agree with the vision of the company and that the fundamentals and ESG factors did not change.

An example of exercising our voice to bring change is where the Invesco Asia Equity Investment team collaborated with a group of investors for engagement with an Asian petrochemical company.

On their low-carbon transition strategy, the company agreed that renewable energy is the way to achieve carbon reduction, however there are insufficient renewable energy sources in the country to support the company's operations, unless the company builds its own green power generation facilities. Hence this remains a challenge and is why the company has not committed to net zero emissions. The company has installed some solar panels and usage of wind power is being explored. The company has set a short-term target to lower energy consumption for each business unit by 3%. The company commits to increasing the usage of solar and wind power in the mid-long term. If the company can increase the renewable energy portion to a sufficient level, it will then commit to net zero emissions by 2050. The company also understood investors' concerns around its ESG management and will establish ESG-related KPIs for senior management to strengthen its ESG governance.

As part of oversight of the ESG implementation, the Head of ESG, Asia ex-Japan, together with the CIO, Asia ex-Japan, the Regional Head of Investments, Asia Pacific, and the Investment Risk and Quantitative Research team closely monitor and review portfolio performance and risk profile every six months to ensure overall quality and integrity.

Image source: Adobe Stock.

01
02
03
04
05
06
07
08
09
10
11
12

Fixed Income 1

Scope: Fixed income portfolios managed from Henley, UK (Henley Fixed Interest)

ESG is embedded into the Fixed Interest team's credit analysis. ESG risks are considered alongside credit risk for materiality, future direction, and whether they are reflected in spread. The team's credit analysts use ESG specific data and information providers as well as Invesco's proprietary developed ESG quantitative risk tool, ESGintel. These quantitative and qualitative inputs can be useful to highlight ESG risks, however they are no substitute for the deep understanding and appreciation of an issuer that comes from a high quality and experienced team of credit analysts. Context and materiality are critical and having sector specialist credit analysts means that the team has an awareness of certain ESG factors that are more prevalent in some sectors than others. Since November 2021, several portfolios have been converted to SFDR Article 8, although the Henley Fixed Interest team has always considered material ESG risk factors. The role of ESG in the investment process has become more formalised and systematic, with a set of quantitative ESG criteria being applied to these portfolios.

The team's portfolios are reviewed by the ESG team on a regular basis. For example, ESG is also a core feature of the chief investment officer (CIO) challenges within the Henley Investment Centre. These reviews are an opportunity to highlight ESG laggards and requires portfolio managers to justify their investment thesis. The team's sector and ESG analysts also regularly monitor the development of ESG controversies that arise. If after meeting with management the team feels these controversies are not being sufficiently addressed and have invalidated the investment thesis, the team will consider divestment.

The fixed income ESG process differs from that of the equity teams due to the nature of primary issuances and because a significant proportion of our investments are in unlisted companies, where there is a reduced availability of ESG information (either provided by the issuer and/or from third-party research providers). Our investment approach emphasises proprietary research and focuses on fundamental valuation to support the active management of our clients' portfolios. ESG integration is strongly consistent with this investment focus.

The fixed income team are an active investor in the primary market, reviewing new issue prospectuses as part of our decision-making process. Throughout this process, portfolio managers are given an in-depth ESG assessment, where the sector analyst will highlight any material ESG risks or opportunities of an investment, alongside the traditional investment thesis. Outside of Article 8 criteria, these risk and opportunities feed into the assessment of a bonds relative value.

An example of this process can be seen through Escalation Case Study 8.

Along with continuing to monitor for material ESG issues, the credit analysts along with the global ESG team frequently engage with issuers to discuss progress on ESG issues. In 2021, the team started a thematic engagement series because the team believes thematic engagement increase comparability and improve outcomes.

Fixed Income 2 – Sovereign Debt

Scope: Invesco Fixed Income (IFI)

ESG considerations are highly relevant to the analysis of sovereign debt issuers. Because countries can issue bonds that mature over very long periods (50+ years), their ability to meet their obligations might be altered significantly by action or inaction on ESG factors.

Governance factors have historically been an important driver of sovereign credit spreads, and, as a result, our approach to sovereign ESG analysis places a slightly higher emphasis on this area compared to environmental and social factors. However, we acknowledge that ESG considerations are inherently interconnected. For example, poor institutional governance factors can hamper a country's ability to address its vulnerability to climate change or to follow through on commitments made under the Paris Agreement. Social factors can equally be driven by or be the driver of how governance factors develop. In 2020, issues of equality (race and gender) and health care (the COVID-19 pandemic) fundamentally drove change in governance factors in certain countries. These dynamics are often not readily apparent in the data itself, but the connections are intuitive to our sovereign macro analysts. Our philosophy, therefore, is to blend data and specialist insight to construct relevant, informed and timely ESG views on the countries we invest in for our clients.

The objective of our ESG country process is to establish a holistic view of each country's ESG performance by combining historic (structural ESG assessment) and current data (event-based ESG assessment) with the insights of our global debt analysts. Our ESG assessments are ultimately qualitative in nature but are also underpinned by quantitative analysis. We believe this approach is necessary to deliver in-depth ESG views that reflect the unique set of issues facing each country.

Within this process, we are guided by the two key concepts behind IFI's ESG philosophy – materiality and momentum. Materiality in the context of sovereign debt means we identify events or macroeconomic developments that may impact the country's position across the ESG pillars, and, as a result, require us to change its overall ESG grade. Momentum means we consider whether the underlying dynamics of the issues faced by a country are likely to strengthen or weaken its ESG standing in the future. This can be based on data extrapolation, macro analyst insight, or often, a combination of both.

Using indicators from multiple market and in-house sources, we first build a quantitative scorecard for each country's characteristics across ESG factors. We rank countries from several different perspectives to provide a holistic view for our portfolio management teams. In addition to an overall global ranking, our framework also establishes ESG grades that compare against emerging market or developed market sub-groups, depending on which category the country belongs to, as well as various regional and income-based subsets.

We employ indicators selected by non-governmental organisations (NGOs) and academic institutions, so they are independent and impartial, which is not always the case with government-supplied figures and assessments.

Structural ESG assessment

- Quantitative scorecard model
- Annual data
- High quality independent data providers
- 140+ countries

Event-based ESG assessment

- Qualitative
- Macro analyst-driven
- High frequency data
- Focus countries

IFI ESG Scores and trend

- Macro analyst-adjusted Scores and trend
- In-depth commentary

We assess the following measures in each quantitative scorecard:

Environmental

- Emissions per unit of GDP (PPP)
- Total CO_2 emissions
- Tree cover loss
- Water Sanitation / Waste Management
- Air Quality
- Renewable Energy
- Legislative progress toward Net Zero

Social

- Life Expectancy
- GNI per capita
- Expected years schooling
- Average years schooling
- Gender Equality
- Gender Development
- Progress toward SDG commitments

Governance

- Corruption
- Voice and Accountability
- Political Stability
- Government Effectiveness
- Regulatory Quality
- Rule of Law
- Corporate Sector Transparency and Quality

Official data sources for ESG factors at the sovereign level often report annually and time lags are inherent in the data sets used for our quantitative scorecard process. However, events may occur at any time that could be a catalyst for change across any of the ESG risk factors related to each country. Major catalysts would include an electoral cycle or social unrest, which could bring about changes in the political and institutional landscape and shift the dynamics of a country's governance factors in the process.
Our sovereign macro analysts implement a qualitative overlay on the quantitative scorecards to capture material ESG events as they happen. By monitoring real-time ESG events and macroeconomic variables, they seek to ensure that their assessment of each country's ESG status reflects current dynamics.
This process produces two key outputs: Analyst-Adjusted ESG Scores and Analyst-Assessed ESG Trends. Qualitative narratives on the rationale for Analyst-Adjusted Scores and Analyst-Assessed Trends help to contextualise the specific impact of risk and opportunity factors on each country's prospects for our portfolio management teams.

Fixed Income 2 – Corporate Credit

Scope: Invesco Fixed Income (IFI)

IFI's credit analysts are tasked with understanding the ESG drivers for the companies they cover and conducting ESG-based analysis, along with their fundamental financial analysis. This applies across our corporate credit research teams in North America, Europe and Asia.

Our corporate research follows the same set of standards globally, encompassing investment-grade and high-yield issuers, whether an issuer is in a developed or an emerging market country. This approach is also applied to short-dated securities held in IFI-managed global liquidity products. Our analysts are primarily focused on identifying risk factors that could be financially material, and these may be common to all industry participants or unique to a specific issuer.

The starting point for ESG assessment is at the industry level. Our Global Sector teams set out common ESG risk factors for each industry, and individual analysts work within this framework on each issuer in their coverage area while also seeking to identify any idiosyncratic ESG risks to which individual issuers might be exposed.

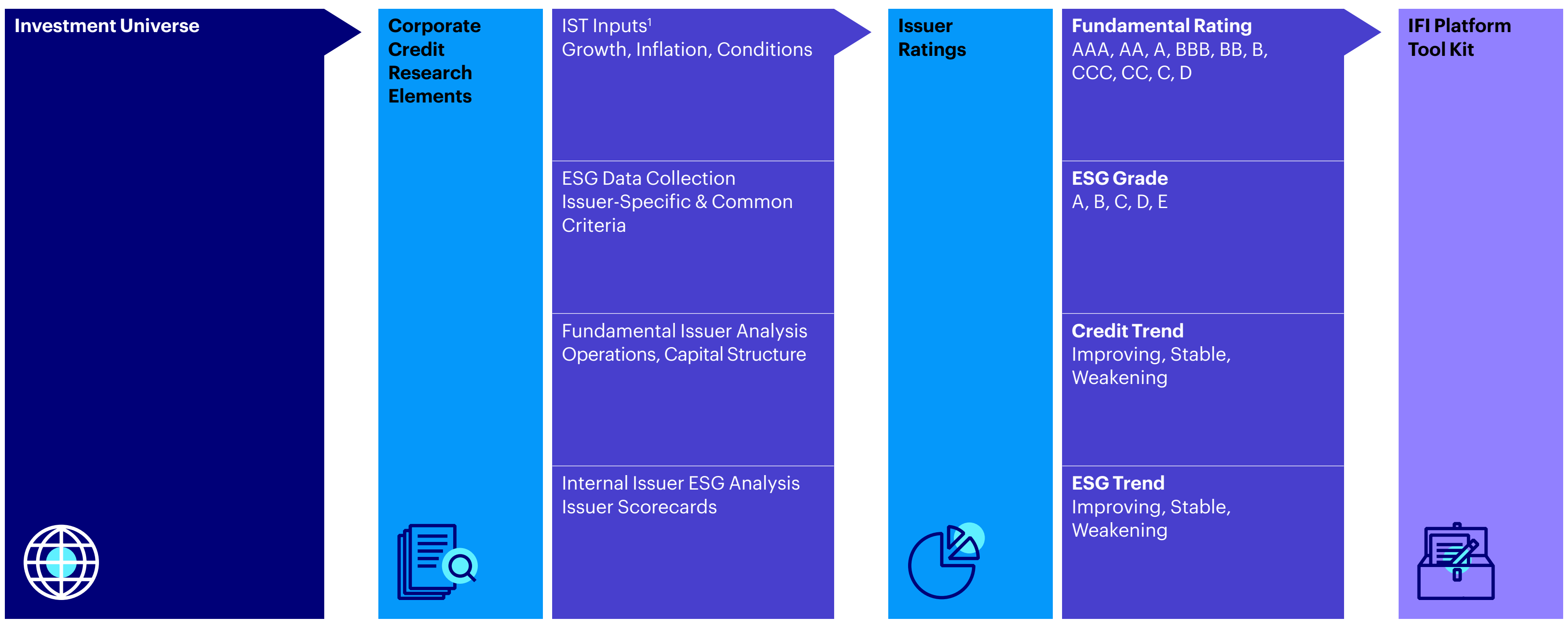
IFI's credit analysts are tasked with understanding the ESG drivers for the companies they cover and conducting ESG-based analysis along with their fundamental financial analysis. This applies across our corporate credit research teams in North America, Europe, and Asia.

IFI has developed its own ESG methodology and rating system to provide clear and consistent outputs for portfolio managers.

Each issuer receives a proprietary overall ESG grade, accompanied by sub-grades covering the three pillars of E, S and G. In addition, ESG momentum is captured through trend assessments, which add further useful information for portfolio managers in the same way that creditworthiness trend assessments do for fundamental credit ratings. All ESG research is stored on our research platform so that portfolio managers across asset classes may easily access it.

IFI is committed to continuous innovation and improvement in its ESG corporate research process. For example, with the increased issuance of green bonds and growing client interest, we have recently developed specialised templates to aid in analysing such bonds.

