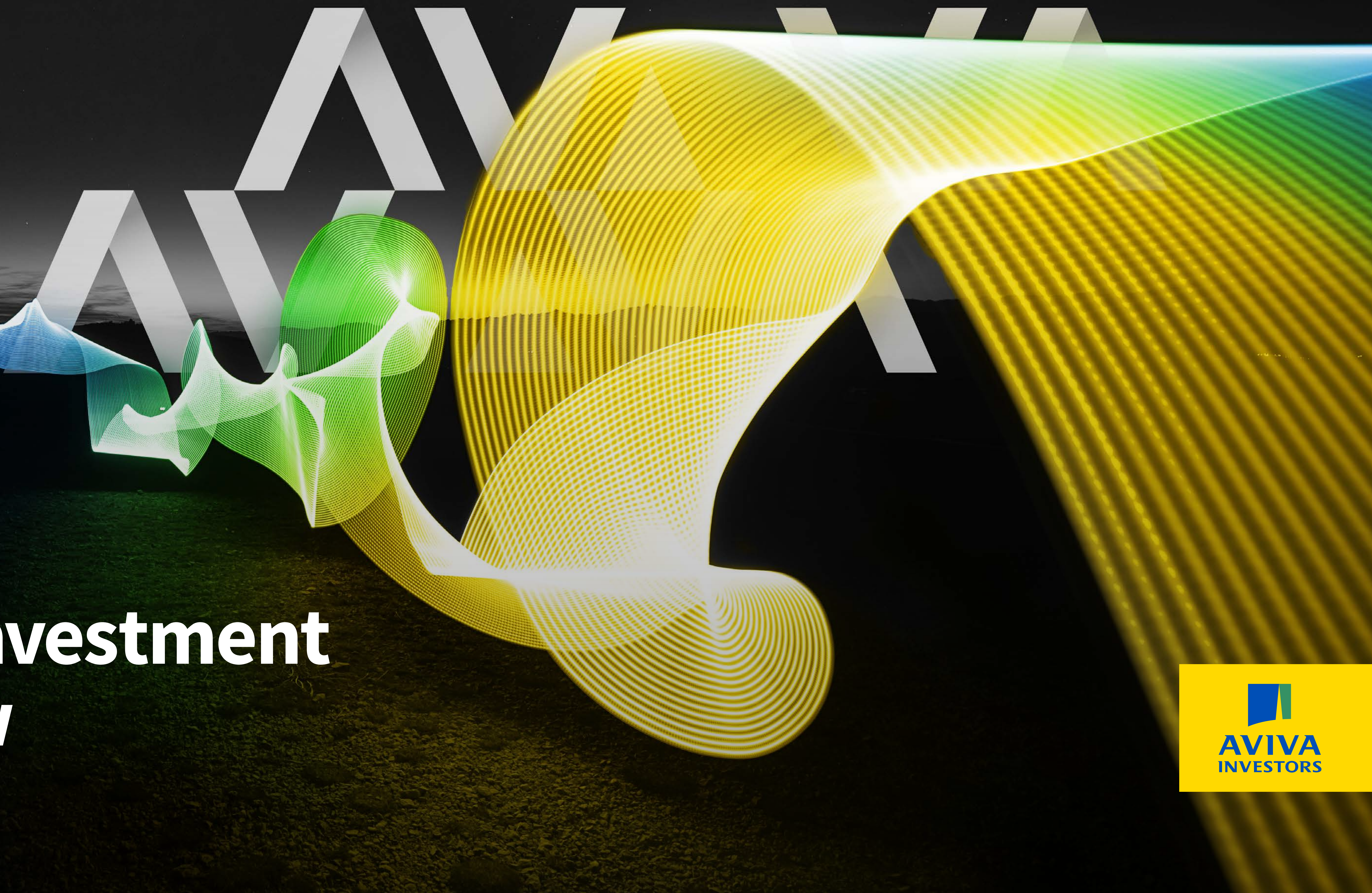
It takes Aviva Investors



2021

Responsible Investment Annual Review

AVIVA INVESTORS

Contents

The elusiveness of time

Time is a funny thing, even more so during a global pandemic. In some ways, lockdowns forced time to stand still, feeling achingly slow at certain points. On the other hand, it is hard to believe another year has passed by given all that happened. Time is certainly not on our side for climate action as the window to create a more sustainable environment and economy is shrinking even as I type.

Economist John Maynard Keynes famously said there are only two certainties in life: death and taxes. I am inclined to add a third based on the last decade: investing sustainably. The volume of funding, column inches, client demand, product offerings and regulatory interest have grown exponentially.

This is good news. We need more ethics and less greed infused into finance. But it is not without its challenges and contradictions.

How do you best funnel money to the right businesses, initiatives and projects? How do you ward against greenwashing? Will there be a bubble in green investing? How should impact be measured and accounted for? How can clients' true motivations be captured and reflected in portfolios? How do you distinguish between well-intentioned corporate laggards struggling to catch up versus those that are lost causes? And how do you balance some of the inevitable trade-offs between environmental and social factors?

The answers to these questions are not easy. However, it is a privilege to lead an investment business at the forefront of trying to tackle them; an organisation humble enough to collaborate and seek outside help when needed (admitting it doesn't always have the answers), yet ambitious enough to attempt to make a real difference.

Unfortunately, to the untrained eye, it has become difficult to identify genuine sustainable investment providers when everyone seems to have it 'in their DNA' nowadays. We must focus more on promoting our pedigree in responsible investing, which dates back to the early 1970s when we cast our first shareholder vote; we were also, not just a United Nations Principles for Responsible Investment founding signatory, but a key player in writing and shaping them. Clients need to be able to distinguish between rhetoric and reality – somewhat of a challenge given the giant marketing budgets on display. The increase in regulatory scrutiny – from TCFD to SFDR and the EU's green and social taxonomies – is therefore welcome.

What follows is a comprehensive report of our activity over the last 12 months. It covers – among other things – our micro and macro stewardship efforts, the **expansion of our sustainable outcomes approach** and case studies of many exciting projects, like our recent **real assets acquisition of 6,356 hectares of moorland** in Aberdeenshire for tree planting and peatland restoration work.

Enjoy.

Mark Versey
Chief Executive Officer

"It is a privilege to lead an investment business at the forefront of trying to tackle the big questions, humble enough to collaborate and ambitious enough to attempt to make a real difference."

1

2021 responsible investment highlights

Turning talk into action

We are proud to be a company of action. United by a firm-wide commitment to work with and for our clients to do what is right for them, society and the world around us.

Responsibility is embedded across all levels of our organisation, in our purpose, people and processes. Understanding ESG, the risks and the opportunities, helps us to be better investors, delivering the investment outcomes our clients expect and making informed decisions on people, earth and climate.

Responsibility built-in

We employ systematic and robust consideration of material ESG factors in investment decisions, led by insight that goes beyond the conventional.

Beyond any applicable binding criteria, our portfolio managers are empowered to make the right decision for the best client outcome, supported by our ESG capability that is integrated into our investment franchises via specialist teams.

Powering change

As an active owner with scale and global reach, we use engagement, voting and investment decisions to drive a transition to a sustainable future. We invest, stay engaged and partner to improve the sustainability of our investments.

Shaping our future

Making a difference does not stop with our investments. We work in partnership with clients, policymakers and regulators, sharing knowledge and collaborating to build a sustainable future for us all.

We are committed to reforming capital markets and empowering our clients to make informed choices.

AVIVA INVESTORS

Liquid markets highlights

This covers the investments we make in companies, whether through equity or credit, as well as sovereign debt and multi-asset strategies.

2,959
company engagements

420
engagement wins[1]

197
of these outcomes were 'material'[2]

31
countries engaged, **21** of which received letters on **3** climate priorities

350+
internally produced ESG research reports to support liquid market integration

A+
UN PRI Rating

70,956
votes on resolutions at **6,648** shareholders meetings

27%
votes against management resolutions (including **47%** on pay proposals)

91%
votes in favour of environmental and social shareholder resolutions[3]

1. Defined as changes in entity behaviours in line with a prior Aviva Investors' engagement ask.
2. Which refers to changes deemed particularly meaningful both in terms of financial materiality and in terms of social and environmental impact and outcomes.
3. ShareAction, Voting Matters, 2021.

Real assets highlights

We made strong progress in 2021, with a total of £783 million of sustainable lending delivered to date, we have already **achieved 78% of the 2025 £1 billion target**. Based on current pipelines, we expect to achieve our target over the coming year (£783 million across nine RED transactions).

March 2021

We provided £48 million of sustainability-linked financing to Urban Logistics REIT plc to refinance a portfolio of 14 logistics assets across the UK, totalling 1.1 million square ft.

The transaction includes a commitment from Urban Logistics REIT to work towards an agreed set of sustainability transition criteria, which will see it benefit from margin reductions upon meeting these targets.

April 2021

£72.9 million sustainable transition loan agreement with Commercial Estates Group.

A portion of the loan will part-fund the development of Globe Point, a 37,842 square ft Grade A office in the Temple area of Leeds, which aims to achieve BREEAM excellent and EPC A ratings.

July 2021

We provided Bruntwood with a £267 million, 15-year sustainable-linked loan facility secured against 22 quality UK office assets.

The sustainability performance metrics included in the deal primarily focus on reducing carbon emissions and procuring green, renewable energy to help tackle climate change in the real estate sector.

October 2021

We completed a further £50 million financing agreement with Big Yellow Group, the UK-based self-storage company.

A set of KPIs was included as part of the agreement, linked to improvements in the sustainability credentials of Big Yellow's portfolio of buildings. These include the continued installation of solar panels across properties which will reduce emissions and running costs, and the business being on-track to achieve 'Net Renewable Energy Positive' status by 2030.

October 2021

We provided JSE REIT Stor-Age, South Africa's largest self-storage property fund, with a new £21 million, seven-year sustainability-linked loan facility.

November 2021

A £200 million facility agreed with Primary Health Properties plc with margin incentives conditional on a prescribed set of sustainability-linked KPIs being achieved by PHP on 61 NHS primary care centres.

ENGAGEMENT CASE STUDY

Engaging for biodiversity and agricultural supply chain resilience

2 ZERO HUNGER | 6 CLEAN WATER AND SANITATION | 13 CLIMATE ACTION | 15 LIFE ON LAND

E S G **Anheuser-Busch, Diageo, Pernod Ricard** (Global)

Issue

There is increasing evidence that human activity is destroying nature worldwide, with the population sizes of mammals, birds, fish, amphibians and reptiles seeing an alarming average drop of 68 per cent since 1970. This has been referred to as the 'Sixth Mass Extinction'.

Worryingly, agriculture has been noted to have a major role in this decline, through deforestation and land-use changes fuelled by population growth and changing consumption trends. Importantly, agriculture and other land-use changes not only contribute significantly to biodiversity loss and climate change (almost a quarter of total GHG emissions), but are also strongly affected by them, posing an important risk to corporate supply chains and global food systems.[4]

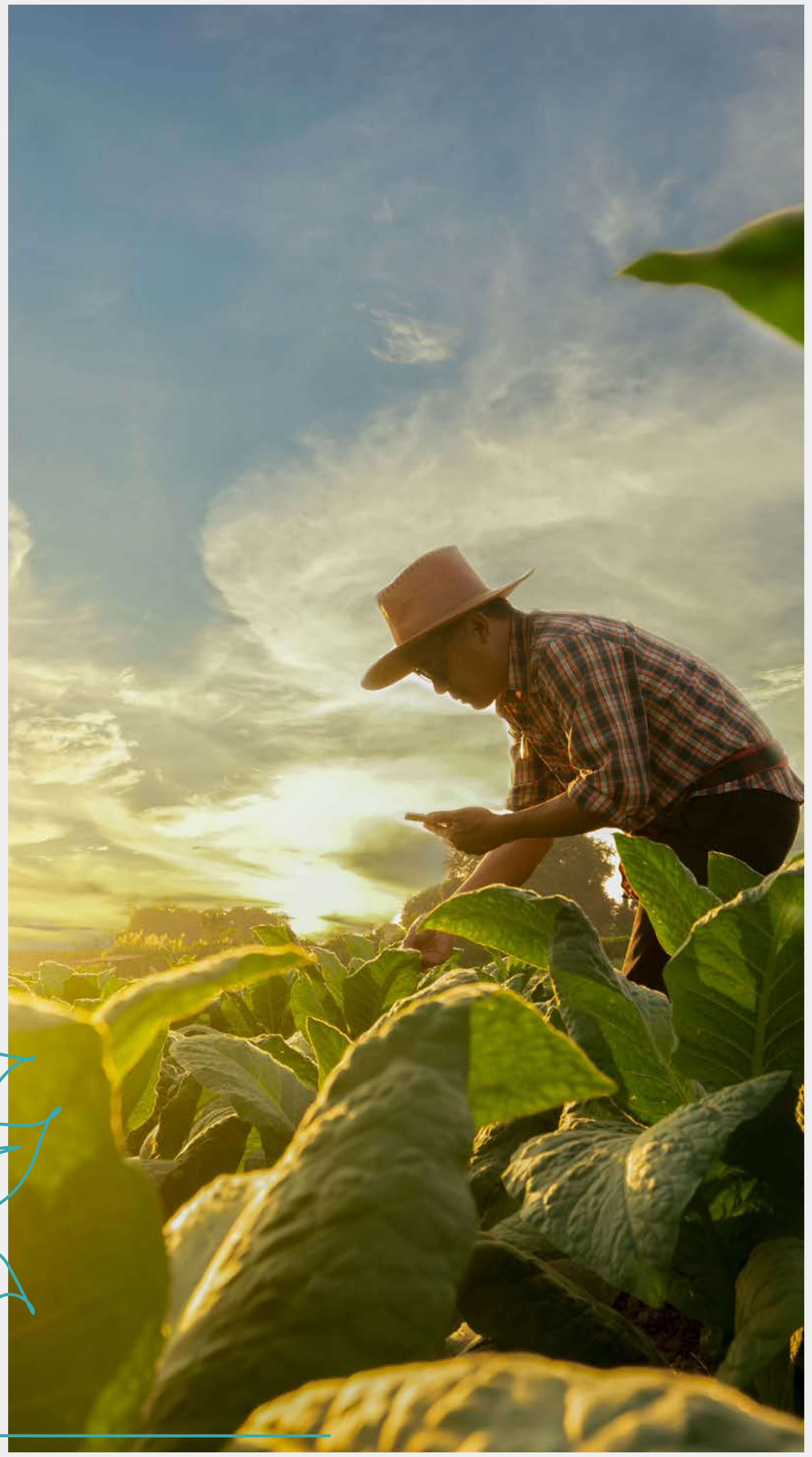
Action

In light of these concerns, we met with three leading names in the beverage sector – Diageo, Anheuser-Busch and Pernod Ricard – to discuss supply chain resilience and agricultural practices. We focused our engagement on their approach to sustainable sourcing, namely agricultural practices and supplier relations.

More specifically, we wanted to assess supply chain resilience by evaluating progress by these companies on key best practices such as water-risk assessment and management, implementation of regenerative agriculture programmes to assist with soil resilience and carbon sequestration, the use of pesticides and fertilisers, and farmer training, among others.

Outcome

We considered these companies showed positive progress regarding their awareness of climate change and biodiversity in the development of new sourcing strategies, R&D investments (e.g., innovation in climate-resistant crops) as well as regenerative agriculture and farmer training programmes in different regions. We will continue to engage with these companies and others in the sector to monitor their progress in these and other biodiversity initiatives. Moreover, we aim to pursue more disclosure on lagging areas such as water use in supply chains, reduced pesticide use and shifts to sustainable fertilisers.



4. IPCC, 2019: Summary for Policymakers. In: Climate Change and Land: an IPCC special report on climate change, desertification, land degradation, sustainable land management, food security, and greenhouse gas fluxes in terrestrial ecosystems [P.R. Shukla, J. Skea, E. Calvo Buendia, V. Masson-Delmotte, H.- O. Pörtner, D. C. Roberts, P. Zhai, R. Slade, S. Connors, R. van Diemen, M. Ferrat, E. Haughey, S. Luz, S. Neogi, M. Pathak, J. Petzold, J. Portugal Pereira, P. Vyas, E. Huntley, K. Kissick, M. Belkacemi, J. Malley, (eds.)].

Company names shown are informational and not recommendations to buy or sell.

ENGAGEMENT CASE STUDY

Social licence to operate

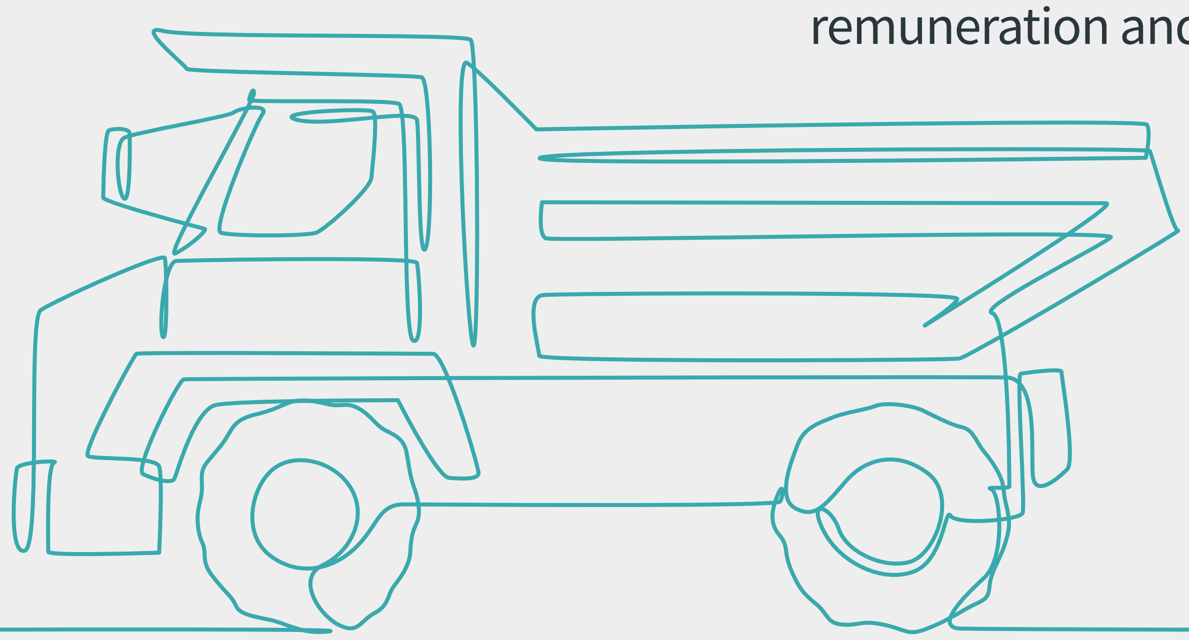
E S G **Rio Tinto** (Australia)

Issue

Mining companies have been under heightened pressure to improve their social licence to operate following the recent 2019 deadly breach at a dam owned by Vale in Brazil, and more recently the destruction of a 46,000-year-old sacred aboriginal site by Rio Tinto in May 2020 to make way for the expansion of an iron ore mine in Australia.

Action

Following Juukan Gorge, we met with Rio Tinto's chairman several times to express the need for radical improvements in its approach to cultural heritage and community relations. As the company continues to develop and expand its operations, the risk of disruption resulting from community backlash remains high. One of our requests related to the establishment of an independent indigenous advisory group that would provide traditional owners and local indigenous communities a direct line to the company's senior leadership in Australia. Other issues of engagement included its approach to climate change and a host of governance issues, spanning executive remuneration and board composition.



Outcome

Over the past year, Rio Tinto has made laudable efforts to strengthen internal practices, policies and governance to reaffirm and protect its social licence to operate, exemplified in the roll-out of a "new integrated risk plan" and launch of an indigenous advisory group. Whilst it is too early to extrapolate, we commend the company's open admission of the issues identified and commitment to review and redefine best practice for cultural management in the mining industry.

We will continue to push the company to mitigate gaps in existing protocols for managing indigenous cultural heritage and strengthen disclosures on the measures being taken, most notably the roll-out of relationship management training for local line managers and establishment of a robust mechanism to ensure real-time traditional owner perspectives on site significance are captured and appropriately escalated to the board.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

ENGAGEMENT CASE STUDY

Engagement on hazardous chemicals and ChemScore

3 GOOD HEALTH AND WELL BEING | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 15 LIFE ON LAND

E S G **Various** (Global)

Issue

The production of hazardous chemicals is a key risk for chemical manufacturers. According to the World Health Organization, two million people died due to exposure to hazardous chemicals in 2019, compared to 1.6 million in 2016[5]. Hazardous chemicals are also key drivers of biodiversity loss, yet 75 per cent of chemicals used and manufactured in Europe are hazardous to human health and/or the environment[6]. Regulatory, as well as market, pressure to transition towards less-hazardous chemicals is strong, as seen by the European Green Deal and the US Environmental Protection Agency's October 2021 roadmap for tackling per- and polyfluoroalkyl substances (PFAS). In recent years, the financial implications for liability for past and current production of pollution of persistent chemicals, especially PFAS, have been clear. For example, in 2019, 3M paid $850 million to settle a lawsuit in Minnesota over contamination of water sources with PFAS.

