Sustainable Investment Policy

Invesco Sustainable UK Companies Fund (UK)

January 2022

This policy should be read in conjunction with the Key Investor Information document which contains the information required by law to help you understand the nature and the risks of investing in the Fund. In addition, a more detailed description of the objective and investment policy and the risk factors of the Fund can be found in the Prospectus.

Executive Summary

Contents

The Invesco Sustainable UK Companies Fund (the "Fund") is a high-conviction, actively managed equity fund that invests in UK companies well positioned to benefit from promoting environmental and social themes in relation to their business operations, and with good corporate governance. The objective of the Fund is to provide long-term (5 years plus) capital growth by investing in companies that demonstrate sustainable characteristics.

The Fund Manager believes that the investment opportunity arising from improvement in sustainable environmental and social themes within companies in the UK equity market is underestimated.

The Fund sets out to achieve its objective by employing a systematic and repeatable four-stage process, to identify companies:

01

With superior (compared to other companies) and sustainable credentials in how their activities relate to the environment, health & wellbeing, and aims for a fairer society (which refers to efforts made by companies to reduce social, environmental and economic inequalities within their business models).

02

That are financially sustainable, with appropriate levels of leverage (i.e. debt, borrowings, proportion of fixed and variable costs), and access to sufficient liquidity.

03

That embrace principles of good corporate governance.

04

At valuations that offer opportunity for attractive and sustainable long-term total returns to equity investors.

The Fund invests 100% of its assets (excluding derivatives, cash and cash equivalents) in investments meeting the Fund's positive ESG criteria.

The process incorporates a framework for evaluating performance and potential of companies in each of these areas, based on proprietary screening and analysis of what the Fund Manager believes to be best-in-class available Environmental, Social and Governance (ESG) data, alongside rigorous traditional financial and strategic investment analysis, valuation and risk monitoring techniques.

From an ESG perspective, the process incorporates positive screening to assist in prioritising ideas (i.e. companies) for further detailed analysis, as well as negative screening to exclude those businesses that we deem incompatible with the Fund's sustainable ethos. The Fund will weight overall exposure to those companies, based on the Fund Manager's proprietary rating system, with acceptable practices and standards that sufficiently promote the environment, health and wellbeing and a fairer society (which refers to efforts made by companies to reduce social, environmental and economic inequalities within their business models) in relation to their business operations, including, but not limited to, companies that have committed to reduce their greenhouse gas (GHG) emissions to net zero by 2050 in line with the Paris Agreement on climate change.

Engagement with management and the Boards of companies, holding them to account, and voting in public meetings – *acting as responsible owners* – is integral to this approach.

The Fund invests a minimum of 80% of the Fund's assets in shares of companies incorporated, domiciled or carrying out the main part of their economic activity in the UK and may invest up to 20% in Non-UK companies.

The Fund invests 100% of its assets (excluding derivatives, cash and cash equivalents) in investments meeting the Fund's positive ESG criteria.

What the Fund Manager means by “sustainable”

In order for any company to be considered truly sustainable, then sustainability should be demonstrable across a range of factors, and not just any one. The range of factors considered by the Fund Manager includes ‘traditional’ ESG factors, as well as additional factors relating to the financing and valuation of companies. The Fund Manager identifies sustainability factors as falling within three broad areas:

01

Environmental & Social sustainability
How the operations of the company affect the environment, health and well being, and support a fairer society (which refers to efforts made by companies to reduce social, environmental and economic inequalities within their business models).

02

Financial & Governance sustainability
Financial stability allows management to make the right decisions, and good corporate governance helps promote their adoption. We believe these factors are intertwined which is why we consider these together.

03

Valuation sustainability
Understanding intrinsic value, and avoiding overpaying for shares because of momentum or other stylistic factors that can periodically dominate markets.

The Fund Manager together with the other members of the Invesco UK Equities Team believe that the fund management industry has an important role to support the desire to invest in the equity of businesses that prioritise sustainability considerations as the key factor in long-term value creation.

They believe that the industry also has an important role not just to invest in the current generation of leaders in sustainability, but to support businesses that can act as enablers of progress, and also to encourage those businesses that are committed to making real and lasting improvement for the benefit of the environment and society as a whole.

The Fund Manager recognises the importance of excluding businesses that are in direct conflict with the sustainability aims of the Fund, and that are unwilling or unable to change.

The focus of the Invesco UK Equity Team has consistently been on finding mispriced stocks. Across the range of UK equity funds managed by the team, ESG integration underpins each of the team’s investment processes, at every stage. The Fund benefits from the shared resources, ideas and learning of, and also challenge from, the other fund managers within the team, as well as peers across the Henley Investment Centre. The Fund further benefits from challenge from the Henley Investment Oversight team and the Global ESG team, also based in Henley.

But the hallmark of the Fund, and the source of clear differentiation from other UK equity funds, is the clear emphasis in the investment process on sustainability factors and their systematic assessment, over and above all other stylistic factors such as: value vs growth, income vs capital return or market cap boundaries.

Investment process for the Fund

The Fund Manager employs a four-stage investment process (identified as: Idea Generation, Fundamental Research, Portfolio Construction, Ongoing Monitoring), which embeds systematic detailed analysis and assessment of sustainability factors (Environmental & Social, Financial & Governance, and Valuation). Each stage of the investment process is underpinned by a system of formalised, as well as informal, challenge and monitoring of risks.

