Invesco
Mutual Fund

Invesco Asset Management India

Responsible Investment Policy

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Our ESG Philosophy

Invesco ESG Philosophy

ESG is a fundamental commitment at Invesco. Our ESG philosophy is based on our belief that ESG aspects can have an impact on sustainable value creation as well as risk management, and that companies with ESG potential may present investment opportunities. We serve our clients in this space as a trusted partner by adopting and implementing ESG principles in a manner consistent with our fiduciary responsibilities to our clients.

We apply ESG concepts in several dimensions, including in our investment processes, in engagement with companies and in our collaboration with clients for successful ESG solutions. Our approach focuses on integrating ESG risk and opportunity factors into investment decisions, differentiated by asset classes and decentralized by local investment centers.

The diversity at Invesco means that our investment centers and strategies will vary in their approaches towards implementation of ESG. Our global team of ESG experts work with Invesco's investment professionals to develop industry leading ESG practices that help people get more out at life by delivering a strong investment experience.

IAMI ESG Philosophy

Invesco Asset Management India (IAMI) manages a wide range of equity investment products spanning across risk-return profile. Sustainable value creation and effective risk mitigation are fundamental to our journey of achieving our goal of delivering a good investment experience for our clients. IAMI's equity investment philosophy is centered around these pillars to deliver sustainable returns over the long term.

Our ESG philosophy complements the equity investment philosophy with an aim to provide an additional layer of risk analysis framework basis factors beyond financials. The focus is on integrating ESG into our investment process, with the investment team deciding how to manage this integration. Our fund managers integrate ESG practices into their investment processes and engaging with the companies is an integral part of the investment process.

Consequently, we rely on our fund managers and research analysts, basis their knowledge and experience, to take full discretion in forming our view on ESG related matters. Our dedicated global ESG team acts as a center of excellence to guide, support and inform us of Invesco Inc.'s work, around the world, in this area.

In the process of formulating our framework we evaluated elements from various other ESG frameworks; and finally zeroed down on an approach which best suits the current state of Indian markets wherein the ESG awareness among investors and investee companies is still at an early stage and there are data constraints. The main consideration while formulating the framework, however, was to ensure capturing the essence of the relevant key aspects of ESG, despite these limitations. The framework has been made predominantly with the efforts of the IAMI equity team and with inputs from our global ESG team. The endeavor would be to constantly improve our framework as our understanding on this concept evolves and data availability on ESG parameters improves.

The core aspects of our ESG philosophy include:

Materiality: The consideration of ESG issues on a risk adjusted basis and in an economic context. We do not view ESG aspects as constraints, aside from any restrictions driven by legal obligations.

ESG momentum: The concept of improving ESG performance over time, is particularly interesting in our view. We find that companies that are improving in terms of their ESG practices may enjoy favorable financial performance in the longer term.

Engagement: We take our responsibility as active owners and see engagement as an opportunity to encourage continual improvement. Dialogue with portfolio companies is a core part of the investment process for our investment team. We often participate in dialogues with managements and present our views on corporate strategy, transparency, and capital allocation as well as wider ESG aspects.

IAMI approach to ESG

IAMI equity team has an integrated ESG investment approach towards all its actively managed equity mandates – both ESG-centric mandates and non ESG-centric mandates. Our approach to ESG, is driven more from a perspective of risk mitigation with an objective "to enhance risk adjusted returns".

The **ESG-centric** mandates approach the ESG parameters with stiffer cut-offs on benchmarks pertaining to E, S and G parameters as compared to non ESG-centric mandates. These mandates may also weave-in few exclusionary criteria; basis their relevance from India's current socio and economic state of affairs with respect to ESG adoption.

The actively managed **non ESG-centric** mandates approach the ESG concept with a more inclusive thought process. We do not consider the exclusionary ESG policy for these mandates and are not averse to owing companies within the negative ESG sectors – provided there is a tangible reason for the same like best in class or positive ESG momentum (improving ESG scores).

This document details our approach to the relevant E/S/G parameters and elaborates on our proprietary scoring framework/ methodology to assess the "ESG – health" of the investee companies. It serves as a guide for our ESG analysis and ongoing corporate engagement. The scope of this framework covers equity investments of IAMI.