Overview of ESG research elements for corporates



- Research analysts conduct **fundamental analysis** of screened issuers
- Issuer fundamental ratings provide an independent assessment of **creditworthiness** using an AAA-D format
- Analysts identify the 12-18 month trend in creditworthiness as **improving**, **stable**, or **weakening**
- ESG grade and trend assessments are integrated into the credit analysis process
  - **Materiality:** considerations that have the potential to most significantly impact on an issuer's ability to meet its debt obligations
  - **Momentum:** determine which issuers are outpacing their peers in making progress
- Assessments are documented and communicated through the **IFI Research Platform**

Source: Invesco. For illustrative purposes only.

[1] Investment Strategy Team (IST) brings together the resources of the IFI platform to develop investible investment themes.

Senior Secured Loans

Invesco manages senior secured bank loans for institutional, retail, and high net worth clients globally. Bank loans are an alternative asset class: they are privately arranged debt instruments, usually below investment grade quality, but they are not securities. Each loan has unique characteristics tailored to its underlying corporate issuer. Issuers are often private companies or may be sponsored by a private equity firm.

A growing segment of Invesco's bank loan clients are focused on ESG and have asked for ESG-managed portfolios. In 2015, we began incorporating ESG considerations into our investment process as part of our consideration of credit risk for each issuer. As our clients became increasingly sophisticated in their approach to ESG, they demanded more from us. Since only a small pool of the investable universe is covered by third-party ESG rating providers, we set out to develop a proprietary, quantifiable framework for rating each issuer.

As a result, our analysts are now responsible for independently rating each loan they cover from an ESG perspective. They conduct due diligence reviews with issuers' management teams to inform a rigorous, multifaceted screening process in which each loan is measured on a scale of 1 to 5 (with 1 signifying 'no risk' and 5 signifying 'high risk') on numerous ESG factors.

To derive an issuer-level ESG rating, we use a weighting schematic for the issuer's broad industry category. These ratings are averaged into an overall ESG score that is approved by our Senior Investment Committee, subject to updates and reviews on at least an annual basis.

Applying our own ESG approach to bank loans has led to many positive outcomes, the most significant being our ability to provide an investment solution that meets our clients' objectives. We have received considerable interest in our portfolios from existing and prospective clients alike, and we continually seek to broaden this capability.

Another major consequence is that we have substantively enhanced our analytical skills regarding ESG risks. Although the process of rating each issuer has been time-consuming and complex, our analysts are now leaders in understanding the implications of ESG issues across the investable universe, and, as such, they are able to make more impactful investment decisions.

Engaging management teams on the importance of ESG from an investor perspective has been another benefit of our approach. While we do not have voting rights or control over issuers' ESG activities or conduct, our position as one of the largest managers of senior secured bank loans enables us to emphasise to management teams the importance of ESG issues in relation to their ability to raise capital in this market.

Environment Pillar

- Natural Resources
- Pollution & Waste
- Supply Chain Impact
- Environmental Opportunities

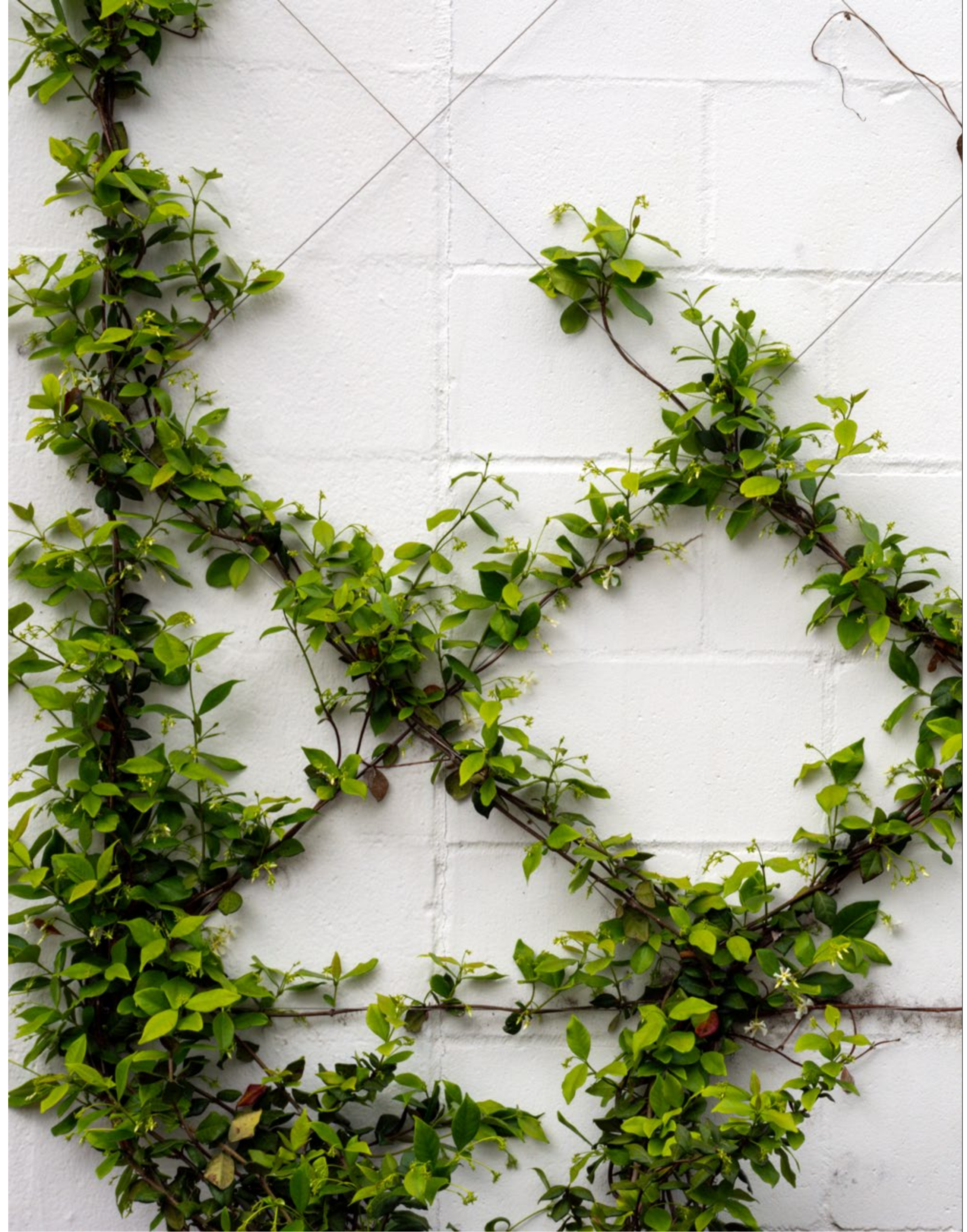
Social Pillar

- Workforce
- Community
- Product Responsibility
- Human Rights

Governance Pillar

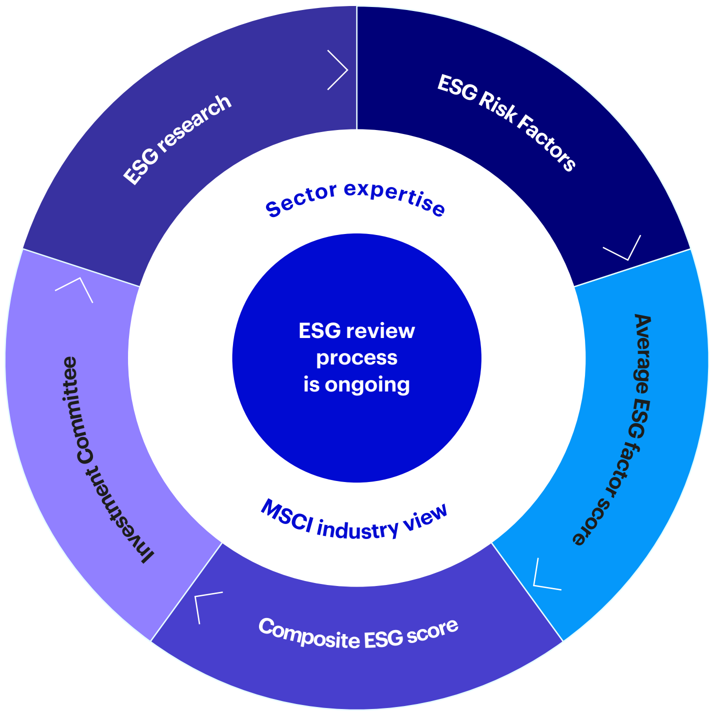
- Management
- Shareholders
- Board of Directors
- Auditors
- Regulatory Issues
- Corporate Social Responsibility Strategy
- Anti-corruption
- Business Ethics

Image source: Adobe Stock.



01
02
03
04
05
06
07
08
09
10
11
12

How does the ESG rating process work?



ESG research
- Invesco analysts conducts proprietary research and interviews management teams
- Due diligence

ESG risk factors
Analyst assigns 1–5 rating for each of the 16 identified ESG factors

1 – Negligible risk
2 – Low risk
3 – Average risk
4 – Above average risk
5 – High risk

Calculate average score for E, S and G pillars
- Weighted average score determined for E, S, and G pillars
- Portfolio screen for maximum E, S or G score

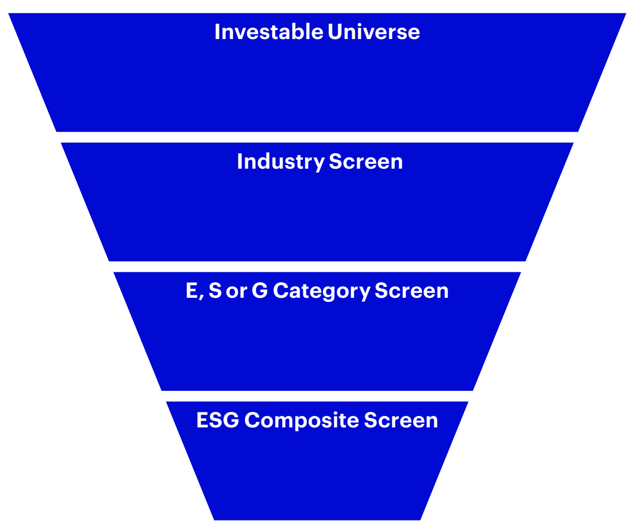
Calculate composite ESG score
- Weighted by industry
- Leverage MSCI E/S/G pillar weights for each respective industry

Investment Committee
- Analyst presents key findings to senior Investment Committee
- Senior Investment Committee signs off on ESG rating

Industry Screen
Screening employed to exclude companies based on their involvement in:
- Production of tobacco products
- Controversial weapons
- Extraction of thermal coal
- Extraction of fossil fuels from unconventional sources
- Gaming

E, S or G Pillar Screen
- Issuers with an E, S or G pillar average score above a defined level

ESG Composite Score
- Issuers with an ESG composite score above a defined level



Multi-asset

ESG is normally focused on and well understood within listed equities and fixed income, as well as infrastructure and real estate. Interestingly, ESG in the context of Multi Asset or macro investing is less well covered and discussed. While there are still some challenges, important steps have been taken to incorporate ESG consideration within more multi-faceted portfolios. We feel we have been at the forefront of incorporating financially material ESG considerations in the Multi Asset and macro investment community for many years.

As macro thinkers, ESG considerations naturally form part of our top-down macro research efforts. Major political changes, such as a shift from one party to another, impact the perceived country risk of a particular economy, while social factors like income inequality play an important role in determining a country's growth potential. We recognise that there are many more ESG frameworks at a macroeconomic level that we have tried to capture in the below graphic. While our team finds that ESG issues per se may or may not be determining factors of our economic analysis, they do nonetheless influence the overall evaluation.

Our top-down macro research efforts are often complemented by a bottom-up analysis with ESG considerations also playing an important role. As active owners, we utilise proxy voting within our underlying holdings to promote best practices amongst the entities we invest in. Proxy voting decisions are delegated to the fund managers of the underlying segregated sleeves and various building blocks that our Multi Asset portfolios invest in. A mixture of external ESG data and internal proprietary ESG ratings, such as ESGintel, are utilised in the process. That said, while proxy voting decisions are delegated, our Multi Asset portfolio managers regularly engage with the underlying fund managers to discuss and monitor their approach to ESG. This is to ensure that the ESG characteristics of our Multi Asset portfolios remain aligned with the client outcomes we aim to deliver.

As institutional investors, we believe we have a duty to act in the best long-term interests of our beneficiaries. To this end, we take our responsibility as active owners very seriously and see engagement as an additional tool to financially material to encourage continual improvement. Together with our Global ESG team, we may escalate concerns along a broad escalation hierarchy, such as engaging directly with the company's board and/or senior management, collaborating with fellow shareholders or sponsoring service provider engagement.

Invesco Real Estate Securities (“IRE”)

Invesco Real Estate (IRE) is engaged with making investments into securities that have a real asset base, encompassing land, buildings or infrastructure. IRE believes that investors in real assets have a key role to play in respecting, protecting, and in so much as is possible, enhancing the environment and wider societal prosperity. Land and buildings create the environment in which people live and work. They define, in part, present and future quality of human life and the health and balance of the natural world. IRE recognizes the role of the built environment in key environmental debates, such as climate change. IRE also recognizes that the societal impact of the built environment is an important factor in creating and stabilizing community and maintaining social cohesion. As such, recognition of asset quality, sustainable financing, long term corporate strategy and wider considerations around the impact of the built environment on society and the natural world are factors which may be considered within IRE’s investment process.