Action

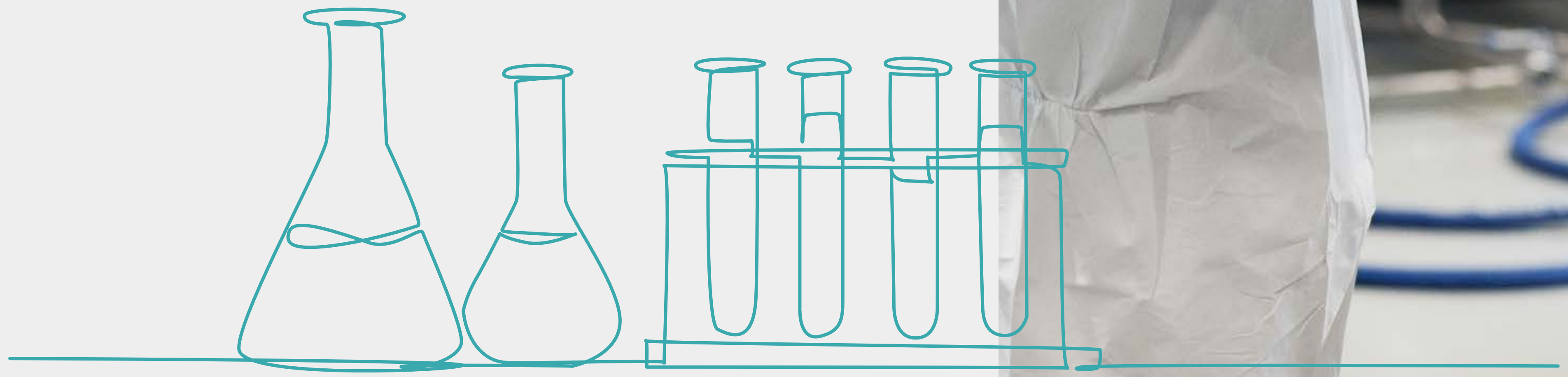
In 2020, we supported ChemSec, an independent, Swedish non-profit committed to the development of sustainable chemicals through dissemination of knowledge, collaboration and practical tools, in its development of the ChemScore ranking. ChemScore assesses the world's largest 50 chemical producers on their work to reduce their hazardous chemical footprint. It was developed to provide investors with better information to assess which companies have strong chemical management strategies and which do not.

Following the first ChemScore ranking, in 2021 we engaged with five companies (Bayer, Dow, LG Chem, Solvay and Umicore) to encourage them to improve transparency in reporting on hazardous chemicals management, and to work with ChemScore to improve their scores.

Outcome

Whilst we were pleased three of these companies started a dialogue with ChemScore, there were no significant improvements in company scores by the time of the second ChemScore ranking in December 2021.

Other investors expressed interest in this work so, together with Storebrand, we assembled a group of 23 investors with $4.4 trillion of AUM to write to the 50 chemical companies in December 2021, asking for disclosure on which hazardous chemicals are produced globally, to set targets to phase out persistent and 'prior, informed consent' substances, and to shift towards a circular rather than linear model of production and use. This investor group will continue to engage with chemical companies on these issues during 2022. We plan to lead the engagement with five of these companies.



5. WHO 2016 The Public Health Impact of Chemicals, Knowns and Unknowns, 2021 Data Addendum. www.who.int/publications/i/item/WHO-HEP-ECH-EHD-21.01. This includes lead and pesticides, and is equivalent to 3.6% of all deaths globally.
6. Production & Consumption of Chemicals by Hazard Class, EUROSTAT 2021. https://ec.europa.eu/eurostat/web/products-datasets/-/env_chmhaz.

Company names shown are informational and not recommendations to buy or sell.

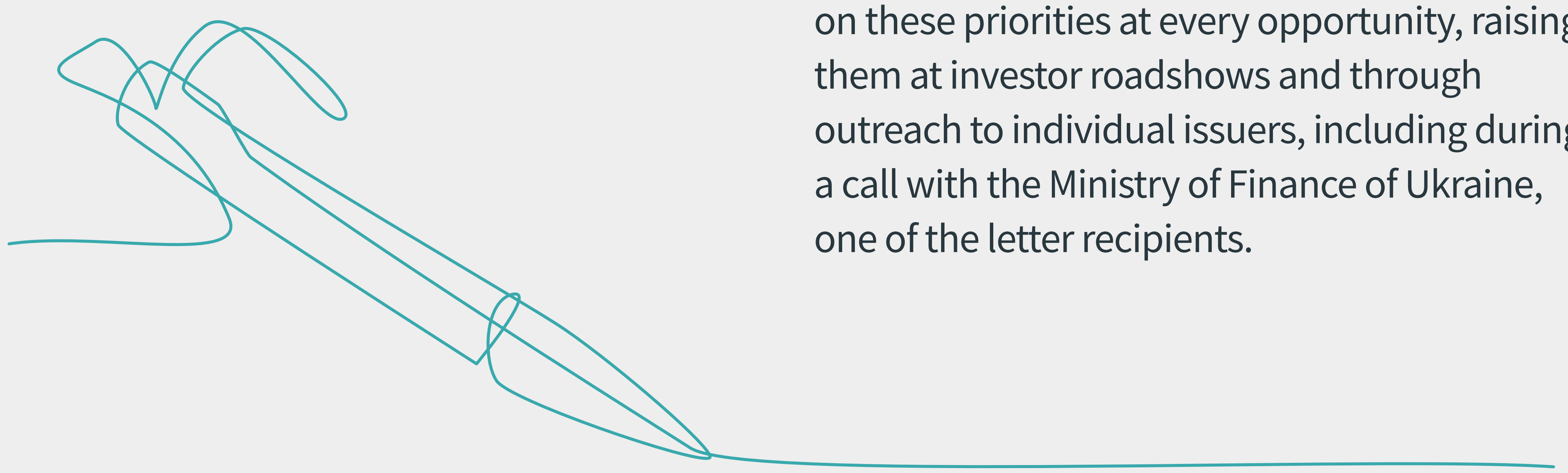
ENGAGEMENT CASE STUDY

Stepping up sovereign engagement

E S G **Ukrainian government**

Issue

Climate change poses a major threat to long-term growth and prosperity. Mitigation and adaptation are therefore essential for the safeguarding of our investments and delivery of long-term returns, including for sovereign debt. Ukraine, for example, is vulnerable to the impact of droughts and needs to transform its economy and energy system to meet emission reduction targets. Finance ministries and central banks will have pivotal roles to play in meeting these challenges.



Action

At the start of 2021, for the first time, Aviva Investors' CEO set out annual sovereign engagement priorities in a letter to finance ministers and central bank governors from over twenty countries in which material sovereign investments were held. In a crucial year for climate policy, all three priorities centred on climate change. The letters were tailored and actionable, making the case for membership of and engagement in the Coalition of Finance Ministers for Climate Action, the Network for Greening the Financial System (NGFS), and for active engagement in the preparation of ambitious, updated national climate plans (NDCs).

Our ESG and investment teams followed up on these priorities at every opportunity, raising them at investor roadshows and through outreach to individual issuers, including during a call with the Ministry of Finance of Ukraine, one of the letter recipients.

Outcome

Over the course of the year, Ukraine delivered across all three priority areas. In February, the central bank joined the NGFS and, in July, Ukraine submitted a climate plan with stronger emission reduction targets. Most notably, after a targeted follow-up by an ESG analyst and emerging-market portfolio manager in the Autumn, the Ministry of Finance of Ukraine decided to apply for membership of the Coalition and thanked Aviva Investors for playing a facilitating role. Since joining in October, the Ministry has begun to benefit from the sharing of best practice on taking climate change into account when forming macroeconomic and financial policy. Ultimately, that will support the Ministry's ability to accelerate a just transition to a low-carbon and climate-resilient Ukrainian economy.

The process helped strengthen the relationship between Aviva Investors and the sovereign, enabling a deeper and more common understanding of sustainability risks. It also highlighted the often unique role investors can play in engaging with governments on sustainability practices.

We are extremely concerned at the events unfolding in Ukraine and our thoughts are with all Ukrainians at this time.

This case study captures our engagement with the Ukrainian government in 2021, prior to the current situation developing.

Our direct exposure to Russia at the date of the Ukrainian invasion was small – less than 0.09% of our assets under management, which reflects the negative view we have held on Russia for some time. We had no exposure to Belarus.

We continue to monitor the situation and will consider all appropriate measures.

AVIVA INVESTORS

ENGAGEMENT CASE STUDY

Climate and governance wins through engagement

E S G **Chubu Electric Power** (Japan)

5 GENDER EQUALITY | 10 REDUCED INEQUALITIES | 13 CLIMATE ACTION

Issue

We have maintained a multi-year dialogue with Chubu Electric on a range of governance and climate-related issues. Asian utilities account for 23 per cent of global carbon emissions. The company is one of Japan's largest power generators.

Action

In our latest meeting with the company's CFO in June, we discussed its new net-zero 2050 ambition and updated 50 per cent emission reduction target by 2030 and a series of positive changes within its governance practices. Most notably, these include the recent refreshment of the board with the addition of two new members and increase of independent directors in tandem with a suite of diversity initiatives, including a 2025 target to triple the number of female managers from FY2014, both long-standing engagement requests.

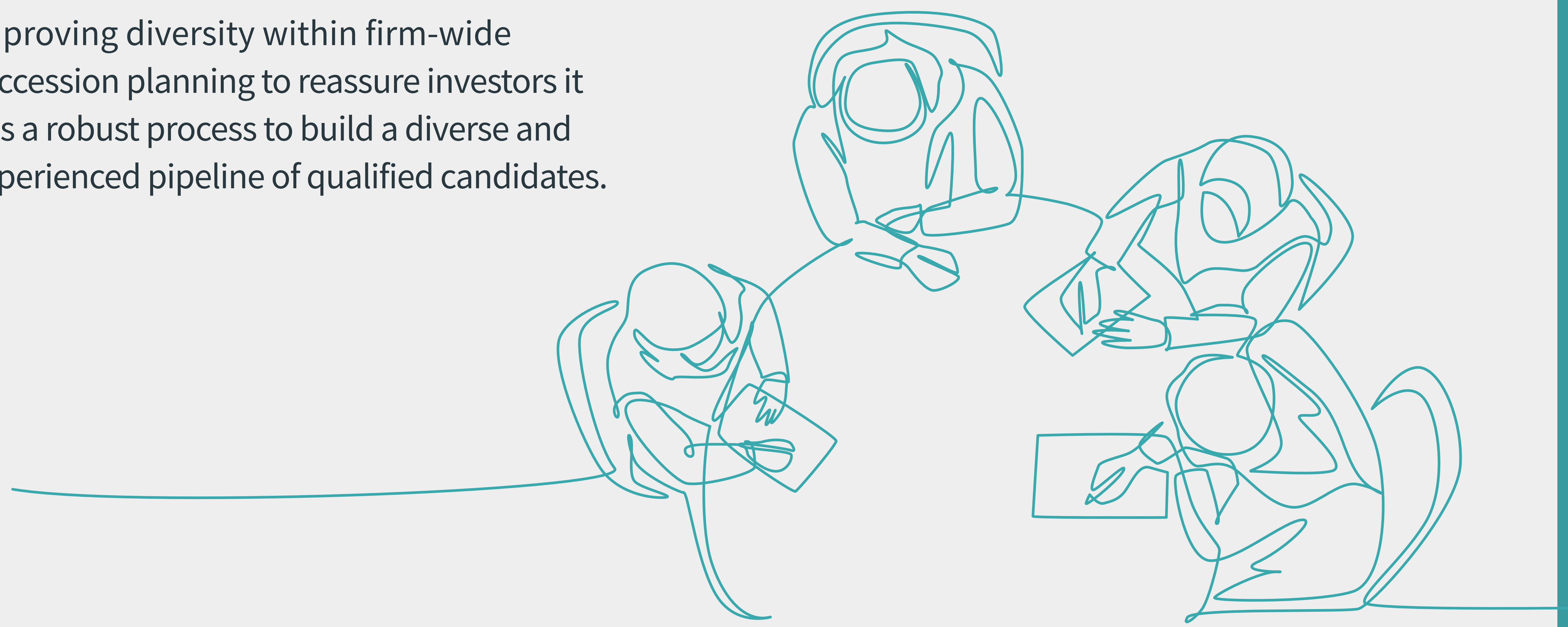
Outcome

Whilst encouraged by ongoing improvements in the company's sustainability disclosures and commitment to promoting good governance, we seek external validation of its climate targets by the Science-based Targets initiative (SBTi) and for the business to articulate a clearer climate transition plan, particularly the uncertain role nuclear energy will play.

We have requested the company conduct/evidence TCFD-aligned scenario analysis to provide reassurance that its emissions objectives can be achieved with and without nuclear forming part of its power generation mix. Most nuclear reactors in Japan remain mothballed after the 2011 Fukushima disaster, although we believe Japan could prove to be the only market with nuclear in its central net-zero delivery case.

More independent oversight will remain an ongoing discussion point, particularly on representation from outside independent directors with the requisite business skill and sector knowledge to ensure healthy debate on the board.

We have also asked Chubu to update its board diversity policy (last revised in 2018) and set measurable time-bound targets for improving female representation at the board, executive and management levels. We also want it disclose more information on how it is improving diversity within firm-wide succession planning to reassure investors it has a robust process to build a diverse and experienced pipeline of qualified candidates.



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AVIVA INVESTORS

COLLABORATION CASE STUDY

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Progress needed on respecting digital rights

E S G **America Movil, Samsung Electronics, Telefonica** (Global)

Issue

Companies' range of human rights impact include digital rights, often referred to as human rights in online environments. We fundamentally believe telecommunications companies and digital platforms should have robust and systematic human rights processes throughout their operations and value chains. This includes users' rights to freedom of expression, information and privacy.

We are strong supporters of the Ranking Digital Rights (RDR) index, a benchmark that evaluates and ranks digital platforms and telecommunications companies on their disclosed policies and practices affecting users' rights to freedom of expression, information and privacy.

Action

In 2021, we joined forces with 77 other investors representing USD 5.9 trillion in assets under management. The initiative has been coordinated by the Investor Alliance for Human Rights. The investor group have called for ICT companies to respect digital rights in an investor statement sent to all 26 companies ranked by the index.

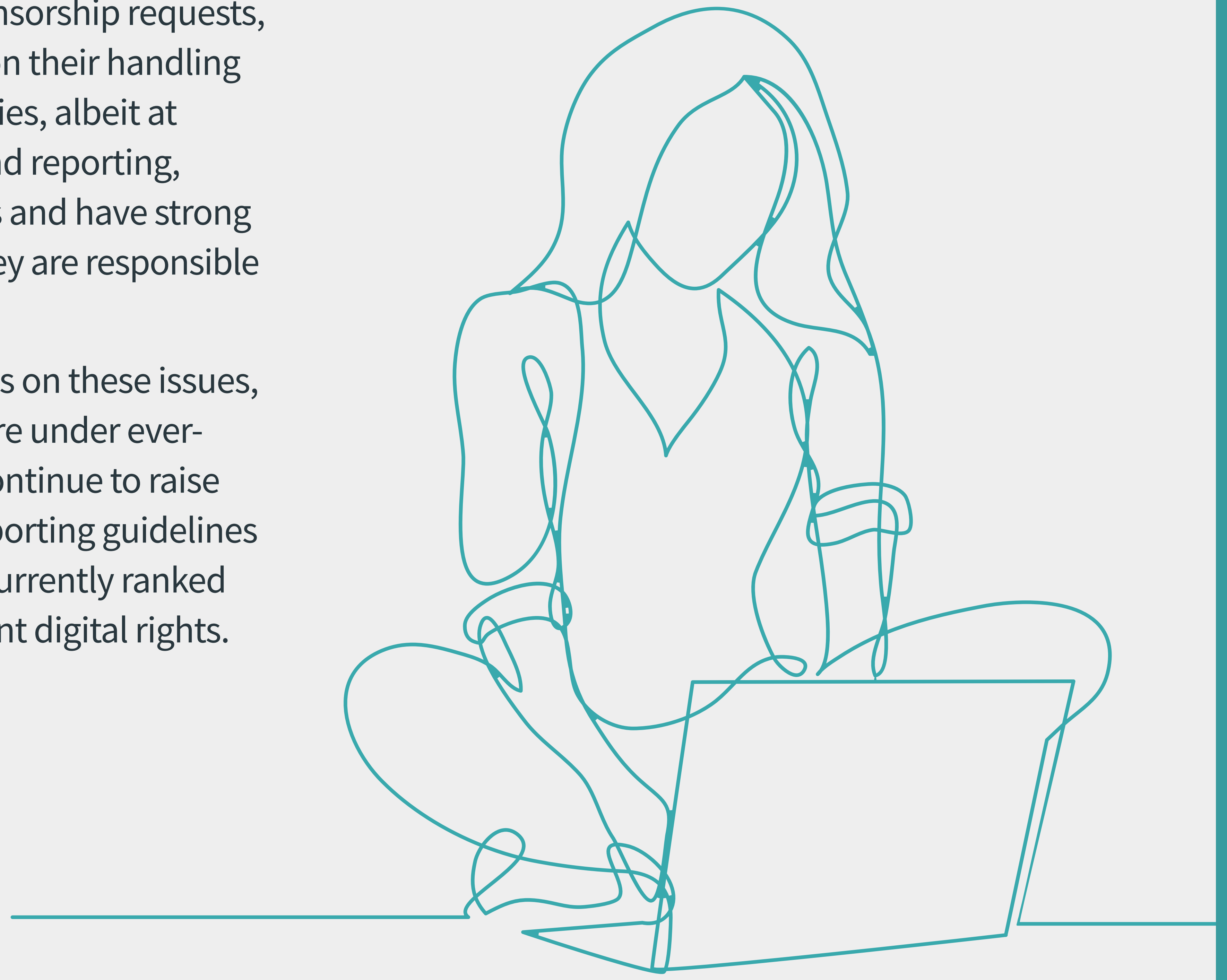
In addition to signing this statement on Corporate Accountability for Digital Rights, we have been active members of the initiative's engagement programme.

In 2021, we have led three company engagements and were supporting investors for 12 others.

Outcome

In our dialogue with America Movil SAB, Samsung Electronics and Telefonica SA, we encouraged them to improve on the RDR. Specific engagement asks included setting up human rights due diligence, aligning reporting to the UNGP, providing more disclosure around government demands and censorship requests, and improving transparency on their handling of user data. All three companies, albeit at different stages in practices and reporting, were receptive to our requests and have strong willingness to demonstrate they are responsible stewards of digital rights.

We will be monitoring progress on these issues, especially as ICT companies are under ever-increasing scrutiny. We also continue to raise the RDR methodology and reporting guidelines with companies that are not currently ranked by the index, which have salient digital rights.



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AVIVA INVESTORS

COLLABORATION CASE STUDY

Launching the Sustainable Supply Chain Initiative

E S G **G7 and the WBA** (Global)

2 ZERO HUNGER | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 15 LIFE ON LAND | 17 PARTNERSHIPS FOR THE GOALS

Issue

We seek to drive a global food system that delivers better nutrition while enhancing farmers' livelihoods, positive labour practices, and practices that sustain natural resources and the delicate, invaluable relationship with our natural environment.

To that end, we actively participated in the G7 and the World Benchmarking Alliance's Sustainable Supply Chain Initiative. The initiative, spearheaded by the G7 and grounded on WBA's monitoring mechanisms, is aimed at accelerating global progress towards the Sustainable Development Goals and the achievement of more sustainable, inclusive and resilient food systems. It calls on global food and agriculture companies to improve the environmental, social and nutritional impact of their operations and supply chains.

Action

We are one of only three investors participating in this initiative. As investors with strong stewardship programmes and existing engagements with companies in the sector, we provided our support by actively engaging with companies and encouraging them to sign up to the initiative. We reached out to key players in global food systems, calling for not only their participation, but also their consideration of the metrics provided by the WBA as key standards to follow.

Outcome

We were encouraged by the leadership shown by 21 global food and agriculture businesses at the launching event in December 2021.

Of these companies, we directly approached Associated British Foods, BASF, Bayer, Danone, Diageo, J Sainsbury and Unilever. The founding participants are key links in global food value chains, employing over two million people directly and many more indirectly, and collectively generate annual revenues of over $550 billion.

We will further support the initiative by continuing to include improving performance on the WBA's benchmarks as part of our engagement asks, and by encouraging other businesses to join. We will also continue to be official allies of the WBA and support it as it takes this initiative further, as illustrated by an upcoming collaboration with the OECD on sustainable agriculture.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

INTEGRATION CASE STUDY

Long EU allowance (carbon credits) strategy

E S G (Global)

13 CLIMATE ACTION

Issue

Our multi-strategy approach, draws on investment ideas from across the business, enabling portfolio managers to benefit from diversified sources of alpha. During a period of record-breaking, liquidity-fuelled valuations across most traditional markets, unconventional investment opportunities became particularly attractive.

ESG analysts track climate policy developments and provide regular updates at numerous investment forums, including on the EU's Emission Trading Scheme (ETS), an integral tool for the bloc to meet emissions reduction targets. Climate change policies were included as a key investment theme for 2021 in the Aviva Investors House View.

