Invesco Asset Management India

ESG Guiding Framework

Contents

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Our ESG Philosophy

Invesco ESG Philosophy

Cathrine De Coninck-Lopez
Global Head of ESG

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. As one of the largest asset managers globally, we are in a unique position to encourage change and have an impact through our engagement and dialogue with companies. 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. We engage with investee companies as part of our wider commitment to investment stewardship. Invesco leverages a host of internal resources as well as external tools to enable ESG capabilities across asset classes.

At the heart of our firm is our ability to think differently. 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 closely 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.

Global ESG Team
Governance Development Support

> Our approach to ESG is more driven from a perspective of risk mitigation with an objective to enhance risk adjusted returns

Our ESG Philosophy

IAMI ESG Philosophy

Invesco Asset Management (India) Private Limited manages a wide range of equity investment products spanning the risk-return profile. Our equity investment philosophy aims to deliver sustainable returns over the long term.

Our ESG philosophy is integrated with our equity investment philosophy supplementing it with a robust risk analysis framework. Evaluation of ESG factors is an important input to our investment process integrated with our core inputs on financial research – both primary and secondary.

Alongside other financial indicators, the evaluation of ESG factors is one of the inputs in the due diligence process comprising fundamental research, company dialogue and portfolio monitoring. We rely on our fund managers and research analysts, based on their best knowledge and experience, to take full discretion in forming a view on ESG related matters.

The framework formulated here is made largely through the efforts of the IAMI equity team with inputs from our global ESG teams. Our endeavor would be to constantly improve our framework as our understanding and data availability on ESG evolves.

Our approach to ESG is more driven from a perspective of risk mitigation with an objective to enhance risk adjusted returns. We do not follow the exclusionary ESG policy and are not averse to owning companies with negative ESG connotations, provided there is a tangible reason for us to own the company and as long as it demonstrates an improvement in ESG scores. Hence core aspects of our ESG philosophy includes materiality; ESG momentum (positive change) and engagement. The document serves as a guide for our ESG analysis and ongoing corporate engagement. The scope of this framework covers equity investments of IAMI.

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Invesco’s Responsible Investment strategy is based on customer-focused, operator-driven mindset and is broadly implemented across Invesco’s investment platform. Invesco strives to be a genuine industry leader, a trusted partner for customers and shareholders by addressing the growing needs of market regulations and internal demands with an immediate and proactive approach.

