

## **European SRI Transparency Code**

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: [www.eurosif.org](http://www.eurosif.org). The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif on February 19, 2018.

### **REVISION OF THE CODE**

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

### **TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

### **GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

### **COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;

- Signatories are solely responsible for the answers to the questions, and should state this in their response.

### **Statement of Commitment**


Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of Invesco. We have been involved in SRI since 2000 and welcome the European SRI Transparency Code.

This is our first statement of commitment and covers the period 01.11.2022 to 31.10.2023. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

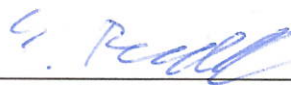
### **Compliance with the Transparency Code**

Invesco's Systematic and Factor Investing is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. Invesco meets the full recommendations of the European SRI Transparency Code.

31 October 2022 (Date of approval by Invesco)



Alexander Uhlmann  
Global Head of Port. Mgmt & General Manager  
Invesco Asset Management Deutschland GmbH



Erhard Radatz  
Senior Portfolio Manager  
Invesco Asset Management Deutschland GmbH

### **Eurosif classification of Sustainable and Responsible Investment<sup>1</sup> strategies**

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

---

<sup>1</sup> Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016

**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

**Integration of ESG Factors into Financial Analysis:** the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

**Engagement and Voting on Sustainability Matters:** engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

**Impact Investing:** impact investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances<sup>2</sup>. Investments are often project-specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

## Contents

1. List of funds covered by the Code
2. General information about the fund management company
3. General information about the SRI fund(s) that come under the scope of the Code
4. Investment process
5. ESG controls
6. Impact measures and ESG reporting

1. List of funds covered by the Code

Name of the fund(s): Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input checked="" type="checkbox"/> Best-in-Class Investment section <input type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input checked="" type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <input type="checkbox"/> Leading to exclusions <input type="checkbox"/> Leading to risk management analysis/engagement <input type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing – core benchmark: specify the index tracking <input type="checkbox"/> Passive investing – ESG/SRI benchmark: specify the index tracking  <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input type="checkbox"/> Shares in an EU country <input type="checkbox"/> International shares <input checked="" type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities	<input checked="" type="checkbox"/> Controversial weapons <input type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input checked="" type="checkbox"/> Human rights <input checked="" type="checkbox"/> Labour rights <input type="checkbox"/> Gambling <input type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input checked="" type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal)	To be filled out with a number of AuM  AuM as of 31 December 2021: EUR 0 (had not been launched yet)	<input type="checkbox"/> French SRI label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input checked="" type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- (KIID?) <sup>3</sup> - Prospectus <sup>4</sup> - Management report - Financial and non-financial reporting - Corporate presentations - Other (please specify) - Responsible Investment Policy <sup>5</sup> - Invesco Stewardship Report <sup>6</sup> - Invesco's Policy Statement on Global Corporate Governance and Proxy Voting <sup>7</sup>

<sup>3</sup><https://etf.invesco.com/gb/financialprofessional/en/product/invesco-eur-corporate-bond-esg-short-duration-multi-factor-ucits-etf-acc/documents>

<sup>4</sup><https://etf.invesco.com/gb/financialprofessional/en/product/invesco-eur-corporate-bond-esg-short-duration-multi-factor-ucits-etf-acc/documents>

<sup>5</sup><https://etf.invesco.com/gb/financialprofessional/en/product/invesco-eur-corporate-bond-esg-short-duration-multi-factor-ucits-etf-acc/documents>

<sup>6</sup>[ESG Investment Stewardship Report Global Final.pdf \(invesco.com\)](#)

<sup>7</sup>[Proxy-Policy-2022.pdf \(invesco.com\)](#)

	<input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Genetic engineering <input type="checkbox"/> Other (please specify) <input checked="" type="checkbox"/> Global Compact <input checked="" type="checkbox"/> OECD Guidelines for MNCs <input checked="" type="checkbox"/> ILO Conventions <input type="checkbox"/> Other (please specify)			
--	--	--	--	--	--

## 2. General information about the fund management company

### 2.1. Name of the fund management company that manages the applicant fund(s)

The Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF is an actively managed sub-fund of Invesco Markets II plc (a company incorporated in Ireland with limited liability as an open-ended investment company with variable capital and segregated liability between its sub-funds under the laws of Ireland with registered number 567964). The manager is Invesco Investment Management Limited. The investment manager is Invesco Capital Management LLC.