Team and Responsibilities

IAMI's ESG efforts are predominantly driven by its equity investment team which comprises analysts and fund managers who take active responsibility of formulating and fine-tuning ESG processes, arriving at ESG scores, company level engagements and utilizing scores during portfolio construction. Inputs from the Global ESG team are used to leverage best practices in ESG capabilities – including areas such as ESG integration, research, voting and engagement, supporting the distribution team with client engagement, and advising the product teams on ESG innovation.

The primary responsibility of assessing ESG health of a company (ESG score) is that of the research analyst who analyses the industry of that company. The knowledge of the particular industry and its various companies equips the analyst to approach the ESG health evaluation with a wholistic perspective (both absolute and relative evaluation).

The fund managers would have the responsibility to oversee the ESG score and provide a healthy discussion forum with the analyst while finalizing the ESG score.

Any company becoming a part of the investable universe (categorized universe) will have an ESG score which will be updated at least once in a year. New companies getting listed and yet to publish the BRSR will have to be updated with ESG score once the same is published. These new companies without BRSR will hence be ineligible for ESG-centric mandates, as per the SEBI circular dated 8th February 2022.

The team of analysts and fund managers would further be responsible for carrying out engagements with the companies and discuss on aspects specially scored as "high-risk".

ESG Principles

IAMI looks at companies individually and considers materiality of ESG issues at a fundamental level. Wherever we consider an issue to be material, we attempt to identify quantifiable metrics and monitor the transparency of disclosures. While there may be nuances within sectors and companies, high-level issues that we believe are of material importance to our investment decisions are highlighted below. These topics form the basis for our analysis and engagement activities.

Environmental	Social	Governance
Carbon emissions: Companies generate greenhouse gas through their own operations or products/services they provide. Related regulations can materially affect sectors such as utilities, mining and energy.	**Human rights and community relations:** Management of the relationship between businesses and communities to ensure human rights should be a crucial element of a company's social responsibilities.	**Board structure:** The diversity of board structure and its independent oversight can help ensure corporate sustainability. Companies across sectors are valued by their efforts to improve their broad effectiveness.
Air quality: Air pollution is the largest single environmental risk to health globally and gaining attention. It is particularly relevant to manufacturing and utilities companies.	**Impact of company's product or service on the society:** Whether the company's product or service has a positive impact on the society at large.	**Shareholder rights:** Voting rights and share structures are important to corporate governance. Protection of interest of minority shareholders is also an important consideration.
Energy management: Management of energy consumption can be a material risk to companies in a broad range of sectors.	**Product quality and safety:** Being able to offer products/services that meet quality and safety standards closely links to sustainability of earnings. Failing to achieve it could impact consumer trust, particularly in healthcare, retail, autos and technology sectors.	**Disclosure and transparency:** A company needs to be transparent about its business practices and make proper disclosures to comply with relevant regulations. It is a key issue across sectors.
Water, waste and hazardous materials management: Companies need to address the impact of its operations on water resources and have proper policies to manage waste and hazardous materials.	**Diversity and inclusion:** It is increasingly important for companies to ensure the building of a diverse and inclusive workforce that reflects the composition of our evolving society. A broad range of sectors could be materially affected.	**Remuneration:** Incentives are instrumental in aligning the interest of management with that of shareholders. It is a key issue across sectors.
Ecological impacts: Activities including land exploration, natural resource extraction and cultivation can have adverse impacts on the ecosystem and biodiversity.	**Labor practices:** Companies are obliged to uphold commonly accepted labor standards and provide a safe and healthy working environment to employees. It is a particularly important risk for human capital intensive business such as retail and manufacturing.	**Business ethics:** Business ethics help address a company's ability to provide products/services that satisfy professional and ethical standards.

Our Proprietary ESG approach

Integration Approach

IAMI has developed a proprietary framework to score companies on ESG. The Business Responsibility and Sustainability Report (BRSR) – a report published annually by companies, forms the basis of our ESG analysis. Additionally, publicly available information, our database, supplemented by company engagements (if required) will be used to arrive at individual company-level scores on each of E, S and G parameters.