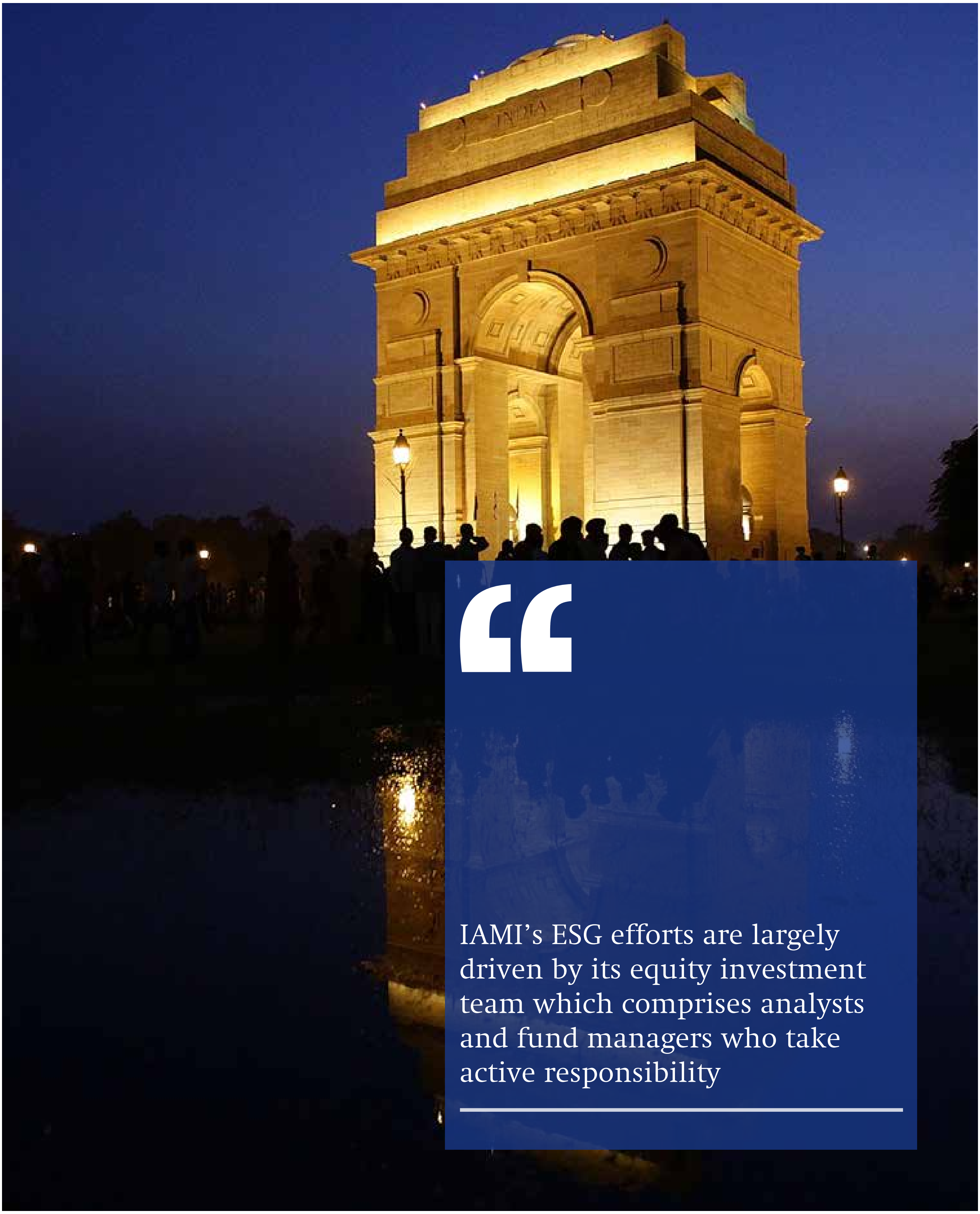
Team and Responsibilities

Invesco global has dedicated ESG specialists within certain individual investment centers globally, who are closely connected with its Global ESG team. The Global ESG team and regional ESG specialists formally collaborate via a Global Investors ESG forum, chaired by the Global Head of ESG. Invesco also conducts regional ESG Forums to support further coordination in North America, EMEA and Asia.

IAMI's ESG efforts are largely driven by its equity investment team which comprises analysts and fund managers who take active responsibility in 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 in areas such as ESG integration, research, voting and engagement, supporting the distribution team with client engagement, and advising the product teams on ESG innovation.

