Invesco

Opening the path to net zero for UK investors

The path to net zero

We expect the 'E' in the environmental, social and governance (ESG) space to evolve in the UK and beyond in 2022 as new regulations governing sustainability in the financial sector are introduced. At the same time, the switch from a carbon-intensive economy will require huge public and private sector investment in innovative technology and green infrastructure. Meanwhile, any delay in the transition to net zero could exacerbate the climate crisis and pose risks to portfolios and assets.

Investment portfolios will increasingly reflect the realities of the transition to net zero. The asset allocation of our exchange traded funds (ETFs) provides investors with a range of options to match their own personal views and objectives. Some of our ESG ETFs apply net-zero targets aligned with the Paris agreement on climate change. They aim to reduce carbon intensity and provide exposure to companies investing in decarbonisation.

The 'net' in net zero is important because it will be difficult to reduce all emissions to zero on the required timescale.

What is net zero?

Net zero refers to a state in which anthropogenic[1] emissions of greenhouse gases (GHG) going into the atmosphere are balanced by anthropogenic removals out of the atmosphere, over a specified period. The 'net' in net zero is important because it will be difficult to reduce all emissions to zero on the required timescale. As well as deep and widespread cuts in emissions, there will likely be a need to scale up GHG removals. The Paris Agreement underlines the urgency of net zero, requiring states to aim to limit global warming to well below 2°C and preferably to 1.5°C.[2]

1 Environmental pollution and pollutants originating from human activity.
2 Sources: Invesco and Intergovernmental Panel on Climate Change.

The UK and net zero

The UK is leading the charge against climate change and has already made huge improvements compared to many of the world's largest polluters. With an economy focused on service industries, the UK's carbon intensity has fallen over the last decade, and the government has announced various measures to accelerate the transition to net zero. According to Invesco estimates, at current trend, the UK is on target to reach net zero by 2037.

Net zero implementation in the UK
The UK government has set a 2035 target to cut CO_2 emissions by 78% compared with 1990 levels – part of its transition to net zero. To achieve this goal, 100% of British energy will need to be produced from renewable sources by 2035,[3] compared with 36% in the third quarter of 2021.[4]

> The UK is on target to reach net zero by 2037.

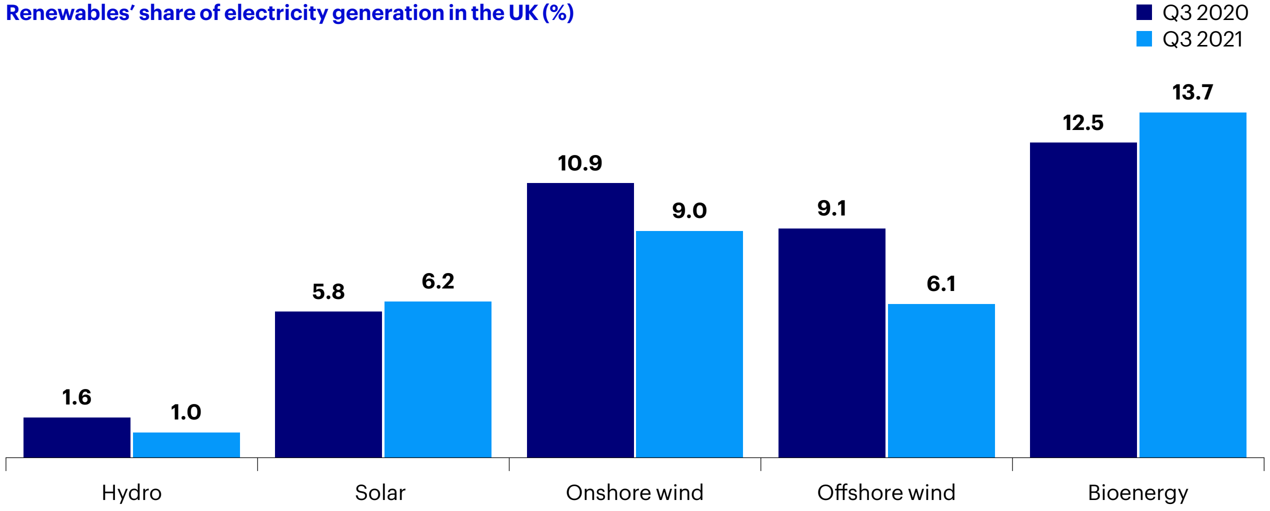
[3] https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78-by-2035
[4] UK Department of Business, Energy and Industrial Strategy.