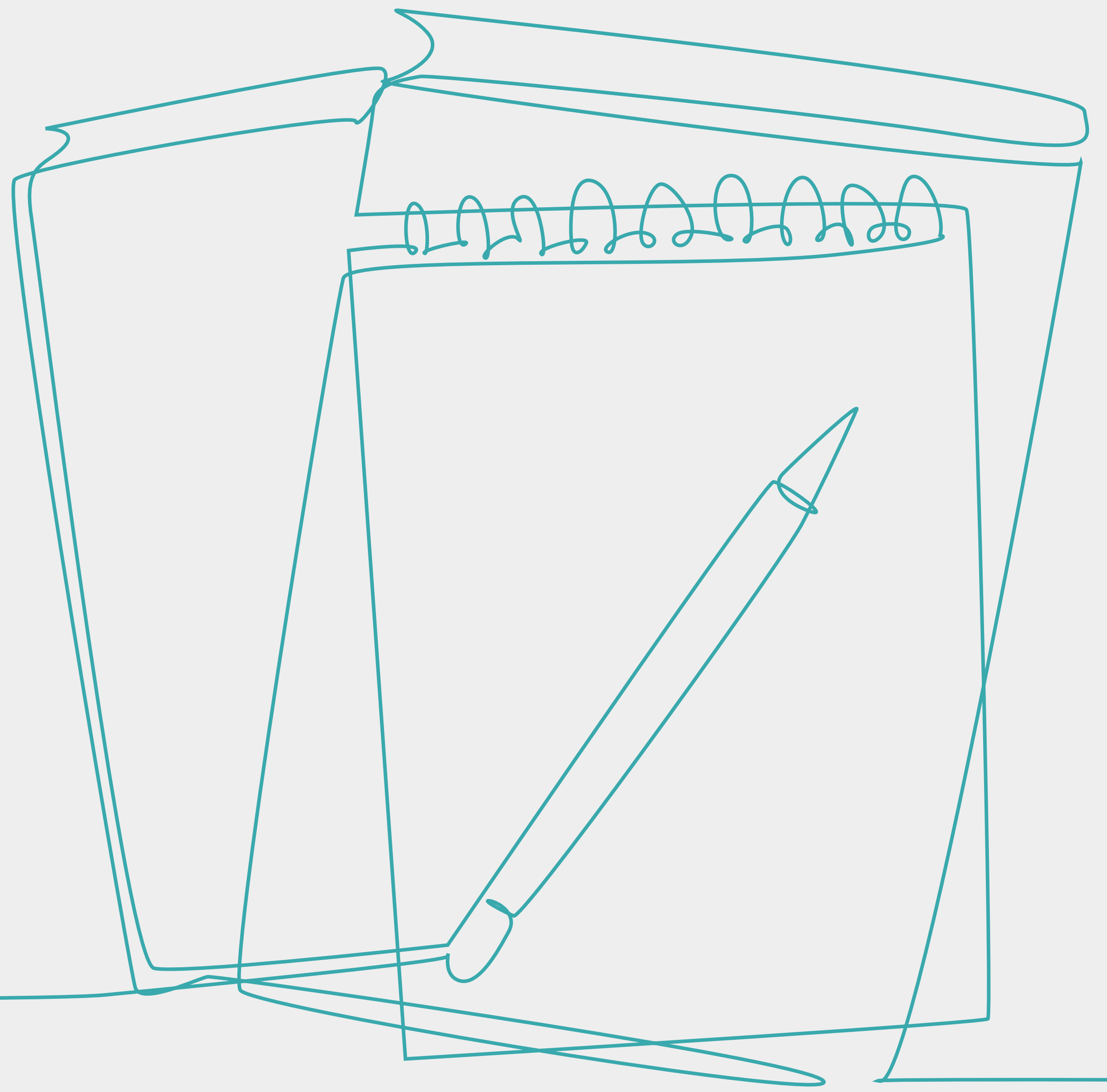
Action

Going into 2021, ESG analysts highlighted positive momentum on the EU's climate policymaking and the disconnect between current carbon allowance prices and the prices needed to deliver the bloc's emissions reduction targets. In February, our ESG analysts collaborated with portfolio managers to develop an investment idea to "go long" EU allowance (EUA) futures. This involved describing the opportunity, identifying risks and setting targets – drawing on ESG, investment and implementation expertise.

After jointly presenting the idea to the AIMS multi-strategy investment committee, the trade was approved and executed. Drivers and risks associated with the trade were monitored closely, including at quarterly strategic investment committee reviews, with position sizing adjusted accordingly throughout the year.

Outcome

From inception of the approach to the end of 2021, EUA futures prices rose by around 100 per cent to €80, a price far closer to the level required to deliver emissions reduction targets. Close collaboration between ESG analysts and portfolio managers, including through ongoing monitoring, helped strengthen climate and investment expertise, facilitating further opportunities to integrate ESG into the approach.



INTEGRATION CASE STUDY

Positive surprise from engagement on social issues with airlines

E S G **Delta Airlines, Ryanair** (Global)

Issue

We were concerned about staff treatment in the airline sector as the COVID-19 crisis unfolded, both from a safety perspective and the potential for significant job losses due to worldwide travel restrictions.

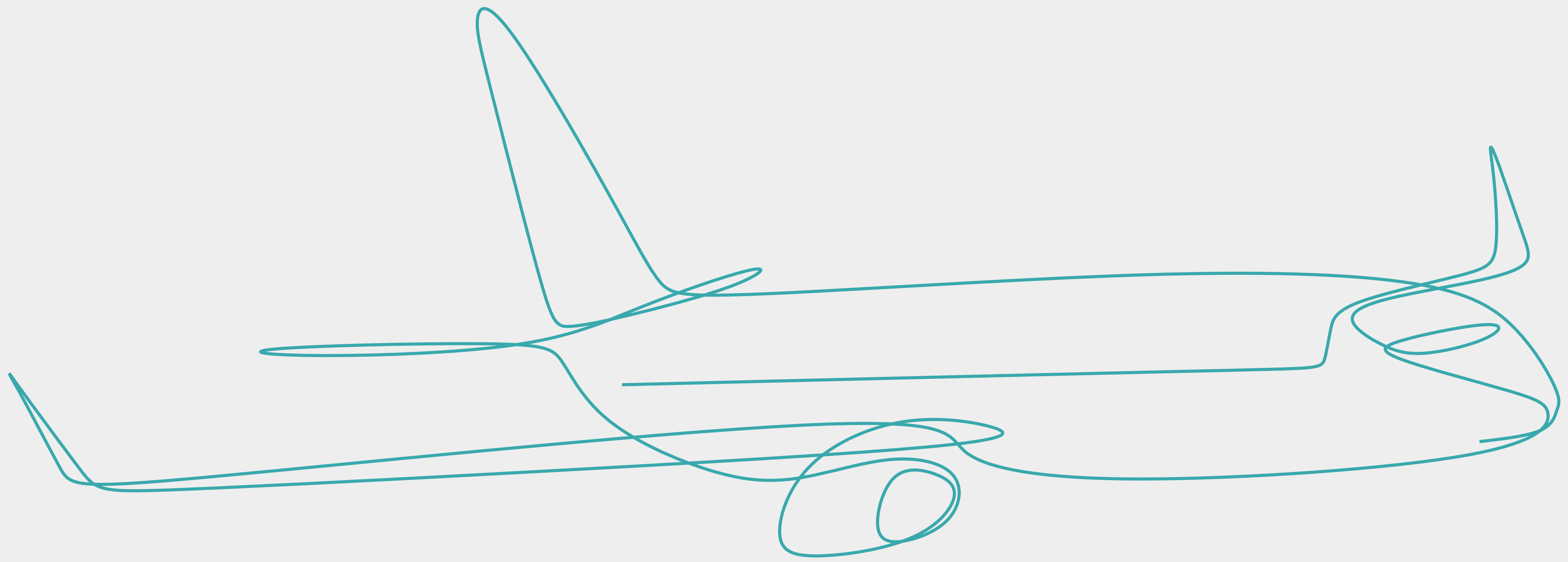
Action

We met with Delta Airlines and Ryanair management to make our position clear that staff needed to be protected. We were encouraged to learn Delta had implemented safety protocols, including a robust home-testing programme for employees. The company also provided full-pay protection and set up a vaccination site at its offices. We were pleasantly surprised Ryanair took early action to minimise job losses relative to other airlines. Pay reductions agreed were to be fully restored in future years and all staff had the opportunity to liaise with management, including the CEO. Unite noted the company's early approach as sensible.

Outcome

The call with Delta confirmed our rating of the company as neutral but with improving momentum. Ryanair is a company where we have had concerns regarding labour management in the past. This positive interaction has made us more comfortable from an ESG perspective.

We will continue to engage with management, potentially taking a position in the company again in future.



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AVIVA INVESTORS

INTEGRATION CASE STUDY

Deforestation

E S G **Various** (Global)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

15 LIFE ON LAND

Ending deforestation and implementing natural climate solutions could provide a third of the solution to achieving the Paris climate target, help halt biodiversity loss and support human rights. With most deforestation driven by unsustainable practices for palm oil, soy, cattle products and pulp and paper, resulting in more carbon emissions annually than the EU, action on these commodities is particularly urgent.

Policy

In 2021, Aviva published a new biodiversity policy, which commits to carrying out an assessment of our investments to identify and prioritise key areas of impact and dependency by the end of 2023 – a pledge made as part of our membership of Finance for Biodiversity. In November 2021, we were one of thirty investors to sign a commitment to use our best efforts to eliminate agricultural commodity driven deforestation from our portfolios by 2025. In 2022 we will be carrying out an assessment of our portfolio to identify holdings with the greatest risk of deforestation, and we will then formalise our existing engagement and stewardship on deforestation into a programme to eliminate these activities from our portfolio.

Engagement

In 2021 we carried out the following engagements on deforestation:

Minerva

Issue – Cattle ranching is the biggest single driver of deforestation in Brazil. In 2010, the major Brazilian meatpacking companies committed to end the purchase of cattle linked to Amazon deforestation, slave labour or the illegal occupation of Indigenous land, and to ensure fully transparent monitoring, verification and reporting of their entire supply chains (including indirect suppliers) within two years. Cattle, on average, go through six farms during their lifecycle prior to slaughter, and these farms are driving the deforestation. However, eleven years later, these meatpacking companies have made minimal progress on traceability and monitoring in their indirect supply chains, and so cannot attest to the extent they are buying cattle raised on deforested land.

Action – We continued our engagement with Minerva on traceability in its indirect supply chain, including meeting in person with the CEO. The company introduced a new set of sustainability targets during 2021, including one to implement a programme to monitor indirect supply farms for all South American countries of operation by 2030. We were disappointed the company maintains it is the role of the Brazilian government to introduce a tracing system for cattle, rather than companies buying the cattle. Despite this belief, the company has made no public statement against the government's current pro-deforestation stance nor provided evidence it has lobbied for change. In our efforts to understand the company's position, we arranged bespoke meetings with four NGOs – the Worldwide Fund for Nature (WWF), the National Wildlife Federation (NWF), Mighty Earth and Global Witness. We sought their opinions as NGOs with presence and expertise on the ground have an important role to play in identifying emerging issues, best practice and sharing the latest developments with investors and other stakeholders.

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AVIVA INVESTORS

INTEGRATION CASE STUDY

Deforestation (cont'd.)

E S G **Various** (Global)

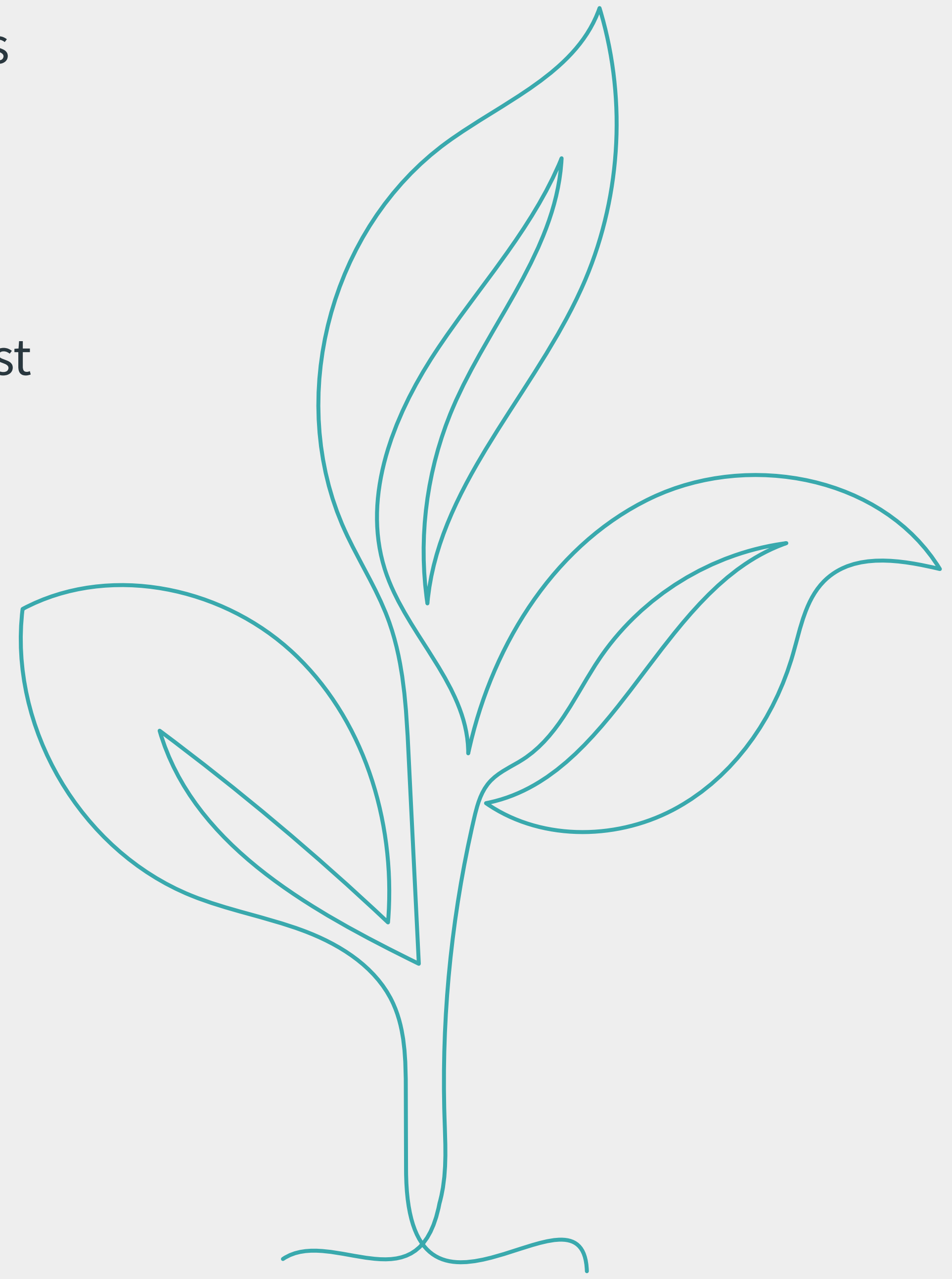
Outcome – Our latest dialogue with Minerva underlined the lack of progress on this matter, and the challenges of the current political climate in Brazil. We will continue to engage with the company in 2022, particularly on a public call to the government to facilitate a full traceability programme. We believe our repeated pressure and guidance on best practice is more helpful than divestment to the urgent case of deforestation in Brazil.

Collaborative engagements

- We are part of an award-winning collaborative investor engagement using real-time satellite data on ongoing deforestation, led by asset manager ACTIAM. This engagement focuses on companies that provide insufficient information about their suppliers and companies linked to deforestation in the palm oil sector in Malaysia. These cases were uncovered through satellite imagery and artificial intelligence provided by Satelligence.
- We have taken part in conversations with Nestle, Procter & Gamble, Carrefour and are leading on engaging with Reckitt Benckiser.
- We engaged with Viterra, the agricultural trading subsidiary of Glencore, on its soy sourcing policy. We had sought a 2020 cut-off date for soy sourced directly and indirectly from the Cerrado biome. We were pleased the company strengthened its policy to include 'conversion of natural ecosystems' as well as deforestation, but disappointed the company used a delayed cut-off date of 2025, meaning it will accept soy from cleared lands until then. We will continue to engage with the company to accelerate action and report publicly on progress.
- We were part of the FAIRR collaborative engagement on climate impacts in the meat and dairy supply chains of fast food companies (see **case study** on page 98).
- We include questions around commodity sourcing traceability with all companies we engage with in the consumer sector (mostly on palm oil).
- We continued to support the Investors Policy Dialogue on Deforestation (IPDD) initiative, which held conversations with the Brazilian and Indonesian governments on deforestation.

Voting

- We voted in favour of resolutions on improving reporting on deforestation at the AGMs of Bunge, Yum Brands, Tyson Foods and Procter & Gamble in 2020-2021.
- In 2022 we will introduce a new policy to vote against targeted management resolutions at the worst performing forest risk commodity companies in the Global Canopy Forest 500 ranking.



Company names shown are informational and not recommendations to buy or sell.

ENGAGEMENT CASE STUDY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
13 CLIMATE ACTION

Connecting communities and businesses via fibre

E S G (United Kingdom)

Issue

The internet is no longer regarded as a luxury but a utility, even a human right. Globally, there is increased need for remote working, online medical appointments and digital shopping due to COVID-19. Fibre enables internet connectivity, which is important for ensuring people can access other essential human rights such as the right to work, education, social welfare, and freedom of association and information (particularly important during the pandemic but also for political participation, i.e., making informed decisions in elections).

Fibre is also a low climate transition risk sector which will play a critical role in reaching the UK target for carbon neutrality by 2050, by supporting improved energy efficiency on the digital grid and greater renewables penetration.

Action

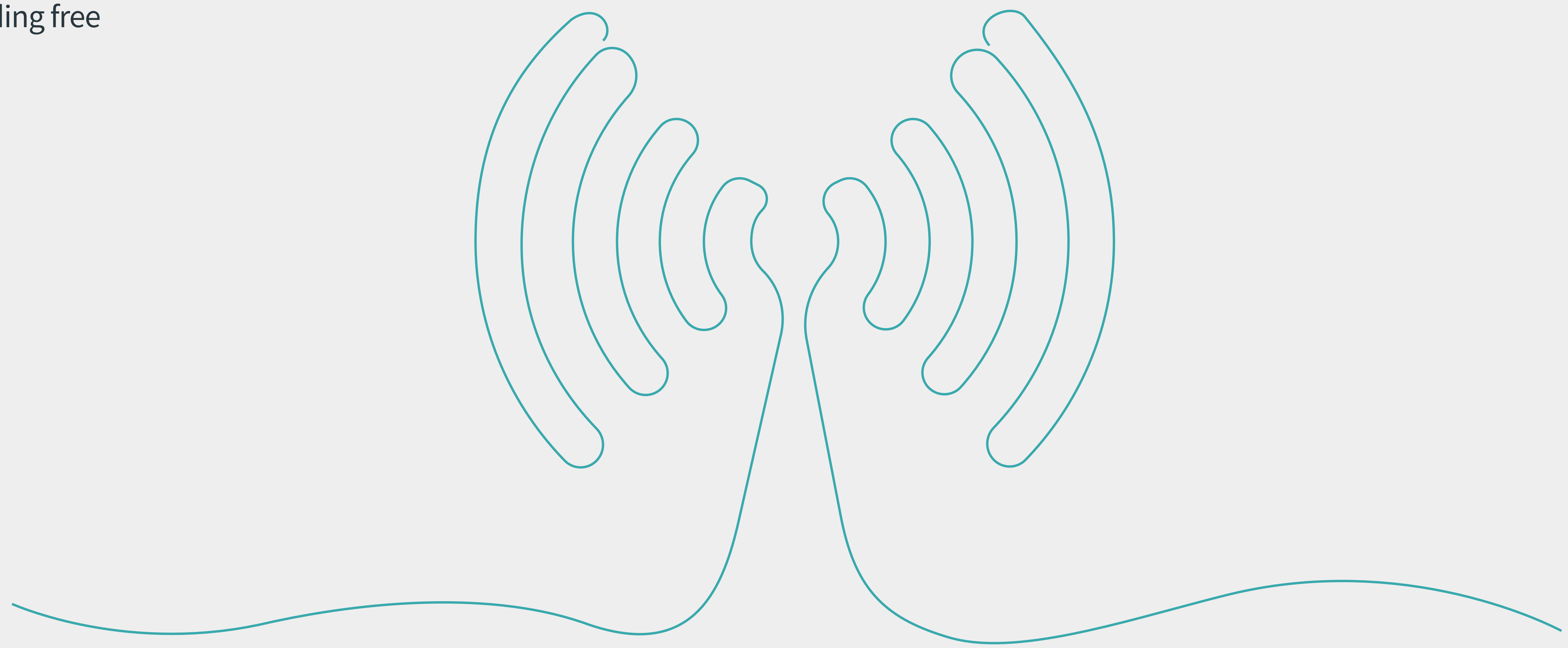
In 2021, we completed another £80 million transaction for TrueSpeed Communications, following a previous £75 million commitment in 2017. TrueSpeed is a regional fibre-network owner and service provider in the South West of England, headquartered in Bath. The company builds and operates full-fibre networks to provide ultra-fast broadband to domestic and business customers in rural suburban areas, villages and small towns where there is currently no fibre.

TrueSpeed has also committed to providing free broadband to local primary schools and community hubs passed by its network.

Outcome

Fibre and the connectivity it provides can improve social mobility, employment support and creation, and social cohesion.

Our investments in this sector demonstrate our focus on social outcomes, while also aligning with our enthusiasm for providing climate transition support for various sectors, including transport, TMT and energy.



Company names shown are informational and not recommendations to buy or sell.

INTEGRATION CASE STUDY

First sustainability-linked swap repack in the UK

E S G (United Kingdom)

Issue

In 2020, we committed to originate £1 billion in sustainable transition real estate debt by 2025 under our proprietary sustainable transition loans framework. As part of the initiative, we embed measurable ESG commitments into our lending programme, setting out specific requirements for borrowers, including reducing carbon emissions from buildings, as we continue to support the transition to a low-carbon economy. Initially developed for real estate debt, we quickly recognised that incentivising the net-zero transition through finance can also be a powerful mechanism to accelerate both the corporate and investor decarbonisation trajectory.

