Invesco

2022 UK Stewardship Code

April 2023

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 responsible stewardship is a key element of our ambition to be the most client-centric asset manager. It is this responsibility to our clients that aligns us with the 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 policies and procedures meet the requirements of the FRC's UK Stewardship Code (the Code).

Building on our 2021 UK Stewardship Code report, this report demonstrates how we are meeting our clients' needs, and our own commitments, through providing evidence of the activities and outcomes of our stewardship in 2022. This report also provides useful links to relevant documents, codes and regulations for those who want to look further at the broader context of our policies and the Code, and our commitment to other initiatives in this area.

Sincerely,

Doug Sharp
Head of Invesco EMEA and Americas

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[1] For more information on stewardship and the FRC's UK Stewardship Code, visit here.

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Signatories actively exercise their rights and responsibilities.

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.

Our Purpose, Cultures and Value

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 a client-centric 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 serve our clients' specific investment needs.

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 support organisations in our local communities through both charitable contributions and hands-on volunteering activities.

Image source: Getty Images.

Find out more
For more information on our commitment to our people, our communities and the environment, please see our latest [Corporate Responsibility report](#).

Business Model and Strategy

Invesco is an independent investment management firm privileged to manage approximately $1,409.2 billion in assets on behalf of clients worldwide (as of 31 December 2022). 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 opposite).

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 that support 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.

As a globally diversified asset manager, Invesco is well-positioned to support our clients' specific investment needs. Some of our clients want us to provide the means for them to explicitly express their own ESG values through investment vehicles. We are keen to bring our ESG expertise to support clients in developing ESG products, and we aim to be our clients' preferred ESG investment partner.

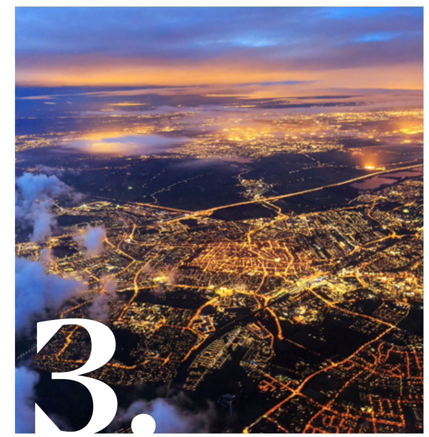
For more information on our commitment to adopting and implementing responsible investment principles in a manner that is consistent with our fiduciary responsibilities to clients, please visit invesco.com/corporate/en/our-commitments/esg.

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.

Our four key long-term strategic objectives

Harness the power of our global platform by continuously improving execution effectiveness to enhance quality and productivity, and allocating our resources to the opportunities that will best benefit clients and our business.

Perpetuate a high-performance organisation by driving greater transparency, accountability, diversity of thought, fact-based decision making and execution at all levels.



Be instrumental to our clients' success by delivering our distinctive investment capabilities worldwide to meet their needs.

Aim to achieve strong, long-term investment performance across distinct investment capabilities, with clearly articulated investment philosophies and processes that are aligned with client needs.

Image sources: Adobe Stock.

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Our investment beliefs and how these enable effective stewardship

Our commitment to stewardship is a key element of our ambition to be the most client-centric asset manager. Consideration of ESG factors is a component of stewardship; our ESG approach is investment-led and client-centric.

ESG Integration
Focus on sustainable value creation and effective risk mitigation

We integrate financially material considerations in our investment capabilities, taking into account critical factors that help us deliver strong outcomes to clients.

As investors in global equities, corporate and sovereign fixed income instruments, as well as real estate and 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.

Our Global ESG team provides support and analysis, while our investment managers maintain discretion on portfolio decisions.

Active Ownership
Exercising our rights and responsibilities as stewards of capital

We exercise our rights and responsibilities as stewards of capital. We engage with issuers in a constructive manner and use our expertise to cast voting decisions in our clients' best interests.

Innovation and Data
Growing together, supporting our capabilities

We believe having quality data on ESG factors is critical for effective investment analysis. We are enhancing our ESG data and analytics capabilities by building out and updating our proprietary tools, including ESGintel, PROXYintel and ESGCentral. These tools assist with research, portfolio reviews, portfolio optimisation, engagement and proxy voting.

For more information, please see Principle 7.

Client Partnerships
Meeting our clients where they are

Invesco has a client-centric ESG approach focused on customising solutions to client needs and objectives. We provide a range of ESG-focused capabilities that enable clients to express their values through investing. Some of our clients ask us to impose ESG investment guidelines and restrictions on their portfolios. We therefore offer a suite of portfolio solutions to ESG-minded clients who wish to pursue ESG goals.

Industry Engagement
Enabling Better ESG Conversations

Invesco participates in relevant industry initiatives to promote the continued improvement of functioning financial markets. We are involved in many industry bodies, including Principles for Responsible Investment (PRI), the Net Zero Asset Managers initiative (NZAM), the Global Real Estate Sustainability Benchmark (GRESB), and the Task Force on Climate-related Financial Disclosures (TCFD). We engage policymakers on the latest ESG regulations and have academic partnerships with the University of Cambridge and Tsinghua University.

Principle 02

Signatories' governance, resources and incentives support stewardship.

Our Governance Structures and Resourcing Our Stewardship Activities[1]

Invesco has a governance structure that enables oversight and accountability for effective stewardship. Our Global ESG team acts as a centre of excellence, collaborating with our global investment teams.

1. Invesco's investment centre leaders drive the strategy and governance of our internal programmes. They provide oversight to our specialised investment teams and offer a balance of global expertise, support and connectivity. In this way, the investment centre leaders help provide better outcomes for clients, with greater consistency over the long term.

2. Our Global ESG team of 31 professionals acts as a centre of excellence, responsible for leveraging best practices in ESG capabilities across Invesco. The team is organised across five pillars: Client, Research, Proxy, Analytics and Operations. 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. In September 2022, after working closely together for several years, the proxy services team formally joined the Global ESG team within the Governance pillar.

3. The ESG committee, comprised of representatives designated by our investment centre leaders and representatives from other groups, specifically focuses on ESG investment issues. The incorporation of ESG considerations is conducted by investment teams on a team-by-team basis. The group enables collaboration on ESG matters between individual investment teams globally.

4. Several working groups have formed in different parts 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 to fulfil new regulatory requirements. For example, in 2022, the ESG Research Data Committee focused on implementing an approach to consider PAIs in order to fulfil EU Sustainable Finance Disclosure Regulation (SFDR) requirements. 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 ESG committee and working groups, with oversight and accountability provided. 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 of our clients.

Providing capabilities to support our ambition

Led by the Global Head of ESG, the Global ESG team is organised across five 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 ESG Committee, asset class-specific investment teams, and firm-wide functional units collaborate with Global ESG team members from each of the five pillars.

Our Global ESG team

Asset Class-Specific and investment centre ESG champions

↓

ESG Committee

Client
- Guides messaging and training for distribution teams
- Engages clients on ESG issues
- Supports for product strategy

Team members
6

Research
- Proprietary ESG qualitative and quantitative research
- Collaborates with investment teams

Team members
9

Proxy
- Guides global proxy voting strategy and policy development
- Oversees proxy operational procedures and implementation
- Collaborates with investment teams on corporate governance issues and discusses proxy-related topics with clients

Team members
10

Analytics
- Portfolio ESG analytics, ESG vendor analysis, develops ESG analytics tools

Team members
3

Operations
- Project manages ESG initiatives
- Manages scheduling and organisation for the ESG team

Team members
3

1 Source: Invesco, as of 31 December 2022. The description of Invesco's governance and structure reflects the reporting period of 2022.

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

The Global ESG team expanded in 2022 to a team of 31 full-time professionals.[1] This included additional hires such as an ESG Strategy and Operations manager to support project management and an ESG team administrator to support the scheduling of engagements.

Global ESG Team Statistics

31
Team members

31
Professional Certifications[2]

23
Different Academic Disciplines[1]

15
Languages[1]

3
Regions

>35%
Women

10+
Average years of ESG experience for Senior Team Members

ESG team statistics are based on self-reported data provided by Invesco's Global ESG team, as of January 2023.

[1] As of February 2023, based on survey data self-reported provided by 27 responses. These statistics reflect the distinct count.

[2] As of February 2023, based on survey data self-reported provided by 27 responses. These statistics reflect the total count.

Investment in systems, processes, research and analysis

At Invesco, we invest in our capabilities for the benefit of our clients.

For example, in 2022, the Global ESG team created a centralised Research and Engagement tracker, which investment teams can access to enhance research and engagement documentation. This development has supported Invesco's investment teams by facilitating the sharing of knowledge that is garnered from research and engagement (contact with issuers on matters in the form of direct dialogue or information requests).

Additionally, the Global ESG team created an ESG Investing page on our internal intranet site, to improve accessibility to ESG resources across the organisation and provide a centralised hub for ESG information, tools, training and standard marketing materials.

To support Invesco's research and analysis, we continued to build out our proprietary tools. For example, in 2022, we added Child Rights Benchmark data into ESGintel. The new ESG data provider assesses exposure to children's human rights in the marketplace and workplace for over 800 global companies, across nine sectors and various regions.

Invesco also added the FAIRR Protein Producer index to ESGintel. This data set assesses the world's largest animal protein producers on ESG issues.

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 feeds into our proprietary tools and supports in-house ESG research and analysis, which enables investment teams to make 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, Child Rights Benchmark and others. Then, subject to data availability and quality, ESGintel may apply a materiality lens to data on ESG topics to ensure that companies are evaluated on financially material ESG topics according to their business activities. This example shows that external service providers are primarily used as an additional, complementary source of ESG information to enhance Invesco's own research and analysis processes.

For more details 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	SG Analytics	Clarity AI
Vigeo Eiris	Equileap	Just Capital
Morningstar	Nikko Research Center	FAIRR
Net Zero Tracker	CA100+	Proxy Insight
Carbon Disclosure Project	Carbon Underground 200	Transparency International
Transition Pathway Initiative (TPI)	Science Based Targets Initiative	Climate Bonds Initiative
International Energy Agency	UN Human Development Index	Worldwide Governance Indicators (WGI)
Sustainable Development Goals (SDG) index	Environmental Performance Index	Child Rights Benchmark

Proxy Voting Research and Vote Recommendations

Glass Lewis	ISS	IVIS (UK Equities)

Our Proprietary Tools

ESGintel	FocusIntel	ESGCentral	PROXYintel

Source: Invesco, as of February 2023. For illustrative purposes only. ISS: Institutional Shareholder Services. FAIRR: Farm Animal Investment Risk & Return. IVIS: Institutional Voting Information Service. MSCI: Morgan Stanley Capital International.

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 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. The award also incorporates business performance, typically measuring the year-over-year change of financial metrics. Further, the allocation or apportion of the award is discretionary.
Deferred awards vest pro-rata over a four-year term.

Long-Term Awards are annual awards of Invesco stock that 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.

Image source: Invesco.

Effectiveness of our governance structures and processes in supporting stewardship

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

Specifically in terms of our ESG-related stewardship efforts, in 2022, the expansion of the Global ESG team, the continued development of our proprietary ESG data analytics tools, were ways we demonstrated our commitment to investing in our stewardship capabilities. Beyond simply developing our proprietary tools, we are implementing ESG training to ensure they can be used effectively across the organisation. For example, in 2021, we reported that there was scope to increase the number of trainings on ESGintel and ESGCentral. In 2022, 18 formal training sessions on ESGCentral were conducted. Additionally, the Global ESG team held a Global Investor Forum call on ESGintel (providing an overview and describing updates to our investment teams).

As demand continues to grow for ESG research, analysis and engagements, we recognise there is scope to improve our processes over time. For example, we believe there is further scope to improve our engagement and research documentation processes, and use technology to strengthen our reporting capabilities. Expanding our capabilities in this area will enable us to continue to meet regulatory requirements in the UK and EU.

The formation and disaggregation of our working groups is one way that our governance process maintains adaptability and enables Invesco to focus on stewardship priorities as they evolve. For example, in 2022, the ESG Research Data Committee previously mentioned facilitated collaborative exchange of ideas on an approach to consider Principal Adverse Impacts (PAIs).

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.

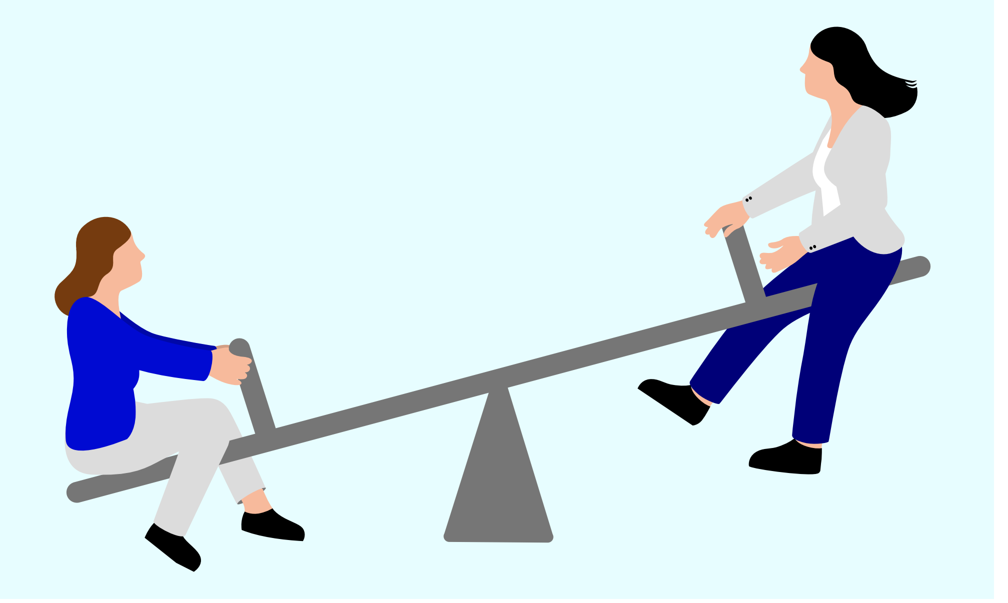
Policies

Invesco's EMEA Conflicts of Interest Policy ('Conflicts policy') can be found on our website and applies to Invesco legal entities within EMEA. The Conflicts policy sets out the firm's arrangements in connection with the identification, recording, management and escalation of conflicts. It is not meant to replace, but to supplement other conflicts-related policies within the firm. The Conflicts policy is reviewed, when necessary, and at least annually, by the EMEA Conflicts of Interest Committee to ensure it remains current based upon the scope of Invesco's activities, its operating structure, strategic plans, applicable regulatory changes and the nature of its clients. In September 2022, revisions included the explicit consideration of conflicts arising from the integration of sustainability risks for the purpose of fulfilling EU SFDR requirements.

Conflicts of Interest and Stewardship

The Conflicts policy recognises examples of activities that may give rise to conflicts of interest, including those related to stewardship. Invesco maintains conflicts registers capturing the inherent conflicts arising from activities undertaken across the firm and arrangements to ensure these are appropriately managed. Invesco seeks to prevent or manage conflicts of interest ensuring we adhere to our fiduciary duties of acting in the best interests of our clients. In the Conflicts policy, examples of stewardship-related activities that may give rise to conflicts of interest include, but are not limited to:

- the process of allocating investments/trades across client accounts;
- the establishment of contracts with issuers who are suppliers/service providers, where the suppliers/service providers are also clients of Invesco or Invesco funds holding these issuers;
- the firm exercises its voting rights (authorised by clients, or in the collective interests of investors in a fund) to vote in a manner that is not in the best interests of clients;
- where the firm integrates sustainability risks into the processes, systems and/or controls of an investment centre that may result in the firm benefiting at the expense of clients.



Invesco's Approach to Conflicts Management

Invesco aims to prevent Conflicts and, when they cannot be prevented, seeks to ensure these are appropriately managed. 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 (lists maintained by business areas and functions of the potential conflicts that could arise as part of the services or activities performed by the relevant function or business area)[1], processes, conflicts assessments where required, training, and governance arrangements with appropriate oversight.

Proxy voting is an important element of stewardship. 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. Portfolio managers and/or analysts with a personal conflict of interest in relation to a proxy vote must recuse themselves and not participate in or support the voting decisions with respect to that proxy.

For more information related to conflicts of interest that exist in Invesco's stewardship and proxy voting activities, these policies can be found in the Global Policy Statement on Corporate Governance and Proxy Voting on our website. Please refer to Principle 12 for information on our proxy voting approach.

Effectiveness of our approach

With regard to our stewardship activities in 2022, there were no material breaches to our policies and procedures designed to prevent or manage conflicts of interest. Invesco seeks to continuously improve processes where relevant in delivering its aim of achieving good client outcomes.

