



Client Reporting on ESG Activities European Equities

Q4 2020

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Investment process

What ESG means to us



- As **active** fund managers, many of the **principles of ESG** have long been **embedded** in what we do:
 - Long term
 - Fundamental
 - Forward looking
 - Challenge
- **Engagement & dialogue** tend to generate better investment outcomes than **exclusion and divestment**
- Identifying **potential** for ESG improvement rather than backing stocks with ESG **perfection**
- **Material ESG issues** assessed alongside **other** drivers of valuation
- **ESG scoring systems** can be a useful source of information but not an end in themselves: **we are ESG ratings aware, not ESG ratings driven**

Investment process

How we assess ESG potential



As part of focusing on the key drivers for any stock we assess any ESG issues **we believe are material to long term outlook:**

- Is a bad company getting better?
 - Market / regulatory changes forcing change in behaviour?
 - Any other stock or sector specific issues?
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- **Well run companies** with shareholders' interests at heart tend to have **robust corporate governance practices** and good capital allocation, benefiting stakeholders
 - **We are open to invest in companies with sub-optimal ratings**, where we can identify clear paths to change
 - **Active engagement** may be a better way to bring about change than through hard **exclusion lists**



Buying 'potential for improvement' rather than 'perfection' is compatible with both a truly favourable ESG outcome *and* solid investment returns

European Equities Team

How ESG is embedded in our investment process



Inputs to fund managers

- Invesco ESG team**
- Regular formal ESG review meetings at portfolio level
 - Information on latest ESG industry trends
 - Support/discussion on AGM voting best practice
 - Internal in depth ESG notes
 - Ongoing interaction on stocks with particular ESG challenges
 - ESGintel – proprietary ESG rating tool
- Fellow fund managers**
- Knowledge of management teams, corporate backgrounds & sector and country specific factors
- Third party ESG research**
- Access to external notes/ratings as inputs for stock research & company meeting preparation

- Impact:**
- Improve fund managers' awareness of ESG issues as others see them
 - Improve rigour of stock analysis & meeting preparation
 - Better able to assess the magnitude or significance of ESG issues
 - Improve quality of dialogue/meetings with company management

Result:
To give fund managers the tools needed to make better informed decisions

- Portfolios:**
ESG issues are assessed by fund managers as part of our stock analysis alongside other criteria, but are **not** the **sole** investment driver
- *We are ESG rating aware not ESG rating driven*
 - *Bad/improving/good ESG as an influence on appropriate valuation?*
 - *Bad/improving/good ESG as an influence on appropriate weighting?*
- Analysis:**
- Relevant ESG issues raised in investment team's internal notes to improve team efficiency
- Voting/ Influencing managements:**
- Final say on voting remains with the fund manager, but ESG team's deep knowledge of best practice is taken fully into consideration
 - Joint action by ESG and investment teams facilitates better corporate practice

Outputs from fund managers

- Our aims:**
- **Through 'Engagement' rather than 'Exclusion' identify potential for positive ESG momentum which may influence share prices, rather than ESG perfection which may already be priced in**
 - **Better communicate to clients our ESG interactions**

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Our ESG interactions with companies typically take one of two forms:

- Meetings with **company management** where ESG is one of the topics discussed
- Meetings specifically dedicated to ESG issues

Period	Company meetings where ESG was discussed	Company meetings dedicated to ESG topics
Q4 2020	47	9
Q3 2020	42	4
Q2 2020	43	11
Q1 2020	83	8
Q4 2019	39	3
Q3 2019	26	10
Q2 2019	11	12

Source: Invesco, 31 December 2020.