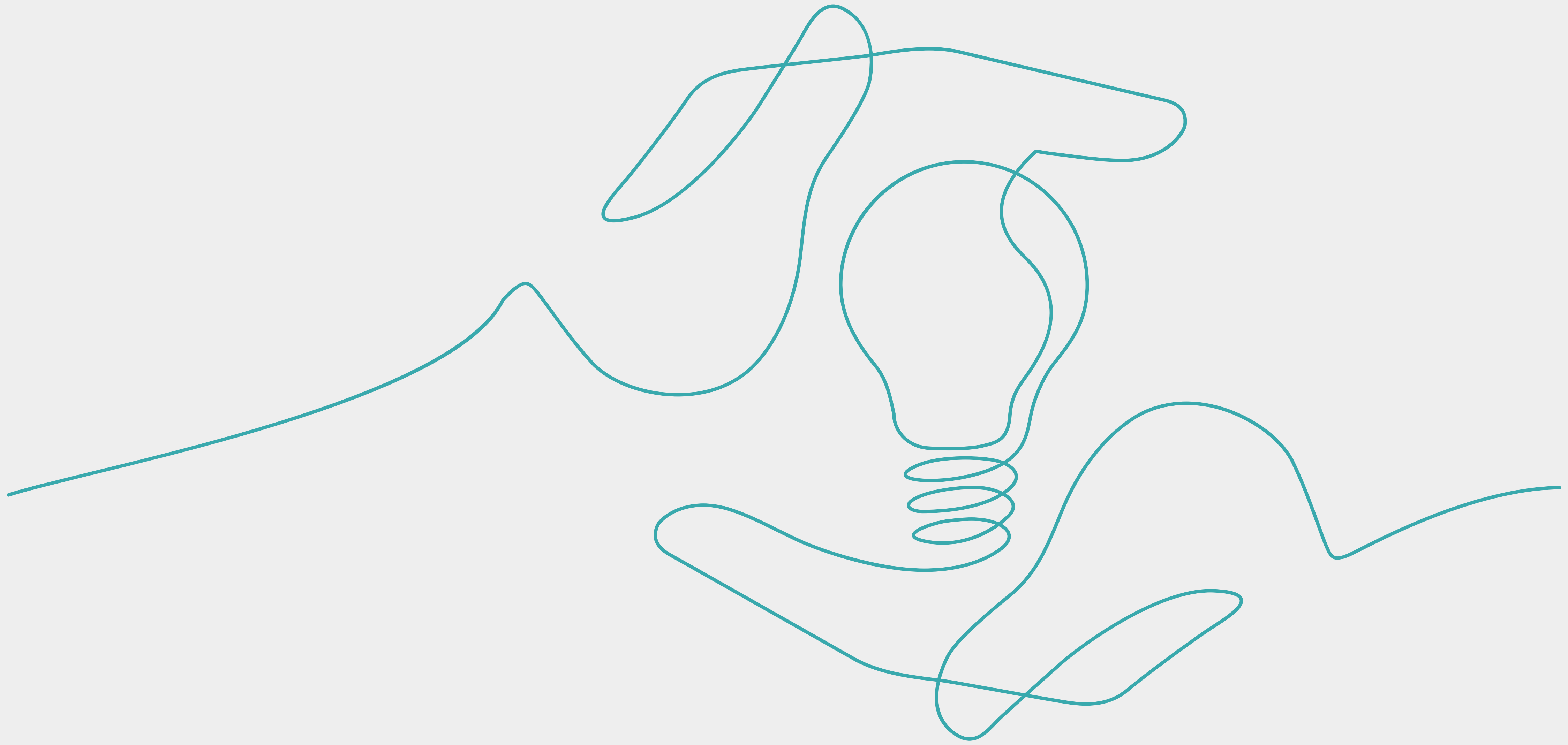
Action

In 2021, alongside BNP Paribas, we completed the first institutional swap repack transaction to have sustainability-linked key performance indicators (KPIs) attached, which we provided to Associated British Ports (ABP). The performance targets were subject to third-party verification by Institutional Shareholder Services to ensure they were both sufficiently material and ambitious in nature, whilst also remaining aligned to the Loan Market Association's sustainability-linked loan principles.

As part of the deal, a discount is offered to ABP on its hedging rate provided it meets certain ESG KPIs, including a significant reduction in combined Scope 1 and Scope 2 emissions by 2030, building on the 36 per cent reduction it has achieved in absolute GHG emissions since 2014.

Outcome

This transaction demonstrates our ability to incorporate tailored sustainability considerations into bespoke transactions, without compromising on outcomes for borrowers or risk-adjusted returns for our clients. We hope this transaction will catalyse the adoption of ESG-linked transactions in the swap repack market.



Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

INTEGRATION CASE STUDY

Best-in-class gas

E S G (United Kingdom)

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Issue

Given the importance of renewable energy in the pathway to net zero, the rise of renewable energy capacity increases the intermittency of energy generation and, consequently, the focus on stable baseload power sources. There are several technologies that can assist with this, including combined-cycle gas turbines (CCGT) and battery storage. Battery storage is a carbon-neutral technology and reduces the requirement for carbon-generating assets to be online during periods of increased demand and lower supply.

Action

In 2021 we provided £29 million of financing to support the acquisition of EIG Partners – from EDF – of the West Burton B (WBB) CCGT plant and battery energy storage system (BESS). The deal enjoyed support due to the essential role of gas in the current power generation mix and transition to net zero (its flexibility supporting the development of intermittent renewables), and to the CCGT plant being one of the most efficient in the UK.

Gas is a high climate transition risk sector due to its high carbon footprint. As coal is now being phased out in the UK, it will most likely become the next focus for fossil fuel reduction. We expect greater scrutiny of investments in carbon-intensive sectors due to our 2040 real assets net-zero ambitions.[7]

Outcome

Despite the future challenges outlined for the gas sector, its role as a transitional baseload supply in the short term cannot be overlooked – particularly when combined with either CCUS or, as is the case with WBB, battery storage. WBB is considered best-in-class operationally from a carbon-efficiency perspective, with a 30 per cent reduction in emissions since 2018. Our investment in this sector supports our commitment to help decarbonise the UK energy system, aligning with our own strategic priorities and those of our clients.

7. https://www.avivainvestors.com/en-gb/capabilities/real-assets/real-assets-net-zero-carbon-pathway/.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

2

Purpose and governance

2.1

PURPOSE AND GOVERNANCE

Purpose, strategy and culture

How our purpose drives what we do

Responsible investment is front and centre of Aviva Investors' business strategy, alongside a focus on enhanced customer outcomes and simplification. We are here to deliver the specific and meaningful outcomes that matter most to today's investors. This goes beyond short-term returns and necessitates an understanding that our actions today interact with and influence the world we and our customers will live in tomorrow.

Staying at the cutting-edge of responsible investment is central to what we do. We have a long heritage of leadership in responsible investment, having published our corporate governance voting policy since 1994.

We included material environmental and social issues within that policy in 2001 and also became founding signatories of the UN Principles for Responsible Investment (PRI) in 2006.

We continue to innovate and seek out opportunities to drive the development of responsible investment today, evidenced for example by the action taken to embed ESG capabilities within our investment teams and our extensive participation and leadership of sustainable finance initiatives.

By investing responsibly, including engagement with companies at the micro level and with governments and regulators at the macro level, we can strive to achieve inclusive economic growth, environmental protection and social development. Businesses like ours have a key role to play to fund the UN Sustainable Development Goals (SDGs). We are particularly proud that our Corporate Sustainability Reporting Coalition resulted in SDG 12.6 around corporate transparency and performance disclosure.

Recognising that clients want to target specific outcomes linked to the SDGs, we are developing our capabilities to deliver research, engagement and products as part of our sustainable outcomes approach. This has included the launch of a global sustainable transition offering as well as a commitment to deliver net-zero across real assets by 2040[8], accompanied by a detailed plan and targets.

In parallel, we advocate for transformational change to incentives and rules so that capital markets become more long term and support the SDGs. To deliver the estimated $90 trillion of investment needed to deliver sustainable development over the next 10 years and to move from "billions in overseas development assistance to the trillions in investments of all kinds" as the World Bank has said,[9] it is clear the private sector and private finance need to play a greater role. To that end, we have been advocating for the creation of an International Platform for Climate Finance that can help marshal the financial resources needed to power a transition to a Paris-aligned global economy.

Finally, we recognise our own business plays an integral part in today's financial ecosystem and its capacity to deliver for society. As such, it is not only our actions as participants in capital markets but also our own culture and activities that must embody our values and live up to expectations.

Consequently, this report should also be read in the context of Aviva's broader corporate responsibility[10] and TCFD[11] reporting.

> We aim to deliver the specific and meaningful outcomes that matter most to today's investors

8. https://www.avivainvestors.com/en-gb/capabilities/real-assets/real-assets-net-zero-carbon-pathway/.
9. Press Release: From Billions to Trillions – Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance (imf.org).
10. Corporate responsibility | About – Aviva Investors.
11. Climate-related financial disclosure – Aviva plc.

Our responsible investment philosophy

At Aviva Investors we recognise and embrace our duty to act as responsible long-term stewards of our clients' assets. We maintain a deep conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes. We believe being a responsible financial actor means our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society.

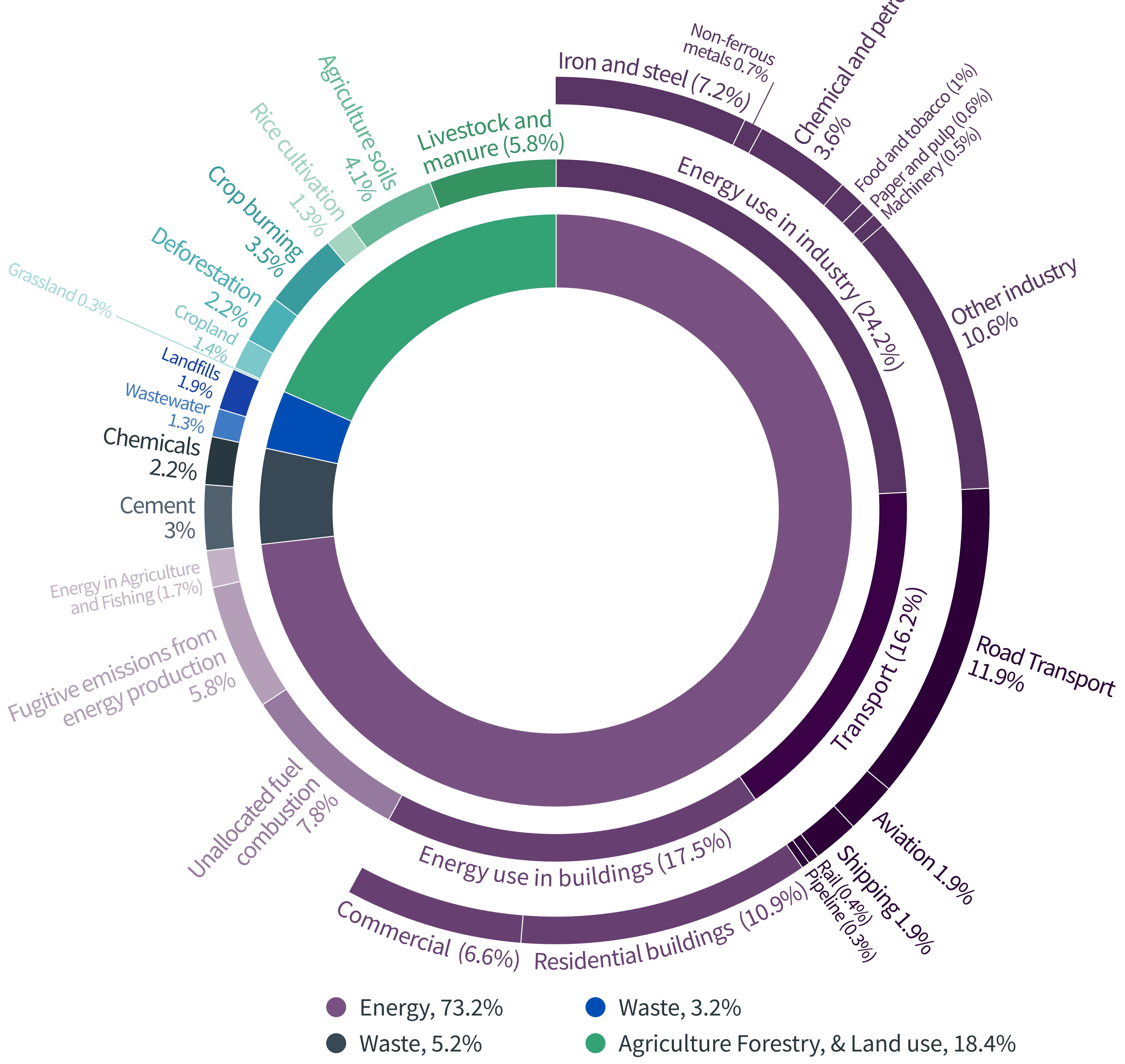
Investing to drive the transition

Our responsible investment philosophy is centred on the belief that being a responsible financial actor means our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society. This includes identifying opportunities to invest in the transition to a more sustainable world, promoting the relative merits of engagement over divestment. We assess companies based on their ESG credentials, ability to deliver sustainable solutions and exhibit the highest standards of corporate behaviour (when measured against national and international norms), or are transitioning and evolving to become more sustainable and responsible. We believe this final element of our approach sets us apart from many of our peers.

We believe adopting a purely exclusions-based approach or simply investing in today's sustainability leaders would limit our ability to shape a sustainable future and not help to facilitate the transition to a low-carbon economy. Real change requires a radical overhaul of the world's economy and industries. Investors must be willing to support and be fully engaged in the transition from "brown"

> Creating a better tomorrow means we must play our part as investors in helping today's world become better

Fig 2. Global greenhouse gas emissions by sector



Source: OurWorldinData.org, Climate Watch, the World Resources Institute (2020).

Our responsible investment philosophy (cont'd.)

Adoption of solutions is the key

We believe solutions providers can present exciting investment opportunities, as well as being "green" today. Many solutions providers are found in the energy generation sector. However, as shown in **Figure 2**, it is the adoption of these solutions in areas such as industry and transportation that will ultimately bring emissions down. Energy use in buildings is another area of huge potential emissions reductions. Within our real assets function, we use ESG debt covenants to bring about positive change from sponsors over a loan's life. We also partner with industry-leading consultants to reduce energy use in buildings we own.

In addition, the rise of ESG investing with a narrow focus on "green today" companies has in many cases resulted in inflated valuations, which may ultimately undermine sustainability objectives and generate suboptimal outcomes for clients. We of course need innovative companies to push the technological envelope and develop new solutions for a wide range of different aspects of such pressing issues as climate change, biodiversity loss and social injustice. However, it is the adoption of new technology and innovative approaches that will ultimately change the global economy and address these issues.

Proprietary T-Risk models

We aim to identify both current sustainability leaders but also corporate and sovereign entities that have the potential and commitment to improve from a lower current base level. Using our proprietary transition risk (T-Risk) models alongside qualitative research generated by our large, dedicated team of in-house ESG specialists, we identify firms we believe will transition their business models and better manage their sustainability impacts.

We believe these businesses are most likely to be the winners of tomorrow. This approach increases the size of our investment universe and, with it, the opportunity to have the greatest possible impact. Crucially, it also increases our ability to generate alpha for investors and tends to result in more robust portfolios.

Changing the rules of the game

We will help drive the required transition by using a variety of levers, including voting, engagement and what we call macro stewardship. This refers to engaging with regulators, governments and other entities to change "the rules of the game" in favour of businesses providing solutions to sustainability problems or supporting the transition to a sustainable future.

We aim to correct market failures such as a lack of corporate disclosure on ESG risks and climate change – at a national, EU and international level – to improve long-term policy outcomes.

Our engagement activity has a direct feedback loop into our investment decision making, with the ultimate sanction of divestment always a possibility if we believe we are not likely to see sufficient progress made by an investee entity. Importantly, in such cases, we will not "go quietly into the night", if appropriate, publicising our reasons for divesting.

Our responsible investment philosophy (cont'd.)

Turning the spotlight inward

We try to hold ourselves to the same governance and ethical standards we expect of others. Performance against ESG objectives is embedded into investment teams' and senior management's annual evaluation and compensation frameworks. Responsibility for implementation of our responsible investment philosophy rests with the executive committee and heads of investment functions. Our commitments in this area are fully embedded into Aviva Investors' internal controls and subject to robust challenge from the firm's control functions as well as assurance from our external auditors.

Exclusions

There are specific sectors and economic activities where we consider the sustainability risks to the climate, planet and people to be so severe that providing equity and debt funding is fundamentally misaligned with our responsible investment philosophy and corporate values. In these cases, we forgo the opportunity to engage and actively exclude companies and industries. We are in the process of strengthening our baseline exclusions policy to include tobacco, coal, unconventional fossil fuels and companies we do not consider meet the standards of the UN Global Compact (UNGC), based on MSCI data, as shown below.

Exclusion	Threshold	Exception
Controversial weapons	As per current AI baseline	–
Thermal coal	≥5%	SBTi or non-fossil fuel project finance bonds
Arctic oil, oil sands (unconventional fossil fuels)	≥10%	SBTi or non-fossil fuel project finance bonds
Tobacco	0% producers >25% distribution or sale	–
UN Global Compact	UNGC fails as decided by AI, based on MSCI data	–

Goals and exclusions may vary by jurisdiction, see 'Important Information' section.

Source: Aviva Investors. Note: Enhanced policy will be implemented in a succession of stages throughout the year. Divestments are expected to be concluded by the end of 2022. Investors will be notified of the specific dates of when the policy applies to individual funds and the relevant scheme documentation will be updated accordingly.

Our responsible investment philosophy (cont'd.)

Sustainable outcomes

We structure our thinking, research and sustainable outcomes investment approach around three key pillars, representing what we believe to be the three key sustainability challenges in the world today, namely social justice, biodiversity loss and climate change. We provide investment options across a range of asset classes that enable our clients to work with us to address these challenges.

3 Pillars	People	Earth	Climate
3 Challenges	Social inequality	Biodiversity loss	Climate change

Please note this investment approach applies across our asset classes, but important to note this is not binding on investment decision making, unless indicated otherwise in the specific fund documentation or Investment Management Agreement.

Responsible investment in real assets

Our real assets responsible investment goals

To deliver on our obligation to act as long-term stewards of our clients' assets, we prioritise investment and asset management decisions that will allow us to meet our fiduciary duty to our clients and are based on our three responsible investment pillars, shown on page 05.

Our responsible investment pillars are supported by nine underlying goals that guide our decision making. By delivering these goals, we believe we will create and protect value for our clients and support the long-term sustainability of economies and society.

Nine real assets responsible investment goals for 2025

1 Deliver and finance £3 billion of social infrastructure by 2025

In 2021, we invested directly in and financed £667 million in social infrastructure to take our running AUM to approximately £13.3 billion, contributing 22 per cent of our target to invest £3 billion by 2025.

NOT STARTED | BEHIND TARGET | ON TARGET | ACHIEVED

2 Support social mobility through investing in health, education, employment and access to technology

In 2021, we invested £134 million in projects that support social mobility, including the provision of financing for the development of social and affordable housing units, as well as funding for fostering services providers of social care for children.

NOT STARTED | BEHIND TARGET | ON TARGET | ACHIEVED

3 Create healthy, safe, fair and accessible employment for our customers, suppliers and communities

In 2021, the focus of our directly owned infrastructure and real estate developments was to boost the social value of the localities by promoting the creation of employment and developing communal green spaces to help promote positive mental and physical well-being. In 2022, our current development pipeline is targeting 500,000 square feet of WELL-certified real estate across four key developments.

NOT STARTED | BEHIND TARGET | ON TARGET | ACHIEVED

4 Invest £2.5 billion in low-carbon and renewable energy infrastructure and buildings by 2025

In 2021, we invested directly in and financed £1.2 billion of low-carbon and renewable energy infrastructure and buildings, which involved 78 per cent of new infrastructure AUM for 2021 being classified as sustainable. In addition, we acquired EPC A-rated real estate properties in the office, retail and industrial sectors.

NOT STARTED | BEHIND TARGET | ON TARGET | ACHIEVED

Source: Aviva Investors.

Responsible investment in real assets (cont'd.)

Nine real assets responsible investment goals for 2025 (cont'd.)

5 Increase low-carbon and renewable energy generation capacity to 1.5GW by 2025

Our 2019 baseline is 0.73 GW. In 2021, we originated and developed ten projects to contribute a further 0.22 GW and take our running total renewable energy capacity to 1.1 GW, representing 73 per cent progress towards our 2025 target.

NOT STARTED BEHIND TARGET ON TARGET ACHIEVED

6 Create at least 50 per cent of new pooled strategies with sustainable or impact labels until 2025

In July 2021, we launched the Real Assets Climate Transition Fund, one of the world's first sustainable multi-real assets funds, targeting net zero by 2040 by offering investors direct investment in nature-based solutions such as forestry and peatland restoration through the acquisition of Glen Dye Moor, alongside real estate and infrastructure.

NOT STARTED BEHIND TARGET ON TARGET ACHIEVED

7 Deliver £1 billion of climate transition-focused loans by 2025

In 2021, we made significant progress with sustainable lending. With the origination of a further eight sustainable transition loans taking the cumulative total up to £783 million, we are already 78 per cent of the way to achieving our 2025 goal and expect to revise this target upwards.

NOT STARTED BEHIND TARGET ON TARGET ACHIEVED

8 Reduce carbon emissions from our real estate equity investments by 30 per cent by 2025

Our 2019 baseline is 64 $kgCO_2e/m^2$. By the end of Q3 in 2021, we had achieved a reduction of 37 per cent, reaching 41 $kgCO_2e/m^2$. Performance has been achieved through active management of our real estate buildings, as well as lower energy intensity from the continued decarbonisation of the grid and lower office occupancy rates during the COVID-19 pandemic.

NOT STARTED BEHIND TARGET ON TARGET ACHIEVED

9 Reduce energy intensity in our real estate equity investments by ten per cent by 2025

Our 2019 baseline is 160 kWh/m^2. By the end of Q3 2021, we had achieved a reduction of 19 per cent, reaching 191 kWh/m^2. Performance can be partly attributed to the success of our smart buildings programme, which has delivered a total of £3 million in savings to occupiers as of Q3 2021.

NOT STARTED BEHIND TARGET ON TARGET ACHIEVED

Source: Aviva Investors.

Responsible investment in real assets (cont'd.)

Committed to achieving net zero by 2040 in real assets

The climate crisis represents the greatest long-term threat to life on our planet and societies.[12] Overlaying our nine responsible investment objectives is our commitment to achieve net-zero emissions by 2040. This means we will support our clients to reduce greenhouse gas emissions from their directly owned and financed real asset investments in line with limiting warming to 1.5 degrees Celsius.

By 2040, we will support our clients to balance any remaining emissions by offering financing or direct ownership of carbon removals, such as forestry or carbon credits. Our commitment extends to clients' assets across our entire real assets platform, comprised of real estate, infrastructure and private debt.