We measure the ESG risk for the companies on a scale of 1 to 3, whereby 3 denotes High Risk or Negative from ESG perspective, 2 denotes Moderate Risk or Neutral from ESG perspective and 1 denotes Low Risk or Positive from ESG perspective. This is thus a reverse scaling system which aligns with our approach of evaluating ESG from risk mitigation objective. As the risks emanating from E/S/G usually manifest over the long term – their evaluation plays an important role while evaluating companies from equity investment purpose.

We recognize that different businesses have a varied influence on Environmental and Social aspects, for instance, manufacturing entities may have a higher impact on environment than on society and likewise service businesses could be argued to have a higher impact on society than on the environment. Governance, on other hand, is paramount and is equally important for all companies. In order to weave in these nuances we have assigned a higher and at par weightage of 40% to Governance aspect for all companies/ industries and the balance 60% is distributed between Environmental and Social aspects based on the relative influence of these aspects on the industry in which the company operates.

A representative tabulation of the same is provided below:

	Energy	IT	Communication	BFSI	Consumer*	Utilities	Real estate	Materials	Healthcare	Industrials
E	40%	20%	30%	20%	30%	40%	30%	40%	20%	30%
S	20%	40%	30%	40%	30%	20%	30%	20%	40%	30%
G	40%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

*Consumer includes both consumer staples and consumer discretionary

Though we use GICS classification to differentiate between weightages for various industries, we do tweak the label for companies in cases where we need to reflect the true nature of the underlying business e.g. L&T Infotech is restated under Information Technology v/s its GICS classification of Industrials.

Further, for conglomerates, we assign the residual weight of 60% on the E & S parameters using Revenue, Profits or Capital Employed as metrics to determine materiality of various elements of its business mix.

On the aspect of **Environment**, our framework encompasses parameters like:

(a) Efficient usage of resources,

(b) Effective emission and waste / effluent management and

(c) Impact of company's product or service on the environment

In case of a company using a natural resource, we have taken cognizance of the efforts it puts to minimize its usage while evaluating the risk of company's operations on environment. For instance, a beverage company restoring some of its water usage by rainwater harvesting projects and thus reducing its net water usage will be viewed positively over others. Similarly, a company whose manufacturing process involves generation of effluents, the efforts it takes to minimize or treat effluents is given due weightage.

We have penalized businesses linked to fossil fuel production or usage, heavy chemicals, refineries, airlines, manufacturing products like single use plastic, fuel guzzlers like SUVs or products emitting greenhouse gases, etc. Likewise, businesses linked to natural gas or alternate energy like wind, hydro and solar or such businesses having impact of reducing carbon footprint / waste emissions like manufacturing of effluent treatment plants, companies involved in recycling of waste, companies undertaking sewage treatment contracts, etc. have been positively looked upon in our framework.

In each of our parameters, materiality is put to test. The business/ operations of company or its actions/ inactions need to have material and/ or differentiated impact on any of the parameters we are evaluating it on. For instance, a financial services company putting up rooftop solar panels in its corporate office, though appreciated, is given less significance than a cement company increasing the usage of power from alternate sources like wind, waste heat recovery system, etc. as intensity of power usage is materially higher in cement making and thus cement manufacturer can make material delta by intervention than the financial services company.

The different parameters to evaluate the materiality of environmental risk are individually scored on scale of 1 to 3. Using different weights allocated to signify the relative importance of each parameter we arrive at a weighted average 'E' score.

The **Social** aspect focuses on parameters like:

(a) Human Capital Development
(b) Inclusiveness encompassing upliftment of local community and vulnerable segments
(c) Stakeholder Interest and
(d) Impact of company's product or service on the society.

Our framework penalizes businesses linked to alcohol, cigarette and tobacco, gambling, junk foods, weapon manufacturing, etc. or companies creating / abusing monopolistic situations. Likewise, businesses related to healthcare or insurance that help people mitigate risks and that can have an impact at uplifting society such as financiers to the bottom of pyramid or unorganized sectors are looked upon positively.

