

# Responsible Investment Policy

Invesco Quantitative Strategies Global Equity  
Low Volatility Low Carbon UCITS ETF

July 2022



# Executive Summary

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The Invesco Quantitative Strategies Global Equity Low Volatility Low Carbon UCITS ETF (“the fund”) follows an ESG integrated multi-factor Low Volatility strategy. While strict ESG filters are applied, the investment team aims at earning factor premiums, using their proven multi-factor investment approach which considers Momentum, Quality and Value. Furthermore, the team’s low volatility optimization targets to achieve reduced volatility compared to a market cap weighted benchmark, the MSCI World Index. The fund aims to significantly reduce the portfolio’s carbon footprint relative to the benchmark. The consideration of sustainability criteria is an integral part of every step of our investment process.

The investment process of the fund is based on three building blocks: ESG Policy, Security Selection, and Proxy Voting and Engagement.

01

## ESG Approach

- Using integrated ESG screening combined with additional ESG criteria.
- Implement ESG criteria using Moody’s ESG Solutions.

02

## Security Selection

- Multi-factor low volatility selection process focused on equities using a proprietary multi-factor investment approach which exploits premiums using proprietary factor definitions for Momentum, Quality and Value.

03

## Proxy Voting & Engagement

- Voting in-line with a dedicated proxy voting policy promoting ESG themes.
- Entering into an active dialogue with companies that have weaknesses in the field of ESG.

## Combination of appealing characteristics

- Implementing holistic **ESG criteria** in investment process
- Extra return potential from **Multi-Factor Model**
- **Low volatility objective** for more stable return pattern
- Achieving **measurable improvement** of ESG characteristics



# Holistic ESG consideration in the investment process

Invesco Quantitative Strategies (IQS) follows a fully integrated ESG (environmental, social, governance) investment process which is built on a longstanding experience in customized ESG solutions, active engagement with companies and the Invesco proxy voting approach.

The team considers explicit and implicit key ESG aspects in their multi-factor optimization process on a single stock, portfolio, and risk management level.

Besides incorporating proprietary aspects of governance within the Quality factor, all portfolios implement a dedicated ESG exposure control during portfolio construction and an adverse ESG momentum measure to restrict companies that face weak ESG scores and significant ESG downgrades, respectively.

Beyond a broad-based integration across all portfolios, a carbon control is applied during portfolio construction to obtain a better overall carbon footprint in comparison to an underlying benchmark or investment universe.

Additional customized ESG criteria in form of best-in-class and controversy monitoring can be implemented to meet client specific ESG requirements, as well as internationally recognized norms, conventions and renowned ESG quality labels.

## Holistic ESG consideration in our investment process

### Integrating key aspects of ESG

We **consider ESG at several layers** in our investment process:

- Standardized explicit and implicit incorporation of ESG key aspects into our investment process
- Active dialogue with companies and investor-driven proxy voting using Invesco's proprietary Proxy Voting Platform
- Offering optionality to implement additional, customized ESG criteria tailored towards the client's needs
- ESG fully embedded in research processes and analytics and documented in every research note



Source: Invesco. For illustrative purposes only.

## Holistic ESG consideration in the investment process

The IQS team’s investment process is built on the Momentum, Quality and Value factors, which help explain the long-term risk and return characteristics of equities. The team has identified that some signals within the Quality factor show positive correlation to governance factors. The calculation of these Quality signals is part of the daily factor score production and the multi-factor investment process. These Quality signals prefer companies with a high balance sheet quality which, for example, buy back shares and do not show disproportionate balance sheet growth. Governance factors also prefer companies in which management acts in the interests of shareholders and does not pursue unprofitable business projects.

Besides the implicit integration via the Quality factor, the team also explicitly uses its measures Adverse ESG Momentum and ESG Exposure Control. The team uses these measures to manage the risks which are associated with weakly scoring companies or portfolios.

For the Adverse ESG Momentum, the investment universe is screened daily for significant ESG downgrades. The team’s research has shown that companies that experienced severe downgrades tend to underperform their peers in the following months. Therefore, the investment in companies which suffered severe downgrades would be restricted.