We recognise the unconstrained delivery of buildings and infrastructure has been a major contributor to the climate crisis. Direct emissions from buildings, power and transport are responsible for 59 per cent of UK emissions[13], with emissions from supporting industries further contributing to the problem. The climate crisis now presents catastrophic risks for our clients and society.

In response to this challenge, the Better Buildings Partnership (BBP) launched a historic climate change commitment in September 2019. Signed by 23 of its members, including Aviva Investors, and covering over £300 billion AUM in real assets globally, the commitment will see 1.2 million tonnes of carbon emissions per annum reduced to net zero by 2050. In November 2019, our parent company Aviva plc joined the UN's Net-zero Asset Owners Alliance. The Alliance brings together the world's biggest pension funds and insurers to commit to net-zero emissions in their investment portfolios by 2050.

Aviva has committed to net-zero carbon emissions from its investments by 2040. Since November 2019, several more of our clients have made similarly ambitious commitments.

In our net-zero pathway, we outline how we will meet the changing needs of our clients and the terms of the BBP commitment, demonstrating the action we will take to invest in low-carbon solutions, while decarbonising existing assets across our platform. Through these actions, we believe we can better protect our clients' interests, while reducing the negative impacts of our investments on the environment and society.

We are proud to be members of the Net Zero Asset Managers initiative (NZAM) and the Glasgow Financial Alliance for Net Zero (GFANZ) as part of the Race to Zero.

You can read more about how we will achieve net zero by 2040 on **our website**.[14]

> Our commitment to achieving net-zero emissions by 2040 means we will support our clients to reduce greenhouse gas emissions from their directly owned and financed real asset investments, in line with limiting warming to 1.5 degrees Celsius

12. The Economics of Climate Change: The Stern Review is a landmark study that was published on 30 October 2006.
13. Provisional UK greenhouse gas emissions national statistics 2020 – GOV.UK (www.gov.uk).
14. Net zero pathway – Aviva Investors.

2.2

PURPOSE AND GOVERNANCE

Governance, resources and incentives

Governance of investment processes

Our governance structure and processes ensure our approach to ESG integration and active ownership is embedded throughout our business. Our approach also enables us to meet the requirements of the Shareholder Rights Directive II (SRD II) in respect of how we monitor and engage with companies on strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance. This also includes how we work with other shareholders. Throughout this document there are numerous examples of this in action.

Aviva plc, our parent company and largest client, sets the tone for the approach taken to responsible investment across its business units. This is underpinned by Aviva's sustainability ambition, to deliver net zero across its investments by 2040. Key group governance structures include the ESG leadership team and the climate plan across all business units.

With ESG being a central part of Aviva Investors' own business strategy, the ESG philosophy, asset class policies, objectives, targets and performance are directly overseen by Aviva Investors' executive committee. Furthermore, the CIO of liquid markets in conjunction with the heads of each of the respective asset classes (equities, credit and multi-assets) are responsible for integrating ESG into their investment processes. ESG specialists are embedded within the investment teams.

Ongoing ESG developments in the market are monitored by these specialists as well as our regulatory development team and client-facing teams, with any revisions to policies being approved by the executive committee.

ESG-specific controls are embedded in support of the investment process to ensure ongoing oversight and compliance, which ultimately contributes to and supports the delivery of a strong first-line risk and controls governance framework. Some examples of key controls in place include:

- Ensure strategies are being managed in accordance with Aviva Investors' ESG baseline exclusion policy;
- Ensure processes are being managed in accordance with the respective asset class policies;
- Ensure suitable protocols are in place so that each fund has applicable screens applied in accordance with IMA guidelines;
- Ensure ESG scores and analytical tools are made available to portfolio managers (on the investment platform) and are referred to and considered as part of the investment process;
- Ensure relevant ESG factors are considered in support of investment ideas and asset allocations;
- Mandatory ESG-specific section completed on all analysts' research documentation; and
- ESG investment specific staff are members of key liquid markets strategy meetings.

Governance in real assets

Our governance approach in real assets is led by our real assets stewardship forum, which is chaired by the real assets chief investment officer and has membership from our senior leadership team as well as the chief responsible investment officer. The stewardship forum oversees the direction of our ESG and stewardship activities, as well as the delivery of our sustainability goals and external stakeholder matters. Our real assets investment oversight committee retains oversight of ESG integration in our investment activities and is supported by our origination forum, which guides ESG integration in our investment strategy.

Governance of investment processes (cont'd.)

Building an inclusive workplace

We believe our ability to deliver good stewardship of our clients' assets also resides in our ability to create a diverse workforce representative of the clients whose money we are entrusted with. In an environment of fairness, inclusion and positivity, we all achieve more. This kind of inclusive and productive working environment is created when everyone feels stronger together – with no barrier to their ability to contribute, collaborate and succeed.

To foster this, we strive to create a culture where everyone feels part of a unified team. We motivate and support people to pool their expertise as 'one team' every day – through smarter ways of working and the technology and physical environments that enable true collaboration. We have implemented a hybrid working model, encouraging employees to work both from home and in the office to benefit from collaboration and encourage a work-life balance.

As part of our inclusive recruitment approach, we have introduced an opportunity for candidates to discuss flexible working arrangements for all roles and we're rolling out licence to hire training for hiring managers incorporating a focus on inclusive hiring principles.

Below are a number of initiatives that are building an inclusive culture at Aviva Investors.

- Our inclusion committee, established in 2020 and sponsored by our CEO, focuses on three key priorities: gender, ethnicity and social mobility and has agreed targets in these areas. We are also focusing on other diversity characteristics through involvement in multiple workstreams of the industry-wide Diversity Project: mental health, neurodiversity, working families, returners, LGBT+ and disability. Our involvement in the Diversity Project enables us to raise awareness, share best practice and demonstrate our commitment to inclusion.
- In 2021 we launched a reverse mentoring programme which was detailed in Aviva's Black Lives Matter action plan. Every member of AI's executive committee participated in the programme whereby they were mentored by a black colleague with the aims of promoting an inclusive culture, developing the pipeline of black talent and supporting conversation on race-related issues.
- Return to work programme: We launched our return to work programme in late 2018, bringing in a cohort of female career returners in 2019 and 2020. We continued this programme for 2021 and it acts as a pipeline to increase the number of females in senior roles. In 2021, we partnered across the industry with "Women Returners" and will continue our participation in 2022.
- Equal parental leave: We equalised parental leave in 2017 as we believe unconscious hiring and promotional bias is inevitable in any system that treats men and women differently when they become parents. We also know parenting is seen as equally important no matter people's gender.
- Mentorship for diverse employees: We take part in both the 30% Club and Mission INCLUDE cross-industry mentoring programmes, which are an important method of development and education for the mentees and mentors who participate.

Incentives

As part of the annual goal-setting process, all members of the executive committee, including CIOs, have an ESG-aligned performance measure that contributes to the annual appraisal process and remuneration plans. ESG performance measures are also cascaded and embedded across the respective investment teams' goals.

AVIVA INVESTORS

Governance of investment processes (cont'd.)

Responsible investment policies

Aviva Investors has developed a suite of responsible investment policies to enable the business to articulate clearly our approach to ESG at an institutional, asset class and product level.

The responsible investment policies sit within a tiered policy framework that ensures all policies maintain consistent principles and any positions agreed cascade down throughout the business in an efficient manner.

Policies refer to the UK and may differ across geographical jurisdictions for other Aviva entities.

Corporate backdrop	**Aviva plc group-wide corporate responsibility policies**: Corporate employee policies (e.g. diversity, parental leave); Modern slavery and human trafficking statement; Human rights policy; Business ethics code; Corporate responsibility, environment and climate change business standard; Biodiversity policy
Tier 1 Overall approach	**Aviva Investors' responsible investment philosophy**
Tier 2 Firm-wide policies	Aviva Investors global voting policy; Aviva Investors baseline ESG exclusions policy
Tier 3 Asset class policies	Aviva Investors credit & equities – responsible investment & sustainability risk policy; Aviva Investors multi-asset & macro & liability-driven investment – responsible investment & sustainability risk policy; Aviva Investors real assets – responsible investment & sustainability risk policy
Tier 4 Fund and mandate documentation	Specific funds have additional individual specifications such as exclusions, inclusions, targets and impact measurements
Client-led policies/ segregated mandate documentation	Client-specific; Client-specific exclusionary policy

15. 'Policies and documents', Aviva Investors, March 2022.
16. 'Policies and documents', Aviva Investors, March 2022.
17. 'Sustainable Finance Disclosure Regulation (SFDR)', Aviva Investors, March 2022.

Policy framework

Tier 1 – Policies: Overarching responsible investment philosophy, beliefs, governance and commitments.[15]

Tier 2 – Policies: Key ESG firm-wide policies that are applied across all ESG investment and related supporting activities.[16]

Tier 3 – Policies: Asset class investment policies underpin our investment processes by governing the approaches taken by the portfolio management teams. Dedicated policies cover:

- Credit and equities – responsible investment and sustainability risk policy;
- Multi-asset and macro and liability-driven investment – responsible investment and sustainability risk policy; and
- Real assets – responsible investment and sustainability risk policy.

Each asset class policy is published on the Aviva Investors website.[17]

Tier 4 – Fund and mandate documentation:

Building on these policies is investment process procedure documentation. This documentation refers to and evidences the implementation and application of the ESG policy principles.

2.3

PURPOSE AND GOVERNANCE

Conflicts of interest

AVIVA INVESTORS

Conflicts of interest

Aviva Investors takes its fiduciary duties to clients and beneficiaries very seriously. We apply a consistent and transparent approach to the management of conflicts of interest in accordance with local regulation. The Aviva Investors global conflicts of interest policy sets out the principles and standards to identify, manage and record conflicts of interest.[18]

In addressing any circumstances in which an actual or potential conflict of interest may arise, Aviva Investors shall ensure that in providing any service or managing a product for a client it:

- always acts in the best interest of its clients and put clients' interests ahead of its own or those of employees; and
- treats all its clients fairly.

Aviva Investors recognises that in the course of carrying out its day-to-day activities, Aviva Investors and its employees may encounter conflicts of interest (whether perceived or actual) between the interests of itself and its clients or between one client (or group of clients) and another.

For the purpose of identifying actual or potential conflicts of interest, appropriate consideration must be given to all relevant circumstances, including the following (non-exhaustive) matters:

- Whether the circumstances may result in an unfair advantage, a financial gain, or avoid a financial loss, at the expense of a client;
- Whether there is a financial or other interest in the outcome of a service provided or offered to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome;
- Whether there is an incentive to favour the interest of a client or group of clients over the interests of another client or group of clients;
- Whether a person connected with the circumstances carries on, or is connected with, the same business as the client;
- Whether an Aviva Investors entity acting as a management company of a collective investment scheme carries out the same activities for another client or group of clients; and
- Whether any person will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service.

18. Aviva Investors Global Conflicts of Interest Policy, March 2022.

Conflicts of interest (cont'd.)

All employees are required to identify and report any conflicts of interest to management and compliance in accordance with approved conflicts of interest procedures and to attest periodically, as required, that they have disclosed all applicable conflicts of interest. These conflicts are recorded in the global conflicts of interest register, together with any mitigants designed to manage the conflict. Each conflict is categorised, so that Aviva Investors has a view as to the types of conflicts most prevalent in its business.

The executive accountable for each business unit is responsible for ensuring the policy is embedded in their business area, and for maintaining appropriate measures to ensure compliance with its requirements. At least annually, they review the conflicts in respect of their business and formally attest as to the accuracy and completeness of their review. Compliance conducts second line monitoring of conflicts of interest in accordance with an annual compliance monitoring plan and provides advise to the relevant executive as requested. Violation of the policy must be escalated to the compliance department and will be reported to senior management.

Operation of the policy is overseen by the Aviva Investors risk management committee. Our principal objectives when considering matters such as engagement and voting are always to act in the interests of our clients and underlying beneficiaries, and to treat all clients and beneficiaries fairly.

Conflicts of interest can arise when Aviva Investors engages with companies and exercises its right to vote in relation to interests held; to the extent this activity may be inconsistent with the interests of a particular client or company. Aviva Investors manages conflicts of interests when voting through the following processes:

- Making companies aware each year of our areas of focus on governance matters, including the Aviva Investors global voting policy. This enables boards to take our expectations into account without a conflict coming into play, and also demonstrates our commitment to a transparent process and policy on behalf of all client funds;
- Being transparent to companies and to clients on our voting decisions and the rationale for such decisions;
- Making our voting decisions public on a company-by-company basis so our voting record is transparent and available for external scrutiny;
- When agreed with clients, we will act on their specific voting direction (for their holdings), including the use of independent third-party instructions; and
- Voting process and decisions, including incidents of potential conflicts, are subject to review by Aviva Investors' internal audit function, and Aviva Investors' operational risk framework facilitates ongoing compliance; incorporating documented processes and controls.

AVIVA INVESTORS

Conflicts of interest (cont'd.)

Voting shares at Aviva plc meetings

We fully recognise there are or may be conflicts of interest arising from the exercise of voting rights over holdings of shares in our parent company Aviva plc. Our policy in regards to these is as follows:

(i) Where Aviva Investors is responsible for voting rights over Aviva plc shares within funds managed for Aviva Group clients (for example, Aviva life funds), both as a matter of policy and, as appropriate, pursuant to the provisions of the Companies Act 1985, those voting rights must not be exercised.

(ii) Subject to (iii) below, where Aviva Investors is responsible for voting rights over Aviva plc shares held or managed on behalf of external clients, given the potential for a conflict of interest, Aviva Investors will exercise no discretion over those voting rights and its default position will, therefore, be to refrain from exercising those voting rights.

(iii) Where external clients choose to, they may instruct Aviva Investors in writing to arrange for the voting rights over their holdings of Aviva plc shares to be exercised in accordance with independent recommendations by external proxy advisers in line with applicable corporate governance and proxy voting guidelines. Where a client wishes to put in place these or any other alternative arrangements, Aviva Investors will seek to accommodate those arrangements.

Voting shares that are also segregated clients

We recognise that a conflict of interest potentially arises when we are voting at shareholder meetings of issuers which are also segregated clients. In such scenarios, we will exercise no discretion. Instead, voting will be in line with our voting policy, which will be provided through custom policy research generated by our external voting provider. If there are any resolutions which our voting provider has 'referred' to us to make a vote decision (note that this will only occur if no specific criteria has been agreed / there are particular circumstances relating to the relevant resolution that warrants review), then the default position will be to vote in line with ISS benchmark recommendations (for the refer items only).

If a segregated client holds shares in its parent company, for which there is a shareholder meeting, we will endeavour to ask the client to provide us with vote instructions. Our default position if no instructions have been requested or provided is to take no voting action (for that segregated client only).

2.4

PURPOSE AND GOVERNANCE

Promoting well-functioning markets

Promoting well-functioning markets

As responsible investors, we have a duty to act in the best interests of clients and the integrity of the market. In our position as market participants and stewards of our clients' capital, we have a duty to promote the integrity of the markets into which that capital is invested and play our part in ensuring they function well.

It is incumbent upon us to identify potential market-wide and systemic risks as well as those that manifest at an asset class, sector, or issuer level. We can seek to mitigate these risks through engagement. This will sometimes involve exercising our rights and responsibilities over the assets we hold. In other cases, it will involve calling out market failures and systemic risks and engaging with policymakers to bring about the necessary policy changes to correct them. Ultimately, our aim is to contribute to the transformation of the financial system, enabling it to serve the needs of the present without prejudicing generations to come.

Proactive identification of market failures and systemic risks, along with engagement and collaboration with policymakers and peers, is central to our role in maintaining the integrity of markets. We think of these actions as stewardship of the financial system, or "macro stewardship". If we are investing our clients' money into markets, we have a duty to ensure they operate with integrity. This is imperilled by unaddressed systemic risks that threaten the stability and integrity of markets, and is undermined by market failures, where the operation of the market left uncorrected leads to sub-optimal outcomes for society.

The UK Stewardship Code's principle of promoting well-functioning markets is fully aligned with this duty. We see this evolution of the duties of financial market participants, and concept of macro stewardship in particular, as crucial to harnessing the power of markets to deliver the transition to a financial system that embeds sustainability and finances a sustainable real economy.

We use our voice to raise awareness around the concept of 'market failures', in particular their distinction from 'market inefficiencies', which can and should be exploited by asset managers to generate client returns. In recognising this distinction, we engage with policymakers to seek interventions to address market failures and correct them to put markets on a more sustainable footing. It is also how we issue a call to action to our peers to play their role too. We believe well-functioning markets are in the best interests of our clients and benefit the public good.

As a long-term investor, we also recognise it is in everybody's interests that market failures are corrected. This is particularly the case for market failures like climate change that threaten not only the long-term viability of financial markets and financial services business models, but ultimately civilisation itself.

Our work to promote well-functioning markets and bring about a sustainable financial system is embedded across Aviva Investors, as we undertake stewardship at a micro level (identifying risks, opportunities and impacts by way of our investment research and acting on these insights through corporate engagement) and at a macro level (market reform work to bring about systems change).

> Our aim is to contribute to the transformation of the financial system, enabling it to serve the needs of the present without prejudicing generations to come

AVIVA INVESTORS

Promoting well-functioning markets (cont'd.)

Macroeconomic research

Aviva Investors compiles a House View on a quarterly basis, representing our best collective judgement on the current and future investment environment – covering risks, themes and the global market outlook. It considers economic, geopolitical and ESG-related risks alike. Key themes in the House View 2022 Outlook, published in December, included supply-side challenges, end of emergency policy settings, high inflation and climate change policy. The process by which the House View is constructed is a collaborative one – drawing on insight from investment professionals and analysts from across the business. We hold a House View Forum biannually at which the main issues and arguments are introduced, discussed and debated. For example, deep dive sessions in advance of the latest forum centred on risks and opportunities related to climate change.

Thematic research

The identification of long-term, systemic sustainability risks such as climate change, biodiversity loss and inequality is further supported by our sustainable outcomes team, which expanded in 2021, having been set up in 2020 and is responsible for top-down and impact-orientated thematic research. The team monitors regulatory, scientific, commercial and technological developments across three main pillars – people, earth and climate – and produces research that is accessible to all investment teams.

The research focuses not only on improving our understanding of the risks to investments, but also takes an impact approach, outlining the negative and positive impacts companies have on the world around them. We do this because we believe risk and impact are closely linked – increased negative impact is likely to increase the risk to our investments. For example, we have identified biodiversity loss as a risk, having seen an almost 70 per cent reduction in certain species groups since 1970[19].

Analysing corporates

Aviva Investors has built a specialist ESG corporate research function with a dedicated analyst for each primary sector. The ESG sector analysts are responsible for publishing and updating a series of reports that enable the integration of ESG considerations within the investment process. This includes company-level assessments for a core coverage list, industry reports analysing relative performance of companies within a sector, reports providing insights on specific ESG-related topics and issue briefings. Issue briefings are designed to outline emerging and material ESG trends. This includes structural themes altering regulation, emerging technologies, consumer habits, supply chains and the competitive landscape. Issue briefings are updated and presented to the wider investment teams at appropriate intervals to help inform industry outlooks and facilitate the integration of long-term ESG risks and opportunities into fundamental investment cases.

Analysing sovereigns

Aviva Investors has a specialist ESG sovereign research team responsible for calculating ESG scores, monitoring trends and publishing qualitative research. The scores provide an actionable metric that allows portfolio managers and analysts to understand how a sovereign compares to its peers, including exposure to natural hazards, levels of inequality and degree of press freedom. This is complemented by bespoke research on emerging issues as well as reports on core markets. The country research reports capture an issuer's momentum and include forward-looking judgements on how ESG credentials are likely to evolve. Specific areas of focus will vary by country, based on materiality to the investment case and can include assessments of climate transition plans, societal cohesion and political stability.

19. In order to take action, we are working on a better understanding of the impact our assets have on nature so that we can avoid, reduce or improve the management of our negative impact and increase our positive impact. Examples from 2021 include research into vehicle electrification, hydrogen, labour unions and deforestation. Building on this research, the team delivers thematic engagement with the assets we invest in to drive positive change, working closely with our corporate research and stewardship team and the broader investment team. This is part of how we take action to address the long-term sustainability risks we have identified. https://livingplanet.panda.org/en-gb/.

Promoting well-functioning markets (cont'd.)