IRE views itself as a long term, fundamentally driven investor. The investment discipline is guided by a rigorous process, designed with the intention of delivering consistent and predictable benchmark relative returns. The team’s philosophical approach to investing has been unchanged over many years.

The structured process relies on combining fundamental views and security valuation disciplines with top-down portfolio construction and risk management techniques. Understanding and allocating investment risk forms a key aspect of the structured process. Ensuring issues related to ESG are considered within the investment discipline is important as a measure of risk management and a means of adding fundamental bias to return outcomes.

A desire to maintain portfolios of investments which offer above average fundamental quality lies at the core of the group’s investment philosophy. A bias to fundamental quality is added though a screening analysis which forms a key element of the investment process. ESG considerations are explicit in this analysis. Companies will either pass or fail the aggregate fundamental screen. A company that fails the screen will not be eligible for consideration for investment. This screen commonly reduces the opportunity set available for investment by one third. The screen uses a variety of weighted factors to determine an overall rating for each investment under consideration. Collectively, these factors create investment portfolios that favour companies with better ESG practices.

Max Kufer
Head of ESG Private Markets

“ **ESG has become one of the defining investment criteria of this decade. As a responsible investor and landlord, Invesco Real Estate (IRE) is focused on delivering on our commitments for the benefit of all clients.**

Image source: Adobe Stock.

01
02
03
04
05
06
07
08
09
10
11
12

Direct Real Estate

In the case of direct real estate, which can be significant contributors to global carbon emissions, the importance of ESG integration is undeniable. We believe that investment managers have a key role to play in respecting, protecting, and in so much as possible, enhancing the environment and wider social prosperity. Our approach fully recognises that the places where we live, and work are uniquely vital to the future of our planet.

Carbon emissions and climate change, the impact of residential and commercial property development, the far-reaching effects of deforestation – all provide arguably unrivalled opportunities to demonstrate the benefits of identifying and effectively managing financially material ESG risks. An ongoing shift from "brown" to "green" buildings is imperative with a change on how tenants live and use their real estate assets.

There are many criteria for identifying a "sustainable" building and we believe every element of ESG should be incorporated into this process. As such, recognition of asset quality, sustainable financing, long term corporate strategy and wider consideration around the impact of the built environment on society and the natural world are factors which are considered within our investment process. This holistic view encourages engagement with a variety of stakeholders and stands in stark contrast to a one-dimensional reliance on headline environmental data. We believe by taking an established and disciplined approach to ESG, we can successfully balance our social and environmental responsibilities while meeting the needs of our clients and fulfilling our fiduciary responsibilities.

Sustainable real estate is about more than tackling a global challenge: it is also about individuals. The choices that tenants and occupants make can contribute considerably to an asset's long-term performance. We believe effective ESG integration offers a vital means of identifying and managing global risk. Our approach is holistic, forward-looking and proactive; makes best use of data and dialogue; fosters transparency, accountability and pride of ownership; and is rooted in a long-term outlook that prizes stewardship over speculation.

We believe that our approach to financially material ESG integration and risk mitigation generates a genuine opportunity for clients seeking an investment partner on sustainable direct real estate assets.

Case Study: Invesco Real Estate Building in Melbourne, Australia

With our integrated approach to ESG within real estate, we set out a programme to optimise the sustainability performance as a landlord and for tenants. This 30,000 sqm, 20-storey office building is located in Melbourne, Australia. It became the first retrofitted office building in the state of Victoria to achieve the highest market leading 6 Stars NABERS Energy Rating in 2017. It also has 6 Star NABERS Water Rating and 5.5 Stars Indoor Environment Rating. Through modern building systems and controls to optimize operations of key building services such as air conditioning, ventilation and lighting for more efficient energy usage, the use of an onsite trigeneration plant providing electricity and heating, sub-metering of all substantive energy uses, this office building is among the top 5% of buildings nationally in terms of emissions per unit of area.[1]

Further ESG enhancements were implemented and achieved in 2020 include the installation of new LED light fixtures, efficient water fixtures, a bin-tracker system to increase waste diversion and the installation of an on-site organic waste recycling plant. To support scope three emission and transport to the building, modern end-of-trip (EOT) facilities and a wellness centre were added in 2021 to encourage car-lite commuting and healthy lifestyles, reducing overall emissions associated with travel to and from the building.

The new EOT facilities include:

- **150 bike storage spaces**
- **Grooming area**
- **200+ lockers**
- **20 showers**
- **Bike repair station**

Image Source: Invesco Real Estate, 2021. Building is located in Melbourne, Australia

[1] Source: climateactive.org.au/buy-climate-active/certified-members/invesco-australia-limited-building

Invesco Quantitative Strategies ("IQS")

Invesco Quantitative Strategies (IQS) has been one of the pioneers in considering ESG aspects for clients. With over twenty years' experience managing dedicated ESG mandates, we have continuously developed and broadened our experience in the implementation of customised ESG criteria based on clients' beliefs, which derive from open conversations with our clients.

In addition to the implementation of dedicated ESG policies, the team conducts an active dialogue with carefully selected investee companies through engagement programmes and participates in investor-driven proxy voting enabled through Invesco's proprietary voting platform, as discussed further below.

The team offers a holistic ESG approach, taking financially material ESG factors into consideration systematically at various levels of their portfolio management process.

In terms of ESG metrics, the IQS team applies a constraint on negative ESG exposures ('ESG exposure control') for all our portfolios relative to the respective markets, ensuring that the portfolio's ESG exposure always meets at least the standard of the benchmark ESG exposure. For the exposure calculation, an MSCI ESG composite score is utilised. This constraint is implemented in the optimisation set-up on GPMS across all of the portfolios. IQS further restricts investment in stocks that suffer sharp downgrades to their ESG scores for a defined period of time ('Adverse ESG Momentum' stocks).

We have also integrated selected governance measures into our Quality factors. The Quality factors prefer companies with good controls and less aggressive accounting that are not 'empire builders' and are not financially constrained. In short, these are well-managed companies on measures that also correlate to good governance.

The IQS team has adopted a controversial weapons policy, which is applicable to all our mandates and portfolios, and seeks to limit investments in firms that manufacture land mines and cluster munitions.

IQS uses a ranking framework whereby no companies or sectors are automatically completely excluded from a given investment universe. Instead, all companies are provided with a score based on the points achieved in relation to various positive and negative factors. These point scores can then be used to develop a preference approach by either identifying companies that are best in sector or are over a certain threshold score. Within IQS's multi-asset product range, we facilitate the application of sustainability criteria to sovereign bonds by using a country sustainability rating. To assess a country in terms of sustainability criteria, a large number of indicators are used from the arena of political and social issues, as well as environmental issues. These are combined into an overall rating by our ESG consultant. In addition, details of how well countries perform on specific concerns, such as nuclear power as a percentage of nationally produced energy consumption and religious freedom, can also be provided.

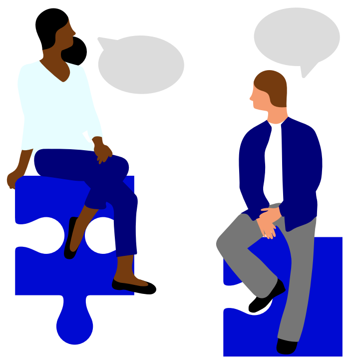
Image source: Adobe Stock.

Principle 08

Signatories monitor and hold to account managers and/or service providers.

Signatories monitor and hold to account managers and/or service providers

Invesco leverages a host of internal resources and external tools to enable ESG capabilities across asset classes. Our investment teams manage ESG strategies using a diverse range of approaches and may supplement internal research with information from third-party service providers.



These consist of ESG research providers, proxy advisory firms, and trade associations, as shown on Page 12. External service providers are primarily used as an additional, complementary source of information, which is integrated into Invesco's own proprietary tools and therefore, enhances Invesco's own research and analysis processes.

Invesco ensures that data providers are providing the most up-to-date information prior to being integrated into our investment decision-making framework. Before selecting and onboarding data vendors, the Global ESG team along with various stakeholders forms a committee, reviews various vendor offerings, and does due diligence on methodologies and coverages (for example, to select a data vendor offering on the EU taxonomy).

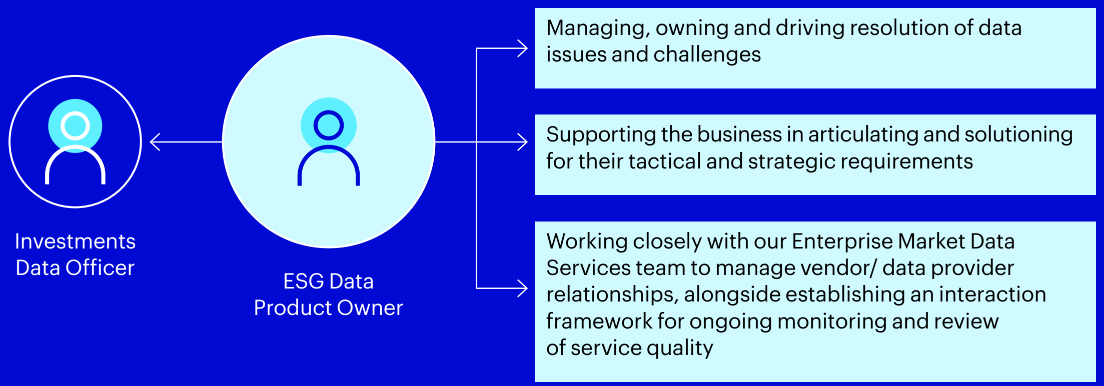
The committee presents the findings to the GIC ESG Subcommittee and seeks approval on their recommendation. Once approved, the vendor is onboarded. Invesco's MDS (Market Data Systems) team informs the Global ESG team if any investment team is seeking to onboard an ESG data vendor, to facilitate coordination and ensure the standard process described above is followed.

Due diligence monitoring is done to ensure data providers are providing on-time deliverables such as ESG data, research and recommendations. We conduct these due diligence meetings with select service providers as necessary, for example with ISS and Glass Lewis in 2021 as outlined in our Global Proxy Voting Policy. 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. For example, our Invesco Quantitative Strategies (IQS) team recently reported an issue with Scope 1 and 2 emissions not appearing correctly in ISS's file. In this case, the Global ESG team's Data Analytics team analysed the reported issue and followed up with the vendor to correct the data and liaised with technology teams to upload the rectified data.

This monitoring will be further formalised and enhanced through the development of **our ESG Data Governance model**.

Our ESG Data Governance Model

Leveraging the expertise within our Investments Data Office, the ESG Data Governance model will be spearheaded by a dedicated ESG Data Product Owner (reporting directly into our Investments Data Officer), who will be responsible for:



The ESG Data Product Owner will be supported by a team of 'hands-on-keys' Data Stewards, who will be responsible for ensuring (and subsequently resolving any arising issues) data and process quality of ESG data loaded into Invesco's strategic centralised ESG data platform.

In addition, we have established an ESG Data working group responsible for supporting and overseeing strategic roadmap development and execution, along with acting as a forum to manage key data issues and escalations from our ESG data consumers.

In 2021, Invesco has been broadly satisfied with how third-party ESG services have been delivered to meet our, and our clients', needs and expectations. The services provide supporting ESG data that is integrated into our proprietary tools including ESGintel and ESGCentral, and complement our teams' research and analysis processes, as is further explained on Page 12. From many service providers, we also receive ESG thematic reports, research, ratings, and data, which enhance our research capabilities beyond the issuer-level. Further examples of how the services have been delivered to meet our needs are included by the investment teams in Principle 7, and in the description of proxy voting in Principle 12.

As mentioned above, our Global ESG team plays a supporting role in reviewing specialist ESG products/services. Invesco recognises that ESG research and data is evolving at a rapid pace. The Global ESG team maintains regular contact with service providers, which means they can address questions on data in a timely and effective manner. In 2021, considering our expanding needs for ESG data, the Global ESG team has conducted reviews of our ESG service providers.
We explore new data sets and approaches that can provide enhanced insights into issuers and ESG themes. Where gaps have been identified or our expectations are not met, we have onboarded new service providers, including recently for green bond data and climate data. This additional monitoring by our Global ESG team ensures that our ESG service providers support our increasing ESG capabilities and meet our clients' needs. This is another way we assess our effectiveness of serving the best interests of clients, as discussed in Principle 1 and Principle 6.