In each of our parameters, materiality is put to test. General impacts like employment creation, contribution to exchequer, usage of electricity, etc. have been ignored. The business/ operations of company or its actions/ inactions need to have material and/ or differentiated impact on any of the parameters we are evaluating it on. For instance, a financial services company employing several thousand people need to focus more on managing the diversity of workforce than a cement plant operating in a remote geographical location employing people with special skills.

The different parameters to evaluate the materiality of social risk are individually scored on scale of 1 to 3. Using different weights allocated to signify the relative importance of each parameter we arrive at a weighted average 'S' score.

Governance covers issues like:

(a) Board Construct,
(b) Quality of Financial Statements and Disclosures and
(c) Protection of minority interest

In the broad construct, we use our analytical judgement, historical experiences, and publicly available information to determine whether the company has ethical and truly independent board. Our analytical expertise, sector experience and peer comparison amongst companies help us determine the quality of financial statements of the company, consistency of accounting policies, whether the policies are in line with generally accepted standards, etc. and whether material disclosures are made by the company's management to select few or to public at large.

In our framework, we penalize those companies which have a poor capital allocation track-record and/ or for undertaking any transactions which are materially prejudicial to minority shareholders.

The different parameters to evaluate the materiality of governance risk are individually scored on scale of 1 to 3. Using different weights allocated to signify the relative importance of each parameter we arrive at a weighted average 'G' score.

The weighted average 'E', 'S' and 'G' scores of a company are then individually multiplied by the respective weightages of E, S and G. depending on the industry in which it operates (as detailed in the table above), to arrive at its weighted average ESG. An illustrative sheet (not actual) detailing this process is presented in Annexure 1.

We understand that the above framework, to evaluate and score these "qualitative" aspects, is based on our current understanding of the subject. We strive to improve upon the same as the availability of data improves, as corporates open up to embrace these aspects as targeted objectives and as more third-party/ independent experts corroborate/ authenticate the available data. These improvements to our understanding we would weave into our policy/ framework as time progresses.

Exclusion Criteria

For our **ESG-centric** mandates we have also defined certain optional criteria to exclude certain activities based on certain thresholds, which may be updated from time to time. The ESG mandates may be designed in a manner to either include these exclusions or avoid them. The details of the same are tabulated below for reference.

The exclusion of few industries is recommended, as per our internal discussions, based on their potential to damage either the environment or the society. The list of activities with respective thresholds to define the exclusion are detailed below:

Minimum Exclusions

Exclusion	Recommended Threshold
Thermal coal extraction	>5% of revenue
Power production based on coal	>10% of generating capacity
Unconventional weapons (including nuclear weapons systems, cluster munitions, anti-personnel landmines, biological weapons, chemical weapons) phosphorous, non-detectable fragments, blinding laser weapons)	>0% of revenue
Tobacco – production & trading	>5% of revenue
Gambling	>10% of revenue

ESG integration in Investment process and portfolio construction

ESG related investment risk analysis is fully integrated within the investment process. While categorizing any new company as per IAMI's existing proprietary stock categorization framework, the concerned analyst will also evaluate its ESG risk score. Companies above a defined threshold ESG risk score of more than 2.5 would not be considered for categorization – thereby making ESG integral to the investment process.

Equity investments that IAMI would make in "ESG-centric" funds will be only in securities of those companies which have ESG scores lower than defined cut-offs (both individual scores for E/S/G and the combined ESG score calculated using E/S/G industry weightages as discussed in earlier sections) and also have Business Responsibility and Sustainability Report (BRSR) disclosures (in line with SEBI circular on "disclosure norms for ESG mutual fund schemes" dated 8th February 2022).

Further, with effect from October 01, 2024, ESG-centric fund shall invest atleast 65% of corpus in companies which are reporting on comprehensive BRSR and are also providing assurance on BRSR Core disclosures. The balance corpus of the fund can be invested in companies having BRSR disclosures.

All the categorized companies shall have live ESG risk scores (except for new companies getting listed (IPOs)). These ESG scores are to be revisited at least once in a year post availability of new BRSR/ annual report and/ or during the year if there is any material change in the scores post engagement / new development. In case of a new company being evaluated for investment (except new listings), the categorization shall happen only after scoring the company on ESG risks. In case of new listings (including IPO, OFS, corporate restructuring, etc.) the ESG risks shall be evaluated on availability of Annual Report and/or BRSR, the new listings shall be scored on ESG risks as per our framework.