Getting to the *right* ESG answer, not the *consensus* ESG answer

Carrefour



Key ESG Issues	Our assessment
<p>Rated Medium Risk by Sustainalytics. Human Capital, Business Ethics and Product Governance are notable material ESG issues.</p> <p>E: Sustainability</p> <p>S: Human Capital</p> <p>G: Product Governance</p>	<ul style="list-style-type: none"> ▪ During 2020, protests against racism erupted globally, spurred on by high profile cases of racial discrimination. ▪ In November, Carrefour security guards in Brazil choked a man to death, in what many in Brazil considered to be influenced by racial prejudice. This resulted in thousands of people in Brazil attending protests in Carrefour supermarkets across Brazil. ▪ As a consequence, Invesco requested a meeting with Carrefour to understand what the company had done in response to the incident and to demonstrate the company's commitment to non-discrimination. ▪ In response to the incident, Carrefour contacted the family of the person killed and reported that the family were grateful for the support they had been given. They fired the local security company contracted to hire security guards on the basis that they had failed to adhere to Carrefour's code of conduct and training for employees. ▪ In addition, they fired the store manager as they have a responsibility to manage the relationships with security companies which they believe the manager failed to do effectively. ▪ More long-term, in order to strengthen the company's commitment against racial discrimination the company has underlined to employees the importance of their training programmes on diversity. ▪ In addition, the CEO publicly condemned the actions of the security guards and launched a diversity committee. ▪ Action taken: Invesco provided feedback that the immediate actions taken by the company were positive and proportionate to the seriousness of the incident. We believe that due to their response there shouldn't be a negative impact on the company's valuation and the position has been maintained.

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Getting to the *right* ESG answer, not the *consensus* ESG answer

Engie



Key ESG Issues	Our assessment
<p>Rated Medium Risk by Sustainalytics. E&S Impact of Products and Services rated as a Medium Risk.</p> <p>E: Energy transition</p> <p>S: Community Relations</p> <p>G: Product Governance</p>	<ul style="list-style-type: none"> ▪ One of the biggest ESG risks cited by ratings agencies is the company's portfolio of coal, gas, and oil generation facilities, many of which operate in merchant markets. ▪ The Chairman (Jean-Pierre Clamadieu) has outlined his ambition to make Engie a leader in energy and climate transition. This has been laid out in 4 strategic priorities for the interim management team: <ol style="list-style-type: none"> 1. What is the renewable growth model Engie wants to build to balance impact on the balance sheet and reasonable contribution to the P&L. 2. Given big positions in Europe and Latin America, how can Engie better leverage role of gas in the energy transition and accelerate the development of green gases. 3. How can Engie leverage expertise and solution range to accelerate significantly profitable growth in Customer Solutions. 4. Understand future of nuclear generation fleet in Belgium, and more broadly, Engie's role in the future of Belgium energy mix. ▪ Engie is positioned across its business to benefit from the transition to clean energy, with strong positions across the globe. This has been accelerated under its new strategy outlined in 2020. ▪ The market is not paying much attention to the positive ESG momentum here. If management can execute the plan and simplify the group through divestitures we think the market will begin to take more notice and reward it accordingly. ▪ We think ESG ratings agencies overemphasise the company's exposure to coal/nuclear generation as it contributes <5% to the valuation of the company. The company is also actively looking to exit its coal powered generation. ▪ Given big positions in Europe and Latin America, we expect Engie to be a leading player in the development of green gases – something people are not focused on at the moment. ▪ Action taken: Added to the stock in several portfolios over the past quarter.

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Getting to the *right* ESG answer, not the *consensus* ESG answer

Amsterdam Commodities



Key ESG Issues	Our assessment
<p>Rated Low Risk by Sustainalytics.</p> <p>E: Sustainability</p> <p>S: Labour practices</p> <p>G:</p>	<ul style="list-style-type: none"> ▪ Acom is an international group of companies that trades and distributes natural agricultural products for food and beverage industries around the world. ▪ We met management in November 2020 and discussed the following issues related to ESG: the fair treatment of farmers in emerging markets, sustainable farming, the water usage of some of the traded commodities during production and the generic impact of climate change on the produce that is traded by the company. ▪ From a sustainability standpoint we were impressed by management’s plans and thinking. It wants to add value to all its stakeholders and realises the importance of building long term relationships with farmers. ▪ The company has an accelerating ESG profile by playing a connecting role in the supply chain, enabling to build bridges between customers and suppliers by providing value-added solutions. ▪ 50% of produce is 'fair trade' and the company wants to be setting the standard in organic food. At the moment there is a lot of 'blending' going on, but good testing and quality marks are helping the industry get better. ▪ The company recently acquired Tradin Organic, a global leader in supplying certified organic ingredients. The company provides full traceability of goods at all times, overseeing all aspects of the transportation and storage process. ▪ Action taken: Built a position in some of our small cap funds as part of the “undiscovered sustainability” theme.