01
02
03
04
05
06
07
08
09
10
11
12

Principle 09

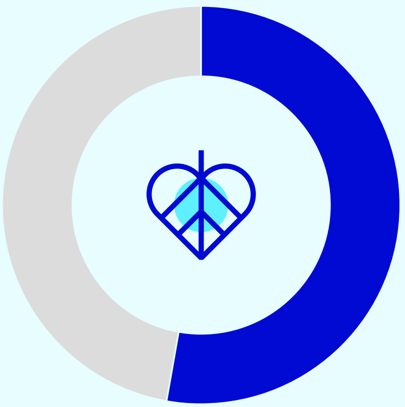
Signatories engage with issuers to maintain or enhance the value of assets.

Engagements

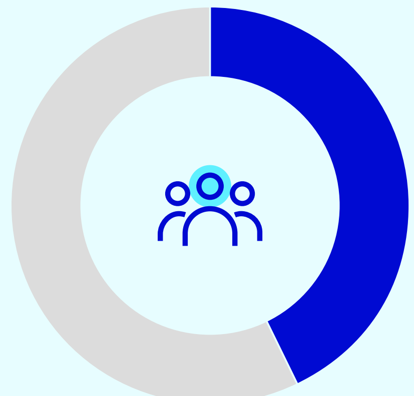
As active owners and good stewards, Invesco considers engagement with investee companies as a powerful and effective tool to promote long-term sustainable value creation, for the benefit of our clients.

% of Invesco's ESG engagements covering Environmental (E), Social (S), and Governance (G) themes[1]

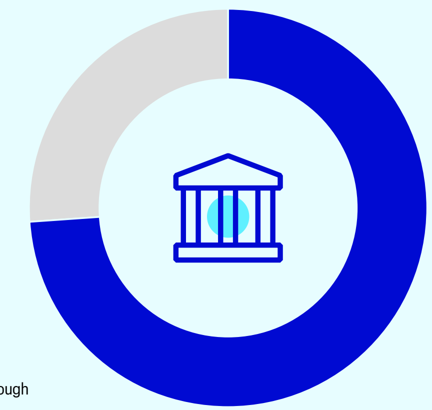
Environmental
53%



Social
43%



Governance
74%



[1] Percentages don't add up to 100% because Invesco may engage with a company multiple times on ESG-related topics and conversations often cover more than one theme. These percentages were calculated through documentation by investment teams and/or the Global ESG team and were approximated, where appropriate, from a sample of 70% (over 2,000) of engagements from our firm-wide total of over 3,000 in 2021.
[2] The Global ESG team uses both their own and investment team documentation to calculate this figure on an annual basis.

Sudip Hazra
Director of ESG Research

> "Engagement is a core aspect of our ESG philosophy and investment processes. As active owners and stewards, we believe it can be a powerful mechanism for sustainable value creation.

01
02
03
04
05
06
07
08
09
10
11
12

Our Engagement Process

The Global ESG team provides support to investment teams who may have an interest in the issuer. The engagement case studies included in this report demonstrate how Invesco's engagement approach varies according to geography, asset class, and by investment team. These examples can be found in Principle 7, 9, 10, and 11.

There are five steps in our engagement process:

1. **Prioritisation**
   There are multiple reasons why we may choose to engage with an issuer, which are highlighted in the 'Issue' section of our accompanying case studies (Page 54).

   Financially Material ESG Risks
   Firstly, investment teams, with support from the Global ESG team, may suggest an issuer to engage with based on a number of factors, including financially material ESG risks and the size of the holding. The Global ESG Research team also maintains an updated engagement focus list, using our proprietary tool FocusIntel. This list tracks holdings utilising data inputs including absolute ESG ratings, UN Global Compact compliance, carbon operations, governance ratings, shareholder dissent in proxy voting, and ownership materiality of the holdings.

   Issuer-Led
   Secondly, issuers may reach out to Invesco to discuss an ESG topic, particularly in advance of an upcoming AGM or to follow up on a previous engagement. We will prioritise these requests on the same basis as illustrated above.

2. **Internal assessment and coordination**
   Investment teams reach out to the Global ESG team for support to focus on financially material ESG topics. The Global ESG team may review whether the issuer is included within our ESG engagement tool FocusIntel (see Page 35 for further information), deciding whether to: (a) gather feedback on a topic and provide that feedback to an issuer, or (b) schedule a phone/video call and engage directly. Any ESG engagement meeting that includes an ESG analyst is added to a calendar all investment teams can access.

3. **Research**
   Investment teams and the Global ESG research team conduct in-depth ESG research in preparation for these meetings and discusses with other investors across Invesco to ensure that companies are questioned on the key sector-specific material ESG topics. This research ensures that the engagements have well-informed and precise objectives.

4. **The Engagement**
   Invesco conducts the engagement with the issuer.

5. **Follow-Up and Monitoring**
   Investors, and/or the Global ESG team, write up an Engagement Report for these meetings, which may be shared on internal systems for all Invesco's investment teams to access.

We believe a successful engagement is...

Targeted

We prioritise financially material ESG risk factors and key issues for engagement through a bottom-up approach, which means that our engagement objectives and the topics covered are specific and material to the issuer.

Scaled

We draw on the collective power of Invesco's investment teams and the Global ESG team to capture management's attention.

Outcome based

We believe engagements should have clear and consistent objectives, to promote risk mitigation and sustainable value creation throughout our portfolios.

Monitored

Engagements are most effective when they are not stand-alone conversations. Our investee companies' progress towards sustainable value creation is documented through engagement reports and case studies, so we can build on momentum of previous engagements.

[1] Portfolio managers liaise with our Global ESG team, via a global centralised mailbox at ESGengagements@invesco.com

Engagement Objectives

We believe the success of any engagement is dependent upon having clear and consistent engagement objectives that are challenging for a company to meet, but also provide demonstrable goals to measure individual performance and monitor wider trends. To make the most of limited time with management teams, we prioritise financially material ESG risk factors and key issue relevance per internal and external resources. We take a bottom-up approach, which means that the topics covered and our objective is specific to each company.

For example, for both escalation case studies 5 and 6, an Invesco engagement objective was to support separation of the Chair and CEO roles. In many cases, Invesco observes that a strong independent board ensures best governance practices and high board quality, and this view is highlighted in our Global Proxy Voting Policy. The clarity of our engagement objectives allows us to measure the outcomes of each engagement. In both these examples, Invesco's investment teams unanimously supported the proposals on Board Chair independence on the grounds that it benefits shareholders to have independent oversight of management. For Escalation Case Study 5, Invesco's investment teams and the Global ESG team are planning on engaging with the company again in 2022, to continue to argue for the separation of the Chair and CEO roles to follow-up on this objective.

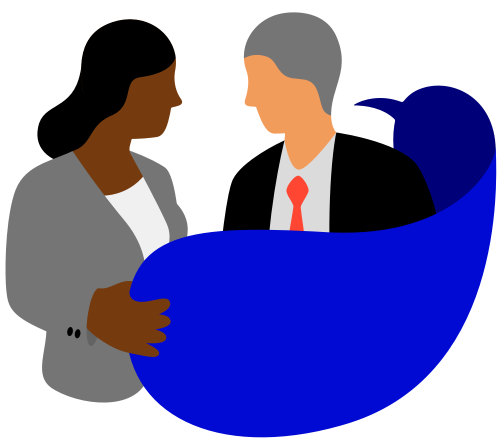
Through our engagement process we take advantage of Invesco's scale, increasing the chance of meaningful engagement. We are able to draw on this collective power to capture managements' attention and use our influence to encourage sustainable value creation from the firms and entities in which we invest. We take a highly active approach to achieving our clients' dual objectives of maximising return on capital and delivering on ESG principles. Engaging management teams on the importance of ESG from an investor perspective has been a notable benefit of our approach. It also reflects Invesco's culture and embodies our value of diversity of thought (as explained in Principle 1, Page 7).

Methods of Engagement

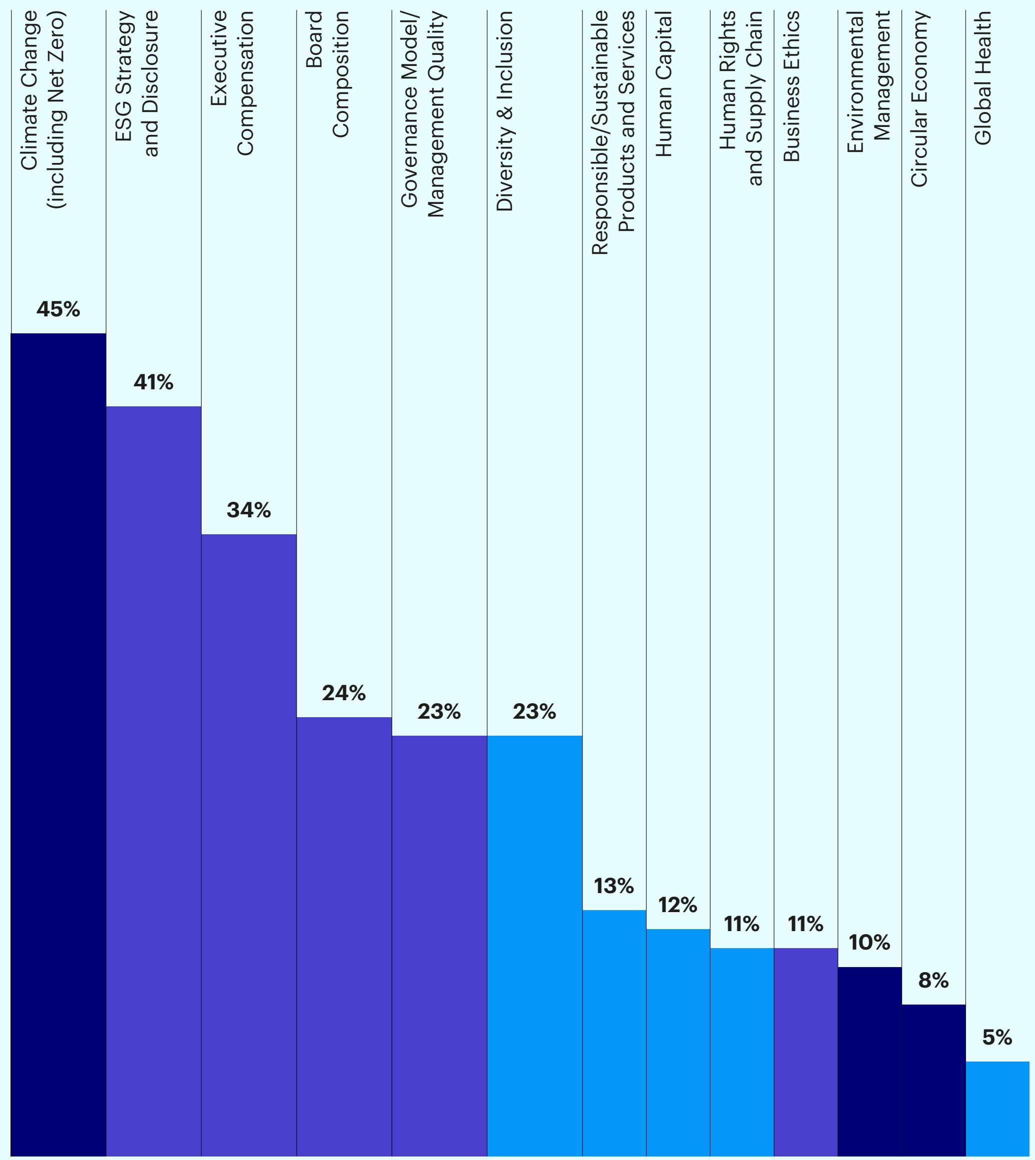
We recognise that each situation is unique and as such we make use of several different methods of engagement.

As a large, global asset manager, our investment teams and members of the Global ESG team are often located in different cities, regions, and time zones (as detailed in Principle 2, Page 10). As such, we have found the most-effective (and most-often used) methods of engagement to be video calls and phone calls. In comparison to in-person dialogue, these methods facilitate collaboration and dialogue among more stakeholders in our global teams. Invesco also made use of written correspondences, including letter-writing and email correspondence. For example, as described in Escalation Case Study 2, the company requested rationale through email correspondence following Invesco's support of ESG-related shareholder proposals at the 2021 AGM and subsequently, a follow-up video call to better understand the reasoning behind Invesco's voting decisions and what they could do differently.