Invesco Investment Management Limited  
 Central Quay  
 Riverside IV  
 Sir John Rogerson's Quay  
 Dublin 2  
 Ireland

Invesco Capital Management LLC  
 3500 Lacey Road  
 Downers Grove  
 IL  
 60515  
 USA

Contact is:  
 Silvia Kiehl  
 Invesco Asset Management Deutschland GmbH  
 An der Welle 5  
 60322 Frankfurt  
 Germany  
 Tel.: +49 69 29 807 277  
 Email: silvia.kiehl@invesco.com

## **2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?**

Invesco is committed to delivering an investment experience that helps people get more out of life. A key part of this effort is the firm's commitment to be a responsible investor. Invesco serves its clients in this space as a trusted partner both on specific ESG product strategies as well as part of its commitment to deliver a superior investment experience. Invesco believes that incorporating sound ESG responsibilities into activities across the firm can positively impact the value it provides to clients as well as its long-term shareholder value.

Invesco supports the UN sponsored PRI and recognises the importance of considering ESG issues as part of a robust investment process.

Invesco supports responsible investment principles via it's:

- "Investors first" approach: Invesco is committed to investing client assets in a responsible manner with a high degree of integrity as it seeks to maximise returns for its clients.
- Firm-wide commitment: At Invesco, all of the firm's people and all of its resources are dedicated to helping investors achieve their financial objectives. As a fiduciary, Invesco's first priority is to protect its clients' interests and continue building on the foundation of trust the firm has established while seeking to deliver strong, long-term investment performance. As always, Invesco's primary objective is to put its clients' interests first, while balancing the need to take responsible investment principles and ESG issues into consideration.
- Investment team commitment: With distinct investment teams spread across 20 countries, Invesco's approach to responsible investment varies across countries and regions as dictated by local market regulations, practices and client needs.

Invesco take a team-by-team approach to implementing responsible investment principles depending on:

- Each team's exposure to certain client demand and market segments
- Each team's ability to integrate ESG into its investment approach and process
- Invesco's global commitment to PRI

Invesco continues to strive for improvement in implementation of these initiatives and develop its responsible investment strategy over time.

Provided as an attachment is Invesco's Responsible Investment Policy. Please also refer to the link below for more information:

<https://www.invesco.com/corporate/about-us/esg>

## **2.3. How does the company formalise its sustainable investment process?**

The Systematic and Factor Investing Team who is in charge of the management of the ETF discloses their sustainability policy including paragraphs on voting and engagement following this link:

<https://www.invesco.co.uk/dam/jcr:3b3f6fa5-f4ba-4acd-a615-fae203399cc5/inv-iqs-engagement-policy.pdf>

For the Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF:

[https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF Responsible%20Investment%20Policy June%202022.pdf](https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF%20Responsible%20Investment%20Policy%20June%202022.pdf)

Invesco supports the theme of proxy voting and engagement with its responsible investment team.

<https://www.invesco.com/content/dam/invesco/corporate/en/pdfs/regulatory/Proxy-Policy-2022.pdf>

#### **2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?<sup>8</sup>**

Systematic and Factor Investing Team (SFI) follows a fully integrated ESG (environmental, social, governance) investment process which is built on a longstanding experience in customized ESG solutions and active engagement with companies.

There are several layers to ESG considerations in the portfolio construction and beyond. The team considers explicit and implicit key ESG aspects in their multi factor optimization process on a single holding, portfolio, and risk management level. All portfolios implement a dedicated ESG exposure control during portfolio construction and an adverse ESG momentum measure to restrict companies which face weak ESG scores and significant ESG downgrades.

The team applies strict criteria according to which engaging in controversial activities or violating international norms and standards leads to exclusions. Controversies are monitored continuously. Furthermore, applying a best-in-class filter selects companies that fulfil ecological and social requirements particularly well.

Beyond a broad-based ESG integration across the dimension of controversial activities, controversies and a rigid best-in-class screening, a carbon control is applied during portfolio construction to obtain a better overall carbon footprint in comparison to an underlying benchmark or investment universe. Additional customized ESG criteria in form of best-in-class and controversy monitoring can be implemented to address climate change related topics and other ESG requirements, as well as internationally recognized norms, conventions and renowned ESG quality labels.