For companies the scores of which have degraded beyond the defined thresholds, Investment team will make an effort to engage with the company as per the principles defined under the IAMI stewardship code. This is in line with our core pillar of “Engagement” of our ESG philosophy.

If even after reasonable engagements with the company, there is no improvement in the company’s ESG score, then the company would be decategorized and exited from all strategies.

On an ongoing basis, IAMI analysts and fund managers will monitor the ESG risk scores and use that as one of the inputs while engaging with companies. As part of our investment process, IAMI equity team will also undertake to review the ESG scores for all companies under the coverage universe. Any material degradation in the ESG score of an investee company will be closely monitored for engagement purpose. The ESG evaluation of every company would be documented at least once in a year.

During **portfolio construction and rebalancing**, for ESG-centric mandates, in addition to financial and valuation parameters, the fund manager will incorporate individual E, S & G scores of the companies. As a principle, such mandates would avoid companies with individual scores, on E, S & G parameters, at the minimum, in the bottom 33 percentile of our scoring range (1 to 3). This would imply that none of the companies owned in such mandates would have individual E/ S/ G score higher than 2.33. Moreover, such funds will avoid companies whose industry-weighted average ESG risk score is higher than 2.2 (thereby avoiding, at the minimum, bottom 40% percentile of our scoring range).

Moreover, such ESG-centric mandates would build an additional threshold on the overall weighted average ESG score of the portfolio. As a principle the portfolio’s weighted average score on ESG parameters would be capped at 1.67 – ensuring the ESG centric mandate reflects a participation, at maximum on weighted average basis, in the top 33 percentile of our scoring range (1 to 3) and thus maximizing the ESG quotient at the aggregate portfolio level. This portfolio level threshold would offer the fund manager ability to own companies in a risk-managed manner.

These limits **may be further tightened** to improve the po sitioning of the ESG-centric mandate as per the judgement of the investment team along with the product team.

Similarly, while managing non-ESG centric strategies, the fund manager will ensure the maximum limit of 2.5 on industry weighted average ESG risk score while selecting companies. There would be no limit on individual scores of companies on E, S & G parameters. Further, for such non-ESG centric funds, the portfolio’s weighted average ESG score too would be capped at 2.2 to ensure even non-ESG centric strategies minimize exposure to the bottom 40 percentile of the ESG scoring spectrum. This process would give our investors comfort that the mandates managed by IAMI will have a portfolio skewed towards the top 60 percentile of our scoring range.

These additional criteria are depicted in the table below:

			Maximum permissible individual E, S and G scores of each company within the Fund		
Fund Type	**Maximum permissible Portfolio Weighted average ESG risk score**	**Maximum permissible company wise ESG risk score**	**Environmental**	**Social**	**Governance**
ESG centric equity funds	1.67	2.20	2.33	2.33	2.33
Other equity funds	2.20	2.50	N/A	N/A	N/A

Active ownership

Active ownership is defined as the use of the rights and position of ownership to influence the activities or behavior of investee companies. Meeting investee companies is a core part of our investment process, and we prefer to engage to lead companies towards improvement than to divest our shareholding. While ESG topics generally form part of our standard dialogue, we may also engage with companies specifically on ESG related matters. Overall, our effort would be to influence the strategy of a company and nudge them in the right direction via active engagement with managements or at the board level if the situation warrants.

An integral part of our ongoing interaction with management teams would be to take stock of material ESG aspects which are critical for the company in improving its risk score. We will engage at several levels of an organization amongst company management, investor relations, senior management and the board on a case-to-case basis.

IAMI will escalate stewardship activities in several stages. Initially any issues/concerns would be raised by the analyst/fund manager through the process of on-going dialogue and company interactions. IAMI may then take several actions to escalate its concerns along the lines of escalation hierarchy.

IAMI, as a responsible asset manager, will play an active role in ensuring better corporate governance of listed companies by exercising voting rights attached to the securities of the companies in which the schemes of the Fund invest. It will be IAMI's endeavor to participate in the voting process (i.e. exercise voting rights) based on the philosophy enunciated in its voting policy.