Sustainable Finance Centre for Excellence – macro stewardship

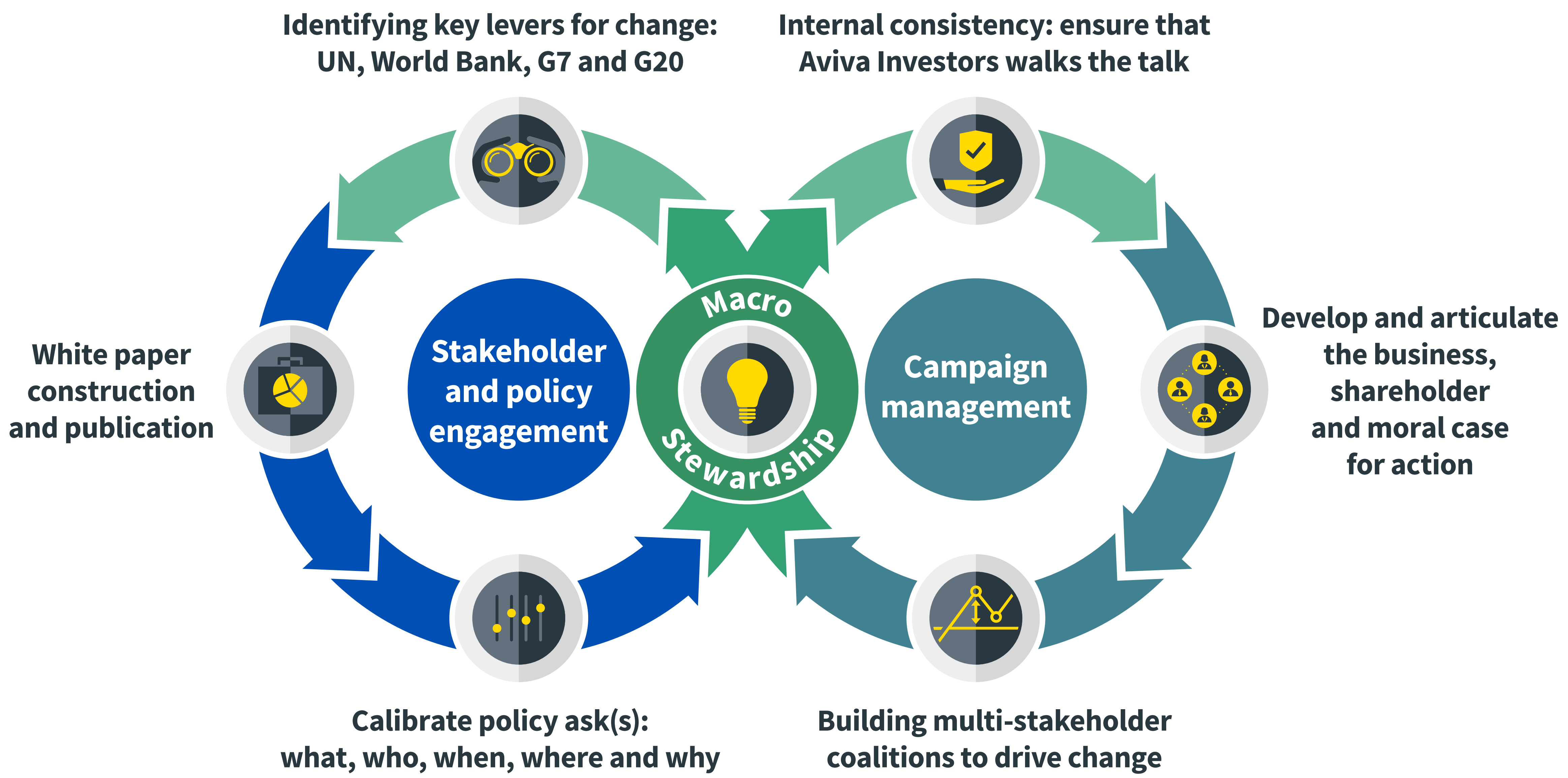
Our macro stewardship work represents a natural progression from our integration and stewardship activities. As responsible investors, we do not operate in a vacuum, and feedback loops exist between investment activity and the real world upon which we rely to deliver risk-adjusted returns in the long run. This means our investments have an impact, whether positive or negative, upon environmental, societal and financial systems. These systems can affect the overall risk and return profile of capital markets. It is in our long-term interests to take effective action to ensure these systems have integrity, are resilient and function sustainably. Market failures, such as unpriced negative externalities, represent systemic risks which, if left unchecked, can disrupt the stability of the market and threaten investment performance.

In this sense, each of the UN Sustainable Development Goals (SDGs) is representative of one or more market failure. Collectively, the potential failure to deliver the SDGs is a risk to the stability and integrity of financial markets, with concurrent risks for market participants and our clients. As such, we have a duty to highlight and seek correction of market failures and systemic risks as part of our obligations to the interests of our clients and the integrity of markets. While ESG integration and engagement are crucial components of this responsibility, they are insufficient on their own to create a sustainable financial system and investors can only do so much in a market where the rules of the game incentivise poor practices while failing to reward sustainable ones. If our experience with COVID-19 has taught us anything it is that material systemic threats require systemic action.

Investors must therefore intentionally and proactively identify policies and practices that contribute to the stability of environmental, societal and financial systems. This is not something that can be undertaken by investors alone, who are equipped to exploit market inefficiencies, not rectify market failures. But nor is it something policymakers and regulators can do effectively or efficiently enough in the absence of multi-stakeholder engagement. Identifying and establishing regulatory systems and policy interventions to correct material market failures and foster sustainable and more resilient capital markets therefore relies upon robust feedback loops between investors and policymakers.

Our Sustainable Finance Centre for Excellence targets risks and failures that are the most material in both financial and non-financial terms, where we have agency, opportunity and expertise to act and influence policymakers, regulators and peers.

We harness insights from our investment process to ensure our engagement with those who shape the rules of the game is robust and well-informed. Below, you can see how we use macro stewardship to seek to correct market failures:



20. Our present focus is therefore on themes linked to our strategic priorities that are identified through a focus on People, Climate and Earth, with campaign priorities on climate change, human rights due diligence, biodiversity and anti-microbial resistance.

Taking action on climate change

Climate change is the world's biggest market failure. Atmospheric carbon dioxide (CO_2) concentrations have risen 17 times as quickly in the last two centuries than the two centuries prior to that, and we are fast approaching crucial tipping points. Currently, the true cost of unsustainable activity is not reflected in market prices. Companies can behave unsustainably in a way that has negative outcomes for society, without material consequence.

Other systemic issues are inextricably linked to climate change. Greater biodiversity and protection of nature supports climate mitigation and adaptation, but rising temperatures exacerbate biodiversity loss and vice versa. Inequalities and human rights breaches are deepened by climate change because it disproportionately affects already marginalised people and is disproportionately caused by those better off.

Delaying action has devastating consequences. At COP26 in Glasgow, the Glasgow Climate Pact reiterated the goal of the 2015 Paris Agreement to prevent the most catastrophic impacts of climate change by restricting warming to two degrees Celsius or below but re-emphasised the many magnitudes less severe that those consequences will be if warming is limited to 1.5 degrees and reaffirmed efforts to achieve that goal.

However, the reality remains that following the pandemic-influenced drop in emissions in 2020, 2021 saw the second-largest emissions rise in recorded history[21].

The scientific consensus of the Intergovernmental Panel on Climate Change is that to have a greater than 50 per cent chance of limiting long-term warming to no more than 1.5 degrees, a 45 per cent cut in global emissions versus 2010 levels will be needed by 2030. In essence, we have 98 months to halve global emissions.

In these circumstances, everyone needs to do everything that they can. It is no use single actors or groupings achieving net zero if we do not do so as a global average – the race to net zero is one we win or lose together. We are committed to playing our part. Aviva Investors is a member of Net Zero Asset Managers and Aviva has ambition to reach net-zero across its investments by 2040. Aviva is also a member of the Glasgow Financial Alliance for Net Zero (or GFANZ), with Aviva CEO Amanda Blanc sitting on the CEO Principals Group and we support her co-chairing of GFANZ workstreams on policy advocacy and transition plans for financial institutions. As an example of leadership among financial institutions, we are active members of the Climate Group's EV100 pledge to accelerate the transition to electric vehicles.

We have also put our years of experience in macro-level stewardship with politicians, policymakers and stakeholders into action, often in collaboration with others to strengthen our voice. Our aim is to highlight market failures that market participants cannot correct themselves, which require effective regulatory action.

> Aviva Investors is committed to playing our part; we are a member of Net Zero Asset Managers and Aviva has ambition to reach net-zero across investments by 2040

21. www.iea.org/reports/global-energy-review-2021?mode=overview.

MARKET REFORM CASE STUDY

Coalition for an International Platform for Climate Finance – seeking reform of the international financial architecture

(Global)

E S G

Issue

With the UK hosting COP26 (the 26th Conference of the Parties to the UN Framework Convention on Climate Change) in Glasgow in November 2021, attention turned to the progress made towards achieving of the goals of the Paris Agreement. One of the key questions posed by the Coalition for an International Platform for Climate Finance (IPCF) is how to harness global finance to deliver those aims through a smooth, well-managed and just transition.

Action

In April 2021, on the fringes of the Biden Climate Summit in Washington, we launched a white paper setting out proposed reforms to the international regulatory and supervisory architecture for global finance. The focus was on financing the transition to a net-zero economy by transitioning finance itself. The paper set out a series of proposals to reform key institutions that make up the international financial architecture. These include reform of the OECD to convene and IPCF to act as a climate finance "bridge" to link financial institutions' investment appetite with the climate investment needs of developing countries, as well as supporting countries in bringing investment opportunities to market through technical assistance to create capital-raising plans to fund their Paris commitments and structure projects for private investment. Recommendations are also made for the International Monetary Fund, World Bank, Financial Stability Board, and participation of finance ministers and central bank governors in the Coalition of Finance Ministers for Climate Action and Network for Greening the Financial System, respectively.

The paper formed a key part of our macro stewardship engagement throughout 2021, including interactions with the G20 Sustainable Finance Working Group, the OECD and the UN High-Level Climate Champions. It also provided one of the focuses for the monthly meetings of our multi-stakeholder coalition for an IPCF that were regularly attended by more than 100 participants, with representatives from financial institutions, policymakers, civil society, thinktanks, academics and climate campaigners.

Outcome

Reform of the international financial architecture was a key element of the policy debate at COP26. In particular, the Glasgow Financial Alliance for Net Zero (GFANZ), the collective of financial institution net-zero coalitions co-convened by Mark Carney and the High Level Champions that represent 450 institutions with over $130 trillion of assets under management, published two documents with considerable alignment to our white paper. First, the policy advocacy workstream of GFANZ published a call to action that included proposals to take forward proposals for reform of the international financial architecture through the G20 Sustainable Finance Working Group. And second, GFANZ chair Mark Carney published a paper setting out proposals for a series of country platforms to mobilise finance for developing countries and emerging markets.

AVIVA INVESTORS

MARKET REFORM CASE STUDY

Finance steps up at COP26

(Global)

E S G

Issue

The global financial system is part of the problem. If the status quo continues, we will finance our own destruction. Business as usual has taken us to the precipice of 1.5 degrees and threatens to take us far beyond that to levels of warming that threaten civilisation. 1.5 degrees is not just a slogan or an arbitrary target, it is what the most comprehensive set of reviews by the world's leading climate scientists tell us is a tipping point, beyond which we may not be able to limit the level of warming our way of life imposes on the planet, nor return to safer levels within the span of human existence. With the effects of 1.2 degrees already being felt around the world, it is important to remember 1.5 degrees is not a "safe" level of warming, but the lowest plausible level we can still (just about) limit warming to, and also will avoid the exponentially worse impacts of climate change that each tenth of a degree beyond it inflicts. In other words, it is the least-worst of some terrible options.

At COP26, as well as governments stepping up, finance needed to do so as well. With a thematic "finance day" set aside in the first week of the conference for a focus on action, there was pressure to ensure meaningful commitments.

Action

In the run up to COP26, many finance actors were thinking about what their pledges, commitments or role might be. As an entity that has been at the forefront of sustainable finance campaigning for several decades, we were hoping to see some of the causes we have supported and advocated for action for a long time taking meaningful steps forward. Although it remains to be seen whether COP26 can be judged a success, promises must be kept and talk turned into action; to that end, finance day felt like a quantum leap forward.

Outcome

One of the headline announcements was the initial report of progress by the Glasgow Financial Alliance for Net Zero or "GFANZ". Co-convened by Mark Carney and UN High-Level Climate Champion Nigel Topping, GFANZ brought together 450 financial firms committed to net zero on or before 2050, with science-based interim targets and over $130 trillion in assets under management. As an umbrella grouping for sectoral net zero alliances like the Net Zero Asset Owner Alliance, Net Zero Asset Managers Alliance, Net Zero Banking Alliance and Net Zero Insurance Alliance under the criteria set by the High-Level Champions' Race to Zero, there are clear parallels between GFANZ and the Glasgow Financial Accord. We advocated for these at the start of 2021 to bring together the Race to Zero financial groupings and set out how they would align with the Paris Agreement[22]. We are delighted at its creation and privileged to play a role in taking its work forward.

A second "mic drop" moment was the announcement by the UK Chancellor of the Exchequer, Rishi Sunak, that the UK would be the first net-zero financial centre and require mandatory transition plans from companies and financial institutions, something we called for along with WWF in a report earlier in 2021[23].

The International Financial Reporting Standards Foundation announced the formation of the International Sustainability Standards Board, with support from the International Organisation of Securities Commissioners, both of which are organisations with whom we have engaged to take forward sustainability mandates.

With the world watching, and finance attending and contributing to a COP at scale for the first time, it felt like the industry delivered. But the delivery and impact of these commitments remains to be seen, and although we were delighted to see progress on some agendas we have supported for nearly two decades, it was hard not to also reflect on what greater opportunity to tackle climate change there might have been had action at this scale been taken two decades ago given the extent to which emissions have accelerated and carbon budgets been depleted in that time. It is time to turn that talk into action. We are ready to play our part.

22. Policies and documents – Aviva Investors.

23. https://www.aviva.com/content/dam/aviva-corporate/documents/sustainability/communities/transition-plans-for-a-net-zero-future.pdf.

MARKET REFORM CASE STUDY

Recognising antimicrobial resistance as a market failure

(Global)

E S G

Issue

The “silent pandemic” of antimicrobial resistance is a health crisis with huge potential financial implications. A Lancet study estimates that 4.95 million deaths were associated with bacterial antimicrobial resistance (AMR) in 2019, including 1.27 million deaths directly attributable[24], figures that the 2019 Review on AMR estimated could rise to ten million per year by 2050.[25] The risks of AMR are not equally spread throughout society or the globe, with the poorest most at risk. AMR exacerbates existing social crises as a lack of clean water and sanitation and inadequate infection control promote the spread of microbes, some of which can be resistant to antibiotics. This is before access to medicines, increased hospitalisation with longer admissions and increasing treatment costs are considered.

The financial impacts of AMR are catastrophic. The O’Neill review in 2014 estimated the continued rise of resistance to cost 2-3.5 per cent of global GDP – a $100 trillion impact. The COVID-19 pandemic has brought into sharp reality the impact a global health crisis can have on economies and society when infections cannot be controlled.

Action

In 2020, we were proud to be a founder member of the coalition for Investor Action on AMR. Each member makes a pledge of the action they will take to help to tackle the threat of AMR. Our pledge is to raise awareness on AMR as a market failure and engage with policymakers on AMR funding and regulation to correct this, as well as continuing to highlight its materiality on investments.

In 2021, with the UK chairing the G7, we were able to support the work of the UK Special Envoy on Antimicrobial Resistance, Dame Sally Davies, in highlighting the need to tackle AMR – not only in the meetings of the health ministers of the G7, but also to work with finance ministers to tackle the financial impacts of AMR and seek corrections of the market failures that exacerbate and perpetuate it. We led the response of the coalition Investor Action on AMR, along with convening partner FAIRR.

Outcome

In December 2021, after the last round of finance meetings, the ministers released a **G7 statement** on actions to support antibiotic development. The statement acknowledged the role market failures play in contributing to the lack of development of new antibiotics and the need for appropriate stewardship to protect their effectiveness. The Investor Action on **AMR response** warmly welcomed the G7’s statement and called for ongoing work within the G7 to continue to address AMR and its impacts.

24. https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)02724-0/fulltext.
25. https://amr-review.org/sites/default/files/160525_Final%20paper_with%20cover.pdf.

AVIVA INVESTORS

MARKET REFORM CASE STUDY

Sovereign engagement on climate risk management

(Global)

E S G

Issue

As long-term investors in sovereign debt, we have a vested interest in encouraging prudent climate change risk management. As is the case across asset classes, mitigation of climate change and other sustainability risks are aligned with the financial case for investment in our sovereign debt holdings. Climate change poses material physical, transition and liability risks to every country, albeit differentiated according to individual circumstances. As well as evaluating climate and other material risks as part of the investment process, by undertaking stewardship activity and engagement with sovereign issuers, we can promote the well-functioning of sovereign debt markets, as well mitigating the climate-related risks of our investments.

Action

Led by the portfolio managers of our sovereign and emerging-market debt funds, in February 2021, for the first time we wrote to the finance ministers and central bank governors of 21 countries to raise the importance of action on climate change. In particular, we addressed the need for enhanced climate action to form part of the ongoing response to the COVID-19 pandemic, our support for the achievement of the goals of the Paris Agreement and the need for countries to enhance their climate commitments through updated Nationally Determined Contributions (NDCs) at COP26 in Glasgow and to use the opportunities of the G7 and G20 summits to align financial flows with Paris. Where ministers were not already members of the Coalition of Finance Ministers for Climate Action[26] or their central bank governor was not a participant in the Network for Greening the Financial System[27], we encouraged them to join these groups on the basis shared best practice and dialogue on tackling climate change risk is a key means to understand and implement appropriate national strategies.

Outcome

Our ESG and investment teams followed up on these priorities at every opportunity, raising them at investor roadshows and through outreach to individual issuers. After sending the letters, our ESG and investment teams conducted 12 sovereign engagements. Our engagement contributed to a series of positive developments, including the aforementioned **Ukraine case study**. Over the course of the year, most countries we engaged with submitted stronger NDCs, three ministries of finance joined the Coalition and four central banks joined NGFS. These actions put sovereign debt issuers in stronger positions to mitigate and adapt to climate change, to the benefit of our investments, their citizens and the planet.

26. https://www.financeministersforclimate.org/.
27. https://www.ngfs.net/en.

2.5

PURPOSE AND GOVERNANCE

Review and assurance

AVIVA INVESTORS

Review and assurance

Aviva Investors and the Aviva Group have a market-leading risk and controls framework, encompassing first, second and third line functions as well as having external assurance. We rely upon this framework to provide assurance and oversight of the robustness of our stewardship activities. We describe our risk and controls framework in further detail in this section. We also set out some of the highlights of particular relevance to our stewardship activities.

The Aviva Investors risk and controls framework

The framework encompasses a combination of strategies, policies, culture, governance arrangements, tools and reporting procedures.

All employees are responsible for the identification, measuring, managing, monitoring and reporting on the risks to which Aviva Investors is, or could be, exposed to, whilst achieving its strategic objectives. Appropriate controls are developed and embedded to adequately meet business strategic goals and to minimise current and future risk to an acceptable risk exposure level.

Second line consists of risk and compliance functions (directly reporting to the CRO), who act as a partner to the business and whose core purpose is to independently challenge, advise and guide the business in the delivery of its strategy and plans, whilst safeguarding its customers and shareholders.

The CRO function promotes and monitors the embedding of a strong risk and control culture, fully supported by robust frameworks and supporting policies.

A key part of our risk and control framework is the completion of independent second-line reviews. Such reviews are conducted by assessing the design and completeness of key controls that are in place and will also cover thematic areas informed by the risk-based compliance monitoring programme.

Model risk management framework

There is increasing emphasis on model risk management by the PRA and FCA, which has led to the deployment of a firm-wide model risk management framework for managing models risks. This framework defines what a model is and is supported by documented evidence outlining where model risk exists across the business. There is an inventory of models in place, with each model being supported by additional documentation outlining principles such as: purpose, scope, calculations, methodologies, responsibilities, and the output generated from each model. The model inventory is owned by the first line and is subjected to an annual review and challenge process by the second line as part of their annual due diligence review process.

Aviva Investors uses models to price assets (that do not have a readily available market price), calculate capital required for ICAAP, assess the investment risk inherent in assets, and assist in processes such as asset allocation, portfolio construction and performance attribution.

Review and assurance (cont'd.)

Within Aviva Investors there are specific ESG models which are integral to the investment process. Sustainability is a concept that has developed exponentially as it receives increased focus across the world, and this means the data available to investment managers is also rapidly evolving. Our ESG models are dynamic and continually evolving as the supporting data, skills and technical capabilities develop. The models aim to provide ESG insights from a top-down broad market perspective, and ultimately to support portfolio managers in investment performance.

The outputs of the models are used by the investment team for ESG stock analysis, ESG risk indicators, ESG benchmark optimisation (for specific fund ranges) and client reporting.

Voting and engagement activities

There is a dedicated team responsible for conducting stewardship activities for our clients' investments; exercising proxy voting rights and engaging with investee assets, borrowers and companies to protect long-term shareholder value, as well as excluding investments depending on client ethical and ESG preferences.

A review of the Aviva Investors global voting policy is undertaken on an annual basis to ensure the policy and supporting statements are complete and accurate and they have been formally reviewed and approved. Any changes to policies and related statements are assessed to ensure that the supporting set of controls remain complete and accurate.

The following controls are formally documented as part of Aviva Investors' risk and controls framework in place and support our ongoing adherence to the stewardship principles.

These controls ensure that prior to AGMs/EGMs, proxy voting instructions are generated, recorded and carried out accurately and in a timely manner:

- Maintaining a record of all resolutions from company meetings, together with a record of how Aviva Investors voted at each company meeting.
- The identification and logging of any potential and upcoming contentious company meetings. These are scrutinised to ensure, where deemed applicable, that Aviva Investors' views are expressed via using our full voting rights. This may mean shares that have been out on loan are recalled to ensure full voting rights are exercised.

External assurance

We have frequently (since inception) obtained external assurance of the stewardship policies and practices that support the UK Stewardship Code to ensure the continuous improvement of our stewardship policies and processes.

