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# Invesco S&P 500 ESG UCITS ETF

## (the “Fund”)

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Sustainability-related disclosures

## Contents

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**02**

Summary

**03**

No sustainable investment objective

Environmental or social characteristics  
of the financial product

Investment strategy

**04**

Proportion of investments

Monitoring of environmental or social  
characteristicsMethodologies for environmental  
or social characteristics**05**

Data sources and processing

Limitations to methodologies and data

**06**

Due diligence

Engagement policies

Designated reference benchmark

# Summary

The Fund's objective is to achieve the net total return performance of the S&P 500 ESG Index (the "Reference Index"), less fees, expenses and transaction costs. In order to achieve the investment objective, the Fund invests all or substantially all of the net proceeds of any issue of shares in a basket of global equity securities and equity related securities (the "Basket") whereby the Fund, in exchange for the performance/return of the Basket with an approved counterparty, will receive the return of the unhedged Reference Index.

The Fund promotes environmental and/or social characteristics but does not have as its objective sustainable investment. The environmental and/or social characteristics promoted by the Fund are to provide indirect exposure to the Reference Index, thereby gaining exposure to similar overall industry group weights as the S&P 500 Index (the "Parent Index"), whilst improving the Fund's ESG characteristics. The Fund achieves this by tracking the Reference Index, which has a methodology that is consistent with attaining the environmental and social characteristics promoted by the Fund, as well as applying the Index Provider's exclusion criteria to the underlying Basket.

Through the application of the various exclusionary criteria defined in the index methodology, the companies in the Reference Index follow good governance practices. The Investment Manager also applies exclusion criteria to the universe of eligible securities that may be included as direct physical holdings in the Basket to ensure that they follow good governance practices.

Excluding possible de minimis residual cash holdings, 100% of the Fund's NAV will be used to attain the environmental and social characteristics of the Fund by gaining indirect exposure to the Reference Index through unfunded swaps.

The Manager monitors the tracking error of the Fund on an ongoing basis. The Manager also monitors and measures the Fund's performance on other metrics, using indicators such as the Fund's ESG score, ESG rating, carbon intensity and exclusion criteria, by aggregating data from the index provider, and third-party data providers. The Manager compares against the same indicators for the Reference Index to measure the attainment of the environmental and/or social characteristics promoted by the Fund. The Manager also monitors the degree to which the ESG characteristics of the Fund are an improvement over those of a relevant comparable broad market index. The Manager also monitors the application of the index provider's exclusion criteria to the Basket.

In order to assess the quality of the index provider's data, the Manager carries out due diligence on the index provider prior to fund launch and on an ongoing, periodic basis. The Manager may also utilise data from other third-party data providers for comparison purposes, allowing the Manager to identify and challenge any inconsistencies. The Manager does not estimate any of the data or use any estimated data from third party data providers.

There are limitations to the data and methodologies used to measure the attainment of the environmental and social characteristics, e.g. there may be insufficient data coverage by the index provider and third-party data providers, or there may be errors in the data from third party data providers, including index constituent data disseminated by the index provider. The methodology of the Reference Index does not apply fully to the direct physical holdings of the Fund's Basket. However, such limitations are not expected to have any material impact on the Fund's overall ability to attain the environmental and/or social characteristics which are met by tracking the Reference Index.

Invesco's engagement policy can be accessed [here](#) – 'Stewardship Report'.

Please refer to the index provider's website for input data, the methodologies used to select those data, the rebalancing methodologies and how the Reference Index is calculated: <https://www.spglobal.com/>.

## **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## **Environmental or social characteristics of the financial product**

The environmental and/or social characteristics of the Fund are to provide indirect exposure to the Reference Index, thereby gaining exposure to similar overall industry group weights as the S&P 500 Index (the "Parent Index"), whilst improving the Fund's ESG characteristics. The Fund achieves this by tracking the Reference Index, which has a methodology consistent with attaining the environmental and/or social characteristics promoted by the Fund.

The environmental and/or social characteristics are achieved by excluding from the Parent Index issuers involved in certain business activities deemed by the Index Provider to be inconsistent with ESG outcomes, issuers that are involved in severe ESG controversies, and issuers that fall within 25% of the worst scoring in each Global Industry Classification Standard (GICS®) industry group according to S&P Dow Jones Index ESG scores. The Investment Manager also applies substantially similar business involvement and controversy exclusion criteria of the Index Provider to the underlying Basket.

## **Investment strategy**

The investment objective of the Fund is to achieve the net total return performance of the Reference Index (less fees, expenses and transaction costs).

The Fund is passively managed and synthetically replicates the performance of the Reference Index which it tracks. In order to achieve the investment objective, the Company will on behalf of the Fund invest all or substantially all of the net proceeds of any issue of Shares in a basket of global equity securities and equity related securities (the "Basket") whereby the Fund, in exchange for the performance/return of the Basket with an approved counterparty, will receive the return of the unhedged Reference Index or a version of the Reference Index which is denominated in a currency other than USD and hedged, through unfunded swaps.