Taher Badshah
Chief Investment Officer – Equities
IAMI

Amit Nigam
Fund Manager - PMS
IAMI



> IAMI's ESG efforts are largely driven by its equity investment team which comprises analysts and fund managers who take active responsibility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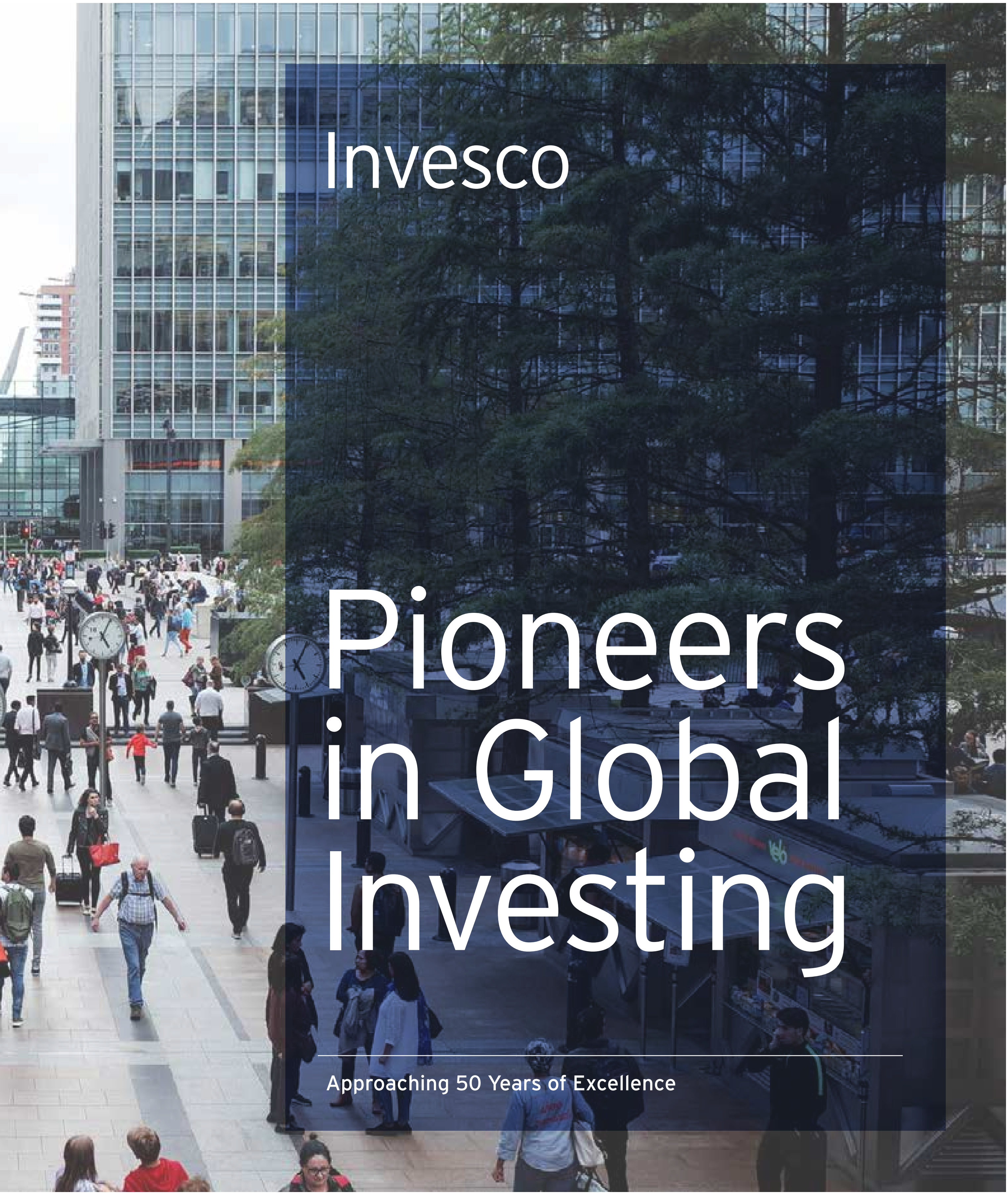

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ESG

principles

As high conviction investors we look at companies individually and consider materiality of ESG issues at a fundamental level. While there may be nuances within sectors and companies, the high-level issues that we believe are of material importance to our investments are highlighted here. Where we consider an issue can be material, we pay attention to improvement in performance over time, quantifiable metrics and transparency of approach. These topics form the basis for our analysis and engagement activities.

Environmental

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.

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.

Energy management:
Management of energy consumption can be a material risk to companies in a broad range of 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. This is a key issue in high environmental impact sectors such as mining, oil, and manufacturing

Ecological impacts:
Activities including land exploration, natural resource extraction and cultivation can have adverse impacts on the ecosystem and biodiversity. It can be seen particularly important for sectors such as mining and oil.

Source: Invesco
Illustration only

Disclaimer: The above parameters are provided for explaining key material ESG issues which have the potential to impact the enterprise value. The ESG issues selected may not be an exhaustive list of issues and there can be other set of issues / methodology which may affect the ESG Scores.

Social

Human rights and community relations: Management of the relationship between businesses and communities to ensure human rights should be a crucial element to a company's social responsibilities.

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.

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.

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.

Labour practices:
Companies are obliged to uphold commonly accepted labour 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.

Governance

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 board effectiveness.

Shareholder rights:
Voting rights and share structures are important to corporate governance. Protection of interest of minority shareholders.

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.

Remuneration:
Incentives are instrumental in aligning the interest of management with that of shareholders. It is a key issue across sectors.