Additionally, the team uses the ESG Exposure Control. At regular rebalancing, the ESG exposure of the equity portfolio is managed against the fund’s equity benchmark, the MSCI World Index. The team targets an exposure that is approximately at or above benchmark level. The key point is guarding against a risk that historically has been small but is expected to be material in the future.

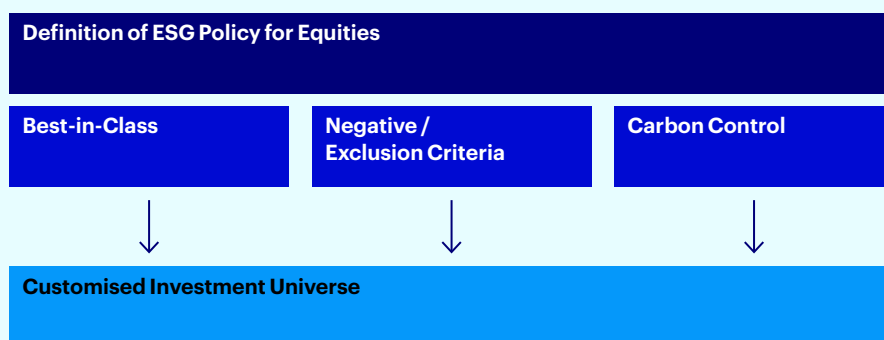
### Customised ESG

In addition to the standard ESG integration, IQS implements further individual ESG requirements in numerous respects:

#### ESG screening for equities

Environmental, social and governance focus

- Flexible use through an individual definition of over 250 ESG criteria
- Global universe of over 6,000 companies



Source: Invesco. For illustrative purposes only.



The team’s research has shown that companies that experienced severe downgrades tend to underperform their peers in the following months

**Best-in-class:** By applying positive criteria, companies that display excellence in sustainable management and products or processes are identified. These companies fulfil ecological and social requirements particularly well, ranging from climate efficiency to labour safety and satisfaction. With the integrated best-in-class approach, the investment team focuses on better performing companies in their sector with respect to the company’s ability to transition into a low carbon economy.

**Exclusion and negative criteria:** Companies, sectors or countries that fail to fulfil certain ESG criteria or that violate international norms and standards according to the definitions of the International Labour Organisation (ILO), the OECD or the United Nations are excluded from the investment universe.

Using Moody’s ESG Solutions, the investment team is able to define a set of ESG criteria. Exclusion and negative criteria can be used to eliminate companies that fail to meet certain ESG criteria.

## Holistic ESG consideration in the investment process

The Invesco Quantitative Strategies Global Equity Low Volatility Low Carbon UCITS ETF uses the following exclusion criteria:

	<b>Controversial Activities</b>	<b>Excluded if</b>
<b>Coal</b>	Revenue derived from thermal coal mining	<b>&gt;=5%</b>
	Revenue derived from burning coal for power generation	<b>&gt;=5%</b>
	Proportion in electricity generation fuel mix from coal	<b>&gt;=10%</b>
	Structural increase of thermal coal activities over 3 years	<b>Yes</b>
<b>Unconventional oil &amp; gas</b>	Revenues that comes from projects or the extraction of tar sands and oil shale, as well as the proportion of reserves in tar sands or oil shale	<b>0%</b>
	Involvement in fracking activities	<b>Yes</b>
	Involvement in arctic drilling activities	<b>Yes</b>
<b>Fossil fuel industry</b>	Revenues are derived from fossil fuel industries	<b>&gt;=5%</b>
	Structural increase of fossil activities over 3 years	<b>Yes</b>
<b>Biodiversity</b>	Controversies in the field of endangering biodiversity	<b>Yes</b>
<b>Pollution</b>	Controversies in the field of preventing and managing of accidental pollution or soil pollution	<b>Yes</b>
<b>Community involvement</b>	Controversies in the field of community involvement (including e.g. impact of operations on the local economy, responsible tax strategy, transfer of technology and skills)	<b>Yes</b>
<b>Nuclear power</b>	Revenue from nuclear power	<b>&gt;=5%</b>
	Proportion in electricity generation fuel mix from nuclear power	<b>&gt;=5%</b>
<b>Civilian firearms</b>	Manufacture or sale of civilian firearms or related products	<b>&gt;=5%</b>
	Manufacture of civilian firearms or related products	<b>&gt;=5%</b>
<b>Military</b>	Sales that are related to military sales including key parts or services for conventional weapons	<b>&gt;=5%</b>
	Controversial weapons	<b>0%</b>