UK emissions trends

Net zero target	Target 2050	At current trend 2037
CO_2 emissions (2019)	Share of world 1.0%	Per capita 1.3x world average
Population growth	Since 2010 +0.7%	Through 2050 +0.3%

Source: Invesco Economic Transition Monitor, December 2021.

Renewables' share of electricity generation in the UK (%)



Data as of 30 September 2021. Source: UK Department for Business, Energy and Industrial Strategy.

ETFs: Capturing the opportunity

Invesco is committed to promoting and adhering to ESG principles throughout our business. We are a signatory to the Net Zero Asset Managers Initiative, a network of asset managers with $57.5 trillion[5] in assets under management that is committed to achieving the goals of the Paris Agreement.

ESG ETFs can play a key role in the journey towards net-zero implementation. Responsible investors can choose from a selection of low-cost, transparent products that both reduce exposure to climate risks and capitalise on the opportunities around the transition to a low-carbon economy.

Most ESG ETFs are designed to follow ESG indices that have been created from parent (non-ESG) benchmarks.

Generally, an index construction process can be broken down into three stages:

01

Negative screening
What you remove categorically from the parent index, such as companies involved in heavily polluting industries.

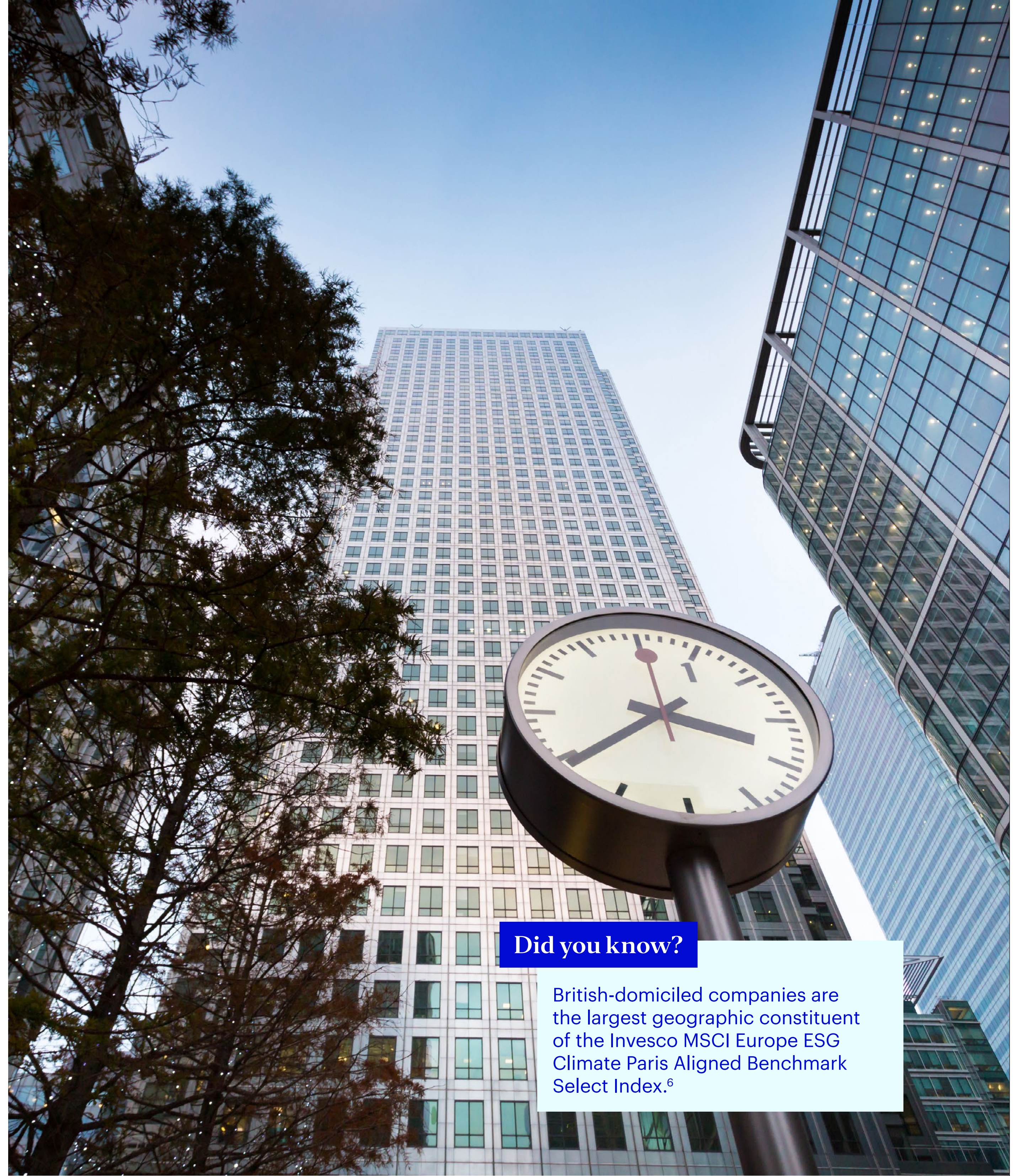
02

Additional ESG filters
Any positive or negative screen that is applied in addition to the basic exclusions, such as including only companies with ESG ratings above a certain threshold.

03

Weighting methodology
How the remaining constituents are weighted for the final ESG index. This could involve anything from a basic market-capitalisation approach to tilting, where you increase the weight in companies with higher ESG scores and reduce weight in companies with lower ESG scores.

[5] https://www.netzeroassetmanagers.org
[6] https://etf.invesco.com/gb/institutional/en/product/invesco-msci-europe-esg-climate-paris-aligned-ucits-etf-acc/index-components



Did you know?

British-domiciled companies are the largest geographic constituent of the Invesco MSCI Europe ESG Climate Paris Aligned Benchmark Select Index.[6]

Invesco ESG ETFs at a glance

Our range of ETFs include an array of solutions to help investors reach their responsible investing goals while capturing the opportunities that the green transition provides.

Invesco FTSE All Share ESG Climate UCITS ETF