Business ethics:
Business ethics helps address a company's ability to provide products/services that satisfy professional and ethical standards. It is a relevant issue across sectors and particularly important in sectors with governmental involvement or aggressive cultures.

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Our Proprietary ESG approach

IAMI has developed a proprietary framework to score companies on ESG. The Business Responsibility Report, a section mandated as part of the Annual Report of companies under the Companies Act, forms the basis of our ESG analysis. Further, publicly available information and our own database and analytical judgement are used to arrive at individual company-level scores on each of E, S and G.

We measure the ESG risk for the companies on a scale of 1-3, whereby 3 denotes **High Risk** or **Negative**, 2 denotes **Moderate Risk** or **Neutral** and 1 denotes **Low Risk** or **Positive**. This is thus a reverse scaling system.

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

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 rain-water 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.

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 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.

Governance covers issues like:

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

In the Board 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 / its management to select few or to public at large.

In our framework, we penalize the companies with bad capital allocation track-record and / or for undertaking any transactions which are materially prejudicial to minority.

ESG integration in Investment process and portfolio construction

ESG risk analysis is fully integrated within the investment process. While categorizing any new company as per IAMI's existing proprietary stock categorization framework (https://www.invescomutualfund.com/docs/default-source/default-document-library/invesco-india-equity-investment-process---june-2020.pdf?sfvrsn=427c84c2_0) the concerned analyst will evaluate the ESG risk score of the company being considered for categorization. Companies above a defined threshold ESG risk score of 2.5 would not be considered for categorization thereby making ESG integral to the investment process. The flow, is explained in the process flow diagram below:

ESG Process Flow

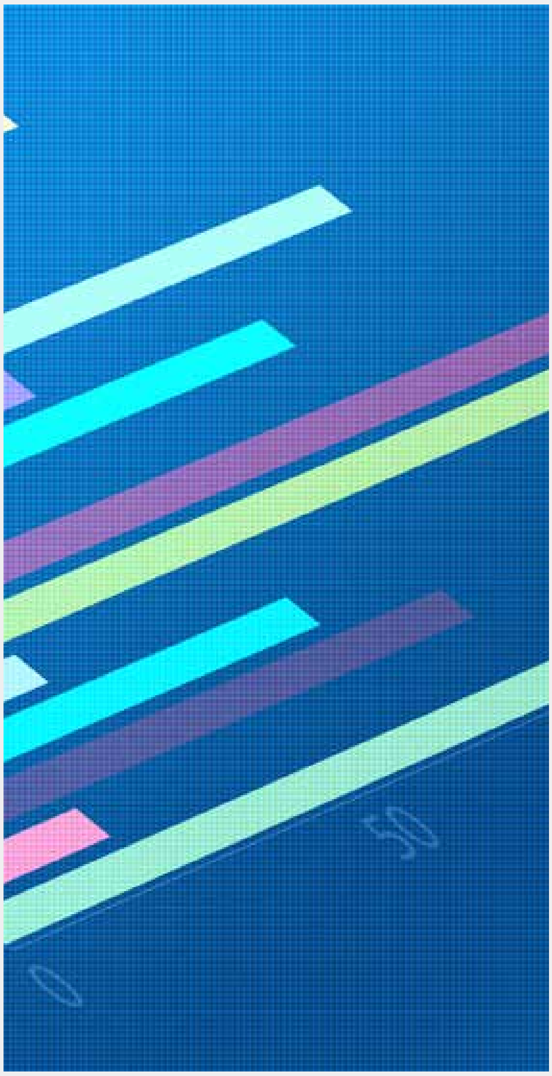
Rationale for thresholds

Fund Type	Risk Score^	Rationale
ESG centric equity funds	1.67	Ensures participation in the top 33 percentile of our scoring range (1 to 3) and thereby maximizing the ESG quotient at the aggregate portfolio level
Other equity funds	2.20	Ensures funds will have a portfolio skewed towards the top 60 percentile of our scoring range.

^ Maximum permissible Portfolio Weighted average ESG risk score
The above mentioned ESG thresholds are subject to change from time to time without any prior notice

All the categorized companies shall have ESG risk scores which are updated atleast once every year. In case of new listings (including IPO, OFS, corporate restructuring, etc.) the ESG risks shall be evaluated based on the data available at the time of evaluation.