Sustainability Factors	Idea Generation	Fundamental Research	Portfolio Construction	Ongoing monitoring
Environmental & Social	• Initial screening for: – "E&S" (MSCI) – Climate transition (Carbon Disclosure Project, Science Based Testing, Transition Pathway Initiative) • Exclusions	• Materiality mapping • Factors affecting: environment, health & wellbeing, fairer society • Pathway to carbon net-zero • Engagement with Management • "Leaders", "enablers", "improving" • Systematic scoring vs factors	• 40 to 60 stocks • All-cap strategy, but recognising need for appropriate liquidity. • Comparator benchmark – FTSE All Share Index • Active share 70% to 80% • Seek diversification across sectors • Balanced risk profile: holdings no more than: – 5% of portfolio by weight – 15% of portfolio tracking error • Tracking error typically 4% to 6% • Balance of sustainability factor exposures	• Overall portfolio sustainability measurement and reporting. • Changes in regulation • Development of best-in-class data sources, metrics and reporting. • Active engagement with management & Board • Voting at company meetings • Sell disciplines – formal review triggered by: – Stock relative performance (-15% / +25%) – Sustainability factor progression
Financial & Governance	• Screening against – Market cap / liquidity – Financial & operating leverage • Governance screening – Good Governance Framework	• Detailed fundamental analysis incl: – Cash conversion – ROIC – Financial & operating leverage • Drill-down into governance data • Engagement with Management and Board • Systematic scoring vs factors		
Valuation	• Initial screening (consensus estimates): – PE, P/B, – FCF yield, Divi yield	• DCF / scenario analysis • Alternative valuation measures • Assessment of key risks • Fair value assessment		

Prioritisation of ideas

Investment Case Summary

Challenge, assessing & monitoring risk – ESG Global team, Henley Investment Oversight team

***P/E** Price Earnings calculation based on future prospective earnings of a company. **P/B** Price to Book ratio evaluates a company's market value relative to its book value. **FCF Yield** Free Cash Flow measures the amount of cash expressed as a percentage available to shareholders after the extraction of all expensese from a company's total revenue. **Divi Yield** Dividend Yield is a company's annual dividend payment expressed as a percentage of the company's current share price. **ROIC** Return On Invested Capital is a measure of the profitability and value-creating potential of a company relative to the amount of capital invested by shareholders expressed as a percentage. **DCF/Scenario analysis** Discounted Cash Flow / scenario analysis are where a company's cash flows are projected using a series of assumptions to determine how the company may perform in the future.

Investment process for the Fund

“

Separate screening is done for sustainability factors in each of the areas: environmental & social, financial & governance and valuation.

Stage 1 – Idea Generation

The process of idea generation uses a series of proprietary tools to systematically screen a universe of investible companies, with a view to identifying and prioritising ideas for further fundamental research.

The investment universe is primarily the FTSE All Share Index, which is also the comparator benchmark of the Fund. The Fund may though also invest up to 20% of the Fund's assets in shares of Non-UK companies.

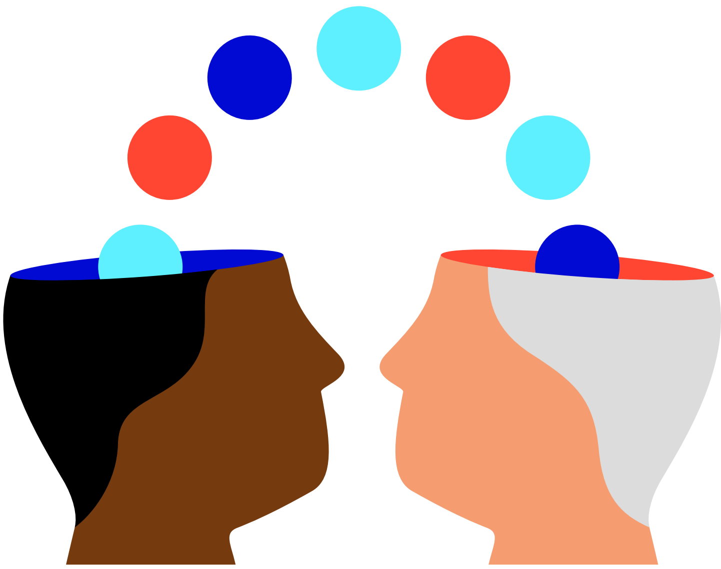
Separate screening is done for sustainability factors in each of the areas: environmental & social, financial & governance and valuation.

Idea Generation – Environmental & Social sustainability factors
Initial screening for environmental & social sustainability factors uses MSCI's scoring of companies according to the separate Environmental factor and also Social factor components of the overall MSCI ESG rating system.

The MSCI evaluation of companies on environmental & social issues is then complemented by further proprietary screening of company disclosure and performance in the area of climate transition, sourced from a range of independent institutions including: Carbon Disclosure Project (cdp.net), Science Based Targets initiative (sciencebasedtargets.org) and the Transition Pathway Initiative (transitionpathwayinitiative.org).