For example, in 2022, the Global ESG team initiated a review of Invesco's conflicts of interest certification process as it relates to personal conflicts of interest and enhanced the process for certain investment personnel who have proxy voting responsibilities.

1 Conflicts registers are owned by the investment centres with an aggregated Invesco wide (EMEA specific) register held by EMEA Compliance. EMEA compliance maintain the Invesco Conflicts log recording instances of conflicts raised by the staff.

Principle 04

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

Invesco's Public Policy team engaged with policymakers on key risks for the asset management industry and our clients, including market-wide and systemic risks.

For 2022, we identified several themes for our work:

Geopolitical risks

Financial market integrity and liquidity

Climate change and sustainable finance

Digital finance

Image sources: Adobe Stock (1, 3, 4) and Stocksy (2).

1.

Geopolitical risks

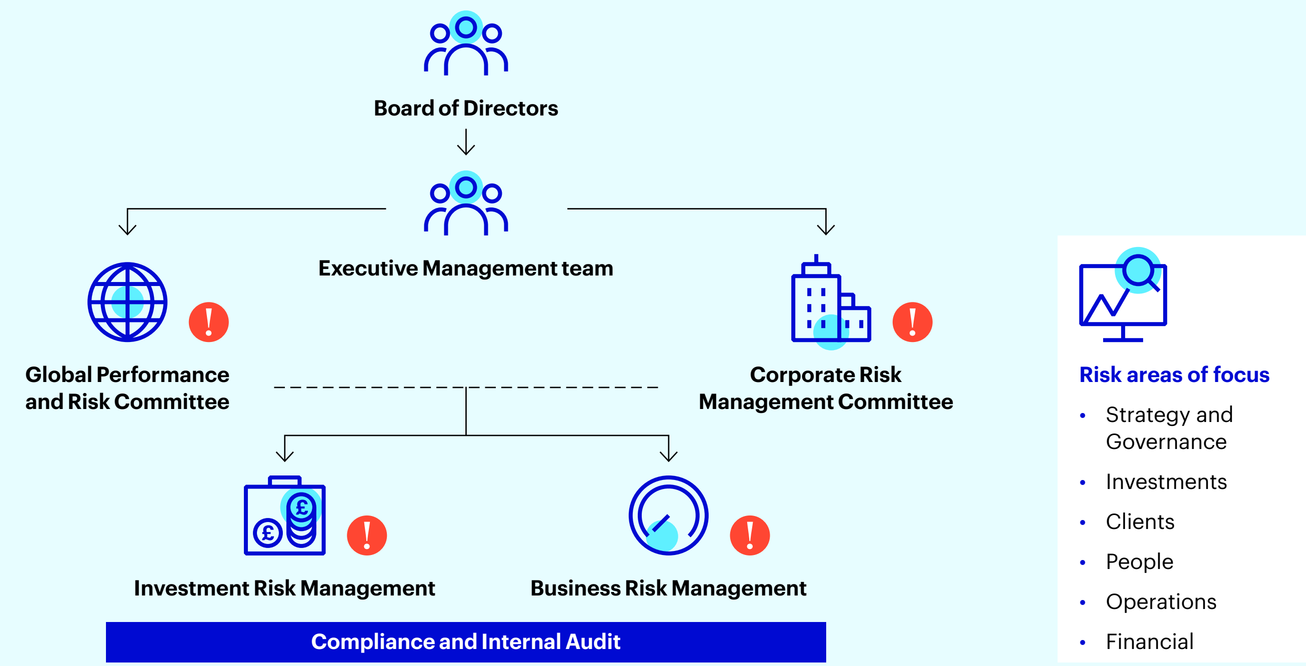
Invesco addresses geopolitical risks by tracking political developments, developing thought leadership and participating in industry dialogue. The focus in 2022 centred on the impact of the Russian invasion of Ukraine and its implications for energy markets, the continued impact of inflation, and political and legislative developments in key markets, including the US mid-term elections.

Our annual political and regulatory outlook sets out the key issues we see both at a global level as well as in the main regions in which we operate, including for the EU and UK.

Our Processes

Supporting our response to market-wide risks through multiple workstreams

Our risk management framework



Source: Invesco.

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.

2.

Financial market integrity and resilience

Throughout 2022, both directly and via our trade associations, Invesco engaged with and contributed to the work of global, regional and local policymakers and regulators on various initiatives relating to enhancing the resilience of securities markets and, more specifically, 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. 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.

- Invesco continued to engage proactively with regulators, and in particular the UK FCA, regarding ensuring the orderly wind down of critical benchmarks. In this regard, we responded to a number of different UK FCA public consultations.[1] We also responded to the European Securities and Markets Authority's (ESMA) public consultation on improving settlement discipline in the EU.
- Additionally, we responded to the European Commission's public consultation on the functioning of the EU Money Market Fund Regulation (MMFR), as well as to the joint UK FCA and Bank of England (BoE) Discussion Paper on enhancing the resilience of Money Market Funds (MMFs). On each occasion, Invesco advocated for pragmatic policy reforms that would seek to improve MMFs' resilience to underlying market events, as well as 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.

- For each consultation, we also contributed to the various responses of our key Trade Associations, including the Institutional Money Market Funds Association (IMMFA), the European Fund and Asset Management Association (EFAMA) and the UK Investment Association (IA).
- Invesco also closely monitored regulatory developments relating to potential use of side pockets by retail investment funds with exposure to sanctioned and/or suspended Russian assets as a means to protect investors. In this regard, Invesco analysed rule changes implemented by the Luxembourg Commission de Surveillance du Secteur Financier (CSSF), the Central Bank of Ireland (CBI) and the UK FCA, and responded to the latter's public consultation on the issue as well as industry consultations undertaken by relevant Trade Associations.
- Finally, Invesco provided insights to the International Organisation of Securities Commissions (IOSCO) regarding ETF issuer operations and best practices to ensure, among other things, market integrity and investor protection.

Image source: Adobe Stock.

[1] Consultations include CP22/11: Winding down 'synthetic' sterling LIBOR and US dollar LIBOR; CP22/12: Improving equity secondary markets; and CP22/18: Guidance on the trading venue perimeter.

3. Climate change and sustainable finance

Our investment teams may assess climate risks where they are material and draw on available data as an input into their investment processes.

Integrating Financially Material Climate Risks into the Investment Process

Access to climate-related and carbon-related data is essential for our investment teams who choose to consider climate risks as part of their investment process.

Sourced from various data providers, external scores may 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. All investment centres can have access to such available data, either directly or through our Global ESG team's data analytics colleagues.

Furthermore, when managing products on behalf of certain clients who ask us to impose climate-related guidelines on their portfolio, investment teams can leverage the above data to integrate management of climate risks further into their investment processes to meet our clients' specific needs. Certain of our investment teams based in Henley, UK are also integrating ESG and climate risks into their formalised Chief Investment Officer (CIO) oversight processes.

To support our investment teams, the Global ESG team can screen holdings to identify issuers that are high-risk from the perspective of decarbonisation. The team uses a carbon analysis screening tool, financed emissions analysis and absolute emissions data (from ISS) to assess issuer risk.

To support our investment teams, our functions and compliance teams may provide monitoring and oversight related to some ESG risks. Our internal audit department conducts periodic independent reviews of our ESG practices. Internal Audit provides the entire organisation with independent, objective assurance and advisory services that are designed to add value and improve the company's operations. It brings a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

In all of the above steps, we recognise and acknowledge the industry-wide challenges of data availability and coverage.

Image source: Adobe Stock.

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Public Policy and Regulatory Engagement in EMEA

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 that 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 disclosures and labelling, and taxonomies.

ESG Data and Disclosure

In 2022, we continued 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.
- Responding to the European Financial Reporting Advisory Group (EFRAG) on the draft European Sustainability Reporting Standards.

Product disclosures and labelling

In 2022, we built on our previous work recognising opportunities to enhance sustainable product labelling and disclosure. We have continued to engage with industry and regulators on this theme, notably with regards to:

- The UK Financial Conduct Authority (FCA) Discussion Paper on Sustainability Disclosure Requirements (SDR) 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. In 2022, Invesco's Head of Multi-Asset Strategies participated in the FCA's Disclosure and Labelling Advisory Group (DLAG) focused on the development of the SDR regime in the UK.
- The 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. Our Head of EU Government Relations and Public Policy also chairs the European Fund and Asset Management Association (EFAMA) SFDR and Taxonomy working group.
- The EMEA Public Policy team work with our US colleagues to understand the implications of the U.S. Securities and Exchange Commission's (SEC) work on the fund-naming rules as it applies to ESG funds and proposals for a new ESG fund disclosure framework.

Taxonomies

We also continue to engage with EU policymakers on the development of the EU Taxonomy. In 2022, our Head of EU Government Relations and Public Policy represented financial services users on the UK's Green Technical Advisory Group (GTAG) advising the UK Government on the development of its own green Taxonomy.

The EMEA Public Policy team have also been tracking developments in other jurisdictions around the world. Invesco staff have contributed to the Singapore Green Finance Industry Taskforce work on a green Taxonomy and contributed to discussions on the development of an Association of Southeast Asian Nations (ASEAN) Taxonomy.

Industry Initiatives

- In March 2022, Invesco became a Forum Member for the Taskforce on Nature-related Financial Disclosures (TNFD). This has allowed us the opportunity to give feedback on the draft frameworks while understanding how we will be able to apply this framework upon its completion. Additionally, Invesco has become a member of TNFD's Consultation Group – where multiple financial institutions have come together to provide input into the usability of the strategy. This initiative has kick-started our exploration into biodiversity data and further incorporating it into our investment and research processes.
- Invesco is a member of the Institutional Investors Group on Climate Change (IIGCC), a European membership body for investor collaboration on climate change.
  - In 2022, we continued to participate in the Policy Steering Group (previously 'committee'). Through membership of this group, we contribute to regulatory and policy developments by discussing finance and climate policy at the global, EU and national levels across Europe.
  - In recognition of Invesco's Global ESG team efforts to map the current net zero data landscape, in October 2022, the IIGCC invited Invesco's Global ESG team to provide guidance to the wider investor base on how best to navigate net zero data challenges. This participation in the Net Zero Working Group demonstrates our increasing effectiveness in contributing to industry dialogue on navigating net zero data challenges.
- Invesco is a signatory to the Net Zero Asset Manager's initiative. In April 2022, we disclosed our AUM commitment of USD $195billion to be managed in line with net zero. Invesco is taking a thoughtful, rigorous and transparent approach to net zero, which helps ensure the AUM we've identified are being committed with integrity. At Invesco, we have a broad range of investment capabilities and are being thoughtful in assessing the feasibility of net zero for each asset class and instrument, driven by the needs of our clients and the thoughtful approach of our investment teams.
- Invesco is a supporter and discloser to the Task Force on Climate-Related Financial Disclosures (TCFD). In 2022, we published our third Climate Change report. More information can be found in Principle 5.
- Invesco contributes to Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Since 2020, Invesco has participated in Climate Action 100+ by engaging with European and APAC issuers.

Invesco participates in the Climate Financial Risk Forum (CFRF) and is a member of the Scenario Analysis Working Group. In 2022, we contributed to the scenario analysis guide for asset managers, published in March 2023.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TNFD Taskforce on Nature-related Financial Disclosures

The Net Zero Asset Managers initiative

Climate Action 100+ Global Investors Driving Business Transition

IIGCC The Institutional Investors Group on Climate Change

4.

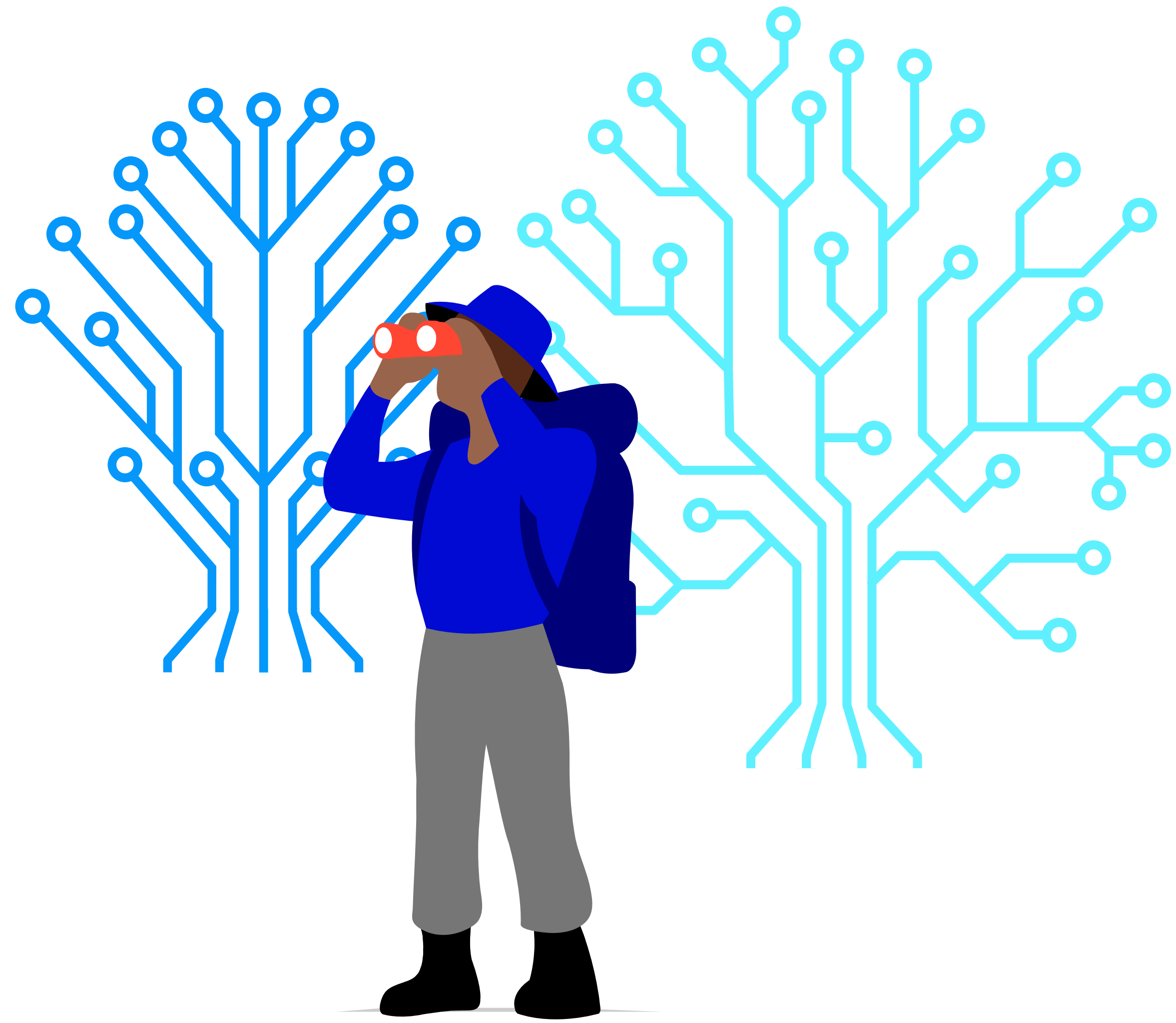
Digitalisation of financial markets

Technological innovation in the operation of financial markets and in the provision of financial services continues to represent both an opportunity and a challenge to Invesco, our commercial partners, and our clients and investors. In 2022, Invesco continued to monitor and analyse the impact of developments in the global regulatory landscape relating to digitalisation, including in particular initiatives relating to data sharing and operational resilience, artificial intelligence and e-identification, and distributed ledger technology (DLT) and digital assets.

In particular, we closely monitored the work being led at international level by the Financial Stability Board (FSB), which seeks to develop a global regulatory framework for digital assets and related activities, as well as global stablecoin arrangements.

Notwithstanding the FSB initiative, many jurisdictions globally are moving forward in developing their own regulatory frameworks governing digital assets. For example, we considered the potential impact of the EU's Markets in Crypto Assets Regulation (MiCAR), as well as the opportunities of the bloc's Pilot Regime for DLT Market Infrastructures that will facilitate, under certain conditions, the tokenisation of assets.

In order to ensure that we remain at the forefront of regulatory developments in this space, in 2022, Invesco strengthened its collaborative relationships with a number of academic and industry partners, including the Cambridge Centre for Alternative Finance (CCAF), becoming a member of both its Regulatory Genome Project (RGP), as well as its Digital Assets Programme (DAP), both of which support our ongoing monitoring and analysis of the risks and opportunities presented by the digitalisation of financial markets more broadly.