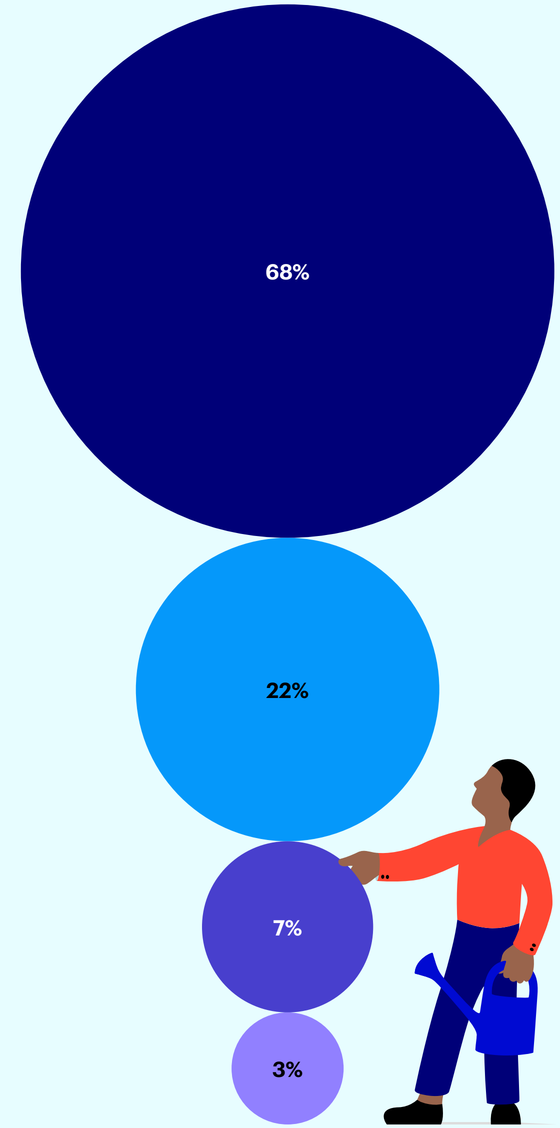
Other examples of variation in our engagement approaches are detailed in Principle 11.



Key Themes (%)[1]
These percentages specifically reflect the Global ESG team's 186 engagements.



Company Region (%)[2]



[1] Percentages don't add up to 100% because Invesco may engage with a company multiple times on ESG-related topics and conversations often cover more than one theme. In one engagement call, the Global ESG team and investment teams may address more than one theme.
[2] These percentages relate only to engagements conducted by the Global ESG team.

Case study 01

Engagement Case Study

Environmental/Circular Economy

Company	ESG issues addressed	Method of engagement
A North American Food and Beverage Company	Circular Economy, Carbon Emissions	Video Call

Issue

The company was identified as a priority engagement due to the company's leadership position in the food and beverage industry and its mixed track record meeting sustainability goals.

It has financially material exposure to business risk in plastics and opportunity in the circular economy. While the company has set targets to reduce virgin plastics by 2025 and use recycled content in its packaging by 2030, many peer companies have set more ambitious targets over the same timeframe. Additionally, the company demonstrated minimal progress toward these goals. Despite its carbon emissions target of a 25% reduction in scope 1, 2 and 3 emissions by 2030, the company hasn't disclosed a short-term target for carbon reduction and its longer-term projects appear vague.

Action

- After the company held a roundtable discussion, Invesco scheduled an inaugural ESG meeting with the company to address weaknesses identified during its presentation. Meeting participants included three senior directors from the company specialized in sustainability and four investors from Invesco, including one equity portfolio manager and three credit analysts.
- When presented with peer data, the company explained its targets for virgin plastic and recyclable content are weaker due to its packaging diversity and need for food-grade materials.
- The company acknowledged it hadn't publicly disclosed a short-term target for carbon reduction. At the same time, the company explained it has "glide paths" to achieve reductions in the short-term that it monitors internally.
- The company voiced confidence in meeting its circular economy targets, owing to its extensive work with suppliers and procurement.

Outcome

- The company acknowledged it should probably disclose a short-term target for carbon reduction. The company said it may include this information in its next sustainability report to be published in Spring 2022.

Next steps

- Invesco will monitor the company's next sustainability report for updated disclosures on circular economy and carbon reduction. Invesco will then schedule a follow-up meeting with the company.
- Invesco is prepared to vote on any shareholder proposals relating to these topics at the upcoming AGM.

Image source: Adobe Stock.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Case study 02

Sovereign/Engagement Case Study

Governance/Sustainability

Company	ESG issues addressed	Method of engagement
A South American Sovereign Bank	ESG Risks, Sustainability	Video Call

Issue

This meeting was offered by the sovereign bank to discuss its recent sustainability initiatives. Invesco proposed several topics for discussion, including climate change in stress tests, deforestation, and government synchronization. These issues were identified as material, as the sovereign has publicly committed to achieving 50% carbon reduction by 2030 and net zero by 2050. One day prior to the meeting, the sovereign bank released its first sustainability publication titled Report on Social, Environmental and Climate-related Risks and Opportunities. The publication touched on Invesco's proposed topics. However, it was missing some of the finer details. Therefore, the meeting was primarily used to gain clarity on how the sovereign's new objectives would be put into practice.

Action

- Invesco bondholders and the ESG team discussed sustainability and long-term strategy, as well as ESG risks of banking institutions, with the bank. The sovereign is conducting a stress test of ESG risks at individual banks in the country and is expected to publish the results in early 2022. The sovereign bank expressed that the first tests are meant to "test the waters" without designated pass/fail criteria.
- The sovereign is also evolving its rural credit system to be more sustainable. Its rural credit system provides credit to rural banks and collects 270 data fields that are cross-referenced with government databases to ensure veracity of information. The sovereign bank recently included four data fields relating to illegal deforestation and one relating to "slave-like" work conditions. The sovereign expressed confidence it will be notified of violations in a timely manner.

Outcome

- Invesco gained some clarity on how the sovereign's new sustainability objectives would be put into practice.
- Invesco recommended that the sovereign form a sustainability investor working group.
- Though its country has a net zero target, the bank is independent from the government and doesn't have a net zero target itself. However, it is Invesco's expectation that the bank develop a net zero investment framework to align its portfolio with national climate-related targets.

Next steps

- Invesco will monitor the sustainability objectives of the company, including the stress test results, the rural credit system's sustainability developments, and the bank's efforts to adopt a net zero target.

Image source: Adobe Stock.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Case study 03

Engagement Case Study

Environmental/Climate Change/Net Zero

Company	ESG issues addressed	Method of engagement
A British Bank	Climate Change, ESG Disclosure, Human Rights	Video Call

Issue

Invesco has participated in ongoing discussions with the bank since 2020 on ESG topics, including its climate change strategy, reporting of financed emissions, shareholder resolutions submitted at the AGM and various other matters.

Action

- Invesco's investment teams and Global ESG team held several meetings with the bank in 2021, both directly and as part of collaborative investor engagements.
- Discussions in January of 2021 focused on the bank's recently published net zero strategy and progress on its disclosure of the emissions associated with its lending and capital markets activities. These discussions informed decision-making on a shareholder resolution at the 2021 AGM requesting a phase out of services provided to fossil fuel companies.
- Additionally, we held a call with the bank to discuss its handling of a bond underwriting deal that fell apart following public scrutiny.
- In December of 2021, we continued these discussions in a direct follow-up engagement.

Outcome

- Invesco did not support the environmental shareholder resolution presented at the 2021 AGM. Continued support of the bank's climate approach is contingent on the bank making significant progress with respect to expectations outlined in its net zero strategy.
- The 2021 shareholder resolution received little support from shareholders.
- In 2021, the bank initiated the reporting of financed emissions in key sectors, including energy and power, with a roadmap for additional disclosures in 2022.
- Going forward, the bank has confirmed that potentially sensitive deals will now be subject to review under its enhanced due diligence process following direct questioning by Invesco on the internal review process.

Next steps

- The bank's disclosure of financed emissions are partial. Invesco will monitor its ESG reporting in 2022 to assess progress on broader reporting of financed emissions.

Image source: Adobe Stock.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Principle 10

Signatories participate in collaborative engagement to influence issuers where necessary.

Collaborative Engagement

Invesco recognises the importance of participating in collaborative investor engagement, alongside our own one-to-one engagements. We participate in several organisations that facilitate collective dialogue with companies and are assessing other collaborative engagement opportunities that we would like to be more actively involved with in the future.

Climate Action100+

Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Climate Action 100+ focuses on 167 companies that are critical to the net-zero emissions transition. By focusing on these companies, Climate Action 100+ targets the engagement efforts of its signatories to be more effective. As part of this initiative, Invesco is seeking commitments from companies regarding implementation of strong governance frameworks on climate change, actions to reduce greenhouse gas emissions across the value chain, and provision of enhanced corporate disclosures.

Since 2020, Invesco has engaged with a major energy company (see Escalation Case Study 1).

Another case study of collaborative engagement is included on Page 39. Invesco is a member of industry bodies like the Asia Investor Group on Climate Change (AIGCC) and Climate Action 100+ and partners with them on collaborative engagement like the examples shared.

Investor Mining and Tailings Safety Initiative

We have continued our involvement in the Investor Mining and Tailings Safety Initiative throughout 2021, building on the momentum developed by the initiative over the past two years. Given expected increases in metal demand from a low-carbon transition and several tailings dam failures occurring during 2021, there is a pressing need for global adherence to the highest standards of tailings management. Invesco is a strong supporter of The Global Industry Standard on Tailings Management developed by the International Council on Metals & Mining (ICMM), which, if widely adopted, the standard could play a key role in reducing the risk of devastating tailings dam collapses. During 2021, Invesco discussed the topic of tailings waste with various mining companies, including several that had not yet committed to formally adopting the standard. In some instances, these companies publicly committed to taking action following our engagement. We are planning future engagements with targeted extractive companies in 2022 to encourage them to commit to the implementation of the standard.

Image source: Adobe Stock.

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

Escalation

Meeting investee companies is a core part of Invesco's investment process, and as a general rule we prefer to engage to maintain or enhance the value of assets, rather than divest. Overall, we try to influence the strategy of a company via engagement with management, including Chief Sustainability Officers, and at board level.

Part of our ongoing interaction with company management teams is to ensure that we agree with the vision for the company. If we find ourselves in a position where management are digressing from where we feel, as shareholders, they should be, we will engage directly with the company's board, senior management, or in the form of letters to boards and management.

Following an unsuccessful vote or engagement, Invesco may use escalation strategies, such as engaging directly with the company's board and/or senior management, collaborating with fellow shareholders, sponsoring service provider engagement, reducing investment or divesting. We believe that the success of any engagement is dependent on having clear and consistent engagement objectives that are challenging for a company to meet, but also provide demonstrable goals to measure individual performance and monitor wider trends. Our escalation strategy varies by investment team and is dependent on the objectives they set. We recognise that each situation is unique and, as such, make use of several different approaches, including but not limited to those in the opposite table. We also have an internal escalation process where investment teams may reach out to the Global ESG team to collaborate on follow-up engagement, if their previous engagements have been unsatisfactory.

Invesco's chosen approach will vary by geography and asset class. For example, for fixed income, we cannot use voting as an escalation strategy with a company in the same way that equity holders can. Our approach to engagement for fixed income is elaborated on in Principle 12, which describes engagement approaches in both primary and secondary markets. Additionally, voting as an escalation strategy is differentiated between passive and active strategies. As explained further in Principle 12, our passive strategies and client accounts managed in accordance with fixed income, money market and index strategies (including exchange traded funds) typically vote in line with the majority holder of the active-equity shares held by Invesco outside of those strategies. Thus, voting action as an escalation strategy also follows this pattern.

Escalation also differs within the real estate asset class, including between real estate securities and direct real estate. For the former case, escalation would follow similar processes to traditional equities as they are investments into listed real asset securities. In the latter case, given the direct ownership nature of real estate, it is within the responsibility of our asset management teams to actively manage real estate and to implement ESG actions within the asset (building). With respect to stakeholder engagement and the focus of escalation, our real estate teams engage directly with tenants of the assets where language is included in lease agreements to engage on a regular basis and share ESG data in relation to building utility usage. As we proactively engage with tenants to gather tenant utility (scope 3) consumption data, we may also escalate an engagement with a tenant by speaking with various levels of management to maximise data coverage at the building level. For example, if we are unable to collect tenant utility consumption data, we may escalate discussions to global management levels to engage on ESG topics related to the building and our ESG objectives at the asset level.

In terms of variation of escalation approach by geography, there is not a single/preferred escalation approach by region/geographic location. Instead, we recognise that each situation is unique and we apply geographic, context-specific understanding when defining our engagement and escalation objectives. For example, in Escalation Case Study 2, the engagement objectives and issues addressed (indigenous rights and ensuring there was sufficient engagement with Native Title Holders) were highly specific to the geographic location of the utilities company (Australia). In this case, a senior portfolio manager based in Australia worked closely with Invesco's Global ESG team to raise questions at an investor roundtable, vote at the 2021 AGM and also discuss directly with the company.

In addition to the escalation case studies on the following pages of Principle 11, there are also examples from investment teams in Principle 7.

Our Approaches

Methods of engagement	Description	Roles and responsibilities
Company meetings	• Dialogue is core to the investment process and ESG can form part of this dialogue • ESG may be the core focus of a meeting with companies that have high financially material ESG risks • We regularly meet with non-executive directors to raise our views	• Core to the investor process and teams record when ESG has been discussed • ESG team focused on companies with particular risks
Other forms of company dialogue	• Emails, letters, phone calls are regular parts of our interaction	• Core to the investor process • ESG team focused on companies with particular risks
AGM voting	• Equity investors get a vote in AGMs of companies • We may also attend the meetings in person if needed	• Portfolio manager decisions • ESG team assist with analysis for focus companies
Collaborative engagement	• Part of several organisations that facilitate collective dialogue with companies	• UN sponsored PRI; UK investor forum • ESG team main point of contact
Indirect influence	• We make use of several research providers that through their ratings and advice wield substantial influence • Company disclosure and focus on particular ESG issues may be driven via these external resource providers	• Credit rating agencies; proxy voting research agencies; ESG research providers

For illustrative purposes only.