AVIVA INVESTORS

3

Investment approach

3.1

INVESTMENT APPROACH

Client and beneficiary needs

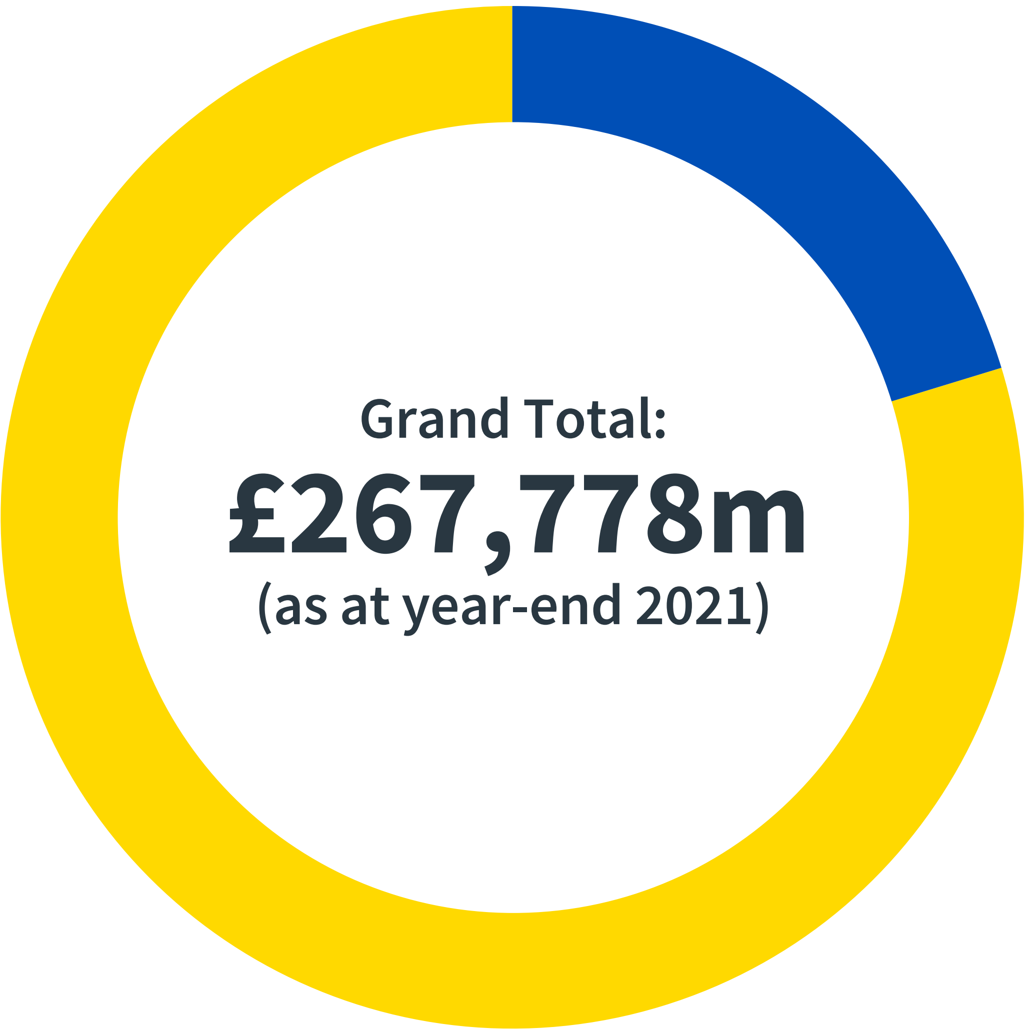
Responding to our clients' needs

Aviva Investors manages more than £267 billion of assets for institutional and retail clients around the world, with nearly 80 per cent of this for Aviva companies. The tables below contain figures giving an overview of our client base, as at year-end 2021.

Internal vs external

External	£54,913m
Internal	£212,865m
Total	**£267,778m**

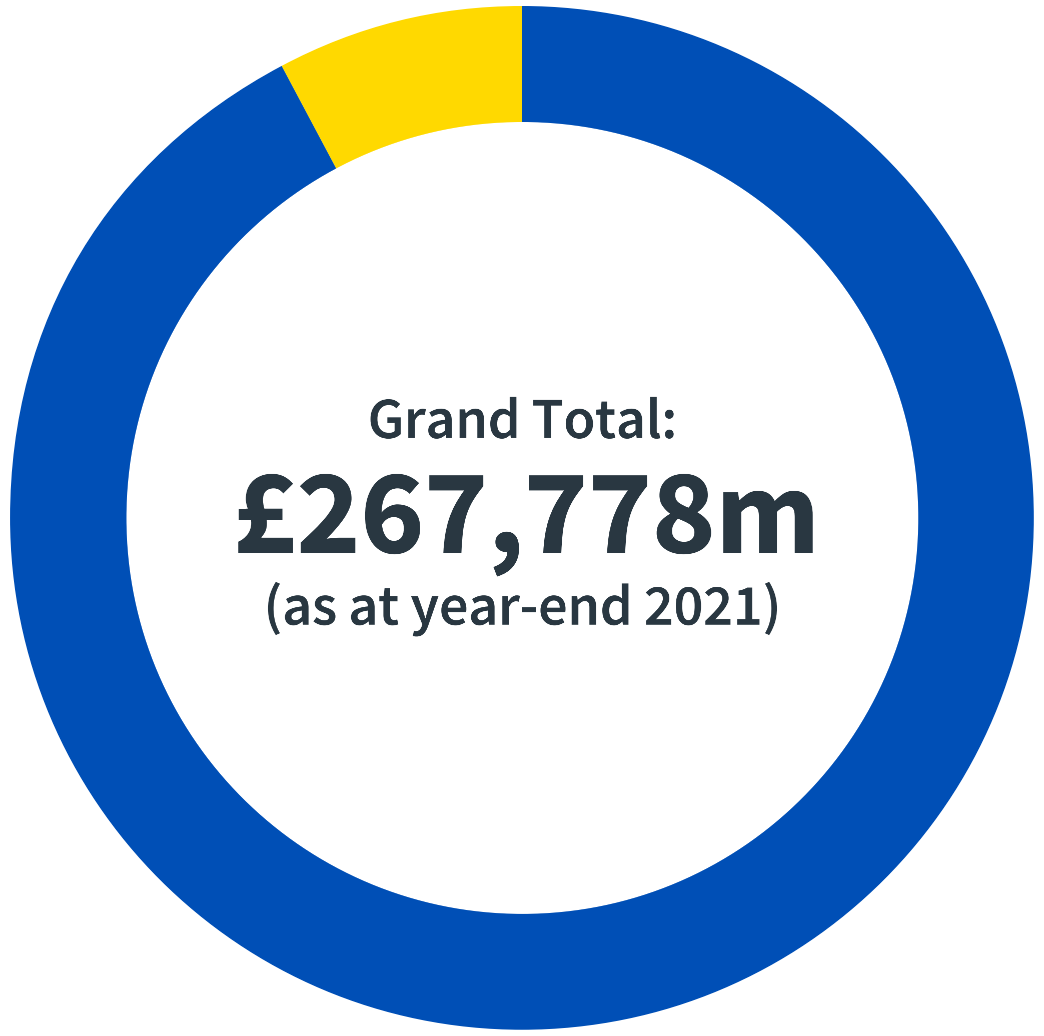
Source: Aviva Investors.



Institutional vs retail

Institutional	£247,517m
Retail	£20,261m
Total	**£267,778m**

Source: Aviva Investors.



We recognise communication plays a critical role in effective stewardship, both consulting with clients on their preferences and outcomes sought, and reporting back on how their investments are contributing to achieving these. Professional clients' views are sought through ongoing communication; this has been enhanced with a more systematic capture of ESG preferences through a questionnaire built into our client relationship system, which then feeds into the development of products and client reporting. We have also integrated ESG metrics into the majority of our client reporting, supported by external input and targeted client consultation and will continue to roll this out, in due course, across all reporting.

Defined contribution pension schemes are an important client group for Aviva Investors through our parent Aviva, and we are currently trialling a solution with Aviva to give scheme members visibility of the companies they are invested in and outcomes on key voting matters. It also lets clients be part of the voting and engagement process by letting them indicate their voting preferences on the tool. Having conducted the first pilot with successful feedback in 2019, in 2020 we secured funding for a larger pilot with more clients, which was launched in Q1 2021. In June 2021, we extended our pilot for a further 12 months.

We have also integrated ESG metrics into the majority of our client reporting, supported by external input and targeted client consultation

Responding to our clients' needs (cont'd.)

Gathering client preferences

It is our duty to be responsible, long-term stewards of our clients' assets. The views and preferences of our clients on ethics and sustainability are central to fulfilling this duty.

We seek the ESG views of our clients through the course of engagement with a guided questionnaire. ESG client preferences are recorded through our relationship management tool with dashboard reporting capabilities. These preferences feed through into product development and reviews to ensure we can deliver sustainable outcomes consistent with client preferences.

Our professional clients' views are obtained on the following:

- Whether or not they wish to address specific sustainability themes or issues through their investments.
- Which sustainability themes are most important to them, linking these preferences to the UN Sustainable Development Goals.
- Whether and how they wish to obtain higher ESG credentials than the relevant benchmark (for example, by increasing exposure to high ESG performers).
- Whether our baseline exclusion policy meets their expectations and if there are other screens or exclusions they want to implement.
- Their preferences around any labels for products, such as the French Label ISR or the LuxFLAG label.

As well as understanding their objectives and needs, obtaining their views on ESG is embedded within all client engagement and relationship management activities. Understanding our clients' ESG preferences helps us provide them with suitable investment solutions to meet their ethical and sustainability needs.

In future, regulatory obligations under MiFID II will require asset managers and their partners to obtain clients' sustainability preferences. This is being embedded within our processes. However, to ensure we deliver the outcomes our clients desire, it is paramount they and our partners understand what is being asked. We are committed to helping them navigate the plethora of ESG terms and approaches to sustainability in the market.

Finally, we also understand communication in the context of effective stewardship goes beyond individual clients and their assets and extends to wider education on ESG matters with clients to help inform their thinking. The ESG Academy, initially targeted at UK advisers, is an example of this.

Communicating with clients

In 2021, there was unprecedented public concern about the environment, and climate change in particular, with a November Ipsos-MORI poll finding these the British public's biggest single concern, which was at its highest level in the 35-year history of the Ipsos-MORI Issues Index.

As an asset manager, we are conscious that although there may be a chain of intermediates involved, we ultimately manage money for individuals and need to consider their concerns. It is therefore an essential part of our role to communicate to all our clients – institutional, wholesale or retail – what we are doing on issues important to them and help them understand the complexities involved.

With the UK hosting the UN Climate Conference COP26 in Glasgow in November, we used a variety of different media to share information with clients about our priorities and what the talks might mean for them.

In conjunction with Aviva plc, and over 40 members of the Coalition for an International Platform for Climate Finance, we published a full-page advertorial in the *Financial Times* and *The Guardian* during the first week of COP26. Under the headline "Climate change is the biggest market failure in history", we called on governments to take steps to correct it, including through pricing carbon, creating a global financial net-zero strategy, mobilising finance for climate through the creation of the IPCF, and inclusion of private finance in the UN's global stocktake. The ad was well received and drew attention inside and outside the conference.

We also communicated directly with clients about the importance of the COP26 talks, with a piece highlighting the *same four policy*[28] asks that featured in the *FT* ad sent to clients before COP began, and a *second piece*[29] immediately after COP outlining the progress made and why it was important. The noise around climate change is almost deafening, meaning any communications need to be tailored to individual audiences and creative enough to stand out. With this in mind, we set out to produce content we felt would resonate with our audience on a more emotive level.

As part of a broader campaign showcasing our credentials in climate-related ESG, we commissioned a piece of music with the Scottish Chamber Orchestra called *Symbiosis*, which received its world premiere via a video screening at an event at COP26 that we hosted with WWF and Make My Money Matter. At the same event, we also screened the award-winning film ***"Our Planet: Too Big to Fail"*** that we contributed to the creation of with WWF. Three colleagues wrote a visual book called *Against our nature: A hitchhiker's guide to the climate crisis.* The music aims to connect listeners to the challenge at hand, filling in the gaping silence where words somehow fail to convey what is at stake and what it all means. The book takes a slightly irreverent look at the interplay between climate change and psychology, pointing out the behavioural quirks we all fall prey to. Both were produced to stir people into action. After all, everyone has a role to play in tackling the climate emergency.

The noise around climate change is almost deafening, meaning any communications need to be tailored to individual audiences and creative enough to stand out. With this in mind, we set out to produce content we felt would resonate with our audience on a more emotive level

28. Our four asks of policymakers at COP26 - Aviva Investors.
29. www.avivainvestors.com/en-gb/views/aiq-investment-thinking/2021/11/cop26-reflections/.

Communicating with clients (cont'd.)

Experimenting with technology to connect with customers

Member understanding and engagement are important if we are to help pension scheme beneficiaries secure the best possible retirement and understand the impact their investments have on the world around them.

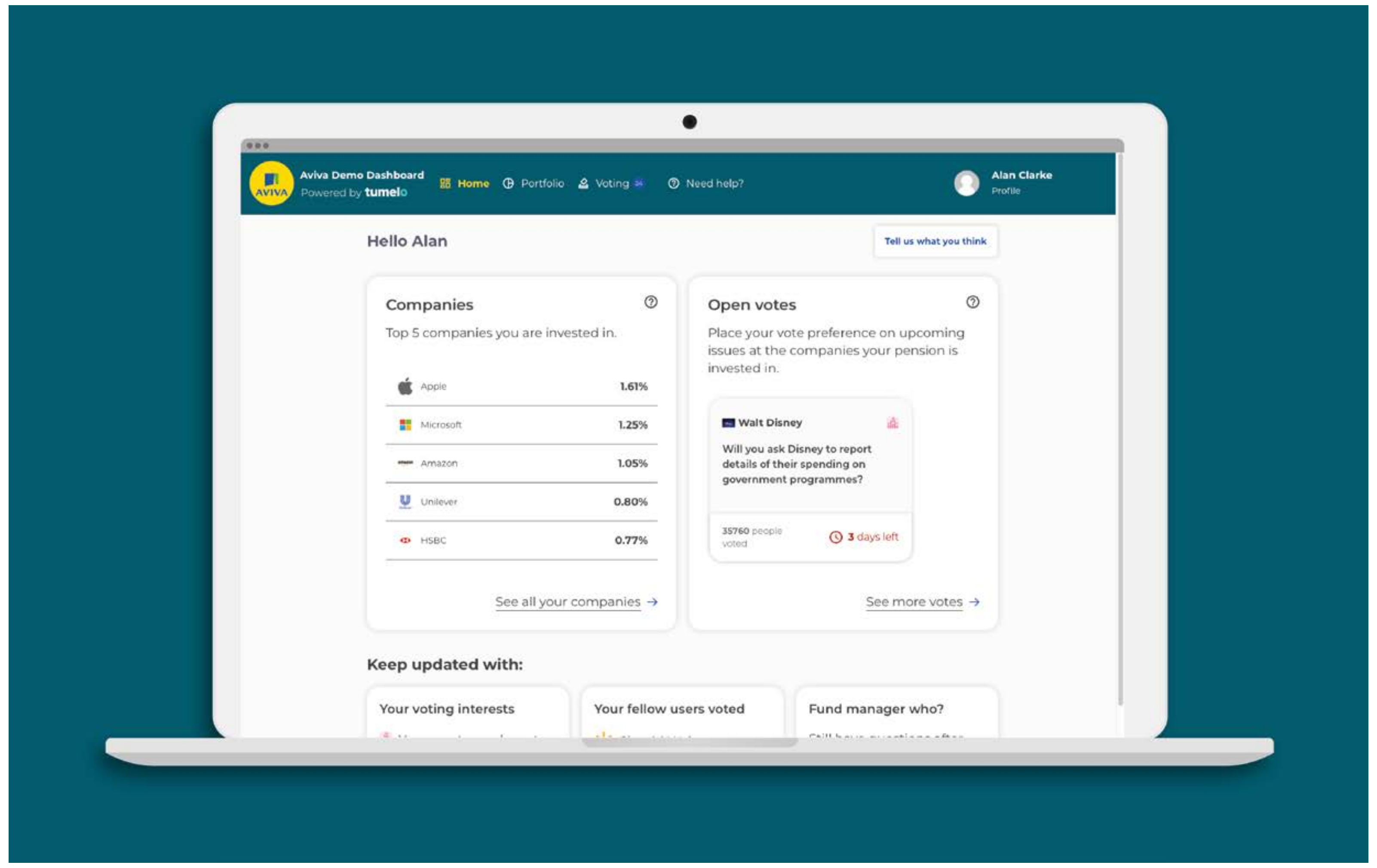
To that end, we have extended our pilot with the start-up Tumelo for a further 12 months until June 2022. This will give even more members visibility of the companies they are invested in through their employer pension scheme, as well as more opportunity to have a voice on ESG issues ahead of shareholder meetings. The outcome of this pilot will determine whether we expand this capability.

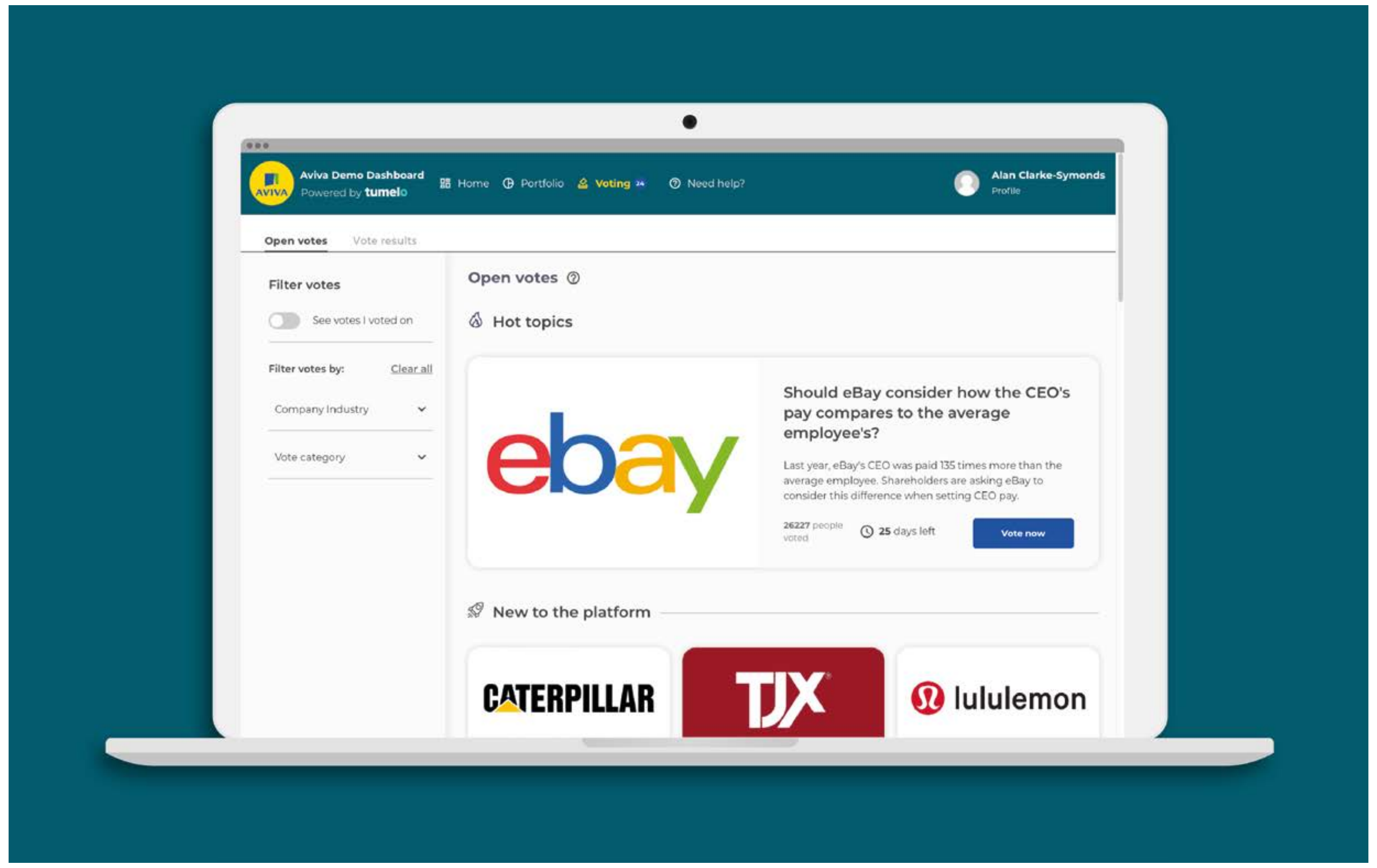
As well as helping to connect end beneficiaries with their money, Tumelo proposes to help connect our stewardship and fund management teams with insights into the priorities and values of our customers. This helps us represent their voices in the way we manage their money.

On the Tumelo dashboard, pension scheme members can see their fund holdings and upcoming shareholder resolutions and are able to drill down into areas of specific interest (for example, biodiversity or climate change).

The preferences members give through the platform are aggregated across the employee population and all investors before being shared with our stewardship and fund manager teams. This helps these teams get the insight they need before applying their own expertise to make a well-rounded decision.

The results of those decisions are played back to scheme members, often with an explanation so they can feel the impact their money is having on communities and the environment around them, as well as the businesses they are invested in.



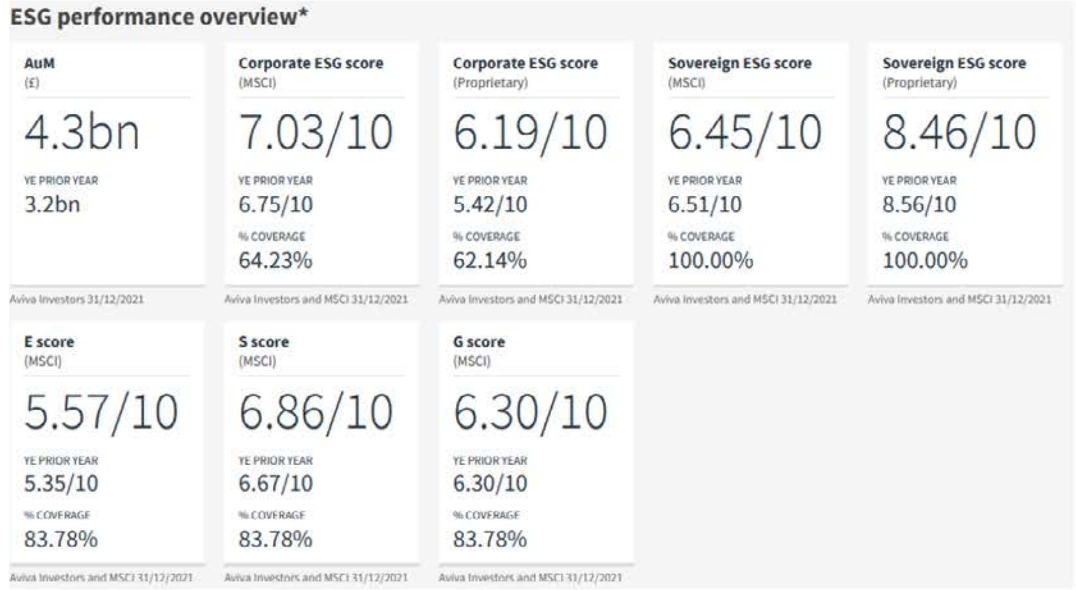


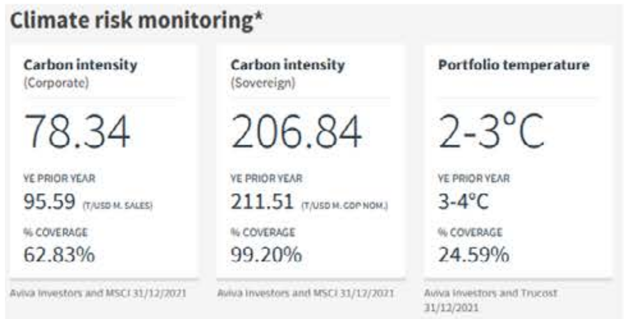
Communicating with clients (cont'd.)

