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# INVESCO MSCI NORTH AMERICA CLIMATE ETF (the “Fund”)

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Sustainability-related disclosures

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# Summary

The Fund's objective is to seek to track the investment results (before fees and expenses) of the MSCI Global Climate 500 North America Selection Index (the "**Reference Index**"). The Fund employs a "full replication" methodology in seeking to track the Reference Index, meaning that the Fund generally invests in all of the securities comprising the Reference Index in proportion to their weightings in the Reference Index.

This Fund promotes environmental and/or social characteristics but does not have as its objective sustainable investment, however the Fund intends to make sustainable investments.

The environmental and social characteristics promoted by the Fund are to gain exposure to large- and mid-capitalization companies located in the United States or Canada, that are part of a broader set of global companies which meet certain environmental and climate criteria relative to their peers. The Fund also reduces exposure to companies involved in certain business activities and those with involvement in very severe ESG controversies

Through the exclusion criteria detailed in the methodology of the Reference Index it is expected that investee companies follow good governance practices. The Reference Index (and therefore the Fund) takes into account the PAI indicators defined in Table 1 of Annex I of the regulatory technical standards for Regulation 2019/2088 (RTS) to attain alignment with the OECD guidelines and UNGP in an attempt to assure that the sustainable investments do not cause any significant harm to environmental and/or social objectives.

The Fund generally will invest at least 90% of its total assets in the securities that comprise the Reference Index, as well as American depositary receipts ("**ADRs**") and global depositary receipts ("**GDR**") that represent securities in the Reference Index. The Fund, after investing at least 90% of its total assets in securities that comprise the Reference Index, may invest in a variety of securities and financial derivative instruments for hedging and/or efficient portfolio management purposes and cash for ancillary liquidity purposes. Through investing at least 90% of its total assets in securities that comprise the Reference Index, the Fund anticipates that 10% of the Fund's assets will be invested in sustainable investments.

The Manager monitors the tracking error of the Fund on an ongoing basis.

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

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

The Fund does not use engagement to attain the environmental and social characteristics.

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

## No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. The Fund intends to make sustainable investments.

The methodology of the Reference Index implements exclusion criteria that takes into account some of the principal adverse impacts (PAI) indicators defined in Table 1 of Annex I of the RTS and alignment with OECD guidelines and UNGP, such that securities that do not meet certain thresholds will be excluded from the Reference Index. The Fund uses Invesco's DNSH (do no significant harm) Framework to assess whether the sustainable investments of the Fund causes significant harm to the relevant environmental or social investment objective. Where a company is determined to cause such significant harm, it can still be held within the Fund's portfolio but will not be considered a "sustainable investment" within the Fund.

## Environmental or social characteristics of the financial product

The environmental and social characteristics promoted by the Fund are to gain exposure to the broader global equity markets, comprising large- and mid-capitalization companies in developed and emerging market countries around the world, that meet certain environmental and climate criteria relative to their peers. The Fund also reduces exposure to companies involved in certain business activities and those with involvement in very severe ESG controversies.

The Fund achieves this by tracking the Reference Index, which has a methodology that is consistent with attaining the environmental and social characteristics promoted by the Fund, as further detailed in the section below titled "Designated Reference Benchmark".

## Investment strategy

The Fund's objective is to seek to track the investment results (before fees and expenses) of the Reference Index. The Fund employs a "full replication" methodology in seeking to track the Reference Index, meaning that the Fund generally invests in all of the securities comprising the Reference Index in proportion to their weightings in the Reference Index. However, under various circumstances, it may not be possible or practicable to purchase all of those securities in those same weightings. In those circumstances, the Fund may purchase a sample of securities in the Reference Index.

The Reference Index is a subset of the MSCI ACWI Select Climate 500 Index (the "**Parent Index**"). The Parent Index is designed to track the performance of approximately 500 stocks of companies located throughout the world that meet certain environmental and climate criteria relative to their peers, as determined by the Index Provider. The Reference Index is designed to track the performance solely of those stocks of mid- and large-cap companies within the Parent Index that are located in the United States or Canada. Securities eligible for inclusion in the Parent Index include ADRs and GDRs.

To construct the Parent Index, the Index Provider conducts screens on the companies within the ACWI ex Select Countries Index (the "**Index Universe**") to exclude companies in the business of tobacco, controversial or nuclear weapons, thermal coal mining, thermal coal-based power generation, or fossil fuel power generation. The exclusions for companies in the businesses of controversial weapons and nuclear weapons are categorical, meaning that the Parent Index will not include any securities from such companies, while the exclusions for companies in the businesses of tobacco, thermal coal mining, thermal coal-based power generation and fossil fuel power generation are based on percentage of revenue thresholds.

The Index Provider then evaluates companies that are directly involved in environmental, social, and/or governance ("**ESG**") business controversy cases. The Index Provider defines such ESG controversies as an event or ongoing situation in which a company's operations, products and/or services may potentially result in a negative ESG impact. For example, cases could include single events, such as a hazardous spill or accident, company violations of existing laws and/or regulations to which they are subject, or an alleged company action or event that violates commonly accepted international norms. To evaluate companies, the Index Provider utilizes a methodology that assesses companies' reputational and brand risk based on actual or alleged involvement in adverse impact activities as reported by the media, non-governmental organizations, civil society groups, academia and regulators.