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. We do this with the goal of delivering better results for our clients. This forum hosts thought-provoking discussions on geopolitical and macro themes, and companies, regions or industries that our teams are researching. In 2022, the GIF Operating team organised 71 calls with several external speakers. These included the annual GIF global investment summit consisting of 12 virtual meetings with topics focused on geopolitics in different regions, commodities, an update on the US elections, the evolution of markets, the metaverse, and how investment teams seek continuous improvement.

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.

Case Study: Our collaboration with Cambridge Judge Business School

Invesco completed the fifth year of a 10-year collaboration with Cambridge Judge Business School (CJBS) in 2022. Through this relationship, we support research activities in long-term asset management, alternative finance and data analytics – all while Invesco's clients benefit from access to cutting-edge insights and research from this globally renowned business school.

In collaboration with CJBS, we developed Game Changers, a video series that brings together thought leaders from around the globe to shed new light on how rapid innovation and disruption are increasingly transforming economic and financial activity at the global, national, firm and household levels.

UNIVERSITY OF CAMBRIDGE
Judge Business School

Highlights of our collaboration include:

30+
Thought leadership items created in collaboration with CJBS

8
Global consulting research projects supported, providing opportunities for
40
MBA and MFin students

Founding sponsor for Centre for Alternative Finance through funding from Invesco

9
Invesco-sponsored studies published by CJBS

Invesco became official Sponsor of the Regulatory Genome Project

Numerous collaborations relating to climate risk, sustainable investing and environmental, social and governance (ESG) investing initiatives

CJBS speakers at
60
Invesco client events,

held across
19
different locations globally,

attended by over
3,700
Invesco clients

Invesco became official sponsor of the Cambridge Digital Assets Programme

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

In 2022, 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, in early 2022, 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 established a Global Head of Public Policy role. This role will help strengthen Invesco's advocacy impact in relation to risks, including climate change and market integrity.

Additionally, we identified opportunities to deepen our engagement with key industry forums and trade associations in order to more effectively leverage our network effect to engage with policymakers and the market. This includes:

- Our Head of European Government Relations and Public Policy was appointed as chair of the European Fund and Asset Management Association (EFAMA) SFDR and Taxonomy working group.
- Invesco joined the Climate Financial Forum established by the Central Bank of Ireland, and our Invesco staff are vice-chairs of the Climate Risk Working Group.

Image source: Adobe Stock.

We also continue to produce thought leadership and client briefings to raise awareness of key issues. In 2022, this included:

- A white paper 'Climate scenario analysis: An overview for pension funds'
- Thought leadership on the implications of the EU Taxonomy, 'The taxing test of the EU Taxonomy'
- A new monthly ESG regulatory playbook newsletter for clients and distributed internally
- Client briefings on global Money Market Fund reform

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 to ensure they are enabling effective stewardship and maintaining a high level of integrity, consistency and accuracy for the times. Examples include:

- As discussed in Principle 3, Invesco reviews the EMEA Conflicts of Interest policy (applicable to Invesco legal entities within EMEA) when necessary and at least annually.
- In 2022, Invesco's Policy Statement on Global Corporate Governance and Proxy Voting was reviewed and re-published in early 2022.[1] Amendments were proposed by investment teams and the Global ESG team and were subject to approval by the Global Invesco Proxy Advisory Committee and the ESG Committee. In 2022, we enhanced the description of our stewardship activities, expanded the information on how we use proxy advisory firms, and clarified the annual review process of the policy. We also modified our Good Governance Principles, elaborating on different issues. For example, Invesco expanded listed information we consider when evaluating environmental and social proposals, including whether the adoption of such a proposal would promote long-term shareholder value, how we consider company responsiveness to the proposal and any engagement on the issue when casting votes.
- In 2022, Invesco initiated a review of the Invesco Group Sustainability Risk policy,[2] which fulfils Invesco's regulatory requirement to disclose how we integrate financially material sustainability risks into our investment decisions to meet our transparency obligations under the EU's Sustainable Finance Disclosure Regulation (SFDR). Stakeholders, including legal, risk, and ESG team members, were involved in the review.
- Invesco reviews product-level policies, including for ESG-focused products, when necessary. For example, in 2022, to meet the EU's Sustainable Finance Disclosure Regulation (SFDR) requirements, Invesco's legal, ESG, and investment teams worked together to create sustainability disclosure documents for all in-scope products.

Image source: Invesco.

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. 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.

Invesco utilises our internal audit and regional compliance functions because of the 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 ensures that Invesco's stewardship practices are subject to objective, independent assurance and compliance monitoring, and that regulatory risks and required improvements can be communicated to stakeholders efficiently.

1 Invesco's Policy Statement on Global Corporate Governance and Proxy Voting applies to Invesco legal entities listed in "exhibit A" of the document available here.

2 The Invesco Group Sustainability Risk policy applies to "financial market participants" and "financial advisers" (as defined in the European Sustainable Finance Disclosure Regulation) within the Invesco group of companies (referred to herein as "Invesco" or "we") which provide services in relation to "financial products" (as defined in European Sustainable Finance Disclosure Regulation)). This includes all fund management companies subject to UCITS or AIFMD, as well as all MiFID investment firms and EU insurance undertakings within Invesco.

Review and Improvement of Stewardship Reporting

Alongside policy reviews and assurance, Invesco has released certain reports to further our commitment to effective stewardship. 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.

For example, we published the third iteration of our Climate Change Report in 2022. This report is published in certain markets, including where it is a regulatory requirement such as in the UK, and is made available to clients in other markets upon request. Our climate metrics reporting continues to expand and align with industry best practice, now incorporating all the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and Partnership for Carbon Accounting Financials[1] methodology. We updated our temperature alignment methodology to the 'Budget method'[2], in line with TCFD's latest recommendations. We used the second vintage of climate scenarios developed by the Network for Greening the Financial System (NGFS)[3] as the basis for our climate scenario analysis. Comparable to those we used in our previous report, these scenarios highlight pathways – for example in reducing greenhouse gases or bolstering cleaner energy sources – and the relevant consequences to climate goals if certain targets are achieved or missed. However, in addition, we completed further scenario analysis using the Inevitable Policy Response's Forecast Policy[3] Scenario. This offers a high-confidence model of policy responses to delayed climate action for an alternative look at the possible impact this could have on the assets in our portfolio.

Invesco is committed to maintaining the highest standards of integrity and accountability in the conducting of our affairs. Invesco ensures our stewardship reporting is fair, balanced, and understandable by taking several actions.

For example, 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 represent different geographies and asset classes. Therefore, case studies can be found in Principles 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.

Additionally, in an effort to provide increased disclosure of Invesco's proxy voting decisions and rationales, the highlighted votes in Principle 12 are a representative sample of the types of proposals evaluated by Invesco during the 2022 proxy season.

Report drafts are often reviewed by several stakeholders including legal, compliance, ESG, Public Policy and communications teams. We also ensure that we communicate with our UK clients by informing them through our UK website.

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.

1 An industry-led partnership to facilitate transparency and accountability of the financial industry to the Paris Agreement.
2 The Network for Greening the Financial System is a network of 114 central banks and financial supervisors that aims to accelerate the scaling up of green finance and develop recommendations for central banks' role for climate change.
3 The Inevitable Policy Response is a climate transition forecasting consortium commissioned by the United Nations-supported PRI, or Principles for Responsible Investment, which aims to prepare institutional investors for the portfolio risks and opportunities associated with an acceleration of policy responses to climate change.

Principle 06

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

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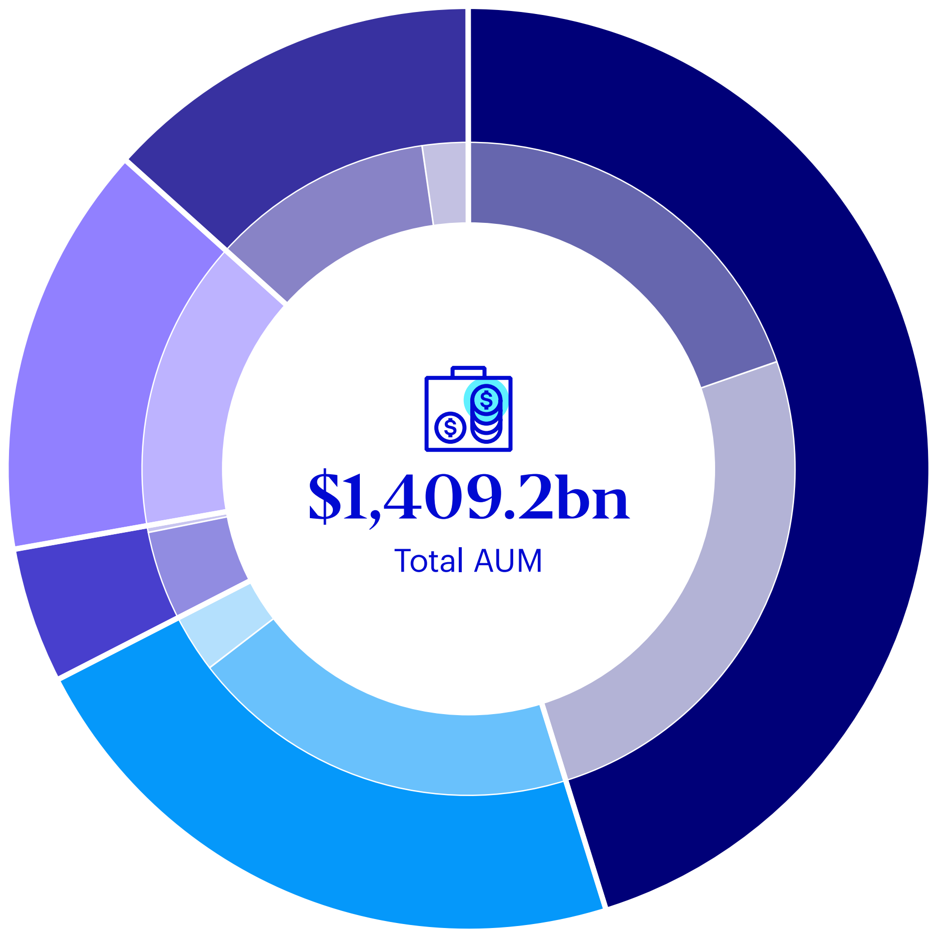
Breakdown of Our Assets Under Management and Client Base

Breakdown of AUM
($bn)

As at 31 December 2022[1]

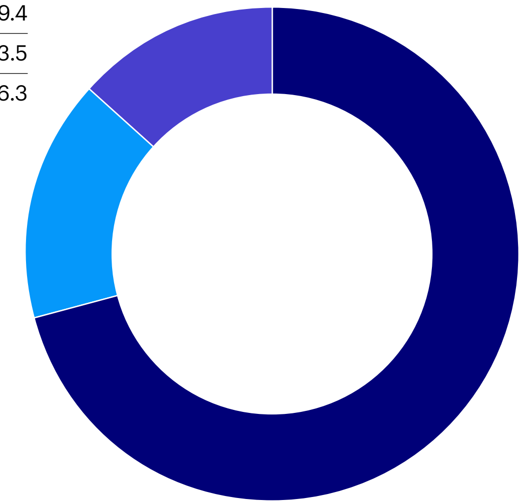
Equity	**637.0**
Active[2]	277.5
Passive	359.5
Fixed Income	**313.7**
Active[2]	273.0
Passive	40.7
Balanced	**67.1**
Active[2]	66.3
Passive	0.8
Money Market	**203.5**
Active[2]	203.5
Alternatives	**187.9**
Active[2]	155.9
Passive	32.0



Geographic Breakdown of AUM
By Client Domicile Q4 2022 ($bn)

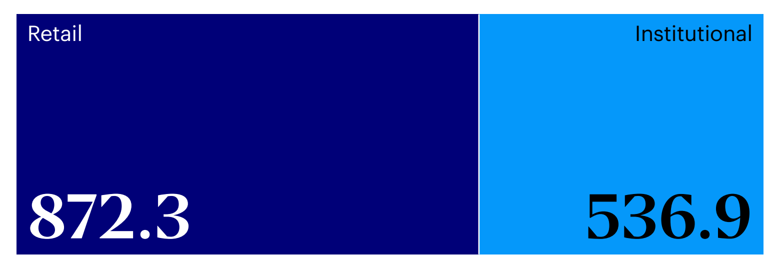
As at 31 December 2022[1]

Americas	999.4
Asia Pacific	223.5
EMEA[3]	186.3



Channel Breakdown
Of our Client Base Q4 2022 ($bn)

As at 31 December 2022[1]



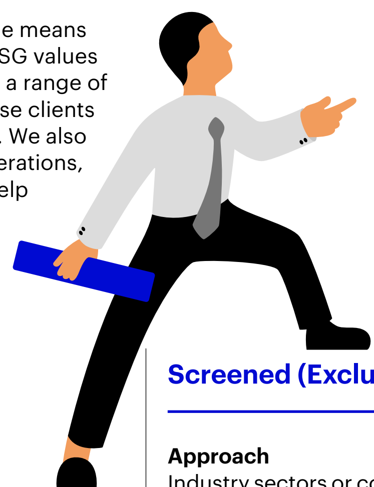
[1] Preliminary – subject to adjustment.
[2] Passive AUM includes index-based ETFs, UITs, non-fee earning leverage, foreign exchange overlays and other passive mandates. Active AUM are total AUM less passive AUM.
[3] From the third quarter of 2022, UK is presented as part of EMEA. EMEA includes UK net long-term outflows of $2.2 billion and $12.9 billion for the three months and year ended 31 December 2022, respectively. Ending AUM of UK as of 31 December 2022 was $44.4 billion.

Our Approach to Clients

Invesco's diversity within its investment strategies is fundamental to offering clients a variety of approaches that reflect their needs. This includes time horizons (please see next page) that may vary depending on the strategy. We have a client-focused approach in the definition, design and delivery of investment solutions.

Defining ESG Approaches

Some of our clients want us to provide the means for them to explicitly express their own ESG values through investment vehicles. We provide a range of ESG-focused capabilities that enable those clients to express their values through investing. We also integrate financially material ESG considerations, taking into account critical factors that help us deliver strong outcomes to clients.



ESG integration

- Consideration of financially material ESG aspects

Screened (Exclusionary)

Approach
Industry sectors or companies excluded to avoid risk or better align with ESG characteristics.

Process

- Safeguards[1] (e.g. an ESG Exclusion framework) or client-led exclusions

Responsible

Approach
Intentionally avoid companies or industries based on ESG characteristics.

Process

- ESG integration
- Safeguards[1]
- Enhanced exclusions (e.g. 0% conventional energy)
- Positive allocation (e.g. eliminate 30% lowest-scored companies from the universe)

ESG labelled

Sustainable

Approach
Intentionally select companies or industries based on ESG characteristics and **optimise to target a declared sustainable feature**.

Process

- ESG integration
- Safeguards[1]
- Enhanced exclusions (optional)
- Positive allocation (optional)
- Best in class to achieve a declared feature (e.g. better ESG or carbon score than the benchmark, thematic approach)

ESG labelled

Integrated process

ESG capabilities

Source: Invesco as of February 2023 . For illustrative purposes only.
[1] Safeguards include factors to ensure alignment with relevant regulatory or disclosure standards.

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Invesco engaged with clients through regular meetings. This approach of direct dialogue allows us to have in-depth conversations with our clients and to understand their current and evolving stewardship requirements. In 2022, the Global ESG team was involved in more than 150 client meetings globally.

During 2022, Invesco partnered with our clients to provide effective solutions that fit their specific needs. 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 market opportunities. For clients who want us to provide the means for them to explicitly express their own ESG values through investment vehicles, these may include identifying potential strategies for ESG conversion or new launches, and introducing innovative ESG investment strategies based on Invesco resources and capabilities.

Case Study

A Customised ESG Integrated Index solution

Invesco takes a client-centric approach to ESG investing, often seeking to co-create strategies and solutions aligned with ESG investment needs and objectives of clients.

As an example of how Invesco has managed assets in alignment with clients' stewardship and investment policies, in 2022, Invesco partnered with a FTSE100 UK insurance service provider on a customised ESG integrated index solution. The client had a 2050 net zero commitment and was interested in a custom index aligned to their carbon reduction programme and net zero approach. Invesco's investment, solutions and ESG teams worked together to create a net zero-aligned index taking into account decarbonisation trajectories, green revenue exposure, overweighting of SBT (Science-based Targets) companies and underweight on non-disclosing companies. Invesco also provided regular research and insights relating to carbon targets analysis for the client. Overall, the strategy was able to meet the client's investment requirements alongside their ESG objectives of reducing emissions below the benchmark.

Image source: Adobe Stock. For illustrative purposes only.