This stage of the process is used to identify those companies that have superior environmental & social sustainability factors (positive screening) compared to other companies and assist in prioritising ideas for further detailed analysis.

In addition to the positive screening, companies that are in direct conflict with the sustainability aims of the fund and are unwilling or unable to change are excluded (negative screening) from the investable universe.



Investment process for the Fund

Exclusions

Exclusions / negative screening is used to ensure companies that are engaged in activities that do not meet minimum ESG criteria are excluded from the investable universe. The Fund Manager has, with support from the Invesco Global ESG team, defined a clear set of unsustainable activities that will result in a company being necessarily excluded:

Controversial Area	Environment – based exclusions	Revenue thresholds for exclusion[1]
Coal & unconventional oil & gas	Thermal coal extraction	**>=5%**
	Arctic oil & gas exploration extraction	**>=5%**
	Oil sands extraction	**>=5%**
	Shale energy extraction	**>=5%**
Conventional oil & gas	Oil & gas exploration, extraction, production, refining, transportation and / or storage	**>=25%**
Power generation	Thermal coal generation	**>=5%**
	Oil and gas generation	**>=25%**
	Nuclear power generation	**>=25%**

Controversial Area	Non-environment – based exclusions	Revenue thresholds for exclusion[1]
Weapons	Controversial weapons	**>0%**
Tobacco	Tobacco production	**>=5%**
	Tobacco related products & services	**>=5%**
	Tobacco Products Retail	**>=5%**
Adult Entertainment	Adult entertainment production	**>=10%**
	Adult entertainment distribution	**>=10%**
Gambling	Gambling operations	**>=10%**
	Gambling specialised equipment	**>=10%**
	Gambling supporting products / services	**>=10%**
UN Global Compact	Overall global compact compliance	**Non Compliant[2]**

1 Companies which derive more than this level of revenue from the activities listed above will be excluded from the Fund.
2 Companies have been identified to have violated United Nations Global Compact Principles will be excluded from the Fund

Investment process for the Fund

The basis on which exclusions are applied in relation to fossil fuels varies according to each fossil fuel's climate warming potential, set against the practical reliance that we still have on fossil fuels in the medium term.

The Fund Manager together with the other members of the Invesco UK Equities Team believe that supporting the transition to a low carbon economy necessitates the almost total exclusion of thermal coal. Thermal coal is not only the most polluting of fossil fuels, but in addition, the global economy in aggregate is no longer dependent on it as other forms of energy have become more prevalent.

The revenue threshold for thermal coal is set at 5% rather than 0% to allow companies with very modest legacy coal related assets to be eligible. For example, a number of companies have legacy, de minimis, thermal coal operations but still play an important role in the transition of power generation to sources that favour the environment. As a result, their inclusion in the Fund is supportive of overall progress on climate related issues.

The oil and gas sector is more nuanced. On the one hand, oil and gas represent the overwhelming majority of global CO_2 emissions. However, both are cleaner fuels than coal (natural gas produces 43% less CO_2) and both are deeply embedded in the global energy supply chain. For example, oil and gas still accounts for 75% of the UK's primary energy (power, transport and heating). The team believes that in the medium term, gas in particular is a vital and relatively clean component of the UK 's energy supply network.

Nonetheless, as the oil and gas sector is a major contributor to global CO_2 emissions we place a 25% revenue threshold for mainstream oil and gas. There is also a restriction for power generation and utility companies whose businesses rely on oil and gas for generation of more than 25% of their revenue. This rule effectively excludes companies whose core activities are oil and gas related. The reason for permitting up to 25% of revenue activities involving oil and gas, rather than a complete exclusion, is because they believe that diversified energy and utility companies should be supported in their efforts to increase clean energy production.

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Idea Generation – Financial & Governance sustainability factors

Initial screening for financial factors uses more traditional investment appraisal techniques to screen a database of company reported (actual) financial data, as well as consensus estimates, against criteria relating to:

- market capitalisation
- liquidity considerations
- operating and financial leverage

At the heart of this approach is the belief that for a business to be truly sustainable, not only must the nature of its activities be sustainable, but also the business must be built on sufficiently strong financial foundations – with appropriate levels of operating and financial leverage, and access to sufficient pools of liquidity (equity and / or debt finance) to enable management to make the right decisions in order to develop the business. Without such foundations, even the most meritorious business (when viewed purely through an environmental & social lens) is unlikely to present an investment risk profile that would in the final analysis, make it a suitable investment for the Fund.

At this initial stage, screening is also made of the environment in which corporate governance is exercised. Governance has long been an area of particular attention for the Invesco UK Equities Team. Good governance is considered by the Fund Manager to be critical, both to the support of management to make the "right" decisions from a sustainability perspective, and also to ensuring that the business is truly accountable to investors and other stakeholders for commitments made towards sustainability objectives. Initial screening of issues relating to governance is made through use of the team's proprietary analytical "Good Governance Framework", which draws down from publicly available sources a series of metrics covering twenty-five key indicators relating to: the composition of the Board and Committees, compensation and audit related matters.

Investment process for the Fund

Idea Generation – Valuation sustainability factors

The Fund has its objective to achieve long-term (5 year plus) capital growth by investing in shares or other equity related securities which meet the Fund's environmental, social and governance criteria. The comparator benchmark is the FTSE All-share index.