The Index Provider monitors across five categories of ESG impact - environment, human rights and community impact, labor rights and supply chain, customers and governance - and 28 sub-categories (including, for example, energy and climate change, human rights concerns, and controversial investments). MSCI has a dedicated team of analytical staff who identify and assess the severity of controversy cases, review the reported allegations and apply consistent scoring for each controversy case, based on, among other things, the severity of impact in each case. The evaluation framework used in MSCI ESG Controversy Scores is designed to be consistent with international norms represented by the UN Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Global Compact. In each case, business controversies are scored on a scale of 0 to 10, with 0 being the most severe controversy. All companies having faced very severe controversies pertaining to ESG issues, defined as companies with an MSCI ESG Controversy Score of 0, are ineligible for inclusion in the Parent Index. Companies without any controversies are eligible for the Reference Index; however, companies for which the Index Provider is unable to analyze and assess an MSCI Controversy Score are ineligible.

Involvement and revenue thresholds are defined by the Index Provider. Further information in relation to the any revenue thresholds and controversy scoring criteria, can be obtained can be obtained from the Index Provider's website.

After applying these exclusionary screens to the Index Universe, the Index Provider uses data provided by MSCI ESG Research LLC to assess companies for inclusion in the Parent Index based on current emissions intensity and emissions reduction targets. The final portfolio of securities is constructed according to certain constraints within the Parent Index methodology that are designed to minimize exposure to physical and transition risks of climate change:

- at least a 10% average reduction per year in greenhouse gas (“GHG”) emissions relative to a company's sales, taking into account the company's Scope 1 and 2 emissions. Scope 1 emissions are direct GHG emissions that occur from sources that are controlled or owned by an organization. Scope 2 emissions are indirect GHG emissions generated in the production of electricity consumed by the organization.
- at least a 7% average reduction per year in GHG emissions relative to a company's enterprise value including cash, taking into account the company's Scope 1 and 2 emissions.
- at least a 20% increase, relative to the Index Universe, in the aggregate weight of companies having one or more active carbon emissions reduction target(s) approved by the Science Based Targets initiative (“SBTi”), starting from December 2021.

The Parent Index's country and sector weightings are then constrained so as to minimize significant differences relative to the Index Universe. The Reference Index is composed of all securities selected for inclusion in the Parent Index that are also included in the MSCI North America Index. The MSCI North America Index measures the performance of large- and mid-capitalization companies in Canada and the United States. Securities in the Reference Index are weighted proportionately to their weights in the Parent Index.

The Reference Index is rebalanced semi-annually at the start of June and December, in connection with the rebalancing of the Parent Index. The Fund is rebalanced in accordance with the Reference Index

The index methodology of the Reference Index includes good governance criteria whereby companies are assessed against indicators such as sound management structures, employee relations, remuneration of staff and tax compliance. Companies that are deemed not to meet good governance practices according to the methodology of the Reference Index will be excluded.

### Proportion of investments

The Fund generally will invest at least 90% of its total assets in the securities that comprise the Reference Index, as well as American depositary receipts (“ADRs”) and global depositary receipts (“GDR”) that represent securities in the Reference Index. The Fund, after investing at least 90% of its total assets in securities that comprise the Reference Index, may invest in a variety of securities and financial derivative instruments for hedging and/or efficient portfolio management purposes and ancillary liquidity purposes.

Through investing at least 90% of its total assets in securities that comprise the Reference Index, the Fund anticipates that 10% of the Fund's assets will be invested in sustainable investments.

### Monitoring of environmental or social characteristics

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

The Manager also monitors the following indicators on a monthly basis:

- the Fund's ESG score
- the Fund's ESG rating
- the carbon intensity of the Fund
- the Fund's holding against the Reference Index's exclusion criteria

### Methodologies for environmental or social characteristics

The Manager aggregates data from the index provider, and third party data providers such as MSCI and Sustainalytics in order to monitor the indicators and measure the Fund's tracking of the Reference Index.

### Data sources and processing

As the Fund is passively-managed, the Fund attains the environmental and/or social characteristics by tracking the Reference Index. The Manager uses index composition data as disseminated by the index provider to implement the investment strategy. In order to assess the quality of the index provider's data, due diligence is carried out on the index providers prior to fund launch and periodically thereafter. The Manager conducts periodic reviews of the index providers' controls for monitoring of the data quality and the correct implementation of the index methodologies. The Manager does not estimate any of the data or use any estimated data from third party data providers.

### Limitations to methodologies and data

#### Methodologies

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

The Manager does not independently verify an issuer's eligibility for inclusion in the Reference Index and is reliant on the data, research and expertise of the index provider to select the issuers in accordance with the methodology of the Reference Index. The index provider is subject to initial and ongoing due diligence checks by the Manager to verify their skill and expertise (please refer to the section titled 'Due Diligence').

These limitations do not impact on the Fund's ability to achieve its objective of tracking the Reference as the Fund utilises the index composition data disseminated by the index provider.

#### Derivatives and cash

Currently the Investment Manager does not apply any minimum environmental or social safeguards to financial derivative instruments for hedging and/or efficient portfolio management purposes and cash for ancillary liquidity.

## Data

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

The Fund passively replicates the Reference Index and the primary source of third-party data is the index composition as disseminated by the index provider.

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

## Due diligence

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

## Engagement policies

The Fund does not use engagement to attain the environmental and social characteristics.

Equity shares held in Invesco ETFs are subject to Invesco’s Policy Statement on Global Corporate Governance and Proxy Voting, which can be found in the Fund’s Statement of Additional Information, available at

<https://www.invesco.com/content/dam/invesco/corporate/en/pdfs/regulatory/global-proxy-voting-policy.pdf>.

## Designated reference benchmark

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

The Reference Index has been selected on the basis that it aligns with the environmental and/or social characteristics promoted by the Fund, which is to gain exposure to the broader global equity markets, comprising large- and mid-capitalization companies in developed and emerging market countries around the world, that meet certain environmental and climate criteria relative to their peers. The Fund also reduces exposure to companies involved in certain business activities and those with involvement in very severe ESG controversies.

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