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Active management means active engagement...

Company Voting (Q4 2020)



- We review AGM and EGM proposals taking into account our own knowledge of the companies in which our funds are invested, as well as the comments and recommendations of ISS and Glass Lewis
- Especially where there are situations of controversy or differing views between the consultants mentioned above we will draw on the deep expertise of our internal ESG team for advice
- There will be times when we will follow the recommendations made by ISS and Glass Lewis but times where we disagree with the stance being taken
- Voting in line with management recommendations should not be seen as evidence of a lack of challenge on our part, but rather that the governance of the companies in which we are invested is already good and worthy of support

Category	Total Number	Total (%)
Ballots Voted (Accepted and Rejected)	97	100%
Ballots Voted (Accepted)	97	100%
Ballots Voted (Rejected)	0	0%
Proxy Contests Voted	0	0%
Ballots against management recommendations	23	23.7%
Ballots against ISS recommendations	12	12.4%

Source: Invesco, relates to the period 01 July 2020 to 30 September 2020.
ISS = Institutional Shareholder Services

Other notable ESG events for the companies we own



- **Arkema:** Thanks to its ambitious policy and strong commitments, Arkema has climbed to 11th place, clinching top spot in the chemical sector, in the Wall Street Journal's ranking of the 100 most sustainably managed companies, in recognition of its ability to create value over the long term.
- **Total and Engie:** Announced that they are planning to build France's largest green hydrogen facility to feed the oil company's biodiesel plant in the south of the country from 2024, provided they get subsidies to make the project viable. Steelmakers and gasoline and biofuel producers currently make the hydrogen they need from fossil fuels, emitting significant amounts of greenhouse gases in the process. Engie and Total's project could be part of a first wave of hydrogen production facilities fuelled by renewable power as Europe plans to reach net-zero emissions by the middle of the century. The facility would produce 5 tons of hydrogen each day without emitting carbon dioxide.
- **Signify:** Announced that its robust financial performance in 2020 enables the company to return contributions to employees who participated in the 2020 solidarity program. In response to the COVID-19 pandemic, a vast majority of Signify's global employees voluntarily supported a 20% worktime reduction and a pro-rata pay adjustment over April-June 2020. Furthermore, Signify proposes to declare an extraordinary dividend to its shareholders. This extraordinary dividend will be in addition to the regular dividend for 2020.
- **Plastic Omnium:** Held a conference, "Hydrogen Day", to present its long-term strategy and targets for the hydrogen business. This part of the business is expected to hit a breakeven in margins and free cash flow by 2025, with double digit margins by 2030 (higher than legacy POI business).
- **Volvo:** In North America, sales of the Volvo VNR Electric, a truck for regional transport, began in 2020. Electric trucks produce no tailpipe emissions (NOx, PM) and have a very low total climate impact when electricity from renewable sources is used. They are also far quieter than conventional trucks. This allows goods to be transported early in the morning, late in the evening and at nighttime, which can reduce congestion during peak hours.

Roadshows and Conference Participation:

- October 5th-8th: Shane Keenaghan attended virtual sessions of the Ethical Finance 2020 Summit. The annual Ethical Finance summit is organised by the Global Ethical Finance Initiative (GEFI), which coordinates a series of programs to promote finance for positive change.
- October 6th: Maria Lombardo was part of a panel at the TBLI Europe 2020 Conference focusing on 'Creating a carbon-free portfolio – strategies.
- October 12th: Maria Lombardo was a guest at the Banca Generali Virtual Convention with a live interview on ESG.
- October 16th: Elizabeth Gillam presented as part of a panel on Factoring Sustainability into Long-Term Investment at the 'Ageing Societies' conference hosting by ICI and Chatham House.
- October 28th: Nikki Gwilliam-Beeharee was part of a panel on ESG Integration and the 4th Industrial Revolution at Truvalue Labs virtual ESG Investing Forum 2020.
- October 27th-29th: Reuters Events Responsible Business USA 2020 Conference. This event included CEOs, Chief Sustainability Officers, Investors and Government representatives discussion on rebuilding for a sustainable, just future. Essential themes of the event were business strategy & value chain transformation, finance & investor engagement, climate action and social purpose & impact.
- October 30th: Maria Lombardo was interviewed on The Drivers of Global Growth ESG and Megatrends for LefontiTV.
- November 2nd-3rd: Maria Lombardo was part of a panel discussion on 'Getting Your Hands Dirty: On the Ground Due Diligence to Support Disclosure' as part of the Reuters Events ESG Investment Europe Virtual Summit.
- November 12th: Cathrine De Coninck-Lopez presented at an event hosted by the CFA Society of Atlanta. The webinar covered ESG & Diversity Insights featuring discussion from Cathrine and moderator Christian G. Wilson, CFA, Senior Fixed Income Client Portfolio Manager at Voya Investment Management and Head of the Fixed Income Client Portfolio Management team.

Roadshows and Conference Participation:

- November 16th-20th: Members of Invesco's Global ESG team virtually attended the Sustainable Innovation Forum hosted by Climate Action.
- November 17th-18th: Members of Invesco's Global ESG team virtually attended the PRI Digital Forum: Americas. The Forum brought together responsible investment stakeholders from across the region who discussed topical sustainable finance themes and ESG issues.
- November 24th: Informa hosted the European Sustainable Investment where Cathrine De Coninck-Lopez and Maria Lombardo were both invited to participate in sessions.
- November 25th: Maria Lombardo participated in a panel for Osservatorio Governance Ambrosetti sponsored by Invesco.
- November 25th-26th: UKSIF hosted their London Conference where Cathrine De Coninck-Lopez and Nikki Gwilliam-Beeharee were both invited to participate in sessions.
- December 2nd: Jonny Salvage presented to the Energy Infrastructure Council (EIC) ESG Working Group in coordination with Invesco's SteelPath investment team. The Energy Infrastructure Council (EIC) is a non-profit trade association dedicated to advancing the interests of companies that develop and operate energy infrastructure. EIC addresses core public policy issues critical to investment in America's energy infrastructure.
- December 3rd: Maria Lombardo and Glen Yelton participated as panellists at the British US Embassy and Carbon Trust Task Force for Climate-related Financial Disclosures (TCFD) Virtual Workshop.
- December 9th: Members of Invesco's Global ESG team attended Morgan Stanley's ESG Insights Conference. This was Morgan Stanley's fourth sustainability conference and gathered companies and investors to discuss how environmental, social and governance topics are impacting business strategies and investment decisions.
- December 9th: Maria Lombardo presented during a session for the Qontigo Investment Intelligence Summit. Maria covered how Invesco is addressing climate change in investments.

Invesco joins Transition Pathway Initiative (TPI)

Invesco is officially a supporter of the Transition Pathway Initiative (TPI), a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. Launched in 2017, the TPI tool is rapidly becoming the go-to corporate climate action benchmark. TPI provides robust, independent research which empowers investors to assess the alignment of their portfolios with the goals of the Paris Agreement and to drive real world emission reductions through our actions.

Launch of Invesco ESGintel Rating system

Invesco ESGintel is a proprietary tool built by our Global ESG research team in collaboration with our SIP team providing environmental, social and governance (ESG) insights, metrics, data points and direction of change. ESGintel provides users with an internal rating, a rating trend, and a rank in sector using the GICS sectors. The approach takes a sector materiality focus to select indicators ensures a targeted focus on the issues that matter most for sustainable value creation and risk management. This provides a holistic view on how a company's value chain is impacted in different ways by various ESG topics which each individually have 3-4 supporting data points. In addition to the individual rating the momentum (trend) highlights longer term trajectory based on 5 years of history in platform.