The Fund shares the same environmental and/or social characteristics as the underlying Reference Index and attains those characteristics by gaining exposure to the Reference Index through swaps.

The Reference Index is constructed from the Parent Index by using the Index Provider's exclusionary criteria to exclude from the Parent Index securities that: 1) are involved (as defined by the Index Provider) in business activities in tobacco, controversial weapons, oil sands, small arms, military contracting and thermal coal (extraction and power generation); 2) are classified as Non-Compliant according to the United Nations Global Compact (UNGC) principles are excluded; 3) have a S&P Dow Jones Index ("DJI") ESG Score that falls within the worst 25% of in each Global Industry Classification Standard ("GICS®") industry group according to S&P DJI ESG Scores. The S&P DJI ESG Scores employ data gathered through SAM's Corporate Sustainability Assessment (CSA), which SAM has developed and administered over 20 years.

The Reference Index then targets 75% of the float market capitalisation of each GICS® industry group within the Parent Index. The Reference Index is rebalanced on an annual basis to screen for the ESG exclusions and target the GICS® industry groups.

The ESG scoring criteria of the methodology of the Reference Index is not applied to the Basket, however the Investment Manager will apply minimum ESG safeguards by applying substantially similar business involvement and controversy exclusion criteria as the Reference Index. Such exclusions may vary depending on the activity, from zero tolerance to exclusions based on percentage of revenue or other measures.

Through the application of the various exclusionary criteria defined in the index methodology, the companies in the Reference Index also follow good governance practices.

## **Proportion of investments**

Excluding possible de minimis residual cash holdings, 100% of the Fund's NAV will be used to attain the environmental and social characteristics of the Fund by gaining indirect exposure to the Reference Index. To do this, the Fund will invest all or substantially all of the net proceeds of any issue of Shares in a Basket of global equity and equity-related securities. The Fund will then enter into an unfunded swap contract with an approved counterparty through which it will pay away the performance/return of the Basket of securities and receive in return the performance of either the Reference Index, or of a currency-hedged variant thereof, as required to produce the necessary returns for any currency-hedged share classes of the Fund.

## **Monitoring of environmental or social characteristics**

As the Fund achieves the environmental and/or social characteristics by synthetically replicating the Reference Index, the Manager will monitor the Fund's ability to track the Reference Index in line with the investment strategy of the Fund. The Manager monitors the tracking error of the Fund (being the standard deviation of the difference in returns between the fund and the reference index) throughout the lifecycle of the Fund to ensure that this is within the limits as set out in the Supplement.

The Manager will also monitor the following indicators on a monthly basis:

- the Fund's ESG score
- the Fund's ESG rating
- the carbon intensity of the Fund
- the Fund's exclusion criteria

The Manager also separately monitors the application of the index provider's exclusion criteria to the direct physical holdings in the Basket.

## **Methodologies for environmental or social characteristics**

The Manager aggregates data from the index provider, and third party data providers such as MSCI and Sustainalytics in order to monitor the indicators and measure the Fund's attainment of the environmental and/or social characteristics. The Manager compares the indicators against the same indicators for the Reference Index tracked by the Fund to ensure consistency. The same comparison is made against a relevant broad market index to verify that the Fund has achieved an improvement against it.

## Data sources and processing

As the Fund is passively-managed, the Fund attains the environmental and/or social characteristics by tracking the Reference Index. The Manager uses index composition data as disseminated by the index provider to implement the investment strategy. In order to assess the quality of the index provider's data, initial due diligence is carried out on the index providers prior to fund launch and periodically thereafter and the Manager ensures the index provider is a Benchmark Administrator on the ESMA register that is maintained in accordance with Article 36 of the Benchmark Regulation, or is in the process of applying for inclusion on the ESMA Register or approved by endorsement or recognition by a Member State competent authority. Thereafter, the Manager conducts periodic reviews of the index providers' controls for monitoring of the data quality and the correct implementation of the index methodologies. The Manager also uses data sourced from other third parties (e.g. Sustainalytics and MSCI) for comparison purposes in order to identify and challenge any potential inconsistencies. The Manager does not estimate any of the data or use any estimated data from third party data providers.

## Limitations to methodologies and data

### Methodologies

There may be insufficient data coverage by third party data providers for certain issuers. In such circumstances, the ability of the Manager to perform monitoring and measurement of the environmental and/or social characteristics may be impaired.

The Manager will monitor the attainment of the environmental and/or social characteristics by the Fund (as described under the section 'Monitoring of environmental or social characteristics'), however, the Manager does not independently verify an issuer's eligibility for inclusion in the Reference Index and is reliant on the data, research and expertise of the index provider to select the issuers in accordance with the methodology of the Reference Index. The index provider is subject to initial and ongoing due diligence checks by the Manager to verify their skill and expertise (please refer to the section titled 'Due Diligence').