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 the medium-term time horizon.

An example of how chosen time horizons benefit Invesco's clients is shown in a case study from the Henley-based Asia & EM Equities team in Principle 7.

Communicating to Our Clients

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. These include:

Environmental, Social and Governance Investment Stewardship Report
This annual global 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)[1]. 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. In 2022, we made several updates to the report to align with industry best practice, as detailed in Principle 5.

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

Invesco Real Estate (IRE) Global ESG+R Report
This annual global report presents our real estate business' Global Environmental, Social, Governance and Resilience (ESG+R) approach, integration, and key achievements.

Invesco vote disclosure
For more information on our vote disclosures, please visit invesco.com/corporate/about-us/esg. We also provide Invesco's clients with additional reports and disclosures, such as an ESG fund overview, upon request.

Effectiveness of Our Approach to Clients

We believe our methods for understanding client needs were effective during 2022, but we periodically review and look for ways these could be improved. Invesco has multiple regional 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 also why, ensuring we deliver relevant and differentiated experiences.

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 and thought leadership) to identify gaps and opportunities for improvement. In 2022, we continued to gather feedback on digital properties, helping inform our digital experience roadmaps. In 2022, we've gathered feedback from 18,740 advisors, investors and institutional clients in the US. Specifically, in EMEA (UK and Italy) in 2022, we gathered feedback from approximately 480 responses from investors, advisors and institutional investors to date.

On behalf of Invesco's clients in their respective regions, 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 conduct 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 and Cerulli.

In 2022, Invesco Global Consulting conducted an ESG Language survey to identify the right language for financial professionals to use when discussing ESG with their clients. The research used technology to capture the emotional response to ESG language to find ESG words, phrases and messages that resonated with diverse clients. This research has been shared internally to educate key stakeholders on how to have better conversations on ESG.

Additionally, in 2022, we also started gathering feedback related to human-delivered interactions, including the Transfer Agent and Portfolio Consulting teams. To date, we have gathered feedback from over 600 advisors. Invesco's surveys give us insight into our clients' 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.

Invesco's survey results also signal areas we can focus on to meet our clients' stewardship needs. Our 2021 survey of 61 financial advisers and 201 advised investors to get their view on ESG topics indicated 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.[2] In 2022, given these insights, we continued to tailor the content we provide to clients, such as by continuing to enhance the way we communicate our product nomenclature and industry jargon in our 2022 ESG Investment Stewardship report.

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

[1] This report is published in certain markets, including where it is a regulatory requirement such as in UK and is made available to clients in other markets upon request.
[2] Survey conducted January 2021. These findings are specific to the participants who responded and participated in the research.

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

Our commitment to stewardship is a key element of our ambition to be the most client-centric asset manager. 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. Our investment teams integrate stewardship and investment, including financially material ESG issues, in a variety of ways, depending on the asset class and strategy.

Image source: Adobe Stock.

Our ESG philosophy

When managing assets on behalf of UK clients, 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.

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 financially material ESG aspects. The starting point for our company-level 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. Decisions are ultimately made by our investment managers and analysts – the people who know their asset classes and sectors best.

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

1. Materiality

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

2. Momentum

The concept of an issuer's ESG momentum, or improving financially-material ESG issuer performance over time, is particularly interesting in our view.

3. Engagement

We exercise our rights and responsibilities as stewards of capital. We engage with issuers in a constructive manner and use our expertise to cast voting decisions in our clients' best interests.

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Our Proprietary Tools

Tools & Innovation

ESG data continues to evolve at a rapid pace, while the industry also faces challenges such as data comparability and coverage. At Invesco, we believe having quality data on Environmental, Social and Governance (ESG) factors is critical for effective investment analysis to support our stewardship efforts in the area of ESG. In 2022, we enhanced our ESG data and analytics capabilities by building out and updating our proprietary tools – ESGintel, PROXYintel and ESGCentral.

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
- Storing ESG engagement notes
- Facilitates monitoring of issuers' ESG risk profiles

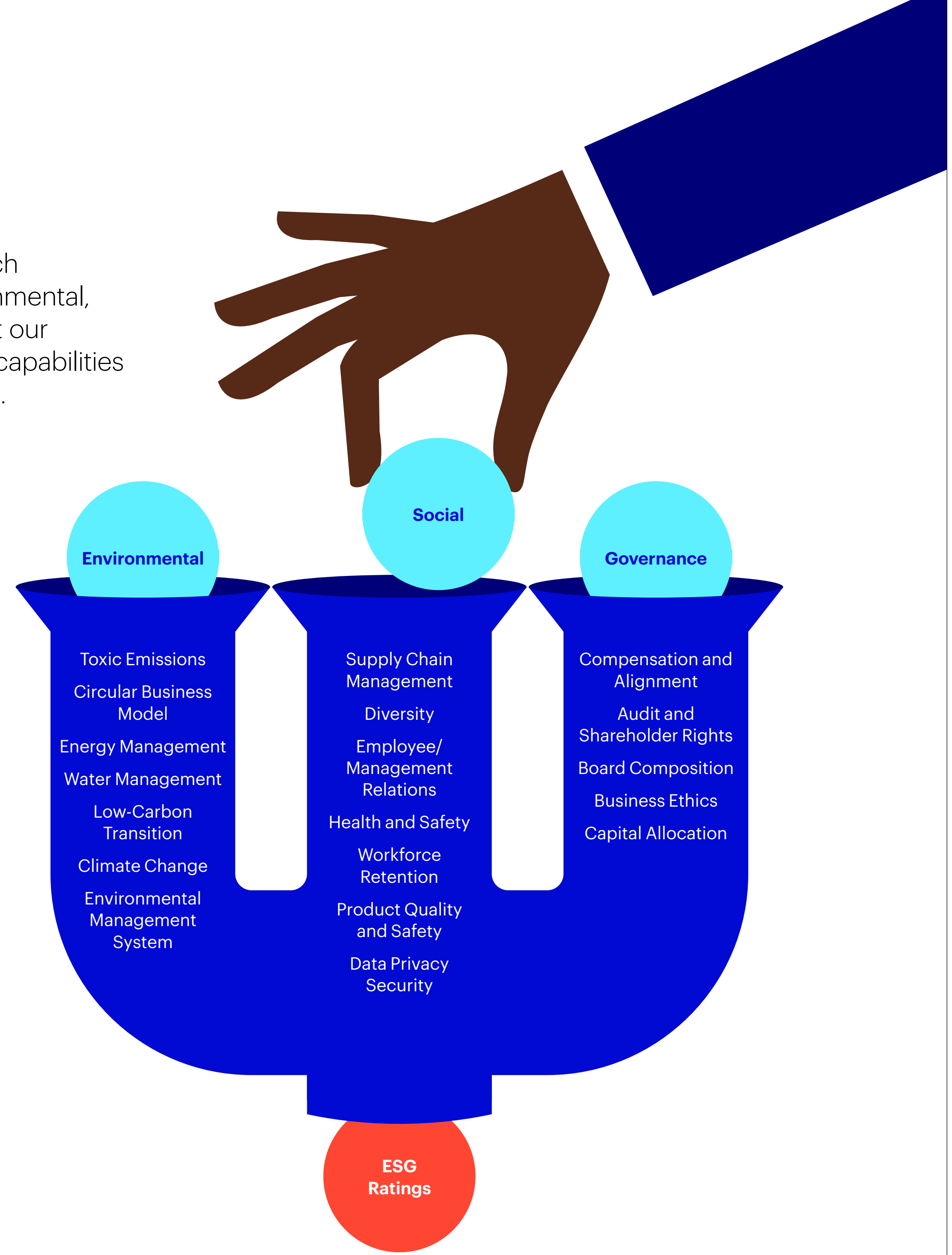
ESGintel Corporate Ratings
ESGintel corporate provides users with ESG ratings based on Invesco's internally-developed methodology, ratings trends and momentum information, and access to the underlying company-level data. Sector and sub-sector materiality lenses are applied within the framework, ensuring that companies are evaluated on the most relevant ESG topics according to their business activities. 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 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. ESG corporate ratings are updated weekly 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.

Not all issuers are covered on ESGintel; currently, approximately 15,000 companies meet our minimum coverage criteria for creating an overall ESG rating. Furthermore, the tool 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.

ESGintel Sovereign[1] Ratings
Responding to feedback from investment teams, Invesco has also expanded ESGintel beyond corporate ratings to cover other asset classes, including sovereign debt. With over 20 inputs, ESGintel sovereign generates a score for countries across E, S and G categories that can then be aggregated into an overall ESG score. ESGintel sovereign provides an internal rating, a rating trend, and a global ranking out of 160 countries. ESGintel Sovereign ratings are updated on a monthly basis.

[1] ESGintel Sovereign was previously referred to as SovereignIntel in our 2021 Stewardship reports.



Research Notes
Another ESGintel platform development means that investment teams can now upload any of their own company-level ESG research 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.

ESGCentral
While ESGintel is primarily used as a research tool at the issuer level, ESGCentral is a platform that includes ESG portfolio analytics and ESG screening.

ESGCentral brings in 40+ ESG data sources, together covering more than 52,000 companies and ESG data metrics, and integrates them with Invesco's ESG 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 tool 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.

FocusIntel
Prioritising Issuers for Engagement
Using ESGintel's research and data points, the ESG research team maintains FocusIntel, a list of the highest ESG risk issuers across all of Invesco's aggregated holdings. Issuers are categorised into High/Medium/Low ESG risk buckets, based on a number of ESG criteria such as ESG ratings, controversy scores, governance data, business involvement data, and United Nations Global Compact (UNGC) compliance status.

Invesco's proprietary tools have built-in feedback processes to encourage continuous improvement, gathering users' feedback regarding issues, observations and requests on sources, data and methodology.

Improving our ESG data and portfolio analysis capabilities is an integral way Invesco can stay abreast of the increasingly complex global sustainable finance regulatory environment. We are seeing a growing number of international initiatives underway that are designed to foster convergence and global consistency. The creation of the International Sustainability Standards Board (ISSB) has drawn a line in the sand for global standards on ESG reporting by companies.

This will go a long way to feeding more standardised metrics and data into our systems. While still mindful of the need to augment and customise them to fit our proprietary views of ESG materiality, our proprietary ESG rating tools will benefit from these trends and continued improvements to data inputs.

	ESGintel	ESGCentral	FocusIntel	PROXYintel
Description of Tool	A research tool integrating third-party ESG data and Invesco's views on materiality	A cloud-native ESG platform to enable our investment teams to have holistic, customised portfolio-level ESG analytics capabilities	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	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	• A list of highest risk ESG companies • Clear indicators of why the issuer is deemed high risk	• Votes cast • Vote rationales
Used by investment teams primarily to	Research a company's ESG profile 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	Identify whether they have a high-risk holding and coordinate with the Global ESG team to organise an engagement	Support the execution of proxy voting decisions, view how other shareholders within Invesco have voted and share knowledge with respect to individual companies and proxy issues

Case Study

Insights into the Henley-based Asia & EM Equities team's ESG framework and use of Invesco's proprietary ESG tool

Invesco's Asia & EM Equities team based in Henley has for decades adopted the investment approach of buying companies for significantly less than they are worth.

It therefore follows that establishing a view on fair value of a company is essential in making good investment decisions and increasingly, given the strong ESG movement over the past several years, this entails incorporating an evolving spectrum of material ESG considerations into its fundamental analysis of companies.

When managing assets on behalf of UK clients, the team employs a holistic approach whereby ESG factors are scrutinised alongside traditional financial and qualitative aspects to form an investment case. During the investment process, the investment team benefits from the tools and insights of the dedicated Global ESG Team, as illustrated below:

Our Asia & EM Equities team
Incorporating ESG considerations

ESG is integrated at many stages of our investment process using the tools and insights from Invesco's Global ESG team...

Identify risks and opportunities uses ESGintel

Team research + **proprietary ESGintel** platform

Quantifying valuations uses ESGintel

Quantifying the **materiality of ESG risks** and opportunities on fair value

Engage leverages PROXYintel and ESG team specialists

Adding value through **active engagement and voting** for positive change

Portfolio review leverages outputs from ESGCentral and ESG team specialists

ESG oversight from **ESG team and CIO** challenge processes

...to help make informed investment decisions and understand portfolio exposures.

Source: Invesco's Henley-based Asia & EM Equities Team manage separate accounts tailored to clients' ESG preferences and provide Luxembourg-domiciled funds in compliance with Article 8 of the Sustainable Finance Disclosures Regulation (SFDR) by adhering to a binding exclusionary framework.

Identifying risk and opportunities
As contrarian investors, the market's overreaction to ESG concerns can be a source of opportunity for the investment team, but they recognise the perils of underappreciating material ESG risks. Are the shares truly overly discounted? Is there scope to improve a company's lagging credentials through engagement? Invesco's proprietary ESG rating tool, ESGintel, is used to help collate valuable non-financial information such as various external ESG ratings, controversies and potential sources of risk worth investigating. ESG-related information is assessed and described in each of the team's research notes and provides a roadmap for future company engagement.

Quantifying the three components of total return
The investment team evaluates companies based on the total returns they can generate over their three to five-year investment horizon. This is driven by three components of return that can each be influenced by ESG considerations, namely: expected business growth; expected change in the fair valuation multiple; and expected dividends expressed as a yield. An ESG-aligned company or underappreciated improver can deliver better business growth and attract a higher valuation than the market is pricing in. Integrating ESG-based considerations at the fundamental level can improve investment decisions.

Engaging with companies
The team believes that buying 'potential for improvement' rather than 'perfection' is compatible with both favourable ESG outcomes and solid investment returns. As such, the team actively engages with company management on ESG issues to help enhance the value of its investments. Where beneficial, it will involve the Global ESG Team during company engagements, thus sharing best practices and insights. An in-house proxy voting platform, PROXYintel, helps ensure the team makes use of its voting rights effectively.

Portfolio monitoring and review
The challenge culture permeates across all investment decisions made by the team (peer challenge, Chief Investment Officer (CIO) challenge, risk team oversight) and ESG is no exception. In addition to informal flags, ESG information is formally raised during the team's semi-annual reviews with the Global ESG team. The team highlights stocks with poor overall ratings and discusses the underlying issues. Stocks that negatively affect the overall ESG rating of the portfolio warrant greater scrutiny and these companies will form part of the team's 'ESG focus list' for further engagement.

Finally, the team adopts a pragmatic approach that places the client at the very heart of what it does. This means generating positive financial outcomes by integrating material ESG considerations at each stage of the investment process and working within the risk and ESG parameters set by clients to meet their needs.

Equities – Henley Equities

Scope: Equity portfolios managed from Henley, UK on behalf of UK clients.

Three principles underpin the Henley investment teams' approach to investing: perseverance, inspiration and progress. Our teams have a commitment to taking risks and believe in being informed by rigorous thought, challenge from our peers and thorough evidence.

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

As part of our ongoing portfolio monitoring and risk management, we have access 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.

Image source: Getty Images.

Equities – Invesco Japan Equities

Scope: Equity portfolios managed by Invesco Japan on behalf of UK clients.

Invesco Japan takes a high-conviction fundamental active approach from a long-term perspective based on insights of a team of eight seasoned Japanese equity experts with an average of over 20 years of industry experience on the ground in Tokyo.

At Invesco Japan, when managing assets on behalf of UK clients, 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.

Invesco Japan has also internally developed a Proxy Voting Guideline to cast and manage proxy votes.[1] 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.

ESG integration to make an investment decision utilising both financial and non-financial information is the heart of active investing with a focus on long-term corporate value. There is a multitude of ESG/sustainability materiality, challenges and themes. ESG engagement is crucial to strengthen conviction in investment decisions from a long-term perspective, contributing to reducing a company's risk premium.

We believe that companies' ESG strategies and performance affect the sustainability of long-term corporate value growth significantly. In other words, as a long-term investor, we believe that ESG analysis plays a crucial role to strengthen conviction in investment decisions. Therefore, in making final investment decisions, we place the significance on qualitative analysis, including ESG strategies assessment, on top of fundamental research based primarily on financial information. We conduct ESG analysis based on information obtained through constructive dialogue with companies, as well as other sources, including companies' disclosures, third-party ESG research, and so on. In this process, we seek to identify the material ESG issues of each company. We do not make investment decisions solely based on ESG information but deem it one of the important factors to determine the sustainability of corporate value creation.