01
02
03
04
05
06
07
08
09
10
11
12

Escalation case study 01

Escalation Case Study

Climate Change/Net Zero

Company	ESG issues addressed	Method of engagement
Austrian State-Owned Oil and Gas Company	Net Zero Agenda, Low Carbon Transition	Direct Collaborative Meetings; Letter of Escalation

Issue

As a Climate Action 100+ lead investor, Invesco met with the company's senior leadership four times in 2021 and sent a separate letter to the Chairman and CEO to further advocate for the net zero agenda. The company's transition from oil and gas to chemicals resulted in structural and senior leadership changes in 2021, with the new CEO stepping in during September. During this transition, Invesco met with the company and discussed its performance on the Net Zero Company Benchmark assessment, which was disclosed in March 2021, and highlighted examples of poor disclosure and insufficient commitments. In September 2021, Invesco sent a letter encouraging the company to fully comply with the net zero agenda by improving disclosures, scope 3 emissions targets and decarbonisation plans.

Action

- Our largest active equity Invesco holder and the Global ESG team engaged in one-on-one conversations with the Chairman regarding its climate strategy and approach to climate-related topics. The company has adopted Paris Agreement-aligned lobbying expectations for its trade associations and discloses its trade association memberships transparently. The company also links its remuneration policy to sustainability and emissions reduction criteria.

Escalation

- However, the company's net zero GHG (greenhouse gas) emissions ambitions do not yet cover relevant scope 3 GHG emissions. Therefore, we sent a letter in September 2021 to the new CEO and Chairman asking that the company commit to fully aligned disclosures with the Climate Action 100+ Net Zero Company Benchmark by the end of 2023. We also petitioned the company to upgrade its GHG targets in line with the sector-wide goal of net zero by 2050 and to produce a plan for meeting these targets.

Outcome

- After the letter, Invesco's Global ESG team again met with the company and reiterated the need for it to address the Net Zero Company Benchmark assessment areas where the company lags in performance. We also encouraged the company to deliver on these areas sooner rather than later.
- Since we started engaging with the company in 2020, the company has now committed to achieving net zero emissions by 2050 or sooner, and to reducing their carbon intensity by at least 30% by 2025. The company has also committed to transforming its product range to be predominately low carbon/zero carbon by 2025. It has also increased the importance of emissions in executive's long-term incentive plans.
- Topics still of concern to us include climate governance, capital allocation, decarbonisation strategy, and scope 3 emissions.

Next steps

- We will engage with the company in early 2022 after the capital markets day.
- The company promised to deliver a comprehensive climate strategy in 2022 that is expected to address many of our questions regarding the net zero agenda.
- Invesco may also escalate the matter by raising the net zero agenda in the form of a statement at the upcoming 2022 AGM.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Escalation case study 02

Voting/Engagement Case Study

Supporting Indigenous Communities/Rights

Company	ESG issues addressed	Method of engagement
An Australian Utilities Company	Climate Change, Indigenous Rights	Video Call, Email, Vote

Issue

Invesco's ESG team sought evidence of sufficient engagement with indigenous communities living in proximity to sites managed by the company, as well as alignment of its capital expenditures with Paris Agreement objectives. Several shareholder resolutions were filed at the company's 2021 AGM relating to these issues, and Invesco wanted to understand the process underpinning exploration activities in relation to sacred site protection and building relationships with indigenous communities. These proposals were deemed material because they have the potential to impact a company's reputation, culture and license to operate.

Action

- Since 2019, Invesco has participated in an ongoing engagement with the company's management team on the topic of Indigenous relations. In 2021, Invesco's ESG team and a senior portfolio manager joined an investor roundtable and directly engaged with the NGO filing the shareholder proposals. Following this roundtable, Invesco met directly with the company.
- The company gave seemingly contradictory accounts about the due diligence process undertaken to engage with Traditional Owners of land. The question over which indigenous groups needed to be consulted by the company during this process, as well as the correct process for engagement with relevant bodies, was a key sticking point.

Escalation

- Due to an unsatisfactory and seemingly contradictory response from the company, Invesco decided to support the shareholder proposal requesting that the company disclose more information as to which Native title holders consented to operations on their land, as well as the nature of these agreements. The proposal also requested that the company conduct negotiations in accordance with the UN's principle of Free, Prior, and Informed Consent (FPIC).* Invesco supported both climate shareholder proposals, which petitioned the company to both increase its lobbying disclosure and commit to aligning its capital expenditures with the Paris Agreement. All Invesco managed shares voted this way.

Outcome

- None of the shareholder proposals received a majority, though the climate shareholder proposals received substantial support. The proposals relating to indigenous communities received weak support from shareholders.

Next steps

- The company requested a follow-up meeting to better understand the reasoning behind Invesco's voting decisions and what they could do differently. We explained our voting rationales, in particular our support for FPIC* as outlined by the UN. We also emphasized our support for the Paris Agreement and our expectation that companies align themselves with it.
- Regarding the company's lobbying disclosure, we provided specific guidance for how the company could improve with reference to best practice examples from other companies. They appreciated this feedback and indicated they would take it onboard.
- Invesco will continue to monitor any development on these topics ahead of the 2022 AGM.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions. *Free, Prior and Informed Consent (FPIC) is a specific right that pertains to indigenous peoples and is recognized in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).

Escalation case study 03

Voting/Engagement Case Study

Diversity, Equity & Inclusion – Sexual Harassment

Company	ESG issues addressed	Method of engagement
A North American Technology Company	ESG Strategy, Diversity Equity & Inclusion	Video Call, Vote

Issue

The company reached out to Invesco to schedule an annual shareholder engagement ahead of its 2021 AGM to discuss the management proposal on executive compensation and shareholder proposals on gender/racial pay reporting, sexual workplace harassment policies, and lobbying policies. The proposal regarding the company's gender and ethnicity pay differentials was a key issue addressed in this engagement. These proposals were deemed material because they have the potential to impact a company's reputation, culture and license to operate.

Action

- In a conversation with both the investment teams and the Global ESG team, the company stated that it is addressing its gender and ethnicity pay differential internally and do not plan to disclose pay gap data publicly, arguing that public disclosure could negatively impact talent recruitment.
- Invesco's ESG team challenged the company on this decision and urged it to establish itself as a leader on the topic. The company expressed understanding of the need for investor scrutiny and promised to share the feedback with committee members.
- In May 2021, a former CEO admitted to soliciting employees during his tenure. The company expressed remorse and said it would start reporting in 2022 on the number of allegations and corrective actions taken. At the same time, the company was unwilling to undertake an independent third-party review of its sexual harassment policies.

Escalation

- Following the discussions, ahead of the 2021 AGM, the ESG team recommended to Invesco Investment teams a vote 'for' on the discussed proposals. Invesco voted strongly in favour of the proposals and in-line with the Global ESG team's recommendations.

Outcome

- The proposal on Sexual Workplace Harassment Policies was approved by the majority of shareholders. Although not majority outcomes, the Gender/Racial Pay and Lobbying proposals received significant support from the company's shareholders.

Next steps

- In 2022, Invesco will continue to engage with the company on its lobbying activities and on the topic of gender/racial pay metrics and disclosures.
- Invesco supports these proposals under the premise that the company could benefit from establishing itself as a leader on disclosures, which is becoming commonplace in other industries.
- Invesco is also closely monitoring one of the company's acquisition targets. The acquisition target in question has been cited in the press for allegations of workplace sexual misconduct. Invesco will continue to engage both companies on improvements to their sexual harassment policies and reporting.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions. *Free, Prior and Informed Consent (FPIC) is a specific right that pertains to indigenous peoples and is recognized in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP).

Escalation case study 04

Voting/Engagement Case Study

Civil Rights, Equity, Diversity and Inclusion – Independent Audit

Company	ESG issues addressed	Method of engagement
A North American Technology Company	ESG Strategy, Diversity, Equity & Inclusion, Human Capital	Video Call, Vote

Issue

Invesco has been meeting with this company semi-annually for the last two years and has discussed a broad range of ESG issues with it. In 2021, the ESG engagements were focused on the high number of shareholder proposals for its AGM. These included proposals seeking independent audits of the company's racial equity practices, use of plastics, and responsible use of artificial intelligence in its products and services. This engagement focused on the ask that the Board of Directors commission an independent third-party racial equity audit analysing the impact of civil rights, equity, diversity and inclusion on its business. These proposals were deemed material because they have the potential to impact a company's reputation, culture and license to operate.

Action

- When Invesco met with the company, the company insisted its recent efforts on Human Rights Impact Assessment disclosures, which incorporate many aspects of diversity and inclusion reporting, were sufficient in addressing social/racial equity transparency. They also stressed some of the downsides of conducting a Civil Rights, Equity, Diversity and Inclusion Audit, such as additional cost and unnecessary time consumption.
- Invesco argued that an independent, third-party audit is a different and very targeted type of disclosure. Not only would it speak to the company's commitment to accountability, but also to its operational and broader efforts to address systemic biases, racial disparity, and injustice across its value chain. Furthermore, Invesco's ESG team stressed the company's opportunity to take a leadership position in addressing racial equity issues given its scale as a global e-commerce business, its global brand, and its corporate responsibility.

Escalation

- The proposal seeking oversight of and reporting on a Civil Rights, Equity, Diversity and Inclusion Audit was supported almost unanimously by Invesco. This decision reflects many of Invesco's investment teams' views that the audit would help them as shareholders better assess the effectiveness of the efforts made to address the issue of racial inequality and the company's management of related risks.

Outcome

- Although the proposal on the racial equity audit gained a significant vote "for" by the company's shareholders, it failed to pass at the 2021 AGM.

Next steps

- At the 2021 AGM, several proposals relating to ESG received significant (>20%) shareholder support.
- Invesco will continue our engagement with the company on ESG strategy, civil rights equity audits, circular economy, and responsible use of products and AI technologies during the 2022 proxy season and post-season. Invesco is hopeful the company will notice rising shareholder support on many of the ESG-related disclosure issues, as highlighted by the 2021 AGM, and will voluntarily adopt many of the investor asks.
- Invesco's ESG team will continue to monitor the company's commitments and improvements to its ESG strategy.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Escalation case study 05

Voting/Engagement Case Study

Governance/Board Quality/Independence

Company	ESG issues addressed	Method of engagement
A North American Bank	Board Independence, Climate and Sustainable Finance, Social Equity	Audio Call, Vote

Issue

In 2020 and 2021, Invesco has met with the bank and discussed a broad range of ESG issues with the company. In previous engagements, Invesco discussed increasing board independence and diversity, as well as greater board oversight of ESG and climate change issues. In 2021, our engagements were prompted by multiple proposals filed at the company's AGM, including one on separation of the Chair and CEO roles. Invesco believes that a strong independent board ensures best governance practices.

Action

- Representatives from equity and credit investment teams met with the bank. During the call, the bank highlighted its notable effort to improve board quality and independence. In 2021, the company announced its progress in increasing gender diversity by adding two more women to the board, bringing female representation on the board to 40 percent. Under pressure from institutional investors, the company also appointed a new Lead Independent Director in 2020. In response to the 2021 shareholder proposal seeking separation of the CEO and Chair roles, the company argued its appointment of the new Lead Independent Director was robust and it makes sense for a large and global company to have a combined CEO and Chair role.
- Although formally reporting 90% independence, the average tenure of the bank's board is eight years. Two board directors, including the new Lead Independent Director, have been members of the Board since 2004 with 17 years tenure. Invesco expressed concerns about the tenure and independence of the new Lead Independent Director.

Escalation

- Following the discussions with the bank, Invesco's investment teams unanimously supported the proposal on the grounds that it benefits shareholders to have independent oversight of management.

Outcome

- At the 2021 AGM, the proposal on separation of the Chair and CEO roles gained significant approval.

Next steps

- Invesco's investment teams and the Global ESG teams are planning on engaging with the company during the 2022 AGM season, arguing again for separation of the Chair and CEO roles.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Escalation case study 06

Voting/Engagement Case Study

Governance/Board Quality/Lobbying

Company	ESG issues addressed	Method of engagement
A North American Energy Company	Board Oversight of Climate, Lobbying, net zero	Video Call, Vote

Issue

During semi-annual meetings with the company in 2020 and 2021, Invesco's ESG team discussed a broad range of ESG issues. Our 2021 engagements focused on material ESG issues concerning the Board's oversight of climate goals, including net zero commitments, decarbonisation strategies, lobbying activities, the Just Transition and incorporation of ESG into executive compensation. Invesco believes that the Board's engagement as part of a long-term business strategy and the company's lobbying activities should be strongly aligned with its commitments to the climate transition. Invesco also believes that separation of the Chair and CEO roles supports the strongest form of governance oversight.