Invesco publishes annual SRD II disclosure

Invesco published our Shareholder Rights Directive II (EU 2017/828) (SRD II) report containing additional required disclosures on the engagement policy's implementation, including a general description of voting behaviour, votes cast, an explanation of the most significant votes and the use of proxy advisors. Invesco's overall engagement and voting activities are reported on in our 2019 ESG Investment Stewardship Report.

Invesco Inaugural Climate Change Report

Invesco believes the issues of climate change should be top of the agenda for us as a society and for our clients. As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) we are launching our first report on Climate Change. The report, prepared by the Global ESG team, presents how Invesco's is addressing climate change risk and opportunities at corporate and investment level. It also sets out Invesco's climate scenario analysis on a significant part of its listed equities and corporate fixed income holdings in respect of emissions intensity, temperature alignment.

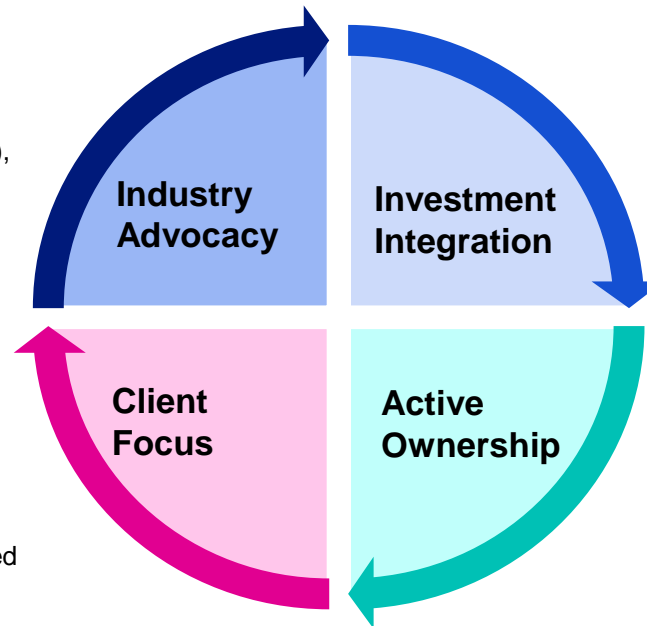
Our Commitment to ESG

A Trusted Partner in Responsible Investment



Invesco is committed to being a responsible investor through four key approaches

- Lead investor in Climate Action 100+; largest investor to sign COVID-19 ICCR open letter; Stewardship Code Signatories in UK (Tier 1 status) and Japan
 - TCFD supporters and disclosers
 - Investor partners of CDP, SASB, IIGCC, Climate Bond Initiative, FAIR
 - Members of ACGA (Asia), UKSIF, CII (US), RIA (Canada), Italian SIF
 - Participant in UK PRA/FCA Climate Financial Risk Forum; UK Investment Association SRI Committee; PRI Taxonomy committee
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- Global ESG team of 15 people & external dedicated resources
 - Invesco's diversity means investment strategies will vary in their approaches to implementation of ESG
 - Capability to manage ESG solutions tailored to client through customized portfolios and products
 - Knowledge transfer and thought leadership



- 90% of AUM integrating minimum ESG levels
 - Investment approaches vary from Broad based ESG integration, Asset Based Integration, Combined ESG Strategies, Thematic, Positive Screening, Value Based Screening, Negative Screening
 - Leveraging a host of tools and vendors providing ESG research to global investors
 - Pilot Scenarios: 1.5 & 4 degree climate scenarios by Vivid Economics on a pool of global Eq and FI instruments
-
- Engaged with 1000+ companies on ESG topics in 2019 –through core investment teams and targeted by Global ESG team
 - Operate a proprietary global proxy voting platform called Fund Manager Portal
 - Echo-voting applied for ETFs
 - Vote on 10,000 companies per year
 - Individual and collective ESG engagements

We aim to develop industry-leading ESG investing practices fully aligned to our purpose of helping people get more out of life

Source: Invesco, as at May 2020. ACGA = Asian Corporate Governance Association, CDP = Carbon Disclosure Project, CII = Council of Institutional Investors, UKSIF = UK Sustainable Investment and Finance Association, RIA = Responsible Investment Association, SASB = Sustainability Accounting Standards Board.

Investment risks



The value of investments and the income from them will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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