Periodically, momentum can distort valuations and overwhelm the performance of individual stocks, industries or indeed entire sectors. In the idea generation stage, screening is therefore made of valuation metrics in order to identify companies that the Fund Manager believes can offer opportunity for sustainable (3 to 5 year) returns from investment based on prospects for fundamental value creation, rather than simply relying on price momentum.

Initial screening for valuation sustainability looks at traditional valuation indicators, including: Price / Earnings, Price / Book, Free Cash Flow yield, Dividend yield.

The output from the Idea Generation stage is a priority pool of companies that merit further and more detailed Fundamental Research in Stage 2 of the investment process. Typically, the highest priority for further detailed research are those companies screening highest in one or more of the above described areas. However, the process can also identify companies that have seemingly anomalous outcomes, which may indicate omission of, or poor quality, data (a possible source of market inefficiency) and as such merit further detailed work.

Idea Generation is not a finite process; more an iterative process that is constantly re-visited, informed by the outcome of work across all stages of the investment process, and also by challenge, debate and ideas that may be generated by other members of the Invesco UK Equities Team, or by a pool of trusted and experienced sell-side analysts and experts from whom Invesco purchase research.

Stage 2 – Fundamental Research

The Fund Manager undertakes detailed work on companies prioritised in the Idea Generation stage to analyse and further evaluate sustainability factors in each of the areas: environmental & social, financial & governance, and valuation, in order to generate an investment case summary for each company, based on a systematic and consistent methodology.

The process involves detailed analysis of both financial and non-financial data. The Fund Manager is a dedicated specialist in ESG investing, within the Invesco UK Equities Team, but is also able to draw on the extensive resources and skills of the rest of the team: a team of 10 Fund Managers and analysts with average industry experience of 19 years (at 30 June 2021), who have direct access to senior management of companies right across the market cap spectrum, to best-in-class databases of information and to a wide range of sell-side research on both company / ESG specific issues.

Investment process for the Fund

Henley Investment Centre UK Equities team

The Fund has its objective to achieve long-term (5 year plus) capital growth by investing in shares or other equity related securities which meet the Fund's environmental, social and governance criteria. The comparator benchmark is the FTSE All-share index.

Periodically, momentum can distort valuations and overwhelm the performance of individual stocks, industries or indeed entire sectors. In the idea generation stage, screening is therefore made of valuation metrics in order to identify companies that the Fund Manager believes can offer opportunity for sustainable (3 to 5 year) returns from investment based on prospects for fundamental value creation, rather than simply relying on price momentum.

Initial screening for valuation sustainability looks at traditional valuation indicators, including: Price / Earnings, Price / Book, Free Cash Flow yield, Dividend yield.

Fund Managers – Large Cap

Martin Walker
Head, UK Equities
Years in industry: **25**
Years with firm: **22**

Ciaran Mallon
Fund Manager
Years in industry: **27**
Years with firm: **17**

James Goldstone
Fund Manager
Years in industry: **20**
Years with firm: **9**

Tim Marshall
Fund Manager
Years in industry: **20**
Years with firm: **7**

Fund Managers – Small Cap

Jonathan Brown
Fund Manager
Years in industry: **24**
Years with firm: **21**

Robin West
Fund Manager
Years in industry: **26**
Years with firm: **7**

Analysts

Bethany Shard
Analyst
Years in industry: **7**
Years with firm: **3**

Nima Zarrabi
Analyst
Years in industry: **6**
Years with firm: **6**

Anastasia Solonitsyna
Analyst
Years in industry: **5**
Years with firm: **<1**

Product Directors

Neville Pike
Product Director
Years in industry: **38**
Years with firm: **4**

Joanna Smith
Product Director
Years in industry: **22**
Years with firm: **3**

Corporate Engagement

Matt Brazier
Capital Structure
Years in industry: **20**
Years with firm: **8**

Cate Sturgess
Research Analyst
Years in industry: **16**
Years with firm: **16**

Average tenure at firm
10 years[1]

Average industry experience
18 years[1]

The Fund Manager is additionally supported by the resources and skills Invesco's Global ESG Team. The Global ESG team consists of *circa* 20 experienced specialists who conduct fundamental research in co-ordination with Invesco's investment teams, particularly in cases where an investment team judge that further investigation is warranted, for example where data is sparse, or inconclusive, or where an investment team believe that the historical data does not properly capture the investment opportunity to support progress in ESG related areas. Such cases would be those that are more controversial, considered to be higher risk and viewed poorly by ESG ratings providers, resulting in a valuation discount. We would note that this analysis is an ongoing process, typically involving multiple engagements with the company over a long period of time.

Source: Invesco as at 30 September 2021.
[1] Fund managers and analysts only. Industry experience and tenure with firm subject to rounding up.