On a continuing basis, IAMI analysts and fund managers will monitor the ESG risk scores and use that as one of the inputs while discussing companies. The ESG evaluation of every company would be documented at least once in a year. Companies, for which the scores have degraded beyond the defined threshold, Investment team will make an effort to engage with the company, as per the principles defined under the IAMI stewardship code, Even after reasonable engagements with the company, if there is no evidence of improvement in its ESG parameters within reasonable timeframe, then the company would be decategorized.



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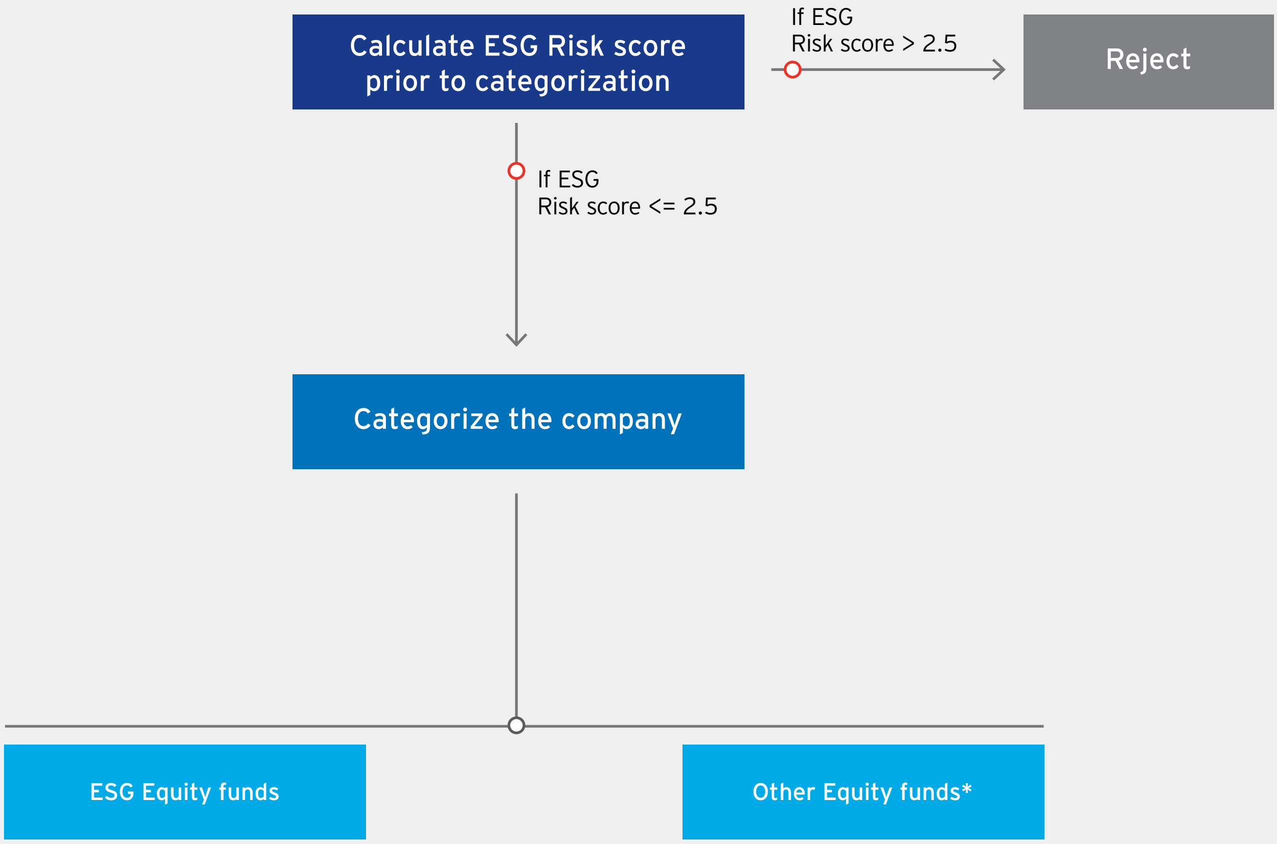
The investment team's proprietary stock analysis focuses on quantitative factors such as growth prospects and profitability, as well as qualitative factors such as quality and sustainability of growth.