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

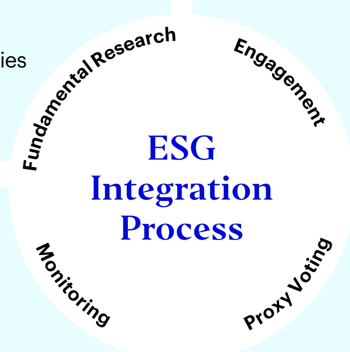
[1] Due to regional or asset-class specific considerations, certain Invesco entities (Invesco Asset Management (Japan) Limited, Invesco Asset Management (India) Pvt. Ltd, Invesco Taiwan Ltd and Invesco Capital Markets, Inc. for Invesco Unit Investment Trusts) may have local proxy voting guidelines or policies and procedures that differ from this Policy. In the event that local policies and the Global Policy differ, the local policy will apply.

ESG Integration

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

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

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

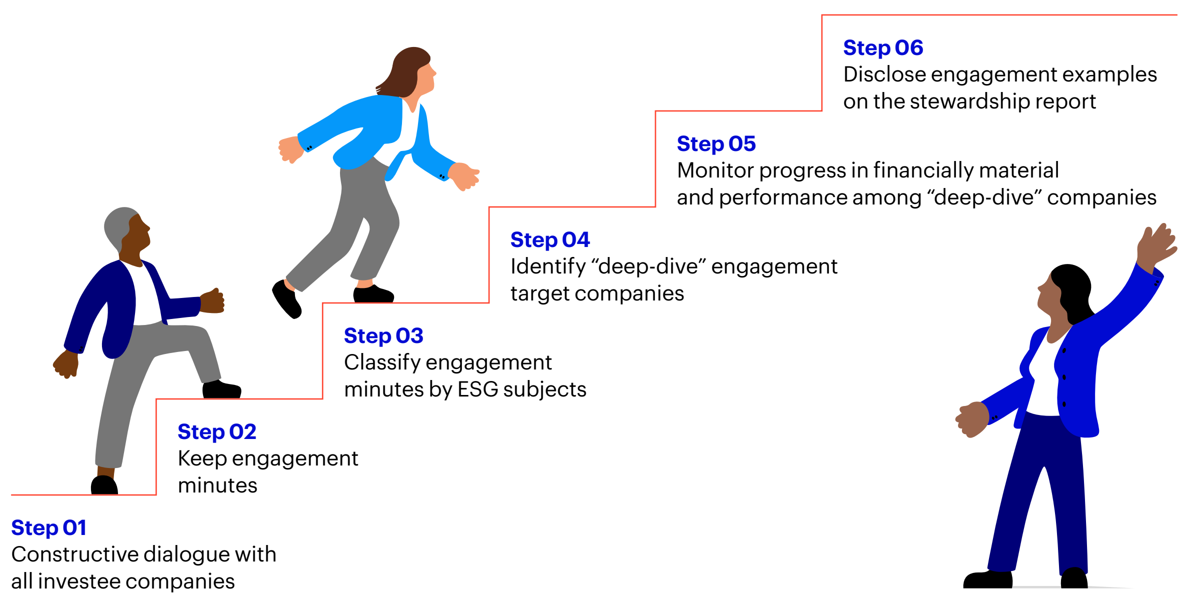


- Regular portfolio review including ESG risks
- Regularly monitor stewardship activities including engagement and proxy voting on ESG issues
- In-house ESG Score

- 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.

Our Engagement Process Step by Step



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Equities – Invesco Asia ex-Japan Equities

Scope: Equity portfolios managed by Invesco's Asia ex-Japan team on behalf of UK clients.

When the Invesco Asia Equity Investment team researches and selects stocks in their investment process, the team considers several factors including transparency and communication (corporate access), corporate culture (management style/mentality), strategy (business model, competitive product/service), financial disciplines and capital structure, risk management, governance, ownership, as well as financially material ESG issues.

We believe that ESG issues can have an impact on sustainable value creation and that companies with ESG potential may present investment opportunities. When managing assets on behalf of UK clients, 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 (five 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 for 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 financially 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 (SDRN) 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 and that the fundamentals and ESG factors did not change.

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 the risk profile periodically to ensure overall quality and integrity.

Image source: Getty Images.

Fixed Income 1

Scope: Fixed income portfolios managed from Henley, UK (Henley Fixed Interest) on behalf of UK clients.

The Henley Fixed Interest team believes that active investment management can deliver competitive risk-adjusted returns relative to benchmark indices. The team believes that fixed interest markets continually present opportunities for active managers to outperform indices.

For example:

- Yields and spreads[1] can be too high or too low relative to the risk.
- Investors with different objectives such as central banks or pension funds can distort prices.
- Some investors can have rigid investment constraints that obliges selling at the wrong time.

By exploiting these opportunities through fundamental analysis and a strong emphasis on valuation, the team aims to deliver consistent, long-term outperformance under most market conditions.

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, and are integrated into the credit analysts' holistic assessment of issuers. 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. Several portfolios have been converted to SFDR Article 8 (portfolios that promote among other characteristics, environmental or social characteristics). However, the Henley Fixed Interest team considers financially material ESG risk factors across the wider range of portfolios. 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.

Image source: Adobe Stock.

The team's portfolios are reviewed by the ESG team on a biannual 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 risks 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.

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.

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 risks and opportunities feed into the assessment of a bond's relative value.

Along with continuing to monitor for material ESG issues, the credit analysts, along with the global ESG team, engage with issuers to discuss progress on ESG issues. In 2022, the Henley Fixed Interest (HFI) team conducted a dedicated thematic ESG engagement series on the banking and auto manufacture sectors. The overall theme of the banking engagement was climate risk, however each engagement was tailored to the issues most relevant to that issuer. Topics ranged from exclusionary lending policies and the setting of Science Based Targets to understanding how these commitments are being linked to executive remuneration. The auto manufacturers series focused on the transition to electric vehicles and the ethical sourcing of raw materials.

[1] Spread is the difference between the yield (return) of two different debt instruments with the same maturity but different credit ratings.

Fixed Income 2 – Sovereign Debt

Scope: Invesco Fixed Income's (IFI) portfolios managed on behalf of UK clients.

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[1] 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. 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 historical (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 relevant for 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.

[1] Spread is the difference between the yield (return) of two different debt instruments with the same maturity but different credit ratings.

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.

Scope: Invesco Fixed Income's (IFI) portfolios managed on behalf of UK clients.

IFI's credit research is a critical component of our efforts to produce strong results for clients. 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.

Alongside their fundamental financial analysis, IFI's credit analysts are tasked with understanding the financially material ESG drivers for the companies they cover and conducting ESG-based analysis. The starting point for ESG assessment is at the industry level. Our Global Sector analyst teams set out common ESG risk factors for each industry, and individual analysts then 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.

Issuers receive 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, for client accounts and portfolios with stated net zero objectives, we implemented assessments of net zero alignment in our corporate bond research process. This approach follows the Net Zero Investment Framework developed by the Institutional Investors Group on Climate Change (IIGCC).

IFI's process to assess the net zero alignment of issuers

For client accounts and portfolios with stated net zero objectives

Net Zero Alignment Spectrum

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

Key Components Assessed

01 Net Zero Ambition
The company has set a long-term goal consistent with achieving net zero emissions by 2050.

02 Emissions Targets
The company has explicit short- and medium-term emissions reduction targets covering its scope 1, 2 and material scope 3 emissions.[1]

03 Emissions Performance
The company demonstrates that its current emissions intensity performance meets targets that it has set with reference to climate science-based approaches.

04 Disclosure
The company discloses its scope 1, 2 and material scope 3 emissions.

05 Decarbonisation Strategy
The company has a quantified plan setting out measures deployed to meet its greenhouse gas (GHG) reduction targets, proportion of green revenues and increases in green revenues.

06 Capital Allocation Alignment
The company's capital expenditures are clearly consistent with the goal of achieving net zero.

Source: IIGCC. For illustrative purposes only.

[1] Scope 1 emissions refer to direct emissions from a company's owned or controlled sources. Scope 2 emission refers to indirect emissions from purchased or acquired energy. Scope 3 emissions refer to all indirect emissions that occur in the value chain of a reporting company.

Direct Real Estate

Scope: Direct real estate portfolios managed by Invesco Real Estate (IRE) on behalf of UK clients.

Real estate investments provide an opportunity to implement ESG strategies that deliver tangible and measurable outcomes, given the nature of the asset class and level of influence in directly managed and owned assets.

At Invesco Real Estate, when managing assets on behalf of UK clients, we believe that a deliberate and disciplined approach to ESG+R (environmental, social, governance and resilience) can successfully balance responsible investment objectives while meeting the needs of clients and fulfilling our fiduciary responsibilities, focused on driving good performance. This philosophy is based on the belief that ESG+R aims to deliver competitive financial returns and provides opportunities for business growth and innovation.

We work with our partners to promote best practices when it comes to ESG solutions in real estate. This enables us to respond to changing market dynamics for greater levels of engagement and transparency. We incorporate ESG factors to mitigate portfolio risks.

Examples of integrating ESG factors include:

- achievement of net zero-certified buildings by maximising building energy efficiency with technology, producing on-site energy and promoting clean transportation;
- renovation of buildings, minimising our embodied carbon by sourcing materials locally and reusing existing building structures;
- engagement with our tenants to collaborate on improving well-being and environmental performance to reduce costs;
- focusing on amenity and development of communities, creating spaces where people want to live, eat, work and play.

We provide additional data and insight to teams making investment decisions so they are equipped with a broad spectrum of data to understand emerging risks and opportunities for value creation.

Carbon emissions and climate change, the impact of residential and commercial property development, the far-reaching effects of deforestation – all provide opportunities to demonstrate the benefits of identifying and effectively managing financially material ESG risks. Managing the sustainability performance of buildings is imperative with the changing dynamics with how tenants live in and use their real estate assets.

Greater possibilities together as responsible investors

ESG+R Framework to drive performance

Environmental

- Manage utilities to **reduce costs**
- **Optimise operations** with cost-effective measures and technology
- Implement sustainability **certifications**

Social

- Support **Diversity and Inclusion**
- Local **community engagement**
- **Engage with property managers** on ESG issues
- Focus on **healthy, active and adaptable spaces** for tenants

Governance

- Oversight via **Global ESG+R Committee**
- Integration of ESG+R **risk acquisition assessment**
- Regulatory oversight for **reporting and performance requirements**
- **Annual disclosure** (GRESB, PRI)

Resilience

- Physical risk **due diligence analysis** (sea level rise, floods, hurricanes, wildfire, earthquakes, heat stress and water stress)
- **Monitoring of transition risk** exposure to a low-carbon economy

Invesco Real Estate Securities (IRE)

Scope: Listed real asset portfolios managed by Invesco Real Estate (IRE) on behalf of UK clients.

When managing assets on behalf of UK clients, we recognise the fundamental importance of ESG principles and their potential impact on the performance of the assets clients entrust us to manage.

ESG+R has been Invesco Real Estate's fundamental commitment for many years. This commitment means we work together with our partners to improve ESG performance and promote best practices. As such, recognition of asset quality, sustainable financing, long-term corporate strategy and wider considerations around the impact the built environment has on society and the natural world are factors that 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 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 an important measure of risk management.

A desire to maintain portfolios of investments that 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 included 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 may reduce 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.

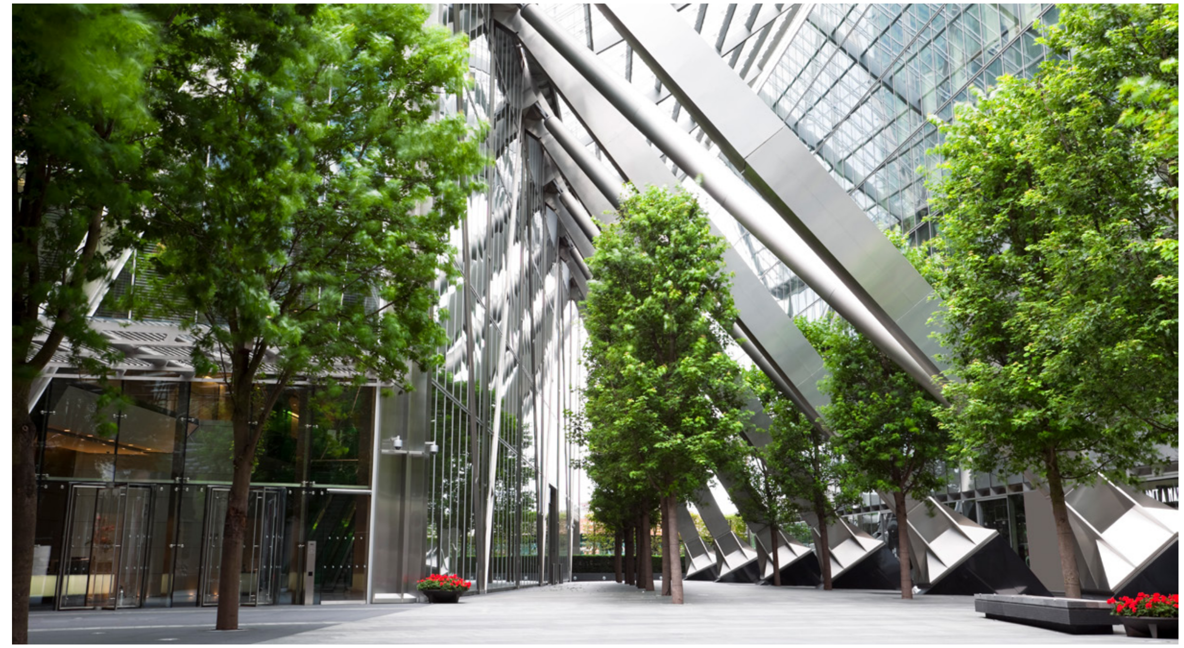


Image source: Getty Images.

An overview of the Invesco Real Assets approach

Investment process

- Exclusion screen and proprietary ESG Ratings identifies companies with positive ESG attributes in each sector
- Fundamental screening combines market-strength analysis with ESG-specific factors to determine relative investment attractiveness

Engagement

- Direct engagement offers a platform for long-term strategy and key governance issues discussion
- Core component of research process and company-specific discussions

Proxy voting

Source: Invesco Real Assets.

Senior Secured Loans

Scope: Senior secured loan portfolios managed on behalf of UK institutional clients.

Invesco manages senior secured bank loans on behalf of UK institutional clients. 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.

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 and began incorporating this into our credit process in 2018. 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.

Image source: Adobe Stock.

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 has met institutional clients' objectives. 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.

Invesco Quantitative Strategies (IQS)

Scope: Multi-factor portfolios managed by Invesco Quantitative Strategies (IQS) on behalf of UK clients.

Image source: Getty Images.

The Invesco Quantitative Strategies (IQS) team is committed to adding value for clients through the systematic application of factor investing. The IQS team believes that certain factors such as Value, Momentum and Quality explain wide parts of both returns and risks in equity markets.

The team has been implementing broadly diversified multi-factor strategies over more than 30 years, seeking to capture factor premiums[1] irrespective of the prevailing market environment and timing considerations.

IQS acknowledges that ESG risks and opportunities may become potential drivers of future returns, which might not have materialised in historic data and covariances. As part of the investment process, IQS focuses on robust ESG integration. Financially material ESG aspects are considered and the IQS team has continuously developed and broadened its 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. When managing assets on behalf of UK clients, the team offers a holistic ESG approach, taking financially material ESG factors into consideration systematically at various levels of its 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, so that the portfolio's ESG exposure meets the standard of the benchmark's ESG exposure. This constraint is implemented in the optimisation set-up 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) as our research indicates an underperformance of affected 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. Furthermore, all portfolios can be managed to achieve an explicit carbon footprint reduction relative to the benchmark or universe. Within IQS's multi-asset product range, we facilitate the application of sustainability criteria to fixed income instruments using sustainability ratings. To assess an issuer in terms of these criteria, a large number of indicators are used from the area of political and social issues, as well as environmental issues. These are combined into an overall rating. For sovereign bonds, 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.

[1] Factor premiums are the returns explained by it exposure to factors.

Multi-asset

Scope: Henley Multi-Asset team's portfolios managed on behalf of UK clients.

As macro investors and asset allocators, the Henley Multi-Asset team takes a top-down view of asset classes and markets, implementing these views via bottom-up portfolio selection decisions.

One element of this investment approach is the consideration of ESG factors.

ESG is normally focussed on and well understood within listed equities, 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, the world is evolving and important steps have been taken to incorporate ESG consideration within more multifaceted portfolios. At Invesco, when managing assets on behalf of UK clients, we feel we have been towards the forefront of incorporating ESG considerations in the multi-asset and macro investment community.

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 for instance, impact the perceived country risk of a particular economy, while social factors such as 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. 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.

The extent to which ESG factors are considered varies by strategy.