Action

- Invesco and the company's management discussed the introduction of climate goals into short-term incentive plans, as the company is considering the integration of climate metrics into executive compensation. According to the company, 20% of individual performance as applied to compensation considerations will be tied to climate goals. The company defended its position on the two shareholder proposals. In its view, the combined Chair and CEO roles makes better sense in terms of accountability. On the Political Lobbying proposal, the company said it provides sufficient disclosures and has been proactively engaged with the new Biden administration on aligning its business with the net zero agenda.
- The company was also able to provide an update on its efforts with respect to Climate Action 100+, which includes meeting its 40% CO_2 emissions reduction targets, cutting coal capacity, and increasing disclosures on trade associations, as well as making progress on scope 3 emissions and methane disclosures.

Escalation

- Both shareholder proposals, Independent Board Chair and Report on Political Contributions and Expenditures (Political Lobbying report), were supported unanimously at the AGM. Invesco believes that given the company's performance, ongoing strategic transformation and lengthy tenure of the current lead director (15 years), it will benefit shareholders if the company adopts a governance model with the strongest possible independent oversight in the form of an independent chair.
- Regarding lobbying activities, Invesco supported the need for more comprehensive lobbying disclosures, especially regarding payments to trade associations.

Outcome

- Political lobbying is a core component of the net-zero agenda, and investors expect disclosure by companies in the utilities sector. The proposal successfully passed with a majority vote.

Next steps

- Following the vote on political lobbying, the company published a "Trade Associations Climate Review," which discusses the alignment of its climate position with those of trade associations. In 2022, the company is planning on publishing a new Climate Report and will provide additional disclosures in its semi-annual Political Expenditures Report.
- Following the 2021 AGM, Invesco's ESG team met with the company to discuss net zero commitments and incorporation of climate goals into executive compensation. The company updated us on its decarbonisation strategy, which focuses on accelerating coal plant retirements, as well as making grid investments to support renewable energy, storage and a clean energy mix. The company is planning on incorporating ESG metrics (safety and environmental metrics) into executive compensation, and we look forward to continuing our engagement on these topics.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Escalation case study 07

Voting/Engagement Case Study

Governance/Executive Compensation

Company	ESG issues addressed	Method of engagement
A British Mining Company	Executive Compensation	Phone Call

Issue

In preparation for the departure of its longtime founder and CEO, the company reached out to shareholders to discuss leadership succession and revisions to its remuneration policy proposed in connection with this transition.

Action

- Invesco's investment teams and the Global ESG team met jointly with the company to discuss executive remuneration and other voting topics.
- The company discussed its proposal to adopt restricted share awards for its long-term incentive program in lieu of conventional performance equity based on financial performance targets.
- The company described its rationale for this change, which included incentivising executive outperformance at a company where commodity price fluctuations largely outside of managerial control heavily influence financial performance.
- Invesco has expressed the view that greater specificity on performance underpinning criteria for restricted stock/share unit awards is required to ensure that compensatory outcomes reflect strong operational execution.

Escalation

- Due to the view that further action was required to ensure compensatory outcomes that reflect strong operational execution, Invesco broadly voted in favour of the updated remuneration policy and the adoption of a restricted share plan.

Outcome

- These resolutions were opposed by some shareholders at the 2021 AGM.

Next steps

- Invesco will evaluate the company's response to shareholder concerns expressed at the 2021 AGM, including matters raised in our engagement calls.
- Additionally, Invesco's investment teams and the Global ESG team will determine whether or not the revised remuneration policy has been implemented to our satisfaction going forward.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Escalation case study 08

Engagement Case Study

Engagement and Escalation Efforts in Fixed Income

Company	ESG issues addressed	Method of engagement
Food Retail Company	Stakeholder Management; Poor Governance	Call

Issue

Invesco's Henley Fixed Interest team initially had the view that the yield on offer compensated for embedded ESG risk. However, since initiating the position, the issuer used excess cash to pursue an aggressive share-buyback scheme, bringing the organisation back into full family ownership. The investment team disagreed with the decision to utilise the funds to further weaken the corporate structure, rather than return business rate relief designed to assist companies during the pandemic restriction, a step common among its peers, or pay down debt.

Action

- Corporate governance is always an important consideration bond holders and the described steps have contributed to the company's bonds underperforming peers. As such, the Henley Fixed Interest team raised the ESG issues in a call with management.

Escalation

- Following the discussion with management, the food retail company's governance risks combined with its poor stakeholder management led the sector analyst to flag a significant deterioration in ESG credentials, concluding that the yield no longer compensated for the increasing ESG risk. As a result, the team divested from the issuer.

Outcome

- The team's divestment was a result of their conclusion that the yield no longer compensated for the increasing financially material ESG risk.

Next steps

- Due to the concerns around governance and lack of improvement in ESG risks, the Henley Fixed Interest team exited the position and declined to participate in new issuances.
- The team will continue to monitor the issuer and reassess the ESG risks on an ongoing basis.

Source: Invesco ESG team February 2022. Invesco's ESG engagement activity is conducted by the Global ESG team in collaboration with the investment teams and is guided by Invesco's ESG Investing Beliefs and Stewardship Principles. Invesco's ESG engagement activities seek positive outcomes, sustainable value creation, and continual improvement of our investee companies. The investment teams retain their right to exercise discretion and independence in their proxy voting decisions.

Principle 12

Signatories actively exercise their rights and responsibilities.

01
02
03
04
05
06
07
08
09
10
11
12

How we exercise our rights and responsibilities

Our approach

In our role as stewards of our clients' investments, we regard our stewardship activities, including engagement and the exercise of proxy voting rights, as an essential component of our fiduciary duty to maximize long-term shareholder value.

Invesco's Policy Statement on Global Corporate Governance and Proxy Voting (Global Proxy Voting Policy) describes policies and procedures designed to ensure that we vote proxies in the best interests of our clients. It also aims to help clients understand our commitment to responsible investing and proxy voting, as well as the good governance principles that inform our approach to engagement and voting at shareholder meetings.

Our Global Proxy Voting Policy serves as the foundation of our well-informed proxy voting decisions focused 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 were developed by our global investment teams in collaboration with the Global ESG team. These principles describe our views on best practice in corporate governance and long-term investment stewardship and provide the framework for our internally developed voting guidelines that guide voting decisions.

When casting votes, we incorporate a number of factors and inputs to inform the voting process, including company disclosures, internal and external research, proxy voting advisory services, the unique circumstances affecting companies, regional best practices, and any dialogue we have had with company management.

The voting decision lies with our portfolio managers and analysts, with input and support from our Global ESG team and Proxy Operations functions. Our proprietary proxy voting platform 'PROXYintel' facilitates implementation of voting decisions and rationales across global investment teams. In cases where individual portfolio managers choose to vote a particular resolution in a way that is not aligned with our good governance principles and internal voting guidelines, our policy seeks to ensure rationales are fully documented. Split votes may occur where views on a particular proposal differ between portfolio management teams based on the objectives or interests of any individual fund.

Invesco aims to vote all proxies where we have been granted proxy voting authority in accordance with our Global Proxy Policy. We may choose to refrain from voting in certain circumstances where the economic or other opportunity costs of voting exceeds any benefit to clients (e.g., where our shares will be restricted from trading after sending a vote instruction, otherwise known as 'share blocking') or absent certain types of conflicts of interest outlined in our Global Proxy Policy. These matters are left to the discretion of the relevant portfolio manager.

In 2021, we voted proxies for 9,057 companies in 73 markets, executing our voting intentions on over 116,000 resolutions at 12,093 shareholder meetings. This represents execution of votes on more than 98% of eligible meetings.

For securities on loan as part of a securities lending program, the relevant portfolio manager will decide whether to recall shares so that we will be entitled to vote. The Henley Investment Centre may enter into stock lending arrangement but will recall all securities that are on loan for the purpose of voting. Due to regional or asset class specific considerations, there may be certain entities that have local proxy voting guidelines or policies and procedures that differ from Invesco's Global Proxy Voting Policy.

To ensure that our passive strategies benefit from the engagement and deep dialogue of our active investors, our passive strategies and client accounts managed in accordance with fixed income, money market and index strategies (including exchange traded funds) typically vote in line with the majority holder of the active-equity shares held by Invesco outside of those strategies.

Invesco refers to this approach as 'Majority Voting', which effectively aggregates our passive holdings and gives our active equity investors greater clout through engagement and voting with their portfolio companies.

Our Global Proxy Voting Policy is formally reviewed at least once a year to ensure it remains consistent with clients' best interests, regulatory requirements, investment team considerations, governance trends and industry best practices.

To learn more about Invesco's proxy voting approach and good governance principles, please visit invesco.com/corporate/about-us/esg.

Zoje Vataj
Global Proxy Governance and Voting Manager

Proxy voting is one of the most powerful ways of ensuring that investors' voices are heard. As active owners, our clients rely on our expertise to cast voting decisions that are in their best interests.

Highlights of Invesco's 2021 global proxy voting policy updates

In January 2021, we published our good governance principles, outlining our expectations of what good governance looks like across six key themes. We expanded our expectations on board diversity, board independence and board leadership, board responsiveness, and ESG risk oversight and how we evaluate environmental and social (E&S) shareholder resolutions, to name a few.

Key reasons we voted against directors[1]
(# of companies)

	Americas	EMEA	APAC	Total
Lack of independence	639	448	718	**1,805**
Over-boarding	712	360	261	**1,333**
Lack of board diversity	814	126	292	**1,232**
Classified board	1,060	16	15	**1,091**
ESG failures	19	12	45	**138**
Lack of board responsiveness	46	11	1	**58**

Key highlights include:

Diversity

We encourage companies to continue to evolve diversity and inclusion practices. We expect boards to be comprised of directors with a variety of relevant skills and industry expertise together with a diverse profile of individuals of different genders, ethnicities, race, skills, tenures and backgrounds in order to create a robust challenge and debate in the boardroom. Where we identify that a board is not sufficiently diverse, Invesco will generally vote against the chair of the nominating committee.

Board Independence

We expect a majority of the directors on a board to be independent from management. We consider local market practices in this regard and in general we look for a balance across the board of directors. Invesco believes that independent board leadership generally enhances management accountability to investors. Above all, we like to see signs of robust challenge and discussion in the boardroom.

Board Responsiveness

We expect boards to engage and respond to investor concerns in a timely fashion. We may oppose director nominations where we believe a board has not adequately addressed shareholder concerns including the following common circumstances:

- board has not taken the appropriate action to address items receiving significant voting opposition at a shareholder meeting
- board fails to implement shareholder proposals receiving significant support at a shareholder meeting
- where we observe a lack of board responsiveness to engagement requests from Invesco

ESG Risk Oversight

We believe the board of directors is ultimately responsible for overseeing management and ensuring proper oversight of material ESG risks.

Invesco may hold certain director nominees accountable where we identify material ESG risk oversight failures including significant bribery, corruption, ethics violations, events causing significant climate-related risks, human rights issues, or health and safety incidents.

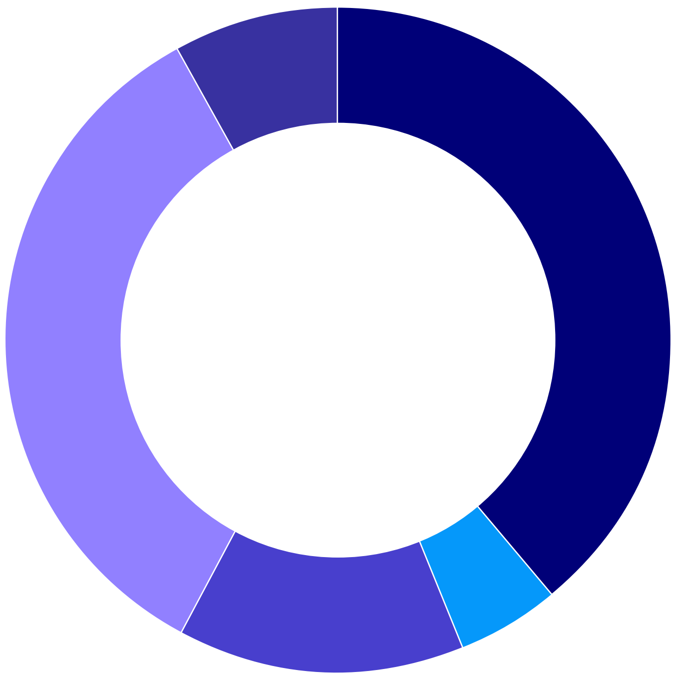
Shareholder Proposals Addressing E&S Issues

For investors to effectively assess a company's strategic planning and business practices related to E&S risks and opportunities, transparency is essential. Invesco supports robust disclosure and reporting on material E&S topics provided that such requests are not unduly burdensome or duplicative and promote long-term shareholder value.