Our ETF tracks the FTSE All Share ex Investment Trusts ESG Climate Select Index. The index was created as an ESG replacement for core UK equity holdings. It incorporates key business exclusions based on FTSE definitions. The index tilts towards companies with a high ESG rating and Green Revenue focus. It tilts away from those with high carbon emissions or fossil fuel reserves.

Find out more

Invesco GBP Corporate Bond ESG UCITS ETF

This is the first Sterling-denominated corporate bond ETF in Europe to incorporate ESG risks. The ETF aims to track the performance of the Bloomberg Barclays MSCI Sterling Liquid Corporate ESG Weighted Bond Index. The index integrates ESG not only by using negative screening but also weighting constituents on ESG criteria.

Find out more

Invesco MSCI ESG Climate Paris Aligned UCITS ETFs

Our range of MSCI ESG Climate Paris Aligned UCITS ETFs aim to reduce climate risks, capture opportunities from the transition to a low-carbon economy, whilst delivering meaningful ESG outcomes. The ETFs aim to track MSCI ESG Climate Paris Aligned Benchmark Select Indices, which are designed to align with a 1.5°C climate scenario and focus on companies with strong ESG profiles. The indices use an optimisation approach to meet specific targets, while minimising tracking error compared to the Parent Index with low turnover. It also incorporates the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

Find out more

Invesco thematic ESG ETFs

The transition to cleaner and more efficient use of energy is key to addressing climate change risk. Around 70% of the world's total energy consumption could be from renewables and hydro power by 2050 in a net-zero scenario, compared to just 11% in 2018.[7] Our Invesco Global Clean Energy UCITS ETF gives investors access to a broad set of companies transitioning towards decarbonisation, while our Invesco Solar Energy UCITS ETF offers a more focused exposure to global companies across the solar energy supply chain.

[7] Source: BP Energy Outlook 2020.

Find out more

Invesco Quantitative Strategies ESG Global Equity Multi-Factor UCITS ETF

Individual equity risk factors can help explain a stock's performance over a short timeframe, but we believe combining factors offers the potential for better risk-adjusted returns over the longer term. The challenge is how to manage a multi-factor strategy effectively while simultaneously integrating ESG considerations. The Invesco Quantitative Strategies (IQS) team has been doing this for over 30 years, and Responsible investors can now access this expertise through our ETF structure.