Investment process for the Fund

Fundamental Research – Environmental & Social sustainability factors
Detailed work in the Fundamental Research stage starts with reference to the MSCI Materiality Map which breaks down E&S issues into 29 individual risk factors across 158 GICS Sub-industry[3] categories. The mapping of material risks by sub-industry category is applied to individual companies to help ensure that fundamental research work, and the final rating for the company, focuses on areas of particular importance to the company and the industry in which it operates (and is not unfairly skewed by less relevant factors)

The series of 29 Environmental and Social risk factors address a wide spectrum of themes including:

The Environment
Carbon emissions, water stress, toxic emissions and waste, opportunities in clean tech, green building and renewable energy

Health & Wellbeing
Health and safety, product safety, labour management, opportunities in nutrition and health

Fairer Society
Fairer Society (which refers to efforts made by companies to reduce social, environmental and economic inequalities within their business models) – human capital development, privacy and data security, access to finance, access to heathcare

Detailed work undertaken in respect of a company involves analysis and assessment of available financial and non-financial data, and engagement with the management of the company in order to substantiate findings.

The Fund will invest in companies that that have committed to reduce their greenhouse gas (GHG) emissions to net zero by 2050 in line with the Paris Agreement on climate change albeit it is not limited to investing in such companies. Further assessment of progression along the pathway to carbon net-zero is undertaken by cross referencing company disclosure with information provided by third party sources such as the Carbon Disclosure Project, Science Based Targets, Transition Pathway Initiative, MSCI and ISS (Institutional Share Services).

Detailed work undertaken in respect of a company involves analysis and assessment of available financial and non-financial data, and engagement with the management of the company in order to substantiate findings. Particular attention is given to information disclosed by the company in a diverse range of reports and presentations including: the Annual Report, any Sustainability Report, or other Corporate Responsibility Report, in order to help validate existing data, and also to identify any further areas of material sensitivity (that might have been omitted by independent consultants or ratings bodies) for further investigation.

The key findings from such detailed fundamental research on significant environmental & social factors are documented in a company specific Investment Case Summary, along with the Fund Manager's assessment of an Overall Environmental Score.

The Environmental & Social sustainability scoring system ranks companies on a scale of A (High) to E (Low), depending on:

- the scale of opportunities arising from development of business activities that are consistent with the overall Fund ethos of sustainability
- the nature and significance of risks arising from environmental & social factors that might work against identifiable economic benefits

Companies that score an A are those whose products and / or services positively contribute to the sustainable themes of Environment, Health & Wellbeing and Fairer Society (which refers to efforts made by companies to reduce social, environmental and economic inequalities within their business models). Companies that score an E are those whose products and / or services are in conflict with these sustainable themes.

A company needs to score at least a C on Environmental & Social sustainability to be considered for inclusion in the portfolio.

The final score on E&S factors is a matter of Fund Manager judgement. The basis for each decision is documented in the Investment Case Summary, to aid consistency and comparability, and also to bring greater transparency to the overall process.

The output from this analysis is stored on a central database visible to Henley's Investment Centre, the Henley Investment Oversight Team and also the ESG Team (see also: 3.5 Challenge, Assessing & Monitoring Risk).

[3] GICS = Global Industry Classification Standard: an industry taxonomy developed by MSCI and Standard & Poor's to categorize all major public companies.

Investment process for the Fund

Fundamental Research – Financial & Governance sustainability factors
Detailed fundamental research is also conducted at this stage on the financial sustainability of companies prioritised in Idea Generation for further assessment. The Fund Manager aims to hold companies over the long term (typically 3 to 5 years). It is therefore important that companies have: an identifiable and sustainable competitive advantage; the ability to grow, to generate a profit, and re-invest those profits at attractive rates of return; and that are able to successfully navigate business cycles.

The Fund Manager uses traditional techniques of financial and strategic analysis for this work, but with particular focus on questions of:

- cash conversion within the business: does the company generate sufficient cash to sustain growth and or return capital to shareholders via a dividend?
- return on invested capital: are the cash returns on incremental invested capital sufficient to reward equity (and debt capital) providers for continuing to finance the business?
- financial / operating leverage: are the ratios of debt to equity, net debt to EBITDA (Earnings Before Interest Tax, Depreciation and Amortisation) and the interest / fixed charge cover appropriate to the nature of the business, its stage of development, the inherent level of and volatility in operating margins and the risks it faces?

Companies with superior financial sustainability characteristics afford management with a context in which to make the right long term decisions for the benefit of shareholders and other stakeholders, such as customers, employees, suppliers and regulators. Financial strength mitigates the risk of compromising the strong Environment & Social characteristics and competitive advantages that we have identified.

Governance factors are universal across all companies. If financial strength affords management the context to make the right decisions, good governance promotes their adoption. The Invesco UK Equities Team have developed a proprietary Good Governance Framework which is used in the Idea Generation stage to screen for overall strengths and weaknesses in the area of Corporate Governance. As part of Fundamental Research, the Good Governance Framework provides the team and the Fund Manager with transparency to be able to identify specific areas of weakness relative to best practice pertaining to: Board structure, remuneration, audit and oversight. Armed with such knowledge, the Fund Manager is then able to drill down into the detail of issues and into specific measures needed to address residual weakness. Even at this preliminary stage the Fund Manager would typically engage with management, and as necessary with the Board, as part of our due diligence process. The outcome from analysis of the Governance of companies is embedded within our analysis of financial sustainability.

The Fund Manager scores companies on a scale of 1 (High) to 5 (Low) with regards to financial & governance sustainability.

1

Companies that score a 1 are those with strong governance and financial sustainability.