[1] Votes against or withhold on director elections proposals.

2021 Global Voting Statistics

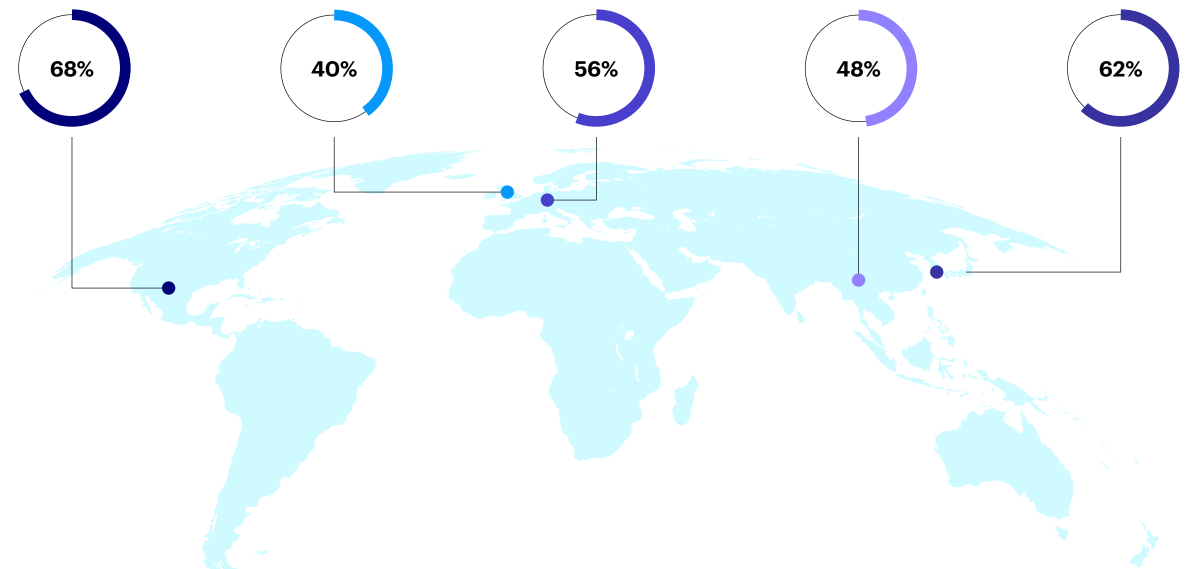
Meetings by region (%)



Americas	39
United Kingdom	5
EMEA (ex-UK)	14
Asia-Pac (ex-Japan)	34
Japan	8

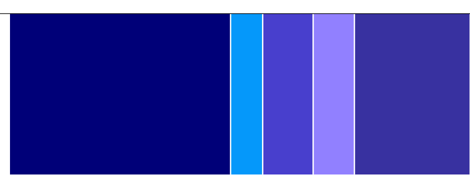
Votes against management by region (%)
(% of meetings with at least 1 vote against management)

- Americas
- United Kingdom
- EMEA (ex-UK)
- Asia-Pac (ex-Japan)
- Japan



Proposals voted overview (%)

Management proposals
97%



Director election	48
Director related	7
Compensation	11
Capitalization	9
Other	25

Shareholder proposals
3%

Environmental	13
Social	16
Governance	71

In 2021, globally we voted against management[1] at

58%

of meetings, an increase of

2,500

companies from the year prior

Category of proposals voted against management[2]

Directors related	65%
Non-salary compensation	18%
Capitalisation	7%
Routine/business	5%
Reorganisation and mergers	3%
Anti-takeover related	1%
Other	1%

Source: Invesco, Institutional Shareholder Services (ISS). ISS classifications used. Reflecting data 1 January 2021 through 31 December 2021 for global voting statistics aggregated at the proposal level across all ballots voted. [1] Percentage of global meetings with at least 1 vote against management. [2] Percentage of votes by category against management proposals. Certain figures have been subjected to rounding adjustments.

Monitoring our voting rights

Invesco's Global ESG team oversees the Global Proxy Voting Policy, operational procedures, inputs to analysis and research, and leads the Global Invesco Proxy Advisory Committee (Global IPAC). Invesco's global proxy services team is responsible for operational implementation, including vote execution oversight. We proactively monitor whether we have received proxy ballots for all shareholder meetings where we are entitled to vote. This involves coordination between various parties in the proxy voting ecosystem, such as our proxy voting agents, custodians and ballot distributors. We may choose to escalate the matter to ensure we are able to exercise our right to vote where necessary.

Client voting policies

As part of our commitment to working with our clients, Invesco may accommodate custom voting policies for some clients in segregated mandates (where these clients have not delegated proxy voting rights to us in a mandate). We offer these clients options to choose from a third-party proxy voting policy using Invesco's voting infrastructure. Invesco's portfolio managers and analysts retain full discretion over voting decisions for pooled portfolios, in line with our Global Proxy Voting Policy.

Global Invesco Proxy Advisory Committee (Global IPAC)

Guided by our philosophy that investment teams should manage proxy voting, Invesco's Global IPAC is an investments-driven committee, comprising representatives from various investment management teams globally, our Global Head of ESG, and is chaired by our Global Proxy Governance and Voting Manager. The Global IPAC provides a forum for investment teams to monitor, understand and discuss key proxy issues and voting trends within the Invesco complex, to assist Invesco in meeting regulatory obligations, provide oversight of the proxy voting process, and to consider conflicts of interest in the proxy voting process, all in accordance with our Global Proxy Policy. This includes reviews of and recommended changes to the Global Proxy Voting Policy at least annually.

Image source: Getty Images.

Monitoring and use of third-party proxy advisory firms

As discussed in Principle 2 and Principle 8, Invesco may supplement its internal research with information from independent third parties, including proxy advisory firms, to assist us in assessing the corporate governance of investee companies. Globally, Invesco leverages research from Institutional Shareholder Services Inc. (ISS) and Glass Lewis (GL). This includes Institutional Voting Information Services (IVIS) in the UK.

Invesco generally retains full and independent discretion with respect to proxy voting decisions. Data provided by proxy advisory firms and research providers serve as one of many inputs into our research and voting process.

As part of our fiduciary obligation to clients, Invesco performs extensive initial and ongoing due diligence on the proxy advisory firms we engage globally. For example, in addition to our in-depth annual due diligence meeting with ISS, each month we hold regular meetings with the client service and custom research teams to ensure that they are meeting our service level expectations. This oversight includes a review of service levels, account maintenance, research and vote recommendations, on-going projects, and other governance related developments.

Conflicts of Interest

For further detail on conflicts of interest and how we manage these to put the best interests of clients and beneficiaries first, please refer to Principle 3.

Proxy voting disclosure

We are committed to being transparent with our clients and companies about our investment stewardship and voting activities. In the UK and Europe, Invesco publicly discloses proxy voting records monthly in compliance with the Code and discloses significant votes including vote rationales for the European Shareholder Rights Directive annually on our website. We disclose detailed portfolio specific proxy voting reports detailing all votes including rationales to clients upon request. We also provide certain clients with rationales for significant votes on a quarterly and annual basis. Our publication of Invesco's Global Proxy Policy, disclosure of voting records and ESG investment stewardship reporting enhances our accountability and transparency to our clients.

ESG voting outcomes

Below are three examples of ESG proxy issues and vote outcomes made during the year. For a representative balance of vote outcomes across asset classes over the last 12 months, please refer to Principle 9.

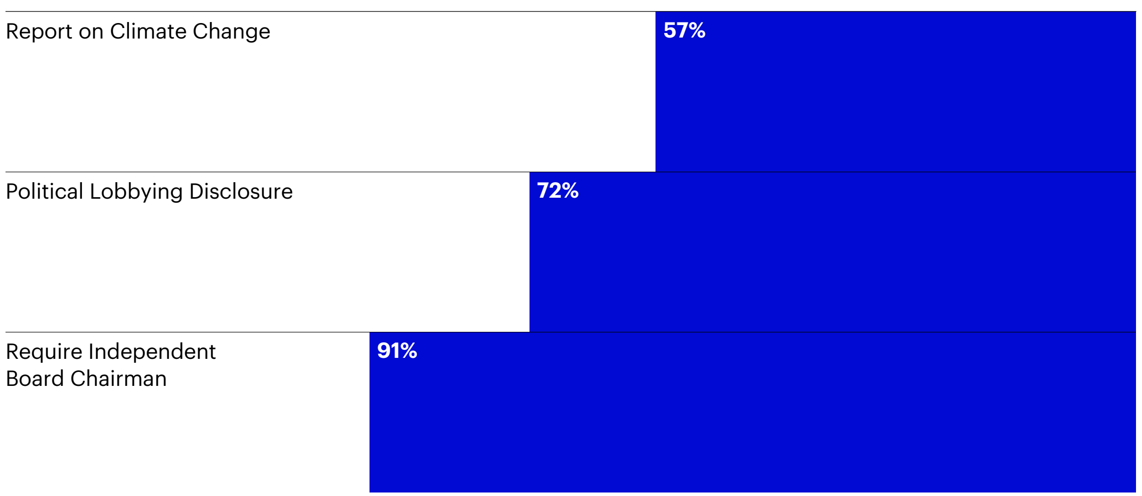
ESG voting outcomes

Environmental
We supported a shareholder proposal requesting a financials services company to publish an annual assessment on how the company manages physical and transitional climate-related risks and opportunities given the assessment would allow shareholders to better understand how the company is managing systemic risks posed by climate change and transition to low carbon economy.

Social
We supported a shareholder proposal asking a financial company to publish annually a report assessing the company's diversity and inclusion efforts given the disclosure of quantitative and comparable diversity data would allow shareholders to better assess the effectiveness of the company's diversity, equity and inclusion efforts and management of related risks.

Governance
We supported a shareholder proposal requesting a healthcare company take all the steps necessary to reorganise the Board of Directors into one class with each director subject to election each year for a one-year term which would enhance board accountability as annual director elections are generally viewed as a corporate governance best practice.

ESG shareholder proposals supported



Source: Invesco, Institutional Shareholder Services (ISS). ISS classifications used. Reflecting data 1 January 2021 through 31 December 2021 for global voting statistics aggregated at the proposal level across all ballots voted.

Fixed income: Our approach to seeking amendments to terms and conditions in indentures or contracts

As fixed income investors, we do not have the same opportunities to vote as our equity colleagues. However, that does not mean we do not have an important role to play in liaising with issuers to achieve positive outcomes for our investors.

Indeed, given the relative frequency with which issuers need to access the fixed income markets, we believe that we have multiple opportunities to meaningfully engage with issuers during the bond issuance process. We are active fixed income owners and proactively seek amendments to terms and conditions of financial instruments in both primary and secondary markets.

In the primary markets, our ability to engage is influenced by the extent of the roadshow process that the management team conducts. In the new area of Sustainable Finance, management teams looking to issue a bond will often canvas our view on how a Green bond or a Sustainability Linked Bond (SLB) should be structured. This can be as simple as an issuer looking at what projects we would consider as suitable for a green bond (as we have done with a global Automotive parts manufacturer) or as complicated as working through the relevance and calculation of a specific key performance indicator in a SLB (as we have done with a European chemicals company). In the field of Sustainable Finance, we will share with the issuer what steps it can take to improve our assessment of a bond's alignment with the United Nations Sustainable Development Goals which will make the bonds more attractive for our portfolio managers to purchase. Away from the Sustainable Finance segment, we are also vocal in providing feedback to management teams and syndicate desks regarding our views across many topics including length of maturity, currency of issuance, pricing and protective covenants (i.e. change of control language, coupon steps).

On a "drive-by" transaction (unexpected deals launched and priced on the same day without lengthy roadshow), our ability to influence bond documentation is more limited, but we will only invest in such transactions where the credit is a well-known, frequent issuer.

In the secondary markets, we also engage to achieve amendments to bond documentation. Of particular focus over the past twelve months has been our outreach to issuers outlining our expectation that they would remove inadequate LIBOR fallback language from outstanding debt (this was a global project co-ordinated across multiple regions and industries). We believe that raising our concerns has encouraged several issuers to conduct consent solicitation processes which has allowed LIBOR-related language to be removed and replaced with a non-LIBOR based rate. However, our engagement in secondary markets through dialogue between portfolio manager and research analyst also provides feedback to the issuers in determining what type of bond documentation we expect in business as usual settings. Our engagement on these topics has contributed to a European telecoms operator amending the language of an existing bond to add change of control protection which protects bondholders from a credit rating downgrade following an adverse change of control. We have also participated in several liability management exercises which create additional risk for bondholders given the increased presence of "clean-up" calls which can trigger significant price moves when bonds are trading away from par.

Find out more

To find out more about Invesco's approach to ESG, please visit our website: invesco.com/corporate/about-us/esg

Important information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice. All information as at 31 December 2021 sourced from Invesco unless otherwise stated.

Invesco Asset Management Limited
Registered in England 949417
Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK
Authorised and regulated by the Financial Conduct Authority

20220505-2187469-EMEA

Invesco