Find out more

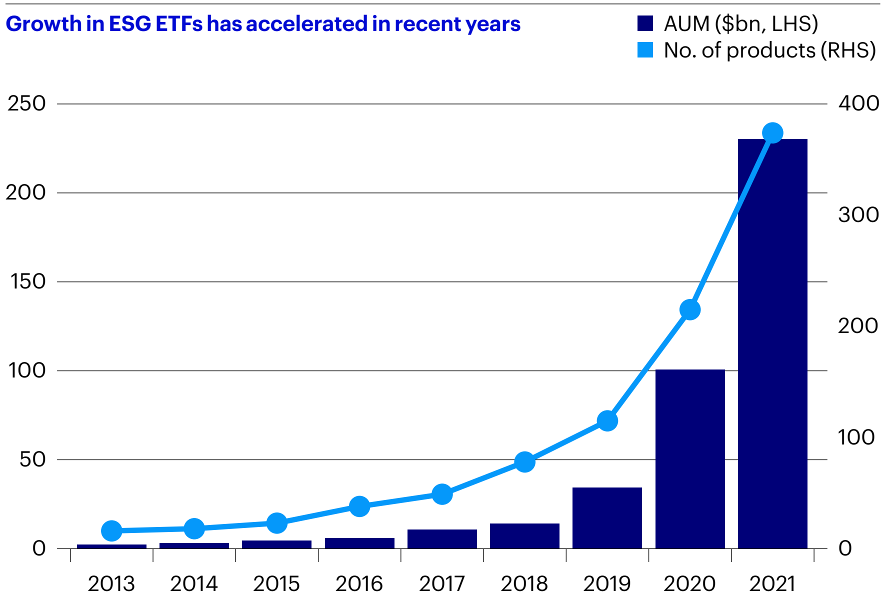
Why ETFs are popular

Investors have adopted ETFs due to their flexibility, transparency and low costs. The popularity of ESG ETFs has increased rapidly in recent years as investors seek cost-effective, transparent investments in the ESG space.

In 2021, 50% of all net new assets gathered in ETFs were allocated to ESG ETFs.[8] The benefits of ETFs – their rules-based approach, transparency and low fees – make them attractive to retail investors.

The construction of ESG ETFs is another key selling point. Rules around ESG-related exclusions, selections or weightings are explicit. This transparency helps conscious investors choose the best strategy for their needs and beliefs.

Growth in ESG ETFs has accelerated in recent years



Source: Invesco, Bloomberg, as at 31 December 2021.

Why Invesco?

Our commitment to environmental, social and governance (ESG) investing is a key element of our ambition to provide an investment experience that helps people get more out of life. We recognise that ESG matters greatly to our clients, communities and stakeholders. **It matters to us.**

We manage around US$96bn in dedicated sustainable investing strategies and we will build on our experience.[9] ETF strategies are an important part of Invesco's approach to net zero, alongside our range of active strategies in the ESG space.

In our view, engagement is one of the most effective mechanisms to reduce risks, maximise returns and have a positive impact on society and the environment. We carried out 2,500+ engagements with approximately 2,000 companies on ESG topics in 2021 and voted on 9,057 companies.[10]

Dialogue with portfolio companies is a core part of our investment process. We often participate in board-level dialogue and are instrumental in giving shareholder views on management, corporate strategy, transparency and capital allocation, along with wider ESG aspects.

Active Strategies

Indexing Strategies

ETF Strategies

Real Estate Strategies

[8] https://www.ftadviser.com/ftadviser-focus/2021/11/10/how-to-choose-an-esg-exchange-traded-fund/?page=1
[9] Source: Invesco, as at 31 December 2021.
[10] Source: Invesco Global ESG Team.

Summary

The UK government has pledged to make substantial cuts to its CO_2 emissions by 2035 as part of its goal to reach net zero by 2050.

Investment portfolios are increasingly reflecting the realities of the transition to net zero. The asset allocation of our ETFs provides investors with a range of options to match their own views and objectives relating to ESG.

ETFs are a popular investment vehicle for investors who seek cost-effective, transparent investments. Some of our ESG ETFs apply net-zero targets aligned with the Paris Agreement on climate change. They aim to reduce carbon intensity and provide exposure to companies investing in decarbonisation.

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Telephone calls may be recorded.

Investment risks

For complete information on risks, refer to the legal documents. Any investment decision should take into account all the characteristics of the fund as described in the legal documents. For sustainability related aspects, please refer to invescomanagementcompany.ie/dub-manco. The investment concerns the acquisition of units in a passively managed, index tracking fund and not in a given underlying asset.

Value fluctuation
The value of investments, and any income from them, will fluctuate. This may partly be the result of changes in exchange rates. Investors may not get back the full amount invested.