5

Companies that score a 5 are those with poor governance and financial sustainability.

The final score on financial & governance factors again involves Fund Manager judgement based on a number of inputs. The basis for each decision is also documented in the Investment Case Summary.

A company needs to score at least a 3 on Financial & Governance sustainability to be considered for inclusion into the portfolio.

Investment process for the Fund

Fundamental Research – Valuation
Once Environment & Social and Financial & Governance factors have been assessed, the Fund Manager then looks in detail at valuation. They run fair value assessments for each company through a proprietary discounted cash flow (DCF) model, conducting scenario analyses to assess valuation risk arising as a result of both upside and downside sensitivities from a central case. In addition to DCF analysis, the Fund Manager will also consider alternative valuation measures as may be appropriate to a particular sector or industry.

Key assumptions applied during the valuation process, around: growth, margins, discount rate, balance sheet assumptions and alternative valuation measures, are documented in the company Investment Summary. The Investment Case Summary also concludes with the Fund Manager's assessment of "Fair Value".

Valuation sustainability is important and it is critical not to over pay. However the Fund Manager is patient and willing to wait until a company with strong environmental, social and financial characteristics is priced at an attractive level.

The output from the Fundamental Research stage is a series of Investment Case Summaries for companies that may, or may not, as a result be considered suitable for inclusion in the portfolio.

Again, this second stage of Fundamental Research is not a finite process; more an iterative process that is constantly re-visited as actual circumstances at the company change, informed by the process of ongoing monitoring, and also by challenge and debate with other members of the Invesco UK Equities Team, and a pool of trusted and experienced sell-side analysts and experts from whom Invesco purchase research.

Stage 3 – Portfolio Construction

The Fund Manager acts to construct a portfolio based on the following principles:

i. The portfolio of the Fund will typically comprise between 40 and 60 stocks drawn from companies with scores of A1 to C3.

ii. The Fund is a high-conviction, actively managed equity fund, however the Fund Manager will seek to ensure appropriate level of diversification across sectors so as to help mitigate exposure to significant unintended risks.

iii. The Fund Manager will also seek to ensure that the Fund is balanced across a range of sustainability factors.

iv. The Fund Manager recognises the importance to achieving goals of long term sustainability, of encouraging and investing in progress, and not just in perfection. Construction of the portfolio will therefore be further diversified across a range of suitable investments – from current generation of leaders in sustainability, to enablers of progress on sustainable issues, and also to businesses that are committed to making real and lasting improvement for the benefit of the environment and society as a whole.

v. The maximum position size of any company share held within the Fund is expected to be 5%. The top ten holdings are expected to make up typically 30% to 40% of the Fund.

vi. The Fund does not have specific targets for risk however it is expected that typically: the tracking error (relative to the FTSE All-share index) will be in the range of 4% to 6%, that no more than 15% of portfolio tracking error is accounted for by any one position, and that the Active Share of the portfolio as a whole will be in the range of 70% to 80% (the percentage of the holdings in a fund that are different from the holdings of the fund's benchmark).

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The Fund Manager recognises the importance to achieving goals of long term sustainability, of encouraging and investing in progress, and not just in perfection.

Investment process for the Fund

Stage 4 – Ongoing Monitoring

Ongoing Monitoring – portfolio sustainability, performance and risk
The Fund Manager is supported in monitoring portfolio sustainability, performance, and risk, by having access to an extensive range of what the Invesco UK Equities Team believes to be best-in-class investment research, ESG / sustainability research, database and portfolio management tools. Resources available include:

- Bloomberg
- Facstet
- Sustainalytics
- Invesco's proprietary *ESGIntel* system
- Northfield Information Systems XRD Global Risk Model

Ongoing monitoring work encompasses not only the daily monitoring of news and events pertaining to individual companies (held and not held in the Fund), but also the broader development of technology, best practice and regulation – particularly in relation to sustainability issues.

The Fund Manager is periodically assisted in the monitoring and evaluation of risk within the portfolio (ex-ante and ex-post) by performance and risk specialists in the Henley Investment Oversight team.

Ongoing Monitoring – engagement and voting
The ethos of *Stewardship* is central to the Invesco UK Equities Team's role as long term investors and brings with it responsibilities which, as active owners, they take very seriously. They see engagement with companies as an opportunity to better understand how companies address risks associated with governance, and to encourage continual improvement. They often participate in board level dialogue and are instrumental in giving shareholder views on management, corporate strategy, transparency, and capital allocation as well as wider ESG aspects.

Dialogue with portfolio companies is a core part of the investment processes for the Invesco UK Equities Team. The Fund Manager is supported in this regard by two experienced team members who are dedicated to corporate engagement and voting matters.

The Fund Manager – with the assistance of Invesco UK Equities Team corporate governance specialists – review AGM and EGM proposals taking into account their own knowledge of the companies in which the Fund is invested, as well as the comments and recommendations of consultants such as ISS, Glass Lewis and IVIS. In addition, Invesco provides proprietary proxy voting recommendations and publishes these recommendations internally. All voting decisions remain with the Fund Manager, however, where a Fund Manager votes against an Invesco voting recommendation, the rationale for such decision is recorded and available on the platform.