# Holistic ESG consideration in the investment process



it is expected that the size of the investment universe of the Fund will be reduced by about

## 30 to 50%

in terms of number of issuers

	<b>Controversial Activities</b>	<b>Excluded if</b>
<b>Tobacco</b>	Revenue from production and distribution	<b>&gt;=10%</b>
	Revenue from production	<b>&gt;=5%</b>
<b>Corruption</b>	Controversies in corruption	<b>Yes</b>
<b>UN Global Compact</b>	Fail to pass the UN Global Compact screening	<b>Yes</b>
<b>Labour rights</b>	Controversies in Labour Rights including the supply chain, forced or child labour and discrimination	<b>Yes</b>
<b>Human rights</b>	Controversies in Human Rights	<b>Yes</b>
<b>Recreational cannabis</b>	Involvement in recreational cannabis	<b>&gt;=5%</b>

Definition of Controversial Weapons: Even though there is no official definition of the concept of controversial weapons, investors and stakeholders typically refer to weapons of mass destruction (nuclear, chemical and biological weapons) and some conventional weapons when they use the term controversial. These weapons are collectively referred to as controversial weapons because, in particular, they may be considered to be excessively injurious, to have indiscriminate effects or to damage the natural environment. International Humanitarian Law (IHL) prohibits or restricts the use of some weapons. Three rules of customary international law, binding on all States, apply to all weapons: the prohibition of weapons of a nature to cause superfluous injury or unnecessary suffering; the prohibition of weapons which are indiscriminate by nature; and the prohibition of weapons causing widespread, long-term and severe damage to the natural environment. Explicitly, those weapons include anti-personnel mines, cluster munitions, chemical weapons, biological weapons, nuclear weapons, incendiary weapons, non-detectable fragments, blinding lasers, white phosphorous and depleted uranium beyond others. The screening covers companies providing full weapon systems and platforms, or key parts and services, for controversial weapons

Definition of Key Parts or services for Weapons: Key parts include subsystems of the whole weapon system (e.g. if the system is a rocket, the motor, fins, and random are some of its key parts) as well as end products that are essential to weapon systems, such as combat equipment. Key services include services that are essential to weapon systems and combat, such as communication, testing or flight simulation training services, design services. Other examples of important subsystems for a weapons system, could be the barrel for a gun, ammunition magazines, engines and transmission for weapons platform, the fuze for munition, the guidance package for a missile, arming devices for warheads, targeting radars, etc.

We do not invest in sovereigns of countries that practice the death penalty, as it is the ultimate cruel, inhuman and degrading punishment and a violation of the right to life.

## Holistic ESG consideration in the investment process

For the best-in-class approach, the Invesco Quantitative Strategies Team uses the Energy Transition score from Moody's ESG Solutions. The score seeks to inform on a company's strategic approach to reducing their emissions and to adapt their business model to address the risks and opportunities tied to the transition to a low carbon economy. During the construction of the portfolio, the fund aims to reduce the aggregated Scope 1 and 2 greenhouse gas emission intensity by at least 50% compared to the market cap weighted benchmark.

As a result of these ESG guidelines for screening, it is expected that the size

of the investment universe of the Fund will be reduced by about 30 to 50% in terms of number of issuers.

Derivatives, which are utilized to gain exposure to capital markets have to fulfil the ESG criteria on a constituent's level. This includes derivatives used for efficient portfolio management.