SFI and all other investment teams of Invesco have access to security level carbon and fossil fuel data provided by our vendor ISS Climate Solutions. Furthermore, SFI engages on a regular basis with companies on climate change and climate change related topics. The team regularly enters into a dialogue with invested companies. The objective is to identify weaknesses in the company's

---

<sup>8</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)

sustainability management and discuss these with management to enable the companies to achieve a better ESG performance in the medium to long term.

There are two engagement routes taken – a theme-based engagement and a controversy-led engagement. In the first case, companies are encouraged to manage their risks and exposures to corruption, climate change, human rights, supply chain labor standards and pollution. Controversy-led engagement serves the purpose of nudging companies to observe internationally recognized standards and conventions.

#### Systematic and Factor Investing – Integrated ESG investment process



Source: Invesco. For illustrative purposes only.

#### **2.5. How many employees are directly involved in the company's sustainable investment activity?**

The incorporation of ESG considerations is conducted by investment teams on a team-by-team basis. Within the Systematic and Factor Investing Team, Manuela von Ditzfurth, Erhard Radatz and Tim Herzig are focused on the implementation of ESG criteria into the multi-factor approach and on the development of research driven ESG solutions for their clients. Furthermore, the team has a dedicated ESG research project team which analyses ESG data and alternative data sets to constantly enhance their integrated ESG approach.

Additionally, the investment teams are supported by a centralized team of responsible investment professionals located in three regions. This team is led by Cathrine De Coninck-Lopez, Global Head of ESG. In this role, Cathrine is responsible for executing a strategy that leverages best practices in ESG capabilities across the organization, supports the distribution team with client engagement, and advises the product teams on ESG innovation.

The team supports investment teams and product management groups on governance and ESG trends and topics, analyses Invesco portfolios from an ESG risk perspective and facilitates the proxy voting practice in addition to governance and oversight of responsible investment activities.

The below chart details the organisation of Invesco's Global ESG Team:



Source: Invesco as of 30 September 2022.

## 2.6. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR – Ecumenical Council for Corporate Responsibility <input type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input type="checkbox"/> ICCR – Interfaith Center on Corporate Responsibility <input type="checkbox"/> National Asset Manager Association (RI Group) <input checked="" type="checkbox"/> PRI – Principles For	<input checked="" type="checkbox"/> CDP – Carbon Disclosure Project (please specify carbon, forest, water etc.) <input checked="" type="checkbox"/> Climate Bond Initiative <input type="checkbox"/> Green Bond Principles <input checked="" type="checkbox"/> IIGCC – Institutional Investors Group on Climate Change <input type="checkbox"/> Montreal Carbon pledge <input type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input checked="" type="checkbox"/> Other (please specify) <ul style="list-style-type: none"> <li>• Climate Action 100+ (Leader &amp; Participant)</li> <li>• Coalition for Climate Resilient Investment (CCRI) (Founding Member)</li> </ul>	<input type="checkbox"/> Access to Medicine Foundation <input type="checkbox"/> Access to Nutrition Foundation <input type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input checked="" type="checkbox"/> Other (please specify) <p>Please refer to our CSR reporting and activities :  <a href="https://www.invesco.com/crr/en/home.html">https://www.invesco.com/crr/en/home.html</a></p>	<input checked="" type="checkbox"/> ICGN – International Corporate Governance Network <input checked="" type="checkbox"/> Other (please specify) <ul style="list-style-type: none"> <li>• Investor Forum UK</li> <li>• Quoted Companies Alliance (QCA)</li> <li>• The Asian Corporate Governance Association (ACGA)</li> <li>• Global Real Estate Sustainability Benchmark (GRESB)</li> <li>• Green Rating Alliance (GRA)</li> </ul>