ESG Process Flowchart



ESG Equity funds

Stock selection	Score
Max E/S/G individual risk	2.33
Max company level ESG risk	2.2

Portfolio construction	Score
Max portfolio weighted average ESG risk	1.67

Other Equity funds*

Stock selection	Score
Max company level ESG risk	2.5

Portfolio construction	Score
Max portfolio weighted average ESG risk	2.2

Source: Invesco Asset Management (India)
*Excluding passive and arbitrage strategies

The above mentioned ESG score is subject to change from time to time without giving any prior notice.

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 as a general rule, we prefer to engage for improvement rather than to divest. 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.

Company level ESG research and Engagement

Below are few examples of our IAMI equity team's efforts at ESG research integration.

Case 1: Home building material manufacturer

Our funds have a fair exposure to a prominent sanitaryware manufacturer known to have a good financial track record. Despite the typical conservative nature of the company over the years, we have been intrigued by its recent investment in market securities such as equity-oriented Mutual Funds and Alternate Investment Funds as part of its treasury book.

While in our earliest engagements with the company post ownership in 2019, management did acknowledge our concern on the matter, subsequent filings for FY19 showed no change in the company's position, forcing us to re-engage. During our more recent interactions however, management has stated that corrective action on the matter has been undertaken with investments having moved to safer income-oriented products. While reassuring, we await official filings in this regard and keep an eye on any future divergence on the same.

Case 2: A lubricant manufacturer

Based on our internal ESG risk assessment score, this company scored low on social and governance aspects and in general its disclosures levels were low too. On multiple occasions, we had also brought to its notice that their board structure appeared weak (with 3 of its Independent directors having a long association with other group companies thereby adversely affecting the board's independence in spirit). Besides, their limits on Corporate Social Responsibility (CSR) were under-utilized. In the last AGM, we eventually voted 'Against' the reappointment of the 3 independent directors.

In our most recent interaction, it has been brought to our attention that 2 of the 3 independent directors have retired and in whose place 2 industry veterans from the fields of banking and consumer goods and with no association with the company or its group, have been inducted. Moreover, the management was also forthcoming on some of our suggestions pertaining to better disclosures.

We believe, this move towards true board independence is a step in the right direction the benefits of which will likely be seen in times to come. We will monitor the disclosure levels and more granularity in data and whether the gap in CSR spends is getting bridged.

Case 3: A large diversified company

We have invested in a leading tobacco product company which also has interest in other businesses. Investment in non-core but capital-intensive business Hotels (9% of balance sheet) and high cash and cash equivalents (52% of capital employed) – led to ROEs depleting to 23% vs 31% (assuming all cash is paid out as dividend or share buyback)

In our interactions with the corporate finance team we impressed upon them the importance of considering higher dividend payout or a buyback to improve ROE. We did derive comfort in the company's assurance that FY20 marked the peak of its inorganic investment cycle.

More recently, on 18th Mar 2020, the board of directors adopted a revised dividend distribution policy from 70% (adopted in Jan 2017) to 80-85%, working out to be a healthy 7.5% as dividend yield. This is a step in the right direction and is likely to help alleviate some of the capital allocation concerns around the stock.

The above mentioned are few illustrations for the efforts taken by IAMI's equity team for ESG research integration. The information shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party.

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:

- Company Annual reports and publications, meetings
- ESG research providers like Sustainalytics
- Bloomberg,
- Sell-side brokers who undertake ESG research,
- Proxy voting advisors like Institutional Investor Advisory Services (IIAS)

