
Invesco Nippon Small Mid Cap Equity Fund

(the “Fund”)

Sustainability-related disclosures

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Summary

At Invesco we have looked to put in place minimum safeguards across multiple sub-funds of Invesco Funds to allow them to meet Article 8 requirements of the Regulation (EU) 2019/2088 on sustainability – related disclosures in the financial services sector (SFDR). To be classified as an Article 8 product, the sub-funds need to promote, among other things, environmental and/or social characteristics while also ensuring that investee companies follow good governance practices.

In order to meet such requirements, it was determined that we would look to exclude certain activities based on certain thresholds. The activities excluded from the Fund include:

- Level of involvement in Coal extraction and production;
- Level of involvement in Unconventional Oil and Gas such as Arctic oil and gas exploration, oil sands extraction and Shale energy extraction;
- Level of involvement in Tobacco production and tobacco-related products;
- Level of involvement with recreational cannabis;
- Companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty.

In order to assess companies around the above activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate.

While there is broad coverage across the various systems, there is no one system that has complete coverage of the entire investment universe. As a result, investment teams will be responsible for conducting an assessment of companies for which data is not available, under the appropriate supervision and oversight of our investment compliance and ESG teams. This self-certification process ensures that the coverage of the Fund's investible universe is 100%.

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 Fund applies, in addition to the regulatory mandated exclusions with regards to controversial weapons (please also refer to Section 7.5 I. (5) of the Prospectus) and sovereign debt sanctions, additional exclusions based on the following factors, which may be periodically updated:

- Level of involvement in Coal extraction and production;
- Level of involvement in Unconventional Oil and Gas such as Arctic oil and gas exploration, oil sands extraction and Shale energy extraction;
- Level of involvement in Tobacco production and tobacco-related products;
- Level of involvement with recreational cannabis;
- Companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the Non-Proliferation Treaty.

In addition, companies will be excluded if they are assessed as being in violation of any of the UN Global Compact's principles, based on third-party data and the Investment Manager's proprietary analysis and research. Exclusions apply on a continuous basis during the life of the Fund.

Investment strategy

The list of activities and their appropriate thresholds to define the exclusion are articulated below:

UN Global Compact	<ul style="list-style-type: none"> • Non-compliant
International sanctions ¹	<ul style="list-style-type: none"> • Sanctioned investments are prohibited
Controversial weapons	<ul style="list-style-type: none"> • 0%, including companies involved in the manufacture of nuclear warheads or whole nuclear missiles outside of the NPT
Coal	<ul style="list-style-type: none"> • Thermal Coal extraction: >=5% of revenue • Thermal Coal power generation: >=10% of revenue
Unconventional oil & gas	<ul style="list-style-type: none"> • >= 5% of revenue on each of the following: <ul style="list-style-type: none"> – Arctic oil & gas exploration; – Oil sands extraction; – Shale energy extraction;
Tobacco	<ul style="list-style-type: none"> • Tobacco Products production: >=5% of revenue • Tobacco-related products and services: >=5% of revenue
Others	<ul style="list-style-type: none"> • Recreational cannabis: >=5% of revenue

¹ At Invesco we continuously monitor any applicable sanctions, including those imposed by the UN, US, EU and UK. These sanctions may preclude investments in the securities of various governments/regimes/entities and as such will be included in our compliance guidelines and workflows designed to ensure compliance with such sanctions. The wording of international sanctions is something that we pay particular attention to as there are occasions where sanctions can exist in limited form, for example allowing investments in the secondary market.

Entities are assessed on a range of good governance principles that may vary due to differing business profiles or operating jurisdictions. Investment teams may utilise both qualitative and quantitative measures with appropriate action taken where material concerns around governance exist. These assessments take into account various metrics such as board composition, executive compensation, committee structure, board frameworks and operating model, and legal and regulatory compliance.

As a result of the exclusion framework, it is expected that between 0% – 5% of the issuers will be excluded from the initial investment universe of the Fund.