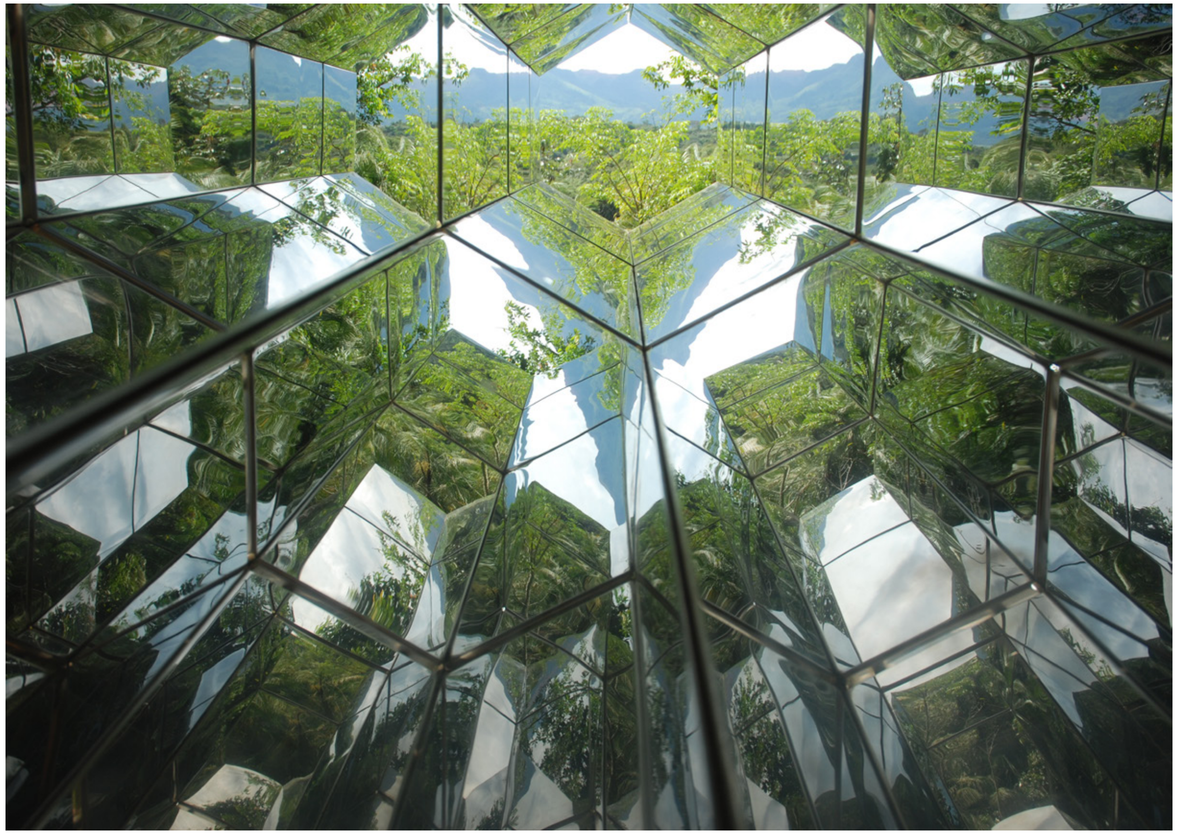


Image source: Adobe Stock.

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 that 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 as well as 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 stewards of capital very seriously and see engagement as an additional tool to ESG integration to promote long-term sustainable value creation. 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, or sponsoring service provider engagement.

Principle 08

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

Invesco leverages many internal resources and external tools to enable capabilities across asset classes. Our investment teams who manage strategies using a diverse range of approaches may supplement proprietary research at the regional, sector, industry and company levels with information from third-party service providers.

These include ESG research providers, proxy advisory firms and trade associations, as shown in Principle 7. 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.

Image source: Invesco.

How we onboard external service and data providers

In reviewing third-party data providers, Invesco considers various factors such as whether the data provided is the most up-to-date information available prior to integrating the data into our investment decision-making framework.

Invesco's MDS (Market Data Services) team works with stakeholders across Invesco to identify data sets or vendors to meet our investment teams' needs. They focus on understanding how the data is licensed by the external service providers and advise the business on potential commercial efficiencies during licensing negotiations. For example, Invesco's MDS team may examine how the data is licensed across different geographic locations or legal entities to target the best possible value for any new data set. As of 31 December 2022, Invesco's MDS team manages some 800 licensing arrangements for over 260 data vendors, including Bloomberg, FactSet and MSCI.

Specifically for ESG-related data vendors, the Global ESG team along with various stakeholders may review various vendor offerings, and do due diligence on methodologies and coverages (for example, to select a data vendor offering on Sustainable Development Goal (SDG) data). The stakeholders present their findings to the ESG Data and Technology forum (introduced in 2022) and seek approval of their recommendation. Once approved, the vendor is onboarded. Invesco's MDS 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.

How the services have been delivered to meet our needs

Through the described monitoring mechanisms, in 2022, Invesco has been broadly satisfied with how third-party services have been delivered to meet our and our clients' needs and expectations.

Our exact process for determining effectiveness varied based on the service the third party is providing. For example, our ESG data providers' data is integrated into our proprietary tools, including ESGintel and ESGCentral, and complements our teams' research and analysis processes, as is further explained in Principle 7. From many ESG data providers, we also receive ESG thematic reports, research, ratings and data, which enhance our research capabilities beyond the issuer level. Users of ESGintel and ESGCentral, including the investment teams and the Global ESG team, may discuss feedback on the effectiveness of the service providers integrated into the tools. Alternatively, for our proxy advisers, we review their voting recommendations and voting research quality. For example, in December 2022, the Global IPAC reviewed summaries of the ISS benchmark policy updates for 2023 and the Glass Lewis voting guidelines updates for 2023. A case study of our due diligence with the proxy advisory firms is included on the next page. 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.

How we monitor external service and data providers

Invesco monitors external service and data providers.

For example, as mentioned in our 2021 UK Stewardship Code report, Invesco's monitoring of service providers has been further formalised and enhanced in 2022 through the development of our ESG Data Governance model.

In 2022, we introduced a Data and Technology ESG forum. This working group is led by an ESG Data Product Owner with the enterprise data team. This ESG data governance model has enhanced Invesco's ability to monitor service providers and evaluate the quality of services provided.

We have implemented:

Vendor Governance Cadence
Invesco meets monthly with five major data vendors to:

- Procure the latest data dictionaries, methodologies, and sample data for internal alignment.
- Escalate data issues received from the business teams to drive resolutions.

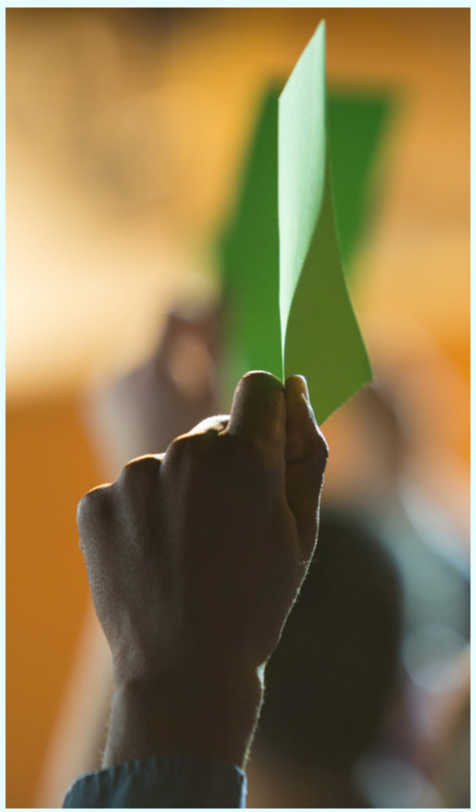
Increasing Automation of Data Controls

- Implemented automated data quality checks of timeliness, file format consistency, and field values checks (values within range) on 15–20 Sustainalytics raw files. We are working on automating similar checks on ISS, MSCI, Moody's ESG, Clarity AI, Planetrics, Bloomberg and CDP raw files.
- Month-over-month variance checks are run to ensure appropriate coverage of issuers and consistency of data received from vendors such as Sustainalytics, Clarity AI, MSCI, ISS and Moody's ESG.

Case Study

2022 Due Diligence meetings with proxy advisory firms

Due diligence monitoring is core to our process 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 2022.



In 2022, the reviews focused on:

- organisational updates
- the capabilities of their research staff, methodologies for formulating voting recommendations
- IT infrastructure & business continuity
- internal controls, policies and procedures, including those relating to possible conflicts of interest (compliance & risk)
- product updates

As a result of the due diligence questionnaire and conversations, the proxy advisory firms provide Invesco with more information on their policies, procedures and practices (including inherent conflicts of interests). This additional information can lead to improvements in the service providers' deliverables, such as additional data points in delivered files.

Image source: Adobe Stock.

Actions we take when our expectations are not met

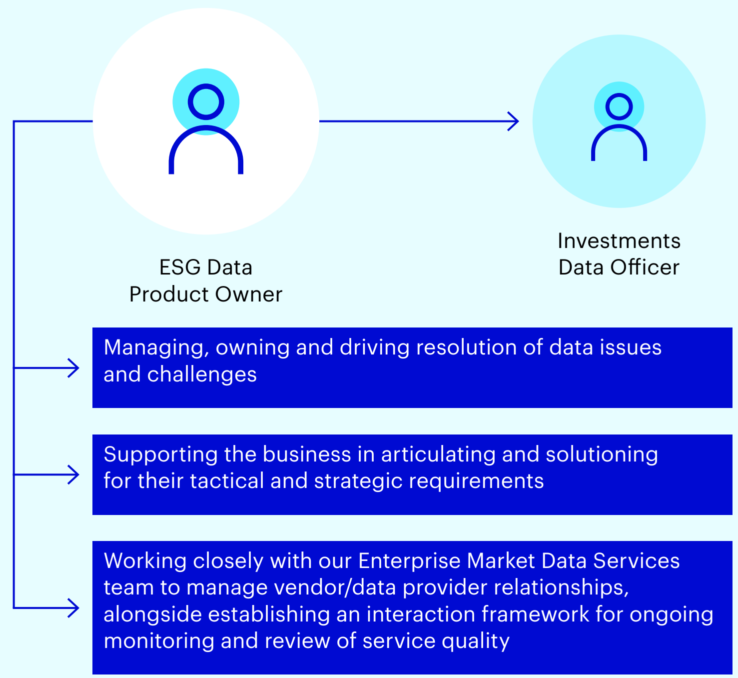
Where gaps have been identified or our expectations are not met, we have either resolved the issue with the vendor or onboarded new service providers.

Our Global ESG team provides additional support to ensure that our ESG service providers facilitate our increasing ESG capabilities and meet our clients' needs. Invesco recognises that ESG research and data are evolving at a rapid pace. We explore new data sets and approaches that can provide enhanced insights into ESG themes. For example, in 2022, we onboarded a new ESG data provider looking at human rights in supply chains. The new ESG data provider assesses exposure to child human rights in the marketplace and workplace for over 800 global companies, across nine sectors and various regions.

This is another way we assess our effectiveness of serving the best interests of clients, as discussed in Principles 1 and 6.

Our ESG Data Governance Model

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



The ESG Data Product Owner is supported by a team of 'hands-on-keys' Data Stewards, who are 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 a Data and Technology ESG forum 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.

Principle 09

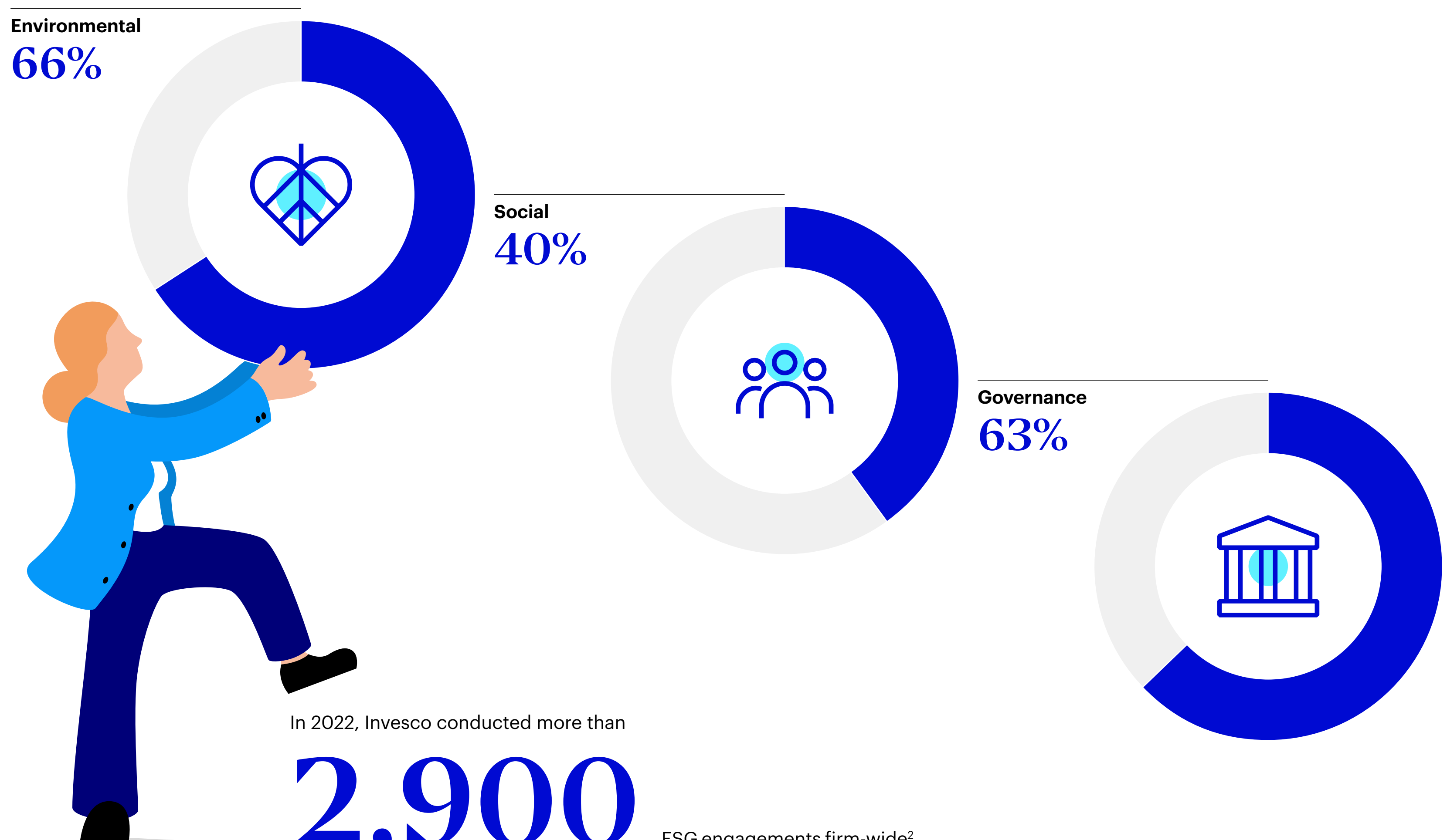
Signatories engage with issuers to maintain or enhance the value of assets.

Engagements

Dialogue is core to the investment process. As active owners and good stewards, Invesco considers engagement with issuers as a powerful and effective tool to promote long-term sustainable value creation, for the benefit of our clients.

For issuers that have financially material ESG risks, engagements may include dialogue on ESG matters. ESG engagements are defined as contact with issuers on ESG matters in the form of direct dialogue or information requests.

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



In 2022, Invesco conducted more than

2,900

ESG engagements firm-wide[2]

[1] Percentages don't add up to 100% because Invesco may engage with an issuer 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. The percentages were approximated, where appropriate, from a sample of 38% (over 1000) of engagements (for which the E,S,G category was disclosed or can be derived from the documentation) from our firm-wide total of over 2,900 in 2022.

[2] The Global ESG team uses both their own and investment team documentation to calculate this figure on an annual basis.

Our Engagement Process

Invesco's approach to engagement is investment team-led, which is defined as where investment teams participate or approve dialogue with issuers. The engagement case studies included in this report demonstrate how Invesco's engagement approach varies according to geography and asset class, and by investment team. These examples can be found in Principles 7, 9, 10, and 11.

We believe a successful engagement is...

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

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 issuers' progress towards sustainable value creation is documented through engagement reports and case studies, so we can build on momentum of previous engagements.

How we select and prioritise engagement

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. Investment teams may identify an issuer to engage with based on several factors, including management, corporate strategy, transparency and capital allocation, as well as financially material ESG risks and the size of the holding.