Where there are situations of controversy or differing views between the consultants mentioned above, the Invesco UK Equities Team will draw on the expertise of the internal ESG Team for advice. There will be times when the Fund Manager will follow the recommendations made by proxy research providers but times where they disagree with the stance being taken.

Voting in line with management recommendations should not be seen as evidence of a lack of engagement or challenge on the Fund Manager's part, but rather that they believe that the governance of the companies in which the Fund is invested is appropriate for the size of the company, robust and worthy of support. There may be instances where the Fund Manager votes in support of management, but the ESG performance of the company is not perfect and issues have been identified. In this situation the Invesco UK Equities Team would have been engaged with the company leading up to the vote and if necessary, would have raised concerns and likely given a time horizon or measure for improvement which, if not met, could lead to a vote against in the future. In that respect, the team's approach to governance is one of engagement and improvement. They do not expect companies to change overnight but they do expect continual review of governance processes and continued improvement.

Investment process for the Fund

Ongoing Monitoring – sell disciplines
Learnings from Ongoing Monitoring are used as inputs for further iteration of processes in earlier stages.

Formal reviews of Investment Case Summaries of stocks held in the Fund are undertaken every six months, or sooner as may be appropriate.

The Fund Manager will (subject to further review of the investment case) divest positions when they reach the Fund Manager's assessment of fair value and recycle the capital into shares with more sustainable valuations. Positions are also divested where the investment case does not turn out as expected. This could be due to an update in the assessment of the environmental and social risks, or due to unforeseen changes in the financial backdrop.

Formal review of an Investment Case Summary is also triggered by:

- A share's performance falling outside of the range: -15% to +25% relative to the overall movement in FTSE All-share Index, since the date of the last review.
- Significant shift in factors material to the company in any of the areas of environmental & social, financial & governance sustainability, as may be identified from our ongoing monitoring, or else reported by ESG consultants, or by the company itself.

If there is a shift in sustainability factors such that a company held in the Fund becomes rated a D / E or a 4 / 5, then the Fund Manager will, as soon as is practicable, engage with the management / Board of the company to understand the remedial action that will be undertaken by the company within a reasonable time frame (reasonable, having regard to the nature of the issue). If the Fund Manager cannot be satisfied that remedial action will be taken by the Company sufficient to return the rating to the range A1-C3 within a 6 month period, then the Manager will seek an orderly disposal of the holding. Any holding that is maintained on condition of remedial action being taken, will be subject to heightened ongoing review by the Fund Manager, on a monthly basis.

In addition to performing periodic reviews of individual Investment Case Summaries, the Fund Manager undertakes a quarterly review of the portfolio to evaluate performance and identify opportunities for improvement and change.

The outcome from the investment process is a Fund that is managed with the aim of meeting its objective of achieving long-term (5 year plus) capital growth by investing in shares or other equity related securities which demonstrate sustainable characteristics. The comparator benchmark is the FTSE All-share Index.

As part of the ongoing monitoring, and to aid transparency, the Fund Manager will periodically report externally on performance compared to the capital growth objective and returns relative to the FTSE All-share Index. In reporting on performance, the Fund Manager may reference the impact during the period under review on performance as a consequence of exclusions. But the comparator benchmark will remain the FTSE All-share Index, without any exclusions.

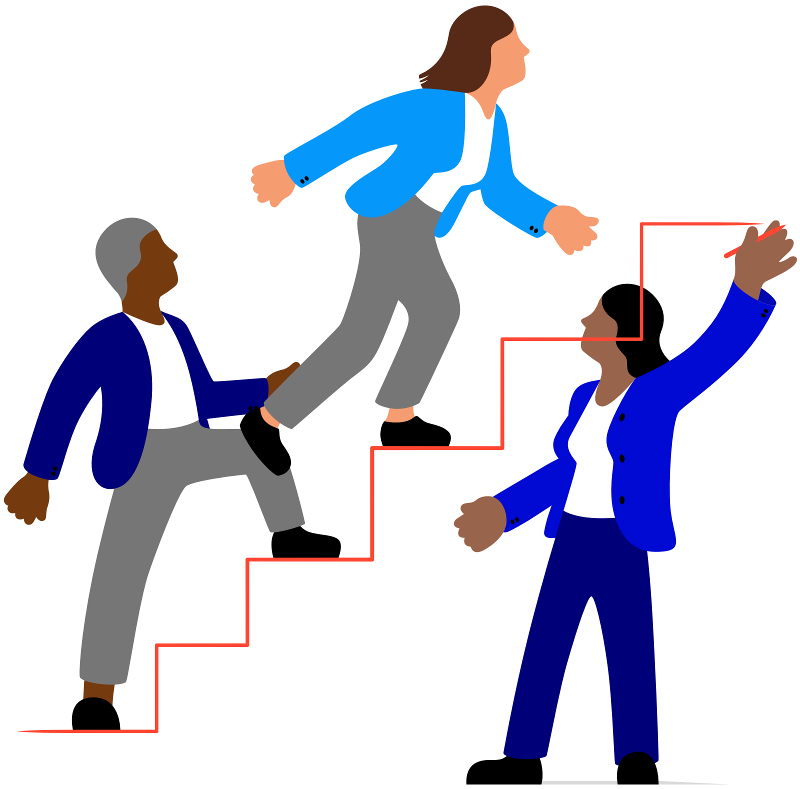
The Fund Manager will also comment on overall portfolio sustainability matters and development of the sustainability profile of the Fund with reference to third party metrics, and (as appropriate) on the execution of stewardship responsibilities including engagement with companies and voting in meetings on issues relating to sustainability.