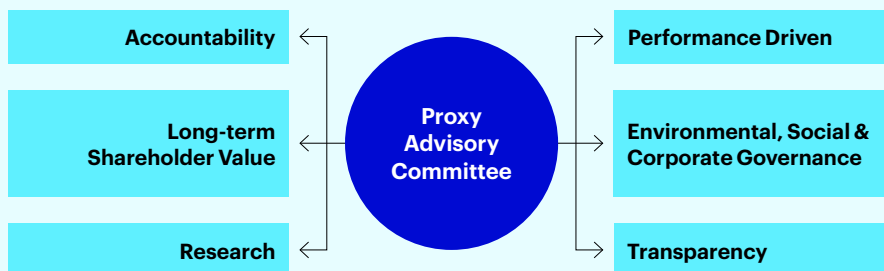
The product does not use any derivatives on agricultural commodities.

The product does not structurally invest into Fixed Income securities neither issued by states nor by corporates.

### Proxy Voting

When casting votes, Invesco incorporates a number of factors and inputs to inform the voting process, including company disclosures, internal and external research, proxy voting advisory services, the unique circumstances affecting companies, regional best practices, and any dialogue we have had with company management. The voting decision lies with our portfolio managers and analysts, with input and support from our Global ESG team and Proxy Operations functions. Invesco's Policy Statement on Global Corporate Governance and Proxy Voting (Global Proxy Voting Policy<sup>1</sup>) – developed and reviewed by our investment leadership – describes policies and procedures designed to ensure that we vote proxies in the best interests of our clients.

Invesco maintains a proprietary global proxy administration platform, known as ProxyIntel. The platform streamlines the proxy voting and ballot reconciliation processes, as well as related functions, such as share blocking and managing conflicts of interest issuers. This enables fund managers to vote in an efficient manner, increase transparency, share knowledge and effectively influence corporate practices and behaviours.



Source: Invesco. For illustrative purposes only.

IQS adopts and applies a dedicated ESG voting policy across managed funds, portfolios and mandates. Besides the support of shareholder proposals through Invesco's ProxyIntel, specific voting decisions on the following ESG topics are taken if applicable:

- Gender Pay Gap Proposals,
- Political contribution disclosure/political lobbying
- Disclosure/political activities and action data security
- Privacy and internet issues
- Report on Climate Change/climate change action and
- Gender Diversity on public boards.

<sup>1</sup> Read our Global Proxy Voting Policy [here](#).

# Holistic ESG consideration in the investment process

## Engagement

IQS enters regularly into dialogue with carefully selected target companies via Moody's ESG Solution and the Global ESG team. The potential target companies are selected by IQS and a final selection of the companies to be engaged with is then agreed with Moody's. In general, the team look to engage on topics related to the IQS Priority ESG Themes, which are Climate Change, Human Rights, Supply Chain Management, Water and Bribery/Corruption.

IQS selects investee companies which are at a size and stage making them likely to be influenceable. The objective is to identify weaknesses in the company's sustainability management and discuss these with management to enable the companies to achieve a better ESG performance in the medium to long term. Discussions can take place via telephone calls, personal meetings and written communication. Engagements are followed through over a period of years where necessary.

IQS' engagement priorities can be differentiated between the following two methods:

1. Theme-based engagement, which aims to encourage companies to expose and reduce systemic risks in areas such as bribery reporting; climate change; human rights management systems; supply chain labour policy and water scarcity.
2. Controversy-led engagement, which aims to prompt companies to observe internationally-recognised standards and conventions and correspondingly improve their company guidelines.

## Direct dialogue with companies



- Address ESG risks and weaknesses
- Enhance ESG performance of companies
- Pooling of interest of different asset managers

### IQS Engagement ESG themes

- Climate change
- Water management
- Bribery & corruption
- Supply Chain labour standards
- Human rights
- Global norms & conventions

### Joint Engagement with Invesco ESG areas

- Good governance
- Climate change
- Social Equity
- Climate Action 100+

Source: Invesco Quantitative Strategies, Moody's. For illustrative purposes only.

Moody's undertakes a detailed assessment of the themes for each company that the IQS team has selected. This is based on a long established and rigorous methodology, and involves assessing the level of risk that a company is exposed to in any one area and then analysing how the company mitigates these risks.