Equity
The value of equities can be affected by certain factors such as issuer's circumstances or economic and market conditions. This may result in value fluctuations.

Environmental, social and governance
The Fund intends to invest in securities of issuers that manage their ESG exposures better relative to their peers. This may affect the Fund's exposure to certain issuers and cause the Fund to forego certain investment opportunities. The Fund may perform differently to other funds, including underperforming other funds that do not seek to invest in securities of issuers based on their ESG ratings.

Invesco Solar Energy UCITS ETF only:

- **Emerging Markets**
  As a large portion of this fund is invested in less developed countries, investors should be prepared to accept a higher degree of risk than for an ETF that invests only in developed markets.
- **Sector concentration**
  As this fund has significant exposure to one or a small number of sectors, investors should be prepared to accept a higher degree of risk than for an ETF with a broader investment mandate.
- **Clean energy**
  Investments into the clean energy sector are considerably exposed to investment trends focused on environmental factors and may have sensitivities towards ESG related government regulations and tax implications.
- **Holdings concentration**
  The Fund might be exposed to a limited number of positions which might result in greater fluctuations in the value of the Fund than for a fund that is more diversified.

Invesco GBP Corporate Bond ESG UCITS ETF only:

- **Debt instruments**
  Debt instruments are exposed to credit risk which relates to the ability of the borrower to repay the interest and capital on the redemption date.
- **Interest rates**
  Changes in interest rates will result in fluctuations in the value of the fund.
- **Credit risk**
  The creditworthiness of the debt the Fund is exposed to may weaken and result in fluctuations in the value of the Fund. There is no guarantee the issuers of debt will repay the interest and capital on the redemption date. The risk is higher when the Fund is exposed to high yield debt securities.

Invesco Global Clean Energy UCITS ETF only:

- **Small Companies**
  As this fund invests primarily in small-sized companies, investors should be prepared to accept a higher degree of risk than for an ETF with a broader investment mandate.
- **Clean energy**
  Investments into the clean energy sector are considerably exposed to investment trends focused on environmental factors and may have sensitivities towards ESG related government regulations and tax implications.

Invesco Quantitative Strategies ESG Global Equity Multi-Factor UCITS ETF only:

- **Currency hedging**
  Currency hedging between the base currency of the Fund and the currency of the share class may not completely eliminate the currency risk between those two currencies and may affect the performance of the share class.

Invesco MSCI Emerging Markets ESG Climate Paris Aligned UCITS ETF only:

- **Emerging Markets**
  As a large portion of this fund is invested in less developed countries, investors should be prepared to accept a higher degree of risk than for an ETF that invests only in developed markets.
- **Stock Connect**
  The Fund may use Stock Connect to access China A Shares traded in Mainland China. This may result in additional liquidity risk and operational risks including settlement and default risks, regulatory risk and system failure risk.
- **Sampling**
  The use of a representative sampling approach will result in the Fund holding a smaller number of securities than are in the underlying index. As a result, an adverse development to an issuer of securities that the Fund holds could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the underlying index.
- **Liquidity**
  It may be difficult for the Fund to buy or sell certain instruments in stressed market conditions. Consequently, the price obtained when selling such instruments may be lower than under normal market conditions.

Invesco MSCI USA ESG Climate Paris Aligned UCITS ETF / Invesco MSCI Japan ESG Climate Paris Aligned UCITS ETF only:

- **Country concentration**
  The Fund is invested in a particular geographical region, which might result in greater fluctuations in the value of the Fund than for a fund with a broader geographical investment mandate.

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Important Information

This marketing communication contains information that is for discussion purposes only and is intended only for professional investors in the UK. Marketing materials may only be distributed in other jurisdictions in compliance with private placement rules and local regulations.

Data at 31 December 2021, unless otherwise stated.

By accepting this document, you consent to communicating with us in English, unless you inform us otherwise.

Costs may increase or decrease as result of currency and exchange rate fluctuations. Consult the legal documents for further information on costs.

For more information on our funds and the relevant risks, please refer to the share class-specific Key Investor Information Documents (available in local language), the Annual or Interim Reports, the Prospectus, and constituent documents, available from invesco.eu. A summary of investor rights is available in English from invescomanagementcompany.ie. The management company may terminate marketing arrangements.

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UCITS ETF's units / shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units / shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units / shares and may receive less than the current net asset value when selling them.

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