Proportion of investments

The exclusions will be screened to the full investment universe. The expected asset allocation is 90% minimum of investments will be aligned with the environmental or social characteristics promoted by the Fund. However, currencies and money market instruments that are held for cash management/liquidity purposes may not be assessed for compliance within the exclusion framework.

Monitoring of environmental or social characteristics

In order to assess companies around the above activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate. This data is used in order to place trade restrictions on issuers that breach the defined thresholds.

While there is broad coverage across the various systems, there is no one system that has complete coverage of the entire investment universe. As a result, investment teams will be responsible for conducting an assessment of companies for which data is not available, under the appropriate supervision and oversight of our investment compliance and ESG teams.

Invesco has also implemented a challenge process where if there is disagreement between a data vendor's analysis of a company and the portfolio manager's analysis of the company in relation to the above exclusionary criteria, the portfolio manager is able to request a review of the data leading to the restriction. This data review is done independently of the portfolio manager and of the compliance team, and is handled by the ESG research team. If the ESG research team determines that the restriction should not be applied to a particular issuer, then the trade restriction is lifted.

Methodologies for environmental or social characteristics

In order to assess companies around the above activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate.

Counterparty Selection

While some counterparties may be excluded as investable entities under the above exclusion framework due to failure on one or more screens, it is felt that restricting their use as counterparties would impose an undue burden on the Fund and would impair our ability to ensure best execution.

Companies with clear transition plans

While the purpose of the framework is to exclude companies that operate primarily in certain industries, we recognise that some companies may be on a transition path and an immediate exclusion may not be in the best interests of shareholders. Investment teams along with the ESG team at Invesco have developed a framework to assess such companies based on objective and evidence-based criteria, ensuring that any company where the hard data is overwritten can be justified.

Data overwrite

It is recognised that some service provider methodologies may be backward-looking on their data and company assessment. As a result, to ensure that we are not wholly reliant on data vendors, a process has been established to allow investment managers to challenge the data. Any scenario where the data vendor assessment is overruled will go through a comprehensive review process, with any reasons being clearly documented.

Securities Lending

To the extent the Fund engages in securities lending, the Fund will reserve the right to recall securities in advance of an important vote. In addition, the investment manager will ensure that any collateral received is aligned with this website disclosure.

Disinvestment period

Where a previously eligible company subsequently fails an appropriate screen, subject to secondary validation the investment teams will ensure disinvestment within a period of 60 days, subject to liquidity/regulatory and other factors. At all times the best interests of shareholders will be taken into consideration.

Data sources and processing

In order to assess companies around the above activities, Invesco uses a combination of Sustainalytics and ISS (Institutional Shareholder Services) to assess compliance. However, this can be supplemented with other service providers where appropriate.

While there is broad coverage across the various systems, there is no one system that has complete coverage of the entire investment universe. As a result, the investment team will be responsible for conducting an assessment of companies for which data is not available, under the appropriate supervision and oversight of our investment compliance and ESG teams.

The Fund's investment universe will be covered and assessed against the exclusion framework with the only exception of asset classes (including cash management and index derivatives) that are not aligned with the environmental or social characteristics promoted by the Fund and are further explained below.

Limitations to methodologies and data

As mentioned above in "Data sources and processing", except for the cash management and index derivatives, the Fund's investment universe will be covered and assessed against the exclusion framework.

Cash Management

Currencies, cash and money market instruments that are held for cash management/liquidity purposes may not be assessed for compliance within the above framework. Where cash equivalents are held for investment purposes, they will be compliant with the framework.

Derivatives

Index derivatives will not be assessed on a look-through basis, unless such an index has a significant allocation to prohibited activities.

Due diligence

There are multiple levels of controls in place to ensure that the Fund does not invest in securities issued by issuers that violate or breach the aforementioned exclusionary criteria. The first step in this due diligence process is a review of the data received from ESG data vendors to ensure that each update file is as complete as possible before ingestion into internal systems. This includes an analysis of the changes between the current data file and previous data files, highlighting significant changes and potentially requesting confirmation of these changes.