To support ESG engagements specifically, the Global ESG Research team also maintains an updated engagement focus list, using our proprietary tool FocusIntel. This list tracks holdings utilising data inputs that include absolute ESG ratings, UN Global Compact compliance, carbon operations, governance ratings, shareholder dissent in proxy voting, and ownership materiality of the holdings. For more information on FocusIntel, please refer to Principle 7.

Engagement Objectives

We believe the success of any engagement is dependent on having clear and consistent engagement objectives. To make the most of limited time with management teams, we prioritise key issues per internal and external resources. We take a bottom-up approach, which means that the topics covered and our objectives are specific to each issuer. For example, in case study "Human Capital Management", the objective of the engagement was to seek clarification on the IT system issuer's approach to human capital management during its business reform. Additionally, in the case study "Multi-year dialogue on capital allocation", the investment team's objective was to voice concerns over the issuer's plan to invest in a failing subsidiary.

Engaging management teams 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 believe peer-to-peer dialogue is the most productive form of engagement and we will primarily engage via direct means of communication. However, we recognise that each situation is unique and as such we make use of several different methods of engagement.

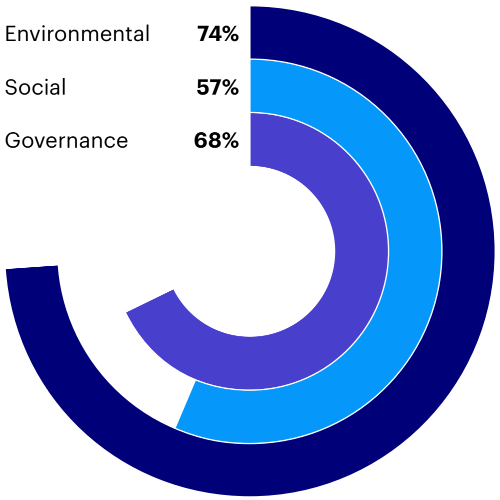
As a large global asset manager, our investment teams are often located in different cities, regions and time zones (as detailed in Principle 2). As such, we have found the most effective (and most often used) methods of engagement to be video calls and phone calls. These methods facilitate collaboration and dialogue among more stakeholders in our global teams. In 2022, Invesco also made use of written correspondence, including letter writing and email correspondence.

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

2022 ESG Engagement Statistics

These statistics relate to the ESG engagements that the Global ESG team participated in and documented the engagements, a sub-set of the firm-wide statistics provided earlier in the Principle.

% of ESG engagements[1]



2022 ESG sub-topics

% of ESG engagements[1]

Environmental

Air pollutant emissions	8%
Biodiversity and ecological impacts	10%
Circular economy	7%
Climate change and low-carbon transition	65%
Climate lobbying	3%
Deforestation	2%
Electrification	4%
Energy efficiency and renewable energy	30%
Green financing	14%
Natural capital	2%
Physical climate change risks	12%
Plastics and packaging	7%
Product sustainability	6%
Recycling	4%
Water and wastewater management	7%

Social

Diversity and inclusion	18%
Cybersecurity	5%
Workforce relations and pay	21%
Product quality and safety	16%
Data privacy	6%
Community relations	11%
Licence to operate	4%
Human rights	6%
Operational health and safety	14%
Supply chain management	8%
Forced labour	1%
Advertising practices	2%
Racial equity	6%
Sexual harassment	1%

Governance

Board leadership	31%
Board composition	19%
Shareholder rights	4%
Executive compensation	36%
Compliance systems and business ethics	13%
Regulatory environment	6%
Sustainable capital allocation	12%
ESG disclosure	27%
Audit and internal controls	6%
Related party transactions	0%
Anti-takeover devices	1%
Systemic risk management	10%
Succession planning	3%
Related party transactions	0%

[1] These percentages relate to ESG engagements where the Global ESG team has directly engaged with the issuers (~267 engagements). Percentages are approximated where appropriate and don't add up to 100% because Invesco may engage with a company multiple times on ESG-related topics and engagements often cover more than one theme.

Case Study

Human capital management

A Japanese IT System company

Issues Addressed
Human capital management

Method of Engagement
Video Call

Issue
An IT system issuer aimed to achieve a drastic business reform. Accordingly, the issuer's free cash flow generation and capital policy improved. However, at the same time, several troubles with its clients' IT systems and supply chain disruptions raised worries over quarterly earnings.

Action
Invesco Japan engaged with the issuer and communicated that although Invesco strongly supported the issuer's direction to make reform efforts, such drastic shifts in working environments might cause confusion and distortion. The top management reiterated that human capital management reform was important as a premise of business restructuring. The issuer also explained the purpose of the human capital reform.

Outcome
The issuer showed an ambitious plan to revitalise human capital by adjusting its hiring practices, reskilling or early retirement programme. Through a series of challenges, the issuer has shown an improvement in its profitability as well as top-line growth.

Next steps
Invesco thought highly of the progress in business restructuring under the top management's commitment, despite some challenges and disruptions. While the issuer's earnings trend has turned positive, Invesco will continue to examine earnings growth over time.

Source: Invesco. For illustrative purposes only.

Case Study

Multi-year dialogue on capital allocation

An Indian automotive manufacturer

Issues Addressed
Capital allocation, board structure and independence

Method of Engagement
Video Call

Issue
The Henley Asian and EM Equities team has been engaging with the issuer for multiple years, since low-return overseas investments and non-core businesses were flagged up in the team's initial analysis. The team has consistently communicated their concerns to the board. The most striking example was its shareholding in a Korean car manufacturer in which in 2020 the company was asked to supply an additional USD400 million to keep it afloat and make it profitable by 2022. In the team's view, this was a poor use of shareholder capital considering the subsidiary was in irretrievable decline.

Action
In 2020, as a shareholder, the Henley Asian and EM Equities team actively engaged with management on these issues and interpreted management's subsequent decision to reverse course (i.e. not to invest in the failing subsidiary) as a positive development.

Since then, the investment team continued its dialogue with the issuer, reiterated timeline for disposal of the issuer's shareholding in the struggling Korean car manufacturer, and more recently in 2022, has engaged with the issuer on its defence-related exposure and EV product plans.

Outcome
The company reshuffled the senior management team (including the board) and produced a set of strategies to achieve long-term allocation efficiency.

In the investment team's view, the company's renewed focus on improving corporate governance practices and delivering better shareholder returns was a positive development that had scope to improve its growth prospects and perception in the market. Our engagement helped to establish that our governance concerns were being overly discounted, and the company acknowledged that we played a part in their decision to refrain from further malinvestment in their subsidiary.

In 2022, the company's share price and valuation re-rating was increasingly pricing in the recovery in profitability from an upcycle in tractors, and its SUV business is now recognised as being on a stronger footing. The team thus sold the position with the share price having reached their estimate of fair value.

Purchasing the holding during a period of uncertainty, partly due to capital allocation and governance concerns, and adopting a multi-year constructive dialogue with the issuer led to a positive investment experience for clients.

Source: Invesco. For illustrative purposes only.

Case Study

Decarbonisation and supply chain risk

A European automobile manufacturer

Issues Addressed
Electrification, decarbonisation, human rights

Method of Engagement
Video Call

Issue
The Henley Fixed Interest (HFI) team met with the issuer's investor relations to discuss their corporate strategy, electric vehicle (EV) transition, supply chain risks and decarbonisation strategy.

Action
The issuer has a European strategy to only sell EVs post-2030 where market conditions allow. The team wanted to get a better understanding of what market conditions would be required for this goal to be met. The issuer highlighted that one of the biggest challenges facing the industry was the build-out of the charging infrastructure. To help facilitate this roll-out, they've partnered with two charge point partners to create a charging network to support their fleet.

Although the issuer's EV targets are ambitious, we were concerned they weren't taking appropriate steps to manage their supply-chain risk, particularly around the sourcing of cobalt, a key component in battery production. The issuer pointed to their goal of sourcing all their cobalt from mines certified by the Initiative for Responsible Mining Assurance (IRMA), however, they stressed there is currently not enough supply from these mines to meet demand.

The team understands the difficulty in sourcing ethical cobalt given the surge in demand and lack of regulation in the regions where cobalt is mined. However, the team pointed to sector peers that have committed to only sourcing from regions where employees are afforded better rights. The issuer agreed to continue to make progress in this area and follow up with the team in early 2023.

The team also wanted to address the steps the issuer was taking to manage the increased emissions associated with EV production. The issuer reassured the team that they've set a 2030 target of a 50% reduction in their production and a 42% reduction in their use emissions, which have both been validated by the Science Based Targets initiative.

Outcome
The team had the opportunity to gain clarity on the market conditions necessary for the issuer to achieve their EV targets. This is important for tracking the issuer's progress and benchmarking them against peers.

Since engaging with the issuer, they have released a new supply chain report covering seven raw materials essential to the transition, including cobalt and lithium. For cobalt, the issuer has implemented a third-party auditing project that aims to increase human rights awareness and has also put in place contractual agreements with their battery cell suppliers, mandating that in the future they purchase cobalt exclusively from sources audited by IRMA. For lithium, the issuer has identified that environmental and human rights risks could exist within their supply chain.

To address these concerns, the issuer commissioned a study with other market participants to further understand the risks in Chile, a main supplier, and established the Responsible Lithium Partnership to develop an effective and targeted action plan.

Next steps
In 2023, the team plans to continue engaging with the issuer to track the implementation of their updated supply chain policies and the progress they are making towards their EV production goals.

Source: Invesco. For illustrative purposes only. Whilst the Henley Fixed Interest (HFI) team considers ESG aspects they are not bound by any specific ESG criteria and have the flexibility to invest across the ESG spectrum from best to worst in class unless the fund is classified as an ESG-focused product.

Principle 10

Signatories participate in collaborative engagement to influence issuers where necessary.

Invesco participates in some organisations that facilitate dialogue with issuers, including the Investor Forum in the UK.[1]

In 2022, Invesco's Henley European Equities team and ESG analysts participated in an engagement facilitated by the Investor Forum in the UK. The Investor Forum is a not-for-profit community interest company set up by institutional investors in UK equities. The Forum provides a unique engagement facility that sits at the heart of UK equity markets and helps investors work collectively to escalate material issues with the Boards.

Please refer to the following case study.

[1] Invesco also participates in Climate Action 100+ (engaging with issuers in Europe and the Asia Pacific region) and the Investor Mining and Tailings Safety Initiative.

Case Study

An Engagement with the Investor Forum in the UK

A UK multinational consumer goods issuer

Issues Addressed
Board effectiveness, capital allocation and operational performance

Method of Engagement
Video Call & Written Communication

Issue

In January 2022, questions were raised about the issuer's strategy and performance relative to peers. Invesco's Henley European Equities team and ESG analysts sought to engage with the issuer on their governance structure, senior leadership changes, and future direction of areas such as attention given to board oversight and effectiveness, succession planning, capital allocation and remuneration.

Action

In 2022, Invesco participated in a collaborative engagement with the issuer on its governance practices, facilitated by the Investor Forum. Participants from Invesco included the Henley European Equities team and ESG analysts. Areas of focus included the need for a more rigorous board evaluation and chair effectiveness. In addition, Invesco sought more transparency on capital allocation and clarity on innovation investments as it is a key contributor to the issuer's underperformance relative to its peers. We highlighted the need to focus on brand marketing investment and capital expenditure, which is preferred over margin targets. In addition, we highlighted the need to better align remuneration to performance – with an emphasis on accountability for losses. As to succession planning, we sought more clarity on the transition from the previous CEO to the new CEO.

Escalation

The Investor Forum, with participation of 25 members including Invesco, wrote a letter to the Chair highlighting the concerns with the governance practices highlighted in the engagement. We recommended shareholders be made aware through detailed disclosures about new leadership structures and granular insight into business and operational trends. In addition, we sought for more open dialogue with the issuer to stay abreast of how they will deliver improved performance, strategic priorities and board effectiveness.

Outcome

The Chair formally responded to the letter confirming the feedback and stated they found the letter, engagement and discussions "a very valuable experience". The feedback is being incorporated and considered by the board. They have a better understanding of what is at the forefront of shareholders' priority issues. Invesco has confidence that the issuer acknowledged and understood our key priorities.

Next steps

We seek to continue to enhance our lines of communication with the issuer and welcome the opportunity to speak with the new CEO to better understand the leadership and direction that he will provide the issuer. In addition, we are following up with the Chair in 2023 prior to their annual general meeting (AGM) to gain better clarity on potential changes to governance practices as a result of shareholders highlighting areas of concern and need for improvement.

Source: Invesco. For illustrative purposes only.

Principle 11

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

At Invesco, we recognise that each situation is unique and we apply geographic, asset-class and context-specific understanding when defining our engagement and escalation objectives.

If we find ourselves in a position where issuers' management are digressing from where we, as shareholders responsible for maximising value on behalf of our clients, think they should be, we will engage directly with the issuer'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 issuer'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 an issuer 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 table opposite that describes approaches used by the Henley Investment Centre (HIC). For engagements focused on ESG matters, 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 an issuer 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.

Escalation may take different forms in the real asset class depending on whether the assets are publicly traded issuers or privately held direct real estate. In the case of publicly traded real asset issuers that range from infrastructure to agriculture to real estate, the escalation processes would follow a similar process to traditional equities given that they are publicly traded issuers.

In the case of private direct real estate, given the direct ownership nature of the asset class, it is within the responsibility of investment management teams to actively manage buildings and engage with tenants on a regular basis. 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. Engagement topics with tenants typically relate to building usage considering energy management, water management and waste management. Engagement topics also relate to transparency in investment management team efforts to gather data related to tenant utility usage on site. Increasingly, lease language is incorporated to facilitate in the sharing of data, which may lead to collaborative efforts in improving an asset's overall ESG performance levels. In some cases, in order to increase data collection levels, engagement may be escalated with tenants 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 initiate discussions via other channels to global management levels to engage on key topics related to the building and our 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. We apply context-specific understanding when defining our objectives.

Examples of Henley Investment Centre's Approaches

Methods of engagement	Description	Roles and responsibilities
Company meetings	• Dialogue is core to the investment process • ESG may be the 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
Other forms of company dialogue	• Emails, written communications and phone calls are regular parts of our interaction	• Core to the investor process
AGM voting	• Equity investors get a vote in AGMs of companies • We may also attend the meetings in person if needed	• Portfolio manager decisions
Collaborative engagement	• Part of a few organisations that facilitate collective dialogue with companies[1]	• For example, UK Investor Forum

[1] Invesco acknowledges and considers that there are different regulations governing collaborative engagement in the various regions in which Invesco operates. For illustrative purposes only.

Case Study

Product safety

An American pharmaceutical issuer

Issues Addressed
Product safety

Method of Engagement
Video Call

Issue

The issuer is one of the largest pharmaceutical companies in the world, with a significant impact on public health and consumer engagement. We have been engaging with the issuer consistently since 2020, including on severe product-related controversies.

Action

Invesco's US Core Equities team engaged with the issuer once pre-AGM in 2022. Invesco's IFI team engaged with the issuer once post-AGM meeting in 2022.

Participants from Invesco included the US Core Equities team, an Invesco Fixed Income (IFI) team, and ESG analysts.

The issuer's representatives included a lead Board Director, senior management, ESG and investor relations.

The issuer faced a significant number of shareholder proposals (14 in total) at its 2022 AGM and management recommended a vote against nine of them. Invesco's discussion with the company touched on most of these proposals. However, our focus was primarily on the proposal regarding the discontinuation of the global sales of baby powder containing talc. The issuer claimed it discontinued sales of talc-based baby powder in North America due to weak demand owing to poor public perception following voluntary chapter 11 bankruptcy protection to manage claims in litigation. At the same time, the issuer decided it would continue to sell the product in Europe and elsewhere where they viewed demand as moderately strong.

Escalation

Invesco expressed its concern to management that continuing sales of the product would risk further potential reputational and legal risk down the road. We were also concerned that negative publicity in North America would spill over into Europe and impact demand there as well. Considering that sales of talc-based powder outside North America comprised a very small portion of overall sales, Invesco said there was an unfavourable risk/reward in continuing these sales. As a result, Invesco participants in the engagement voiced their support for the proposal.

Outcome

The proposal received split recommendations from ISS and Glass Lewis and it ultimately received 16% of shareholder support at the AGM. In August 2022, the issuer announced it would end global sales of talc-based baby powder in 2023.

Next steps

In 2023, we will continue engaging with the issuer to monitor the enforcement of their commitment to discontinue the global sales of this product.

Source: Invesco. For illustrative purposes only.

Case Study

Governance/Energy transition

A UK energy issuer

Issues Addressed
Governance/Energy transition

Method of Engagement
Video Call

Issue

The Henley UK Equities team's 2022 engagement builds on our previous multi-year dialogues around capital allocation, and is split between asset sales, organic cash flow, renewables, networks and the dividend. As part of this, the Henley UK Equities team was satisfied to see that the company has stepped up their ambition to focus on energy transition and a pathway towards net zero.