Challenge, Assessing & Monitoring Risk

Underpinning activities undertaken in each stage of the investment process is a well-defined system of challenge and risk monitoring.

Systematic challenge and a drive for continual improvement is supported and encouraged from within the Invesco UK Equities Team, and also from peers in other investment teams. In addition to such informal challenge, there is an established system of formalised oversight and challenge from within the Henley Investment Centre.

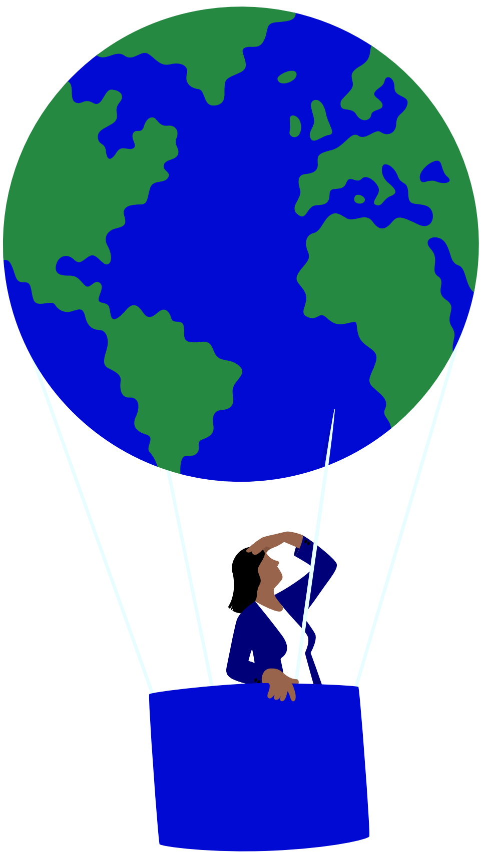
- Regular participation by members of the Henley Investment Oversight Team at weekly meetings of the Invesco UK Equities Team, at which investment ideas (across all UK equity strategies) are discussed.
- Quarterly review with performance and risk specialists within the Investment Oversight Team. The purpose of such review is to highlight developments in the risk profile of the portfolio, either as a result of changes in the portfolio, or factors affecting the comparator benchmark, and to highlight any significant unintended risk exposures within the portfolio.
- Semi-annual review process which includes a meeting led by Invesco's Global ESG Team to assess how the portfolio is structured and performing from an ESG perspective. This ensures that there is a feedback process for identifying flags, determining the appropriate response, taking appropriate action where required and monitoring of improvements over time, as well as for sharing of knowledge. The process of challenge from the ESG Team involves inter alia comparison of ESG assessment made by the Fund Manager, to ESG issues and sensitivities highlighted by the proprietary ESGIntel system.
- In addition to the semi annual ESG Team review there is an established ESG Committee in place to provide the appropriate ongoing oversight of the effectiveness and compliance with the ESG aspects of the Fund's investment policy, as well as to provide independent challenge to any ESG matter. The ESG Team also has oversight of the Fund Manager's assessments and scoring set out in the Investment Case Summaries, to ensure consistency of the evaluation process.
- 'Chief Investment Officer (CIO) challenge': a formal review meeting held between the Henley Investment Centre's CIO and every Fund Manager. In the case of the Fund Manager of the Invesco Sustainable UK Companies Fund (UK), the review includes a full analysis of performance relative to the Fund's objectives, and of the ESG profile of the Fund – including companies exposed to severe controversies, top and bottom ESG performers, carbon intensity and trends.



Fund Facts

Investment Centre	Invesco Henley Investment Centre
Fund Manager	Tim Marshall (since December 2016)
Vehicle	UK Authorised ICVC
Domicile	UK
Launch Date	20 April 1988
Fund AUM	£154m
Incorporating Sustainable ESG factors	Since 31 January 2022

Fund Risks



- The value of investments and any income will fluctuate (this may be the result of exchange rate fluctuations) and you may not get back the full amount invested. Over time, inflation may erode the value of investments.
- The use of ESG criteria may affect the Fund's investment performance and the Fund therefore may perform differently compared to similar products that do not screen investment opportunities against ESG criteria.
- The Fund may use derivatives (complex instruments) in an attempt to reduce the overall risk of its investments, reduce the costs of investing and/or generate additional capital or income, although this may not be achieved. The use of such complex instruments may result in greater fluctuations of the value of the Fund. The Manager, however, will ensure that the use of derivatives within the Fund does not materially alter the overall risk profile of the Fund. Such derivatives may not be fully aligned with the Fund's ESG screening criteria.
- A more detailed description of risk factors that apply to this Fund is set out in Section 29 of the Prospectus.
- As a result of COVID-19, markets have seen a noticeable increase in volatility as well as, in some cases, lower liquidity levels; this may continue and may increase these risks in the future.

Important information

All data is as at 1 December 2021 and sourced from Invesco unless otherwise stated.

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

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