<p>Responsible Investment</p> <p><input checked="" type="checkbox"/> SIFs - Sustainable Investment Fora</p> <p><input checked="" type="checkbox"/> Other (please specify)</p> <ul style="list-style-type: none"> <li>• Task Force for Climate Related Disclosure (TCFD) (Supporter and Discloser)</li> <li>• Carbon Disclosure Project (CDP) (Investor Member and Discloser)</li> <li>• Sustainability Accounting Standards Board (SASB)</li> <li>• Global Real Estate Sustainability Benchmark (GRESB)</li> <li>• Climate Bonds Initiative (Partner)</li> <li>• Confluence Philanthropy Associate Advisor Member</li> <li>• Farm Animal Investment Risk &amp; Return Initiative (FAIRR)</li> <li>• UK Stewardship Code (Tier 1)</li> <li>• Japanese Stewardship Code (Signatory)</li> </ul>	<ul style="list-style-type: none"> <li>• World Economic Forum Financing the Transition to a Net-Zero Future Working Group</li> <li>• Sustainability Accounting Standards Board (SASB) Standards Advisory Group</li> <li>• One Planet Asset Managers Initiative (OPAM)</li> <li>• Transition Pathway Initiative (TPI)</li> <li>• UKSIF Board of Directors</li> <li>• ICI Global ESG Task Force</li> <li>• Climate Financial Risk Forum (CRRF) (UK)</li> <li>• Climate Financial Risk Forum (CRRF) Risk Working Group (UK)</li> <li>• Quoted Companies Alliance (QCA) Financial Reporting Expert Group (UK)</li> <li>• Investor Forum (UK)</li> <li>• Asia Investor Group on Climate Change (AIGCC)</li> <li>• Institutional Investors Group on Climate Change (IIGCC)</li> <li>• IIGCC Net Zero Framework Working Groups</li> <li>• Active participation in PRI advisory committees and working groups (past and current):</li> <li>• PRI Taxonomy Consultation Group</li> <li>• PRI Fixed Income Advisory Committee</li> <li>• PRI Global Policy Reference Group</li> <li>• PRI Macroeconomic Risk Advisory Group</li> <li>• PRI Plastics Investor Working Group</li> </ul>	<ul style="list-style-type: none"> <li>• Global ISO 14001</li> <li>• UK Stewardship Code issued by the Financial Reporting Council (FRC)</li> <li>• Japanese Stewardship Code</li> <li>• FSC (Financial Services Council)</li> <li>• Company Reporting and Auditing Group</li> <li>• International Corporate Governance Network (ICGN)</li> <li>• FSC (Financial Services Council)</li> <li>• Company Reporting and Auditing Group</li> </ul>
--	---	---

<ul style="list-style-type: none"> <li>• Quoted Companies Alliance (QCA)</li> <li>• UK Sustainable Investment and Finance Association (UKSIF)</li> <li>• Investment Association (UK)</li> <li>• Asian Corporate Governance Association (ACGA)</li> <li>• Italian Sustainable Forum (ItaSIF)</li> <li>• Council of Institutional Investors (CII) (US)</li> <li>• Responsible Investment Association (RIA) (Canada)</li> <li>• Responsible Investment Association Australia (RIAA) (Australia)</li> </ul>			
---	--	--	--

### **2.7. What is the total number of SRI assets under the company's management?**

Invesco manages USD 34.5bn ESG assets.

As-of: December 31, 2020. Source: [https://www.invesco.com/content/dam/invesco/apac-master/en/pdf/apac/2021/esg/ESG\\_Investment\\_Stewardship\\_Report\\_2020.pdf](https://www.invesco.com/content/dam/invesco/apac-master/en/pdf/apac/2021/esg/ESG_Investment_Stewardship_Report_2020.pdf)

### **3. *General information about the SRI fund(s) that come under the scope of the Code***

### **3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?**

#### **Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF's**

The Fund is an actively managed Exchange-Traded Fund ("ETF"), which aims to seek total return by investing in a portfolio of corporate bonds that meet certain environmental, social, and corporate governance ("ESG") criteria.

To achieve the investment objective, the Fund will generally invest in a portfolio of fixed rate euro denominated unsecured corporate bonds from global issuers with an investment grade credit rating and less than or equal to 5 years until maturity which are selected based on two criteria: 1) compliance with the Fund's ESG policy (the "ESG Policy"); and 2) attractiveness determined in accordance with the Investment Manager's quantitative investment model.

The Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF's ESG criteria will be integrated as part of the security selection and portfolio construction process with a view to ensuring ongoing compliance with the standards of the Austrian Ecolabel (Österreichisches Umweltzeichen). The ESG approach incorporates both specifically excluded industries and areas of activities, as well as a "best-in-class" approach which selects those bonds from each industry that score most highly according to the investment team's ESG scoring.

### **3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

Systematic and Factor Investing follows a strict research agenda aiming at staying ahead in terms of factor research, factor definitions, factor combinations as well as risk management. This also includes research on ESG data. Besides internal research, we also make use of MSCI ESG Research, ISS Climate Solutions, Sustainalytics, VividEconomics and Moody's ESG research (formerly V.E Vigeo Eiris).

Updates to the existing model are researched, discussed and implemented in case meaningful improvements of the model appear to be possible. In addition to that, the continuous advancement of the ESG investment process is an inherent part of SFI research activities.

### **3.3. What ESG criteria are taken into account by the fund(s)?**

ESG Criteria are an integrated part of the SFI's security selection and portfolio construction process.

For the Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF, the applied ESG criteria ensure ongoing compliance with the standards of the Austrian Ecolabel (Österreichisches Umweltzeichen). The ESG approach incorporates both specifically excluded industries and areas of activities, as well as a "best-in-class" approach which selects those bonds from each industry that score most highly according to the investment team's ESG scoring. Specific exclusions include, but are not limited to, those companies involved in business areas such as nuclear power, coal, unconventional oil and gas, military weapons, civilian firearms, fossil fuels, tobacco, genetically modified organisms, genetically modified cells or human cloning techniques, and activities

constituting violations of the UN Human Rights Directive or the International Labour Organisation's Labour Rights Directive.

The full set of ESG criteria is available under:

[https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF Responsible%20Investment%20Policy June%202022.pdf](https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF%20Responsible%20Investment%20Policy%20June%202022.pdf)

**3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?<sup>9</sup>**

With their integrated ESG investment process, the investment team takes into account principles and criteria to climate change. Furthermore, SFI implements dedicated ESG criteria which focus on carbon reduction, climate change and climate change related topics and engages companies on climate change issues and encourages companies to enhance their ESG performance in this area.

**3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

The ESG analysis and evaluation methodology is done on the one hand with SFI integrated ESG investment process which incorporates proprietary aspects of governance, a dedicated ESG exposure control for all portfolios as well as an adverse ESG momentum measure to restrict certain companies. On the other hand, dedicated ESG research is compiled through Moody's ESG research (formerly Vigeo Eiris) with its database of 6,000 global companies which can be screened according to over 250 ESG criteria. With this ESG research database the investment team is able to define a set of ESG criteria which includes exclusion criteria and negative criteria which can be used to eliminate companies that fail to meet certain ESG criteria, with positive criteria, companies can be identified, which are particularly characterised by sustainable economic development, positive products or processes. With the integrated best-in-class approach companies are selected for the portfolio if they are leaders in their industries with respect to ecological and social standards. A framework of ESG criteria based on international standards are grouped into six domains of analysis. The domains of analysis are Environment, Community Involvement, Business Behaviour, Human Rights, Governance and Human Resources. These are segmented into sector sub-frameworks selecting and weighting the most relevant objectives. Each criterion is activated and weighted based on its relevance by sector. Three factors contribute to the weighting of each criterion:

- Factor 1: Nature of stakeholders' rights, interests and expectations: fundamental/essential/legitimate
- Factor 2: Vulnerability of stakeholders by sector: high/average/low

---

<sup>9</sup> Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code):

<https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697>

- Factor 3: Risk categories for the company: Human Capital Cohesion, operational and organisational efficiency, Reputation, Legal security, Market security, Transparency

Based on that methodology only the best 50% of each sector of the investment universe are considered as acceptable investments.

### **3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

The evaluation of companies is done continuously whereas ad hoc company news or updates on ESG issues are incorporated on an ongoing basis. The investable universe is defined on a monthly basis. All companies of the underlying investment universe are monitored on a daily basis regarding significant downgrades. Bonds of issuers that experience severe downgrades to their ESG scores are then excluded from the entire investment and id invested from the portfolio. Bonds of issuers which are noticed to be involved in controversial activities are sold latest at the next regular date within the following 30 days.