The ESG scoring criteria of the methodology of the Reference Index is not applied to the Basket, however the Investment Manager will apply minimum ESG safeguards by applying substantially similar business involvement and controversy exclusion criteria as the Reference Index. Such exclusions may vary depending on the activity, from zero tolerance to exclusions based on percentage of revenue or other measures.

These limitations do not impact on the Fund's ability to achieve its objective of tracking the Reference as the Fund utilises the index composition data disseminated by the index provider to attain the environmental and/or social characteristics that it promotes.

### Cash

Currently the Investment Manager does not apply any minimum environmental or social safeguards to cash held for ancillary liquidity purposes.

### Data

To meet the stated investment objective and policy of the Fund, the Company, the Manager and/or the Investment Manager (together "Invesco") may rely on financial, economic, environmental and other data made available by companies, index providers, governmental agencies, rating agencies, exchanges, professional services firms, central banks or other third-party providers (the "external data providers").

The Fund passively replicates the Reference Index and the primary source of third-party data is the index composition as disseminated by the index provider. Invesco may also use third-party data from other sources besides an index provider. Invesco ensures that each index provider is a Benchmark Administrator on the ESMA register that is maintained in accordance with Article 36 of the Benchmark Regulation, or is in the process of applying for inclusion on the ESMA Register or approved by endorsement or recognition by a Member State competent authority.

Invesco performs due diligence on index providers and has internal controls to monitor constituent data (please refer to the sections "Data sources and processing" and "Due diligence"), however Invesco may not in all cases be able to verify the integrity of third party data used in the index construction. In placing reliance on external data providers there may be risks associated with errors in third party data. Such errors may be undetectable by either Invesco or the index provider and can result in holdings weightings that are inconsistent with the stated methodology of the index and/or the investment objective and/or policy of the fund. The Funds could incur unexpected costs as a result such errors, for which losses Invesco and external data providers, acting in good faith, will not be held liable.

Where errors in third party data are identified, as the investment objective of the Fund is to track the index, the Fund may continue to hold investments that are inconsistent with the stated investment policy, or environmental and/or social characteristics or sustainable investments of the Fund, until such time that the data is corrected or, where the error has impacted the composition of the Reference Index, until the index provider rebalances the Reference Index. This applies to ESG data which may not only impact the Fund's holdings but also the reporting done by the Investment Manager on the Fund's ESG characteristics as required under relevant regulation.

## Due diligence

Invesco carries out due diligence on index providers and ensures that each index provider is included on the ESMA register that is maintained in accordance with Article 36 of the Benchmark Regulation, or is in the process of applying for inclusion on the ESMA Register or approved by endorsement or recognition by a Member State competent authority.

Prior to launching a new ETF, the Investment Manager carries out due diligence on the Reference Index by assessing the index methodology to determine whether it will achieve the desired investment outcome and environmental and/or social characteristics promoted by the Fund. This includes, but is not limited to, analysis of the investment universe of potential securities (and in particular the degree of coverage by third-party ESG data providers), the exclusionary criteria applied (e.g. business involvements, controversies, UNGC alignment, minimum ESG scores), the security weighting methodology, the overall improvement achieved in the ESG and climate characteristics of the benchmark relative to an unadjusted benchmark, and the degree of tracking between the index and the unadjusted benchmark.

## Engagement policies

At Invesco, we take our responsibility to act as active owners very seriously and see engagement as an opportunity to encourage corporate improvement and positive change of our investee companies and entities. Engagement with companies and proxy voting play a fundamental role in our efforts to help manage, protect, and enhance the value of our clients' investments. Invesco leverages the engagement activities led by Invesco's ESG Team and works collaboratively with our ESG research analysts to set engagement objectives and opportunities.

Equity shares held in Invesco ETFs are included as part of Invesco's overall share ownership and relationship with investee companies through direct engagement or collaboratively through investor organisations. This is particularly relevant in regards to ESG related issues, where we can draw on Invesco's leadership and collective ESG engagement power to command companies' attention and use our influence to encourage stronger ESG related behaviour from the firms and entities in which we invest. For more on our ESG engagement approach and objectives, please see our Invesco Stewardship Report at [www.invesco.com](http://www.invesco.com).

## Designated reference benchmark

An index has been designated as a reference benchmark to meet the environmental and/or social characteristics promoted by the fund.

The Reference Index has been selected on the basis that it aligns with the environmental and social characteristics promoted by the Fund, which is to provide indirect exposure to similar overall industry group weights as the Parent Index, whilst improving the Fund's ESG characteristics by excluding issuers from the Parent Index that are involved in certain business activities deemed by the Index Provider to be inconsistent with ESG outcomes, issuers that are involved in severe ESG controversies, and issuers that fall within the worst 25% in each Global Industry Classification Standard (GICS®) industry group according to S&P Dow Jones Index ESG scores.

For information on the input data, the methodologies used to select those data, the rebalancing methodologies and how the reference index is calculated, please refer to the index provider's website: <https://www.spglobal.com/>.

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1.0	16 December 2022	Creation of the document