Transparency and Reporting

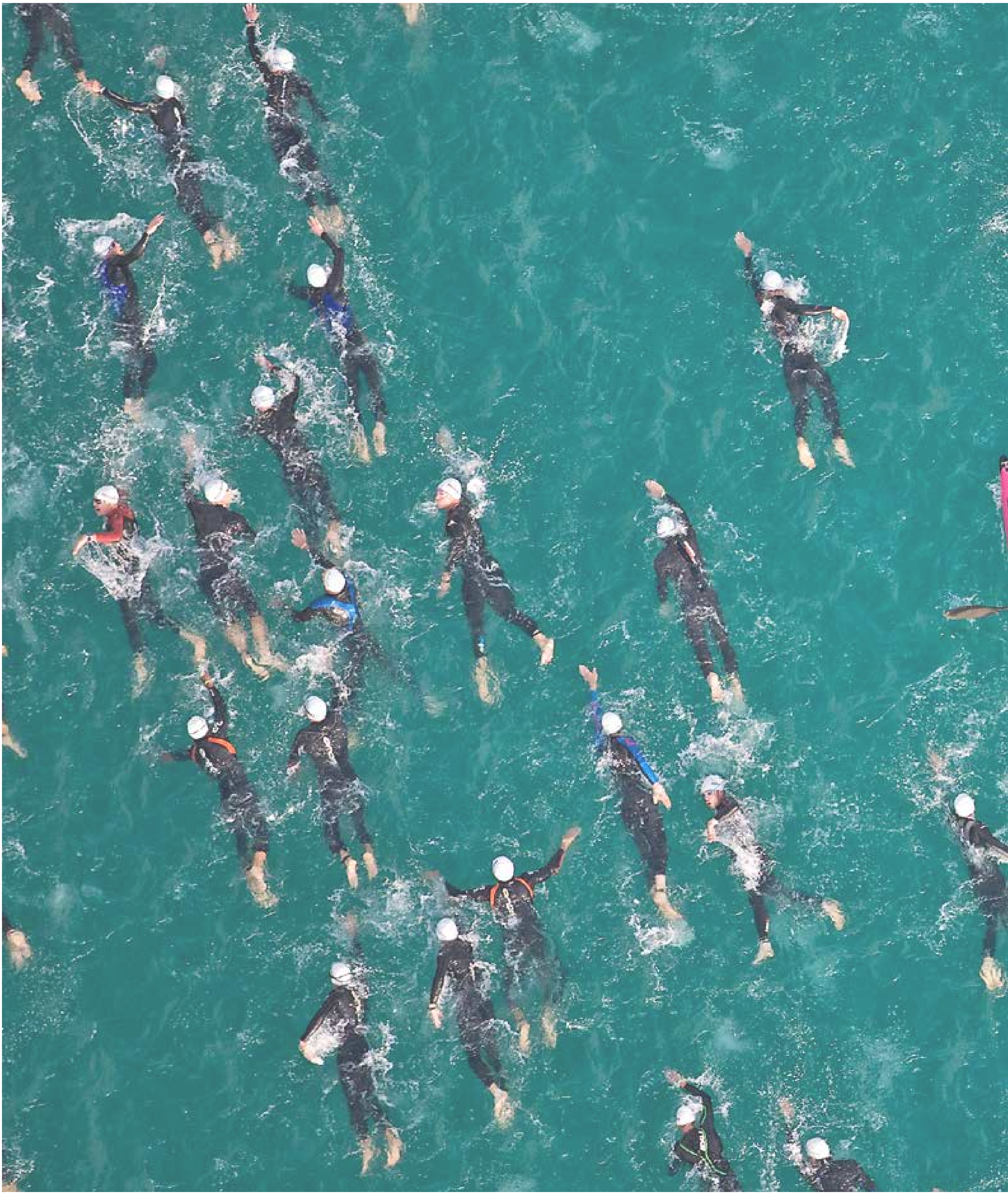
IAMI will share relevant details through its annual Stewardship report & Proxy Voting data which will be available on its website