## **4. Investment process**

### **4.1. How are the results of the ESG research integrated into portfolio construction?**

As outlined in 2.4. the Systematic and Factor Investing (SFI) team applies an integrated ESG (environmental, social, governance) investment approach and has been managing customised sustainable investment solutions for more many years. The team offers different approaches to integrate ESG criteria into the portfolio at different stages of the investment process across all asset classes.



Source: Invesco. For illustrative purposes only.

The SFI investment process incorporates ESG considerations as part of its systematic multi-factor investment approach.

The team employs adverse ESG momentum and ESG exposure control. The team uses these measures to manage the risks which are associated with weakly scoring companies or portfolios.

For the Adverse ESG Momentum, the investment universe is daily screened for significant ESG downgrades. Therefore, the investment in companies which suffered severe downgrades is restricted.

Additionally, the team uses the ESG Exposure Control. Every month the ESG exposure of the equity portfolio is managed against the exposure of the fund's benchmark, hence the Bloomberg EUR Agg Corporate Index. The team targets an exposure that is approximately at or above benchmark level. For intramonth rebalancing only bonds that stood the screening are allowed to be acquired. The key point is guarding against a risk that historically has been small but is expected to be material in the future.

In addition to the standard ESG integration, SFI implements further individual ESG requirements in numerous respects:

**Positive criteria:** By applying positive criteria, companies are identified that display excellence in sustainable management and sustainable products or processes. They fulfil ecological and social requirements particularly well, ranging from climate efficiency and low water consumption to labour safety and satisfaction.

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

Using the Datalab provided by Moody's ESG research (formerly Vigeo Eiris), the investment team is able to define a set of ESG criteria. Exclusion criteria and negative criteria can be used to eliminate companies that fail to meet certain ESG criteria, with positive criteria, companies can be identified, which are particularly characterised by sustainable economic development, positive products or processes.

With the integrated best-in-class approach the investment team focuses on the 50% best scoring companies in their sector per region with respect to a comprehensive ESG score. The materiality of the ESG indicators for the company is considered when weighting the underlying indicators to arrive at the final ESG score.

For the best-in-class approach, the investment team uses a holistic ESG Rating with considers the issuers' ESG performance provided through 5 types of deliverables:

- **Company Reports:** including scores, ratings, risk analysis and ESG opinions
- **Continuous Alerts:** analysis of the impact of events likely to either positively or negatively affect the ESG Score
- **Sector Reports:** status and trends of the 36 sectors under review
- **Scores & Ratings:** social, environmental and governance KPIs, controversies
- **Controversy Reports** Each sustainability criterium is weighted to three angles – nature & intensity of the impact, the exposure, and the corporate risk – to reflect key sectorial risks and opportunities on the stakeholders and the company.

#### Systematic and Factor Investing multi-factor investment process

SFI manages portfolios with systematic and multi-factor approaches which allows it to seamlessly integrate ESG consideration in portfolio construction and security selection.

In the first step, the whole investable universe is screened for ESG criteria to define the eligible ESG universe. The eligible number of stocks of the ESG universe varies depending on the ESG criteria. Afterwards, the holdings from the universe are evaluated with respect to their factor characteristics and combined into a portfolio under application of a risk management process.

In case of the fund concerned the bond index is screened for business activities such as nuclear power, coal and fossil fuels, weapons and firearms, tobacco, generic engineering as well as UN Global compact breaches which lead to exclusions from the investible universe. Additionally, the “best-in-class” filter is applied. The issuers are sorted by their ESG scores from best and to worst and the bottom 50% are eliminated from the universe. To achieve comparability, these rankings are done within industry groups within regions, i.e. on an industry-neutral basis by region. Finally, controversial activities in biodiversity, corruption, human and labor rights for example are monitored and can lead to exclusions.

In the next step factor bonds are identified and welded into pure factor portfolios Carry, Value and Low Volatility. The three factor portfolios are then combined in out according to a weighting scheme that targets equal-risk contribution.

Consequently, the constraints for the portfolio construction are applied to make sure that the portfolio does not take unintended bets versus the benchmark. Maximum sector, country and single stock deviations from the benchmark are determined to make sure that the risk budget is used only for rewarded risk factors while broadly neutralizing the factors that the team does not expect to be rewarded in the long run.