Action

In 2022, the Henley UK Equities team engaged with the issuer on at least five occasions. The team engaged in direct one-on-one calls, site visits and group conference meetings, and regular post-earnings results updates.

The engagements included the participation of the Global ESG team and the Henley UK Equities investment team.

To engage effectively, we regularly meet with C-suite and director-level representatives.

The main topics of discussion with the issuer over the past 12 months have centred around the energy transition and renewable power generation. The issuer is a leading investor in wind generation, coupled with hydroelectric and dispatchable power production in the UK and Ireland. The issuer raised its ambitious plans on Carbon Capture and Storage (CCS) and target dates, which we intend to monitor closely for material progress. We also covered the topics of windfall taxes and health and safety following the death of a contractor.

Escalation

During the 2022 AGM season, we additionally engaged with the company on governance issues to specifically discuss succession planning around the Board's discussion of senior management-level succession over time, the direction of change and the push for increased diversity. On succession planning they have initiated a developmental process for the assessment of the internal talent and have strong internal candidates and a focus on increasing diversity. On remuneration policy specifically, we discussed their proposal with the company ahead of the 2022 AGM.

Outcome

We believe that as a result of our engagement, the issuer incorporated suitable ESG metrics in remuneration, and we found that the performance measures were well aligned with their Net Zero Acceleration Programme. As a positive outcome, we voted to support it in 2022.

Next steps

In 2023, we plan to continue our regular engagements with the issuer as part of our investment monitoring process and follow up on their ESG commitments around the energy transition.

Source: Invesco. For illustrative purposes only.

Case Study

Executive compensation/Energy transition

A UK utilities company

Issues Addressed
Executive compensation/ Energy transition

Method of Engagement
Video Call

Issue
The Henley UK Equities team's engagement was a continuation of Invesco's long-term multi-year track record of engagement with the issuer on issues such as their net zero commitment, electrification of the UK economy, and executive compensation.

Action
In 2022, Invesco's Henley UK Equities team engaged with the company six times and the engagements took the form of direct one-on-one calls, site visits and group conference meetings, in addition to the regular post-earnings results updates.

Invesco's participants included the Henley UK Equities team and the Global ESG team.

We regularly met with C-Suite and director-level representatives, as well as Board members.

We discussed the energy transition and affordability of energy bills. We also covered the topics of battery storage, hydrogen and the company's involvement in bidding for offshore wind in North America, to name a few. The issuer was able to describe to us some geothermal pilot schemes they are running related to their overall Geothermal Program Implementation Plan. The pilot is designed to explore how geothermal networks can be used to assist with mitigating gas system constraints, reducing GHG emissions in an affordable way for customers, and eliminate leak-prone pipes from the existing gas network.

Escalation
During the 2022 AGM season, we engaged with the issuer on governance issues to specifically discuss changes to the policy on Non-Executive pay, the change from the Group Value Add (dividend growth + regulatory asset base (RAB) growth) to an earnings measure, and the provision for an extra 50% of salary that in exceptional cases could be added on top of the 150% annual and 350% long-term incentive plan (LIP) for the CEO. Our engagement goal was to ensure alignment of long-term financial performance and sustainability.

Outcome
As an outcome of our successful engagements with the issuer, at the 2022 AGM we supported the company remuneration proposal, which also included ESG metrics such as scope 1 carbon emissions and diversity. Furthermore, another positive outcome of our engagement was our voting support of the management's Climate-Related Proposal, given that the issuer is in a material sector and the proposal provided Paris-aligned emission-reduction targets.

Next steps
We are planning on engaging with the issuer on a regular basis during the 2023 AGM and post-season to ensure that the incentive programmes are well aligned with the energy transition goals and sustainability opportunities.

Source: Invesco. For illustrative purposes only.

Case Study

Health & Safety, DE&I, Compensation

An Irish building materials issuer

Issues Addressed
Capital allocation, Health & Safety, DE&I, Compensation

Method of Engagement
Video Call

Issue
We have been engaging with the issuer on several topics regularly and for multiple years, with our 2022 engagement focusing on capital allocation, the impact of the Ukraine crisis, the issuer's approach to executive remuneration and targets, details on the safety culture, and general outlook for the business.

Action
Invesco's participants included the Global ESG team, the Henley UK Equities team and the Henley Fixed Interest (HFI) team.

The issuer was represented by the Chairman of the Board.

Through the engagement, the Chairman of the Board provided Invesco with insights into the way the board interacts with management executives on capital allocation. The issuer also discussed geographic areas for growth, as well as the opportunity to move more into repair, maintenance and improvement (RMI).

Health & safety has been a serious issue, with four fatalities in 2021. As a result of this increase in serious incidents, the board is conducting an investigation into how to best manage safety, and particularly transport safety, which was the cause of three of those fatalities. Safety is an override in management compensation.

Increasing the attractiveness of the business to women is seen as a great way to address the current labour shortage in the market. The issuer is serious in seeking ways to increase gender diversity company-wide.

Escalation
In the engagement, the conversation focused on certain topics, including executive compensation, to inform the participating Invesco investment teams' voting at the AGM.

Outcome
The engagement was successful in that we were able to hear directly from the Chairman of the Board their perspective on remuneration policy, and how the board is planning to address health & safety and diversity issues. As a result of our engagement, Invesco voted unanimously in favour of the remuneration policy in 2022's AGM.

Next steps
In 2023, we plan to continue our engagement with the issuer during the AGM and post-season to monitor progress on health & safety performance, and efforts to increase diversity and gender equality among the workforce.

Source: Invesco. For illustrative purposes only.

Principle 12

Signatories actively exercise their rights and responsibilities.

Our approach to proxy voting

At Invesco, our approach to proxy voting is rooted in our fiduciary duty to our clients to seek to make decisions in their best interests, by supporting good governance practices that promote long-term value creation at the portfolio companies in which they invest.

Exercising our client's shareholder rights via proxy voting is an integral part of Invesco's investment management responsibilities. It gives investors the opportunity to communicate their views to companies and can be used to build on engagement and facilitates accountability with company management.

Developed and reviewed by our investment leadership, Invesco's Policy Statement on Global Corporate Governance and Proxy Voting (Global Proxy Voting Policy) describes policies and procedures to help our clients understand our commitment to responsible investing and duty of care with respect to 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. The voting decision lies with our portfolio managers and analysts, with input and support from our Global ESG team.

We understand that managing risks and opportunities at each portfolio company is not a 'one size fits all' exercise and that not every issue is material to every company. In making voting decisions, we consider many factors, including individual company performance, past engagement with company management, comprehensive proprietary research and third-party research, market nuances and standards, and voting items identified as areas of potential concern. In addition to corporate governance, in the context of financial materiality, Invesco may consider E & S topics that we believe represent risks and opportunities. In cases where individual portfolio managers choose to vote a particular ballot item 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. As a result, split votes may occur where views on a particular proposal differ between portfolio management teams based on the investment objectives or interests of any individual fund.

Our proprietary proxy voting platform facilitates implementation of voting decisions and rationales across global investment teams. This allows us to support scaled investment-led proxy voting decision-making and reporting to our clients.

Invesco aims to vote all proxies where we have been granted proxy voting authority in accordance with our Global Proxy Voting 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 Voting Policy. These matters are left to the discretion of the relevant portfolio manager. 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.

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

Find out more
To learn more about Invesco's proxy voting approach and good governance principles, including how we vote for passive strategies, please visit invesco.com/corporate/about-us/esg.

2022 Overview

13,138
meetings voted

9,815
companies voted

72
markets voted

128,147
proposals voted

155,463
ballots voted

98.15%
of meetings voted

Invesco, Institutional Shareholder Services (ISS). Sourced on 27 January 2023 reflecting data from 1 January 2022 through 31 December 2022.

How we voted at a glance

	Americas	APAC	EMEA	Global total
Companies voted	4,242	3,558	2,015	**9,815**
Markets voted	15	22	35	**72**
Meetings voted	4,716 (35.9%)	5,969 (45.4%)	2,453 (18.7%)	**13,138**
Proposals voted	40,379	50,571	37,197	**128,147**

Source: Invesco, Institutional Shareholder Services (ISS). Sourced on 27 January 2023 reflecting data from 1 January 2022 through 31 December 2022.

Monitoring our voting rights

Invesco has adopted its Global Proxy Voting Policy that's been designed to ensure that proxies are voted in the best interests of our clients, and vote implementation is overseen by the Invesco Global Proxy Advisory Committee (the Global IPAC). 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.

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.

Stock lending approach

Invesco's funds may participate in a securities lending programme. For securities on loan as part of a stock lending programme, the relevant portfolio manager will decide whether to recall shares so that we will be entitled to vote.

Client engagement on voting and policies

We believe that engaging with our clients to educate them on our stewardship activities, including engagement and proxy voting, provides an opportunity for us to better understand their engagement priorities and voting preferences. These discussions are attended by subject matter experts from our ESG team alongside the Client Relationship team and portfolio management teams, where appropriate. We aim to incorporate our clients' feedback in our stewardship activities, where appropriate.

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 Invesco 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.

Monitoring and use of proxy advisory firms

As discussed in Principles 2 and 8, Invesco may supplement its comprehensive proprietary research with information from independent third parties, including proxy advisory firms, to assist us in assessing the corporate governance practices of portfolio 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's investment teams generally retain full and independent discretion with respect to proxy voting decisions. Data provided by proxy advisory firms and research providers serves as one of many inputs into our research and voting process.

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, ongoing projects, and other governance-related developments.

Conflicts of interest

A number of potential conflicts of interest may arise in our proxy voting activities between Invesco, as investment manager, and one or more of Invesco's clients or vendors. We have implemented an oversight process to help mitigate such potential conflicts. For more information on examples of potential conflicts of interest and mitigation procedures, please see Principle 3.

Disclosure and reporting

We are committed to being transparent with our clients and portfolio companies about our stewardship activities. We publish an annual ESG investment stewardship report that provides details of our stewardship approach, including engagement and voting policies, and case studies. Invesco discloses its proxy voting records in compliance with regulatory requirements and industry best practices online covering different regions. We disclose 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. Publication of Invesco's Global Proxy Policy, disclosure of voting records and annual stewardship reporting enhances our accountability and transparency to our clients.

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

	Americas	APAC	EMEA
Lack of independence	664	755	482
Classified board	1,270	16	19
Lack of board diversity	612	310	84
Over boarding	483	249	220
Compensation	288	214	126

Source: Invesco, Institutional Shareholder Services (ISS). Sourced on 27 January 2023 reflecting data from 1 January 2022 through 31 December 2022.

[1] Reflects company level votes where we did not support management including votes withheld and abstentions only on director elections proposals.

Voting decisions and rationale

In an effort to provide increased disclosure of Invesco's proxy voting decisions and rationales, the highlighted case studies below are examples of the types of shareholder proposals evaluated by Invesco during the 2022 proxy season. When considering such proposals, we will consider various factors such as a company's track record on these issues, the efficacy of the proposal's request, whether the requested action is unduly burdensome, and whether we consider the adoption of such a proposal would promote long-term shareholder value.

Issue: Diversity, Equity & Inclusion

Company: Information technology company

In March 2022, we supported a shareholder proposal requesting a report on the risks associated with using concealment clauses because more information on the impact that the company's standard arbitration provision has on its employees may bring information to light that could result in improved recruitment, development and retention and could help the company prepare for pending federal legislation on the matter. The proposal passed.

Issue: Shareholder rights

Company: Healthcare company

In March 2022, we supported a shareholder proposal asking the Board to amend their bylaws and governing documents to provide the right for shareholders owning 10% of outstanding stock the right to call a special meeting. We supported the proposal because we believe the request is reasonable and in the best interests of shareholders, and that it will help increase the accountability of the board and management. The proposal passed and received 81.5% support.

Issue: Health & safety

Company: Pharmaceutical company

In April 2022, we did not support a shareholder proposal requesting a report on the public health cost of the limited sharing of vaccine technology as the company provides sufficient disclosure on its COVID-19 business strategy and how it assesses global vaccine production and limitations on vaccine technologies, and shareholders may be better served by relying on analysis from others, such as the scientific and economic community, to evaluate the relationship between intellectual property rights, the economy, and portfolio returns. The proposal did not pass and received over 90% dissent.

Issue: Compensation/severance agreement

Company: Healthcare company

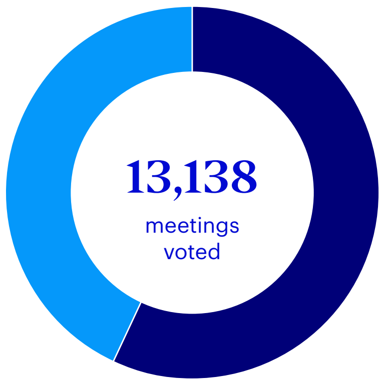
In May 2022, we supported a shareholder proposal requesting shareholder ratification of severance packages exceeding 2.99 times an executives' base salary and target bonus because we believe it is positive for shareholders to have the ability to vote on severance amounts that exceed market norms. The proposal applies only to future severance arrangements, leaving current agreements unaffected, and the proposal offers flexibility as to when the board may seek shareholder approval of a new or renewed severance arrangement, such as at the next annual meeting. The proposal passed with majority support.

Image sources: Invesco (1), Adobe Stock (2, 4) and Getty Images (3).

Source: Invesco. Sourced on 27 January 2023 reflecting data from 1 January 2022 through 31 December 2022.

2022 Global Voting Statistics

Meetings with at least one vote against management (%)



At least one vote against management	57
Voted with management	43

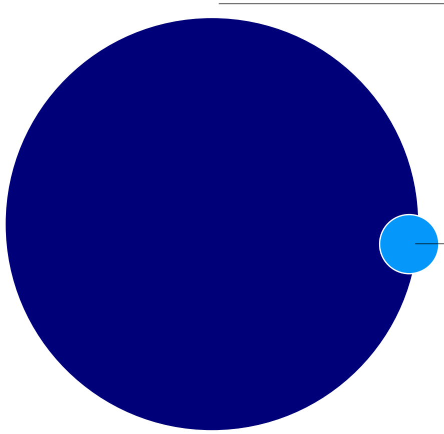
How we voted in 2022 (%)

With management[1]	91.17
Against management[2]	8.83

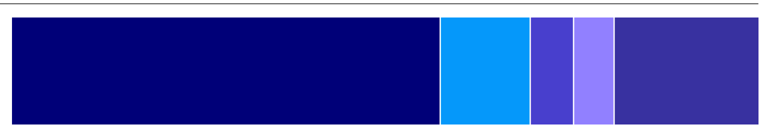
Votes against management proposals by issue[3] (%)

Director-related	64
Compensation	20
Capitalisation	6
Strategic transactions	2
Other[4]	8

Proposals voted on at a glance (%)

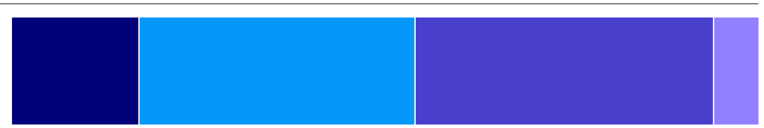


98%
Management proposals



Director elections	57	Director-related	6
Compensation	12	Other[5]	19
Capitalisation	6		

2%
Shareholder proposals



Environmental	17	Governance[6]	40
Social	37	Other[7]	6

Source: Invesco, Institutional Shareholder Services (ISS). Sourced on 27 January 2023 reflecting data from 1 January 2022 through 31 December 2022.

1 Percentage of votes in favour of management.
2 Percentage of votes against management.
3 Reflects percentage breakdown of votes where we did not support management on management proposals by issue.
4 "Other" management proposals include the following categories: company articles, audit-related, takeover related, environmental, social, mutual funds, routine / non-routine business, and other miscellaneous categories.
5 "Other" management proposals include the following categories: audit-related, strategic transactions, company articles, mutual funds, takeover related, social, environmental, E&S blended, and routine/non-routine business items.
6 "Governance" related shareholder proposals include director elections and director-related categories.
7 "Other" shareholder proposals include miscellaneous items.

Fixed income

Our approach to seeking amendments to terms and conditions in indentures or contracts.

Scope: Invesco Fixed Income

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 or as complicated as working through the relevance and calculation of a specific key performance indicator in an SLB. 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 12 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 coordinated across multiple regions and industries). In the past few years, 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.

Image source: Getty Images.

Invesco

Find out more

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

Important information

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Authorised and regulated by the Financial Conduct Authority

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