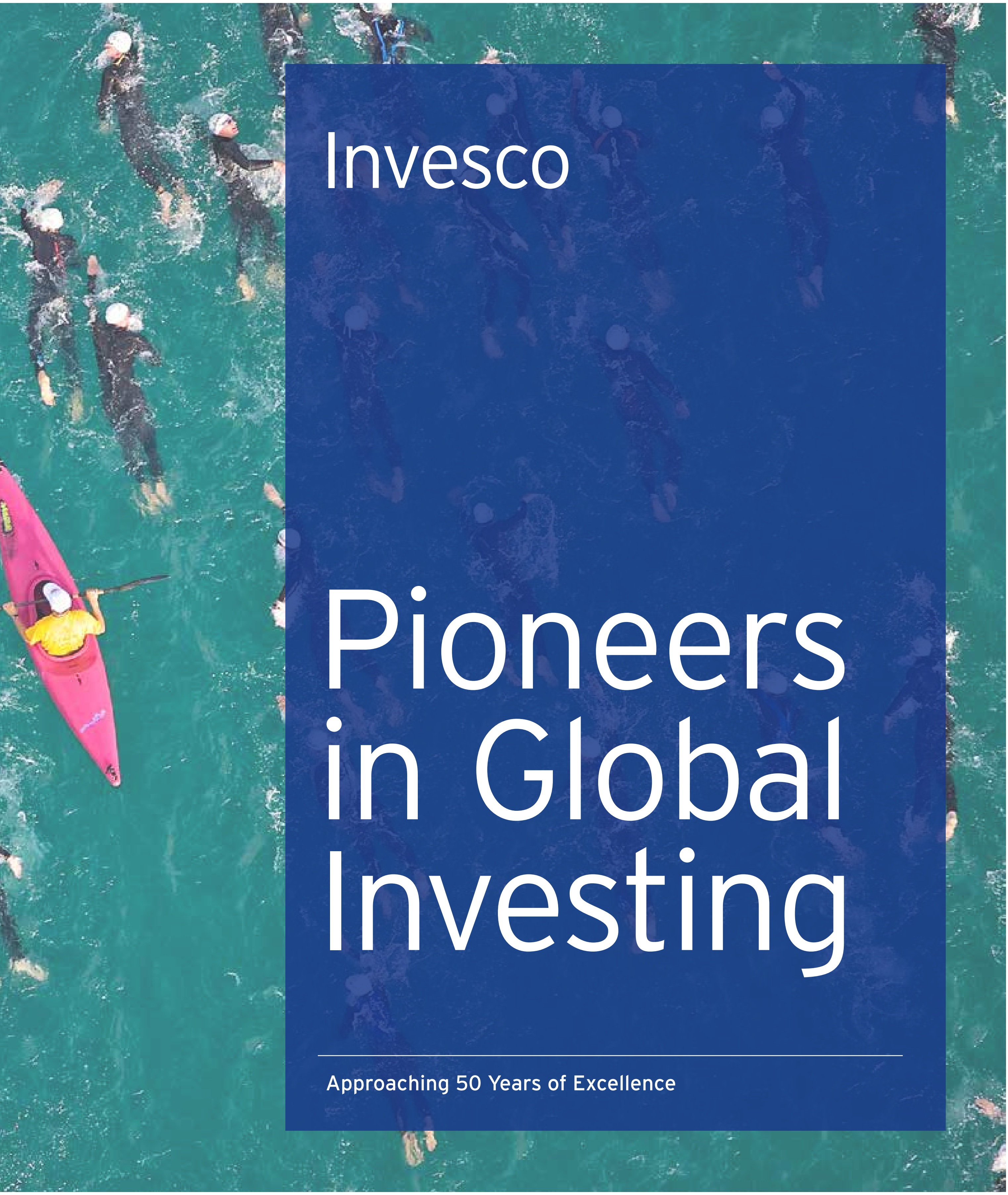
Annexure:

Annexure: An illustrative ESG scoring sheet

Questions	**Weight (%)**	**Score** (1 to 3)
A. Environment (E)	Xx%	Average Score of E
1. Efficient Usage of Resources		
2. Effective Emission and Waste Management		
3. Environmental impact of product or service		
B. Social (S)	Xx%	Average Score of S
1. Human Capital Development		
2. Inclusiveness		
3. Stakeholder interest		
4. Social impact of product or ser-vice		
C. Governance (G)	40%	Average Score of G
1. Board Construct		
2. Quality of Financial Statements		
3. Minority Interest		
Final ESG Risk Score	**100%**	**Xx**

The above simulation is for representative purposes only. The ESG parameters selected may not be an exhaustive list and there can be other set of issues / methodology which may affect the ESG Scores.





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The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals and are subject to change without notice.

All information as at 31 December 2019 sourced from Invesco unless otherwise stated.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.