IQS also leverages on the firm-level engagement and supports the Climate Action 100+ initiative.



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# Investment Process

## Investment universe

The investment universe is comprised of global equities that meet the defined sustainability criteria which includes exclusions as well as Best-in-Class criteria. Risk management is an integral part of each step in the investment process.

The investment team relies on its factor-based selection model, which seeks to capture the factors of Quality, Momentum and Value. In addition, the IQS team implements specific ESG criteria. Following in-depth factor research, IQS uses proprietary factor definitions that are expected to deliver results in excess of standard factor definitions.

**In the first step**, the whole investable global stocks universe is screened for ESG criteria to define the eligible ESG universe. The eligible number of stocks of the ESG universe varies depending on the ESG criteria. At this stage the adverse ESG momentum is applied, which leads to exclusion of companies that face severe downgrades in their ESG score. Afterwards the stocks are ranked according to each stock's attractiveness with respect to the above-mentioned factors. To achieve comparability, these rankings are done within industry groups within regions, i.e. on an industry-neutral basis by region.

**In step two**, these factor rankings are weighted in order to obtain an overall multi-factor measure of a stock's attractiveness, a weighted multi-factor score. The weightings of the factors are determined with a view through the cycle, i.e. with the intention to establish highly attractive long-term risk-adjusted return expectations. This overall multi-factor attractiveness score is based on stock characteristics that have historically proven to differentiate successful from unsuccessful stocks, it is a measure of a stock's relative attractiveness within its regional peer group.

**Step three** determines a corresponding risk forecast for each stock in the universe by using a proprietary risk model that uses the same multi-factor building blocks as the return forecasting in order to assure alignment of return and risk view.

**Step four** constructs a Low Volatility tilted anchor portfolio. This portfolio is constructed using an optimization approach by reducing the ex-ante volatility of the portfolio. The ESG criteria as well as the greenhouse gas intensity reduction targets are incorporated in this step.

**In the final step**, the portfolio construction/optimisation establishes factor weightings aiming at high sensitivities of the overall portfolio with respect to the factors applied while rigorously managing risks and neutralising non-rewarded risks. This explicitly includes consideration of transaction costs.

Factors Balanced, time-tested	Momentum		Quality	Value
	Earnings Momentum	Price Momentum		
Proprietary signals Quantifiable, predictive, complementary	<ul style="list-style-type: none"> <li>Earnings momentum</li> <li>Earnings/sales revisions</li> <li>Revisions against trend</li> <li>Cash flow surprise</li> </ul>	<ul style="list-style-type: none"> <li>Specific momentum</li> <li>Risk-adjusted momentum</li> <li>Event momentum</li> <li>Short interest</li> </ul>	<ul style="list-style-type: none"> <li>Net external financing</li> <li>Net asset growth</li> <li>Profitability &amp; operating efficiency</li> <li>Fundamental health</li> <li>Accounting integrity</li> </ul>	<ul style="list-style-type: none"> <li>Cash flow yield</li> <li>Gross profit yield</li> <li>Earnings yield</li> <li>Book yield</li> <li>Dividend yield</li> </ul>

Source: Invesco, as of July 2022. For illustrative purposes only. Not all signals are used in all regions and sub-models. Signals often have subcomponents. Additional signals are used in specific sub-models and definitions may vary across regions.