In the final step, the portfolio construction/optimization process establishes factor weightings aimed at a high level of attractiveness for the overall portfolio with respect to the factors applied while rigorously managing risks and neutralizing unrewarded risks. The optimisation process also accounts for the carbon intensity of the fund aiming to reduce it by at least 30%.

The implementation of the portfolio is made more efficient by the use of a systematic portfolio construction process. Putting an emphasis not on specific bonds but on specific bond characteristics allows to implement those characteristics with bonds that are currently available and most liquid keeping transaction costs down.



Source: Invesco. For illustrative purposes only. Benchmark = Bloomberg EUR Corp 1-5 Year Index.

As outlined in step one of the SFI investment process, the whole investable European corporate bond universe (around 1,800 bonds) is screened according to the ESG criteria mentioned above. After applying exclusion criteria as well as the best-in-class, the investable universe of the Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF consists of 772 companies (As of September 2022). However, the number of securities within the investable universe varies over time, depending on the screening results of the underlying ESG criteria.

**4.2. How are the criteria specific to climate change integrated into portfolio construction?**

As mentioned before, the investment team with the application of the ESG exposure control and adverse ESG Momentum already considers climate change related topics like CO2 emissions, carbon footprint or sensitivity towards climate change. Furthermore, SFI implements dedicated ESG criteria which focus on climate change and climate change related topics and engages companies on climate change issues and encourages companies to enhance their ESG performance in this area.

**4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?**

The investment team only invests in companies which comply with ESG criteria used for the specific funds. Hence, there are no issuers in the portfolio which are not covered by the ESG analysis.

**4.4. Has the ESG evaluation or investment process changed in the last 12 months?**

No, the ESG evaluation or investment process has not changed since inception of the described strategy.

**4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?**

No, the fund doesn't not invest in other funds.

**4.6. Does (do) the fund(s) engage in securities lending activities?**

No, the fund does not engage in securities lending.

**4.7. Does (do) the fund(s) use derivative instruments?**

The Invesco EUR Corporate Bond ESG Short Duration Multi-Factor UCITS ETF uses German government bond futures to hedge the duration of the fund. They do not have an impact on the SRI nature of the fund.

**4.8. Does (do) the fund(s) invest in mutual funds?**

No, the fund does not invest in mutual funds.

## 5. ESG controls

### 5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?<sup>10</sup>

The compliance of the portfolio with ESG rules is permanently reviewed through the reconciliation with the ESG research database from Moody's ESG Research (Vigeo Eiris). The results of this reconciliation automatically flow into the portfolio management system and additionally are monitored by Invesco's compliance team. This is to ensure that companies which do not comply with the pre-defined set of ESG criteria are eliminated from the portfolio and the investable universe. Should a portfolio holding become unacceptable over time it will be sold out of the portfolio at the next regular rebalancing date.

## 6. Impact measures and ESG reporting

### 6.1. How is the ESG quality of the fund(s) assessed?

Systematic and Factor Investing provide ESG reporting for all their multi-factor strategies. Within the ESG report, they disclose the ESG score, as well as other ESG indicators. For the team, it is important to show good ESG profiles as well as lower carbon intensity. Depending on the strategy, the weight in controversial areas compared to respective benchmark is a good indicator.

### 6.2. What ESG indicators are used by the fund(s)?<sup>11</sup>

The ESG indicators used are the following (please also refer to question 3.3)

The full set of ESG criteria is available under:

[https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF Responsible%20Investment%20Policy June%202022.pdf](https://etf.invesco.com/sites/default/files/documents/Invesco%20EUR%20Corporate%20Bond%20ESG%20Short%20Duration%20Multi-Factor%20UCITS%20ETF%20Responsible%20Investment%20Policy%20June%202022.pdf)

### 6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?

The investment team creates ESG reports for all their managed portfolio on a quarterly basis.

### 6.4. Does the fund management company publish the results of its voting and engagement policies?<sup>12</sup>

*If so, please include links to the relevant activity reports.*

<sup>10</sup> Reference to Article 173 of the French TECV Act

<sup>11</sup> Reference to Article 173 of the French TECV Act

<sup>12</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE

Results of voting and engagements are published within Invesco's Investment Stewardship and Proxy Voting Annual Report on a firmwide level and can be obtained online:

<https://www.invesco.com/corporate/about-us/esg>