IAMI's investment team will monitor developments through regular dialogue with company and other sources.

ESG tools and Resources

In addition to own efforts, collaboration with our internal Global ESG team, IAMI has access to a variety of external resources. It will also leverage external organizations for collaborative engagement and knowledge sharing.

ESG Research sources –

- BRSR
- Company Annual reports and publications, meetings
- ESG research providers like Sustainalytics
- Bloomberg
- Sell-side brokers who undertake ESG research
- Proxy voting advisors like IIAS

Transparency and Reporting

IAMI will share relevant details through its annual Stewardship report & Proxy Voting data which is available on its website

Annexure: An illustrative ESG scoring sheet

Company:xxx		Scale is 1 to 3	
Questions	**Weight**		**Overall Score**
A Environment	**30%**		**1.94**
1 Efficient Usage of Resources			**1.50**
A Steps to reduce resource usage (Energy, Water, Raw Material, Power, etc.)		2	
B Procedures for sustainable sourcing and/or reducing carbon footprint		1	
2 Effective Emission and Waste Management			**1.33**
A Mechanism to recycle products and waste		1	
B Initiatives on clean technology, energy efficiency, renewable energy, etc.		2	
C Emissions/Waste generation within the legally permissible limits (Any notices relating to emissions, etc.)		1	
3 Environmental impact of product or service			**3.00**
A Impact of company's product or service on the environment (eg. Greenhouse gases in AC, fuel guzzlers / diesel vehicles, single use plastic, etc.)		3	
B Social	**30%**		**1.67**
1 Human Capital Development			**1.25**
A Labor relations, including participation of employees in management recognized associations		1	
B Complaints relating to child labor, forced / involuntary labor, sexual harassment		1	
C Imparting safety & skill up-gradation training		1	
D Gender diversity and policies relating to females, LGBTQ, etc.		2	
2 Inclusiveness			**1.75**
A Steps to procure goods and services from local and small producers / communities		2	
B Initiatives taken to engage with the disadvantaged, vulnerable and marginalized stakeholders		3	
C Specified programs/initiatives/projects to support inclusive growth and equitable development & the impact thereof		1	
D Any direct contribution to community development projects & success thereof		1	

	3 Stakeholder interest			**1.67**
	A Stakeholder complaint receipt and resolution mechanism		2	
	B Instances of unfair trade practices, irresponsible advertising and/or anti-competitive behavior		2	
	C Data privacy and security		1	
	4 Social impact of product or service			
	A Impact of company's product or service on the society (e.g. physical health - tobacco, etc., financial health - inclusion, etc.)		2	2.0
C	**Governance**	**40%**		**1.51**
	1 Board Construct			**2.33**
	A Independent Chairperson		3	
	B Separation of roles between chairperson and CEO		1	
	C Ethical and truly independent board		3	
	2 Quality of Financial Statements			**1.00**
	A Tenure of Audit Firm (SEBI has mandated max 10 years now so maybe redundant in future)		1	
	B Fair disclosures on financials (own judgement, incl. selective disclosures to few)		1	
	3 Minority Interest			**1.20**
	A Senior management compensation being commensurate to company's size and performance		1	
	B Capital Allocation Track Record		1	
	C Any transaction materially prejudicial to minority (esp. in last five years, including promoter pledge above 30% of their total holdings)		2	
	D Investor complaints and redressal mechanism		1	
	E Whistle Blower Policy - existence and status of cases, if any		1	
FINAL ESG RISK SCORE				**1.69**

Version	3
Effective Date	24-Jun-24

Version History:

Version	Date	Description	Initiator	Approved by
1.0	1-Apr-22	Initial Adoption of Responsible Investment Policy	Investment Team	Approved by Board of IAMI on April 27, 2022 and Trustees on April 28, 2022
2.0	25-Jul-22	Amendments and update of RIP	Investment Team	Approved by Board of IAMI on July 25, 2022 and Trustees on July 29, 2022
3.0	24-Jun-24	Amendments and updation due to regulatory updation	Investment Team	Will be approved at the upcoming Board Meeting