Issuers that breach the exclusionary criteria and thresholds are then restricted from being purchased by the compliance team. Where there is a security that a portfolio manager wishes to include in the Fund but that is not covered by an ESG data vendor, that portfolio manager will do primary research on the issuer and determine if the issuer should pass or fail based on the exclusionary criteria. This initial review is then cross-checked by Invesco's dedicated ESG research team. If the ESG research team agrees with the portfolio manager's assessment, the security is allowed. If the ESG team disagrees with the portfolio manager's assessment, the review will be escalated to the chief investment officer overseeing the Fund for a final determination. A similar process is in place for data challenges where the portfolio manager believes there is a factual error in the ESG vendor's data.

Any changes to the ESG criteria of the fund must be reviewed and approved by Invesco's ESG client strategies team. This team is composed of ESG professionals with experience working with both clients and portfolio managers in the creation of ESG-labelled or related products. This process ensures that the criteria selected represent industry best practices for ESG-related products.

Engagement policies

Proxy Voting

At Invesco Japan, research analysts and portfolio managers, who make investment decisions and have the best insights into investee companies, take the lead in engagement with companies on a number of issues, including ESG-related issues and proxy voting decisions. At the same time, Invesco Japan has established the Responsible Investment Committee to formulate and approve the Policy of Stewardship Activities and the Proxy Voting Guideline and oversee these activities. The Responsible Investment Committee consists of members including Chief Investment Officer, as the chair, as well as Head of Compliance, Head of ESG Japan, investment professionals nominated by the chair and other members including persons in charge at the Client Reporting department. Meanwhile, the Compliance department reviews whether a conflict of interest is prevented and managed in stewardship and proxy voting activities, and the Conflict of Interest Oversight Committee monitors them. The Conflict of Interest Oversight Committee reports these monitoring results to the Executive Committee as well as the Invesco Proxy Advisory Committee.

The Conflict of Interest Oversight Committee, chaired by Head of Compliance, consists of Head of Administration, Head of Internal Control Management, Head of Risk Management, Head of Legal with Auditor and Internal Audit participating as observers. The committee monitors and manages a conflict of interest independently from business units, such as Sales and Investment departments. The Compliance department, a pivotal member of the Responsible Investment Committee and the Conflict of Interest Oversight Committee, has a reporting structure independent of Sales and Investment departments. Furthermore, Internal Audit, independent of all departments, including Compliance, evaluates and improves the effectiveness of risk management, control and governance processes strengthening the management system.

The investment team strives to vote proxies on all investee companies. The investment team makes voting decisions based on whether these decisions contribute to the sustainable growth of investee companies' value, taking into account ESG perspectives, each company's situations and engagements. The investment team reviews the Proxy Voting Guideline as appropriate to ensure that the voting policies and procedures contribute to the sustainable growth of investee companies' value. While the proxy voting guidelines are principles for investment team's voting decisions, depending on the proposals, the investment team may make an exception if the investment team concludes that such a decision is in the best interests of clients and beneficiaries after having constructive dialogues with the investee company. In such a case, approval of the Responsible Investment Committee shall be obtained.

Please click [here](#) to access Invesco Japan's regional proxy voting policy.

Engagement

The investment team believes that it is very important for portfolio managers and research analysts, who make investment decisions, to have an opportunity to engage in constructive dialogue with investee companies directly. As a long-term investor, the investment team focuses on the sustainable corporate value growth, attends a company meeting from a mid to long-term perspective, obtains information necessary for investment decisions, and engages in various dialogues as necessary. Accordingly, the investment team has many opportunities to engage in multiple constructive dialogues, including ESG strategies and performance, in usual meetings with investee companies, even though specific agendas is not set in advance.

Besides, the investment team collaborates with the Asian Investors Group on Climate Change (AIGCC), Climate Action 100+ and Net Zero Asset Manager initiatives with the Global ESG Team. Other local initiatives, which the investment team participates, include ACGA, TCFD Consortium, ESG Disclosure Study Group and 30% Club Japan Investor Group.

Please click [here](#) to access our engagement and global proxy voting policy.

Version	Date	Details of change
1.0	16 December 2022	Creation of the document