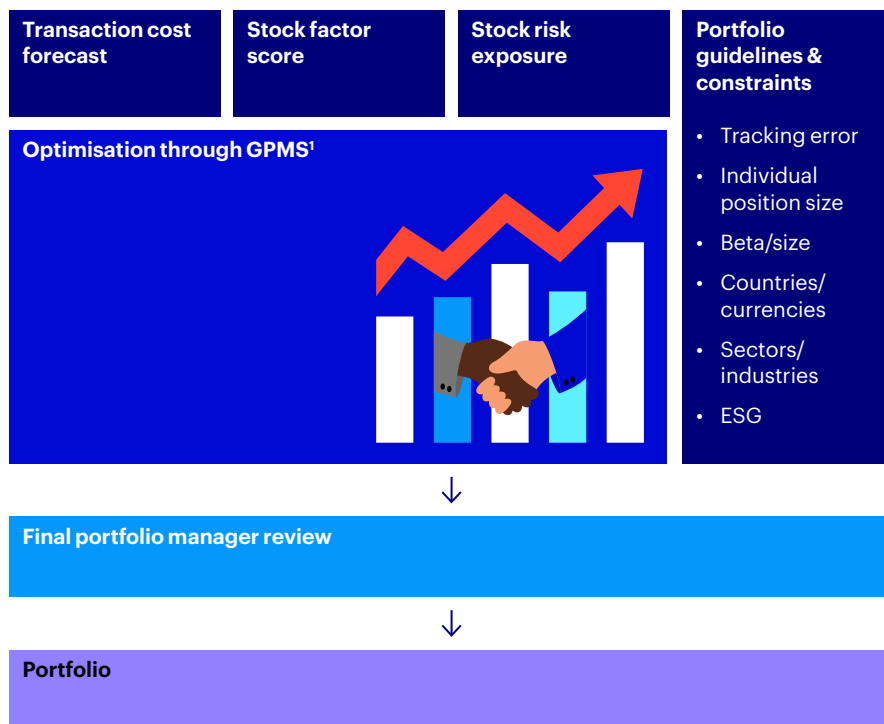
# Investment Process

The resulting ESG equity portfolio will establish broadly diversified factor exposures towards stock characteristics we like, seeking to capture the long-term positive premiums of these factors deemed rewarding while reducing volatility compared to a capitalisation weighted index.

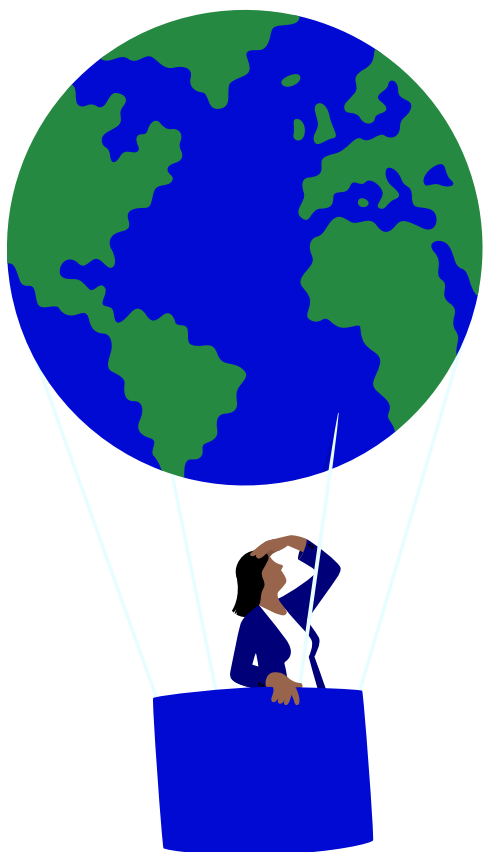
Finally, before the portfolio is implemented a member of the IQS Portfolio Management team manually checks the optimisation results and the suggested trades for data consistency. The portfolio manager

does not have a discretionary right to overrule the optimisation results. However, if the portfolio manager finds data inconsistencies for a stock, e.g. due to a last-minute profit warning, the IQS team has defined procedure how to deal with a stock in such a case. After the correction of the data, the optimisation is run again to reflect all important information. Subsequently to the sign off of the optimisation result, the portfolio adjustments will be implemented into the portfolio.

## How we build the optimal equity portfolio



Source: Invesco. For illustrative purposes only. <sup>1</sup> Global Portfolio Management System.



# Fund Facts

## Invesco Quantitative Strategies Global Equity Low Volatility Low Carbon UCITS ETF

Investment Centre	Invesco Quantitative Strategies
SFDR Classification	Article 8 Fund
ISIN	IE000N42HDP2 (USD) IE000XIBT2R7 (EUR-hedged)
Structure	UCITS ETF
Domicile Country	Ireland
Launch Date	19 July 2022

Source: Invesco as at 19 July 2022.