Client reporting

2021 saw us further evidence our ethos of integrating ESG into the investment process, by continuing to roll-out the embedding of ESG reporting as standard within quarterly investment reports to ensure a cohesive story. ESG client reports may differ across strategies and may not be available for all products. The ESG section of the report is divided as follows:

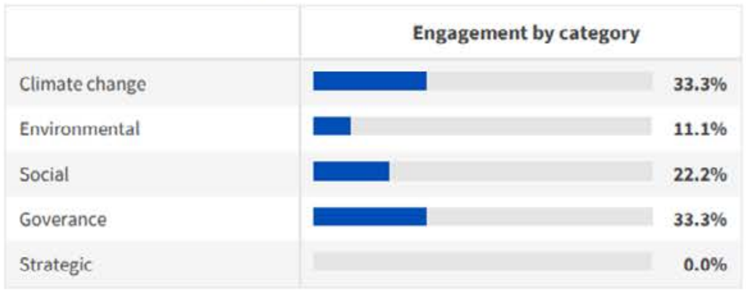
- Overall ESG assessment – In-house and MSCI portfolio and benchmark scores (with further analysis and development planned in 2022).
- Environment assessment – Focus on specific ESG metrics relating to the mandate, including carbon intensity, portfolio warming potential and water intensity.
- Active engagement and case studies – Voting (if relevant) and active engagement to the portfolio. Case studies provide examples on how Aviva Investors has engaged on behalf of the investor and the resulting outcomes.
- Each section provides a high-level overview, with more information available if required, including timeseries data and more granular breakdowns. Focusing on active engagement and case studies, we provide an overview of portfolio-specific voting along with a breakdown of where we didn't vote with management. Finally, engagement activity on behalf of the strategy is captured, based upon a proprietary view of sector ESG materiality. This gives clients insight and the ability to hold the manager to account, ensuring engagement is in areas that have the greatest impact. A brief summary of each engagement is provided, which will be expanded in the case studies if appropriate.
- Towards the end of 2021, we continued to develop our offering in response to regulatory change affecting our clients and industry guidance, e.g. TCFD, Investment Consultants Sustainability Working Group (ICSWG), to ensure we are aligned to our client's needs. We will remain focused as such in 2022.





Engagement by category

Aviva Investors categorises engagements as relating to Climate Change, Environmental, Social, Governance or Strategy.



Source: Aviva Investors, as of 31/12/2021.

Voting activity by issue

	Total number of resolutions	Votes against management
Non-Executive Directors	147	46%
Auditors	28	29%
Remuneration Report	23	83%
Executive Directors	22	36%
Articles of Association	14	21%
Remuneration-related	11	0%
Approval of / amendments to Incentive Schemes	10	60%
Share issues without pre-emptive rights	10	0%
Dividend approval/Distribution of profits	9	0%
Related party transactions	8	13%
Shareholder Resolution - Governance	6	100%
Board/Committee related	4	0%
Report and Accounts	4	0%
Share Buybacks	4	0%
Share Issues (general)	4	0%
Transact any other business	2	100%
Charitable donations	2	0%
Meeting formalities	2	0%
Name change	2	0%
Political Donations	2	0%
Statutory Auditor (outside/non exec)	2	0%
Remuneration Policy (binding)	1	100%
Total	**317**	**38%**

Total number of meetings: 26

Summary of latest engagements

Theme	Company	Sector	Engagement theme	Engagement summary
E	HSBC HOLDINGS PLC	Finance	Remuneration	We met with HSBC to discuss the new Executive Remuneration Policy for 2022.
E	HSBC HOLDINGS PLC	Finance	Climate change & energy	HSBC Sustainability Roadshow: Engagement with new Group Chief Sustainability Officer surrounding ESG integration within HSBC and how culture is being changed as a result.
E	EQUINOR ASA	Foreign	Climate change & energy;Human Rights;Political donations	We held a call with the company's CFO to discuss its climate strategy.
E	ORANGE SA	Communications	Board composition and non-exec issues	In light of the CEO resigning, we emailed the company to further engage on succession planning.
E	COMCAST CORPORATION	Communications	Climate change & energy;Cyber security;Diversity;Board composition and non-exec issues	This one-to-one call with Comcast focused on the company's climate change strategy and targets.

Source: Aviva Investors, as at 31/12/2021. For the period 01/10/2021 to 31/12/2021. If more than ten engagements in the quarter, selection criteria will be based on largest weighted holdings in the portfolio.

Meeting the changing needs of our clients

Investors are increasingly demanding investment products that help solve the challenges they care about most. From tackling climate change to addressing social inequality, this trend can be seen across all channels, from large institutional clients to retail investors. Exemplifying this change, in recent research Make My Money Matter found 68 per cent of UK savers want their investments to consider people and planet alongside profit.[30]

In line with the above, we are committed to delivering solutions to meet the changing needs of our clients. Aligned with the UN Sustainable Development Goals, we have identified three sustainable outcomes we want to deliver to create a more sustainable future for people, earth and climate.

These are orientated around three of the greatest sustainability challenges of our time: climate change, biodiversity loss and social inequality. These challenges are systemic in nature: they are big, complicated and interlinked. They are also cross-border, cross-sector and multi-year issues that will not be solved in the short term.

To tackle these systemic challenges, we need transformational change. We can't simply invest in just one way through excluding bad companies or investing only in the firms that today are perfect – that will not solve the problem. To deliver sustainable outcomes, we need to address the problems in a holistic manner through multiple angles to be more confident we can drive the change needed. To do that, we must clearly identify the outcomes we want, the barriers in the way of us getting there and the transition that will help tackle these barriers so that we can deliver the outcome.

Our sustainable outcomes approach

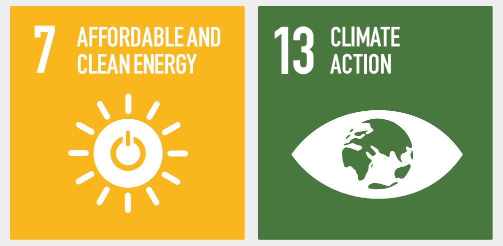
People

Transition
Respect human rights
Promote decent work
Responsible corporate behaviour

Solutions
Access to education
Access to health
Access to finance

Earth

Transition and Solutions
Circular economy
Sustainable land
Sustainable ocean
Climate change



Climate

Transition
Understand climate risk
Decarbonise value chain
Adapt to physical risks

Solutions
Adaptation
Mitigation

30. www.iea.org/reports/global-energy-review-2021?mode=overview.

Meeting the changing needs of our clients (cont'd.)

Our investment approach consists of three elements

1. We exclude companies causing significant harm to our sustainable outcomes.
2. We invest in solution providers: innovative firms with products and services that directly tackle the sustainability challenges we face.
3. It is our belief that all firms in all sectors and geographies are impacted by – and have an impact on – the sustainable outcomes we want to deliver. If we want to live in a more sustainable world, all companies must change the way they operate. Therefore, we must use an approach that helps drive the transition to a sustainable future through changing existing companies' behaviour over time. Investing in solution providers alone does not go far enough. Using our proprietary transition risk (T-Risk) models, we can identify firms we believe are capable of transitioning their business models to manage their sustainability impacts and, therefore, those most likely to be the winners of tomorrow. Ultimately, this approach increases the investment universe and, with it, the opportunity to have the greatest possible impact alongside the ability to generate alpha for investors.

In applying our investment approach consistently across people, earth and climate, as well as across different asset classes, we seek to offer our clients a suite of products to meet their different needs. In 2021, we expanded our sustainable outcomes approach across asset classes.

Underpinning the development of this suite is the fundamental belief we can have a positive impact on the planet and society, at the same time as delivering returns for our clients. In our view the two are aligned; this is what we call "profit with purpose". This belief in generating profit with purpose extends not only to allocating capital to firms in transition and those providing solutions, but also to our active ownership and market reform activity. Engagement and policy reform are vital components in driving change at the micro and macro levels. In this way, our clients can achieve real world impact through their portfolio and beyond.

Please note this investment approach applies across our asset classes, but important to note this is not binding on investment decision making, unless indicated otherwise in the specific fund documentation or Investment Management Agreement.

3.2

INVESTMENT APPROACH

Stewardship, investment and ESG integration

AVIVA INVESTORS

Stewardship, investment and ESG integration

ESG integration across all asset classes

Responsible investing is a driving force across our £267 billion of assets under management.

We take seriously our duty to act as a trusted agent of our clients' assets, and endeavour to protect, maintain and grow the long-term value of their investments. Consistent with those obligations, we maintain a deep conviction that environmental, social and governance (ESG) factors will have a material impact on investment returns and client outcomes. This is why we integrate ESG factors into investment analysis and the investment decision-making process.

As we outline above, our approach is set out in our firm-wide responsible investment philosophy and our ESG policies,[31] which explain how this is implemented for each asset class.

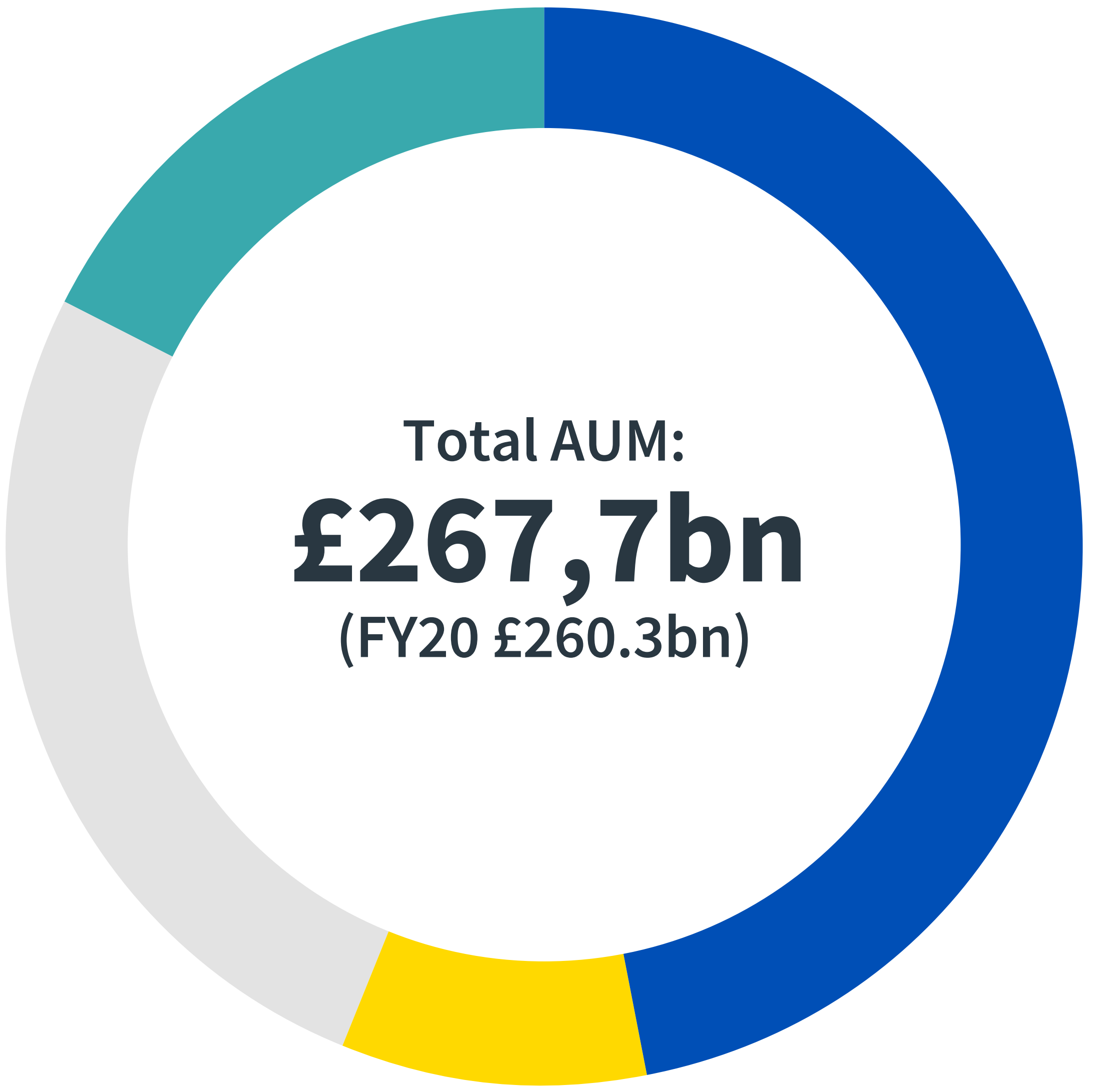
Our commitments are also embedded into our internal controls and are subject to robust challenge from the firm's control functions.

Investment processes are supported by a robust ESG knowledge platform, enabling a richly informed and holistic ESG investment approach across all funds.

Our sustainable outcomes research, ESG research and stewardship teams are embedded within the investment function, which ensures close collaboration with our investment professionals, sharing of ideas and alignment to our investment coverage of corporates and sovereigns.

Assets under management

The chart below shows a breakdown of assets under management (AUM) by asset class and geography, as at year-end 2021. This is intended to provide context to the more detailed description of our integration approach across different asset classes in the pages that follow.



Source: Aviva Investors.

Fund manager location

Credit	**£125.9bn**	**47%**
Canada		5%
Singapore		3%
UK		88%
USA		4%
Equity	**£24.5bn**	**9%**
France		2%
UK		88%
USA		10%
Multi-asset	**£70.6bn**	**26%**
UK		98%
USA		2%
Real Assets	**£46.7bn**	**17%**
France		1%
UK		99%
Grand Total	**£267.7bn**	

31. https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/.

Beyond any applicable binding criteria, our portfolio managers are empowered to make the right decision for the best client outcome, supported by our ESG capability that is integrated into our investment franchise via specialist teams.

Pillars of integration

The systematic integration of ESG into our investment processes, as outlined above, is underpinned by a four-pillar framework that is robustly embedded whilst enabling the customisation needs of asset classes and strategies.

1 Research

2 Connectivity

3 Portfolio construction

4 Evaluate and monitor

Systematic framework flowing through investment processes and delivering outcomes

1 Research: Investment teams are required to evidence usage of quantitative inputs such as ESG ratings and analytics, alongside integrating qualitative ESG considerations in research notes and company meetings.

2 Connectivity: Investment teams interact with the ESG team within their investment forums such as liquid markets morning meetings and strategy specific investment forums. These regular touch points ensure current ESG trends and issuer-specific views and engagements are highlighted in a timely manner, as part of the investment decisions. ESG inputs also include macro and thematic views, which feed into quarterly House View sessions and idea generation forums. In addition, the ESG team delivers training quarterly to the investment teams to keep them abreast of market themes and developments, internal projects and regulatory updates.

3 Portfolio construction: Stock selection and portfolio construction is informed by ESG data and research, and subject to our ESG restrictions such as our Baseline Exclusion Policy.

4 Evaluate and monitor: Quarterly ESG reviews are run for each strategy, tracking progress of the portfolio's ESG profile, active ownership and ESG risks, with recommendations for improvement. Portfolio case studies are provided periodically to show how ESG integration has affected portfolio decision making, with asset class investment directors providing quality assurance. Respective asset class investment processes and controls underpin the delivery of this framework, providing first-line integration controls, with investment risk a second-line review process.

Beyond any applicable binding criteria, our portfolio managers are empowered to make the right decision for the best client outcome, supported by our ESG capability that is integrated into our investment franchise via specialist teams.

Aviva Investors' ESG corporate research

Targeted qualitative and quantitative ESG research is produced and integrated into investment processes at a macro, thematic, sector, industry, company and security level. For example, our sustainable outcomes team produces top-down thematic research on three core sustainability issues, climate, people and earth. This is complemented by bottom-up company and industry analysis by our ESG corporate research team, together providing portfolio managers with proprietary insight into ESG material factors at the macro and micro level.

Company reports
Company specific assessment of ESG performance (including specification of an ESG rating and momentum), engagement topics and controversies

Thematic issue briefings
Focus on emerging and material ESG trends

Industry reports
Focus on industry dynamics and provide a view on best/worst in class players on key ESG performance metrics

Quantitative ESG foundation

We believe by providing our investment teams with timely, high-quality data, we can help inform better investment decisions.

In 2021, we acquired more ESG data to provide both a broad and specific perspective to investment analysis. We built a dashboard to combine these data sets, allowing investment teams to reference and disaggregate several data points, including our own proprietary score. With the richness of the data universe expanded, our investment teams can more easily identify outliers, areas to improve ESG characteristics of portfolios, as well as insightful engagement topics.

Issuer scoring

ESG integration in equity and credit (cont'd.)

ESG integration in equity

Within our equity investment function, as well as maintaining a high standard of sustainability principles, we maintain a strong conviction that environmental, social and governance factors can lower investment risk, identify opportunities and increase investment returns. We ensure our investment professionals are equipped with the tools and techniques to use in investment analysis, as well as maintain the quality of engagement and stewardship activities.

For the purpose of adding some colour to the four-pillar integration framework introduced above, we will aim to illustrate "research" and "connect" through the equity sector hubs. The fact that ESG analysts' sector coverage is aligned to the liquid markets' sector coverage model enables strong collaboration. The equity analysts and ESG analysts work collaboratively within their sector hub to discuss sector trends and holistic company performance. This results in fully integrated equity research notes and jointly hosted engagement meetings with companies.

ESG integration in credit

Whilst integration in credit follows similarly our ESG philosophy, underpinned by a collaborative mindset, we highlight how portfolio construction and "evaluate and monitor" are applied for credit asset classes. Given the diversity in strategies within our credit portfolio, and the characteristics of credit compared to equities (limited availability of ESG information, ownership considerations and focus on downside risk, to name a few) we have established a bespoke "credit partnership" process. The partnership model ensures ESG integration through a combination of contact points between the ESG corporate research team and portfolio managers, and regular ESG reviews tailored to each of the credit desks' investment process, with considerations of time horizon, regional and sector exposure embedded in the ESG assessment of the fund. Our focus on thematic research is also a key input to these reviews. We have established and refined the partnership model for our investment grade and high yield desks, and launched the process for other desks with the aim to have them refined in 2022.

Company names shown are informational and not recommendations to buy or sell.

INTEGRATION CASE STUDY

Calling for ESG integration

8 DECENT WORK AND ECONOMIC GROWTH | 13 CLIMATE ACTION

B&M European Value Retail (United Kingdom)

E S G

Issue

We have maintained multi-year engagement with B&M. While the company has made some improvements since our initial dialogue in 2019, particularly on labour relations, we have seen slow overall progress across ESG themes. We engaged again with B&M in early 2021, communicating our expectations for the company to exhibit greater commitment to sustainability as part of its growth strategy; specifically, to set science-based targets, establish a sustainability team and improve supply chain mapping and disclosure. These requests were part of an escalation strategy.

Action

We met with B&M's CEO in November to assess progress and reiterate our requests. B&M said it intends to disclose absolute carbon emissions targets in Q2 2022; and the targets will be SBTi accredited.

Outcome

We commend this step by B&M; however, we were not sufficiently reassured there is momentum behind forming a sustainability team nor improving the company's supply chain mapping, both important signs of ESG integration at the corporate level. While this is disappointing, we appreciate B&M's responsiveness to our concerns on emissions and will continue to engage with the company as we monitor developments against our outstanding asks in 2022.

INTEGRATION CASE STUDY

Equity integration

Allegion (Ireland)

E S G

Issue

Through our ongoing sustainable outcomes analysis, we conducted a deep dive analysis of Allegion across the fundamentals of the business and ESG.

Action

Initially, our ESG analysts carried out a full assessment of Allegion across all three pillars: environment (including climate change); social; and governance. This was predominantly based on Allegion's public disclosures, including corporate disclosures and CDP. This analysis confirmed Allegion supports a positive climate solutions theme through its provision of products, including smart locks which support the energy efficiency of buildings.

The assessment overall rated the company "neutral" with stable momentum from an ESG perspective, with strong corporate governance offset by limited environmental and social disclosures. This analysis was taken a step further and integrated into the equity analysis of the company.

Our equity analysts specifically drew out financial risks stemming from the company's ESG analysis, including the lack of an internal carbon price and low-carbon-transition plan and the company's use of venture financing as an alternative to high R&D expenditure. Our equity analyst conducted a sensitivity analysis of changes to a hypothetical carbon price on the cost of goods sold and subsequent valuation impact.

Outcome

Based on our assessments, our view of Allegion was positive from an ESG perspective. Our analysis deemed the company to be a positive climate solutions provider through its manufacture of products that support and improve the energy efficiency of buildings. Furthermore, we have outlined specific areas for engagement, notably around improving environmental and climate disclosures and we will conduct this throughout 2022.

Company names shown are informational and not recommendations to buy or sell.

INTEGRATION CASE STUDY

Identifying solutions companies

Invitae (United States of America)

E S G

Issue

The company's aim is to bring genetic testing into mainstream medical practice, so it can help early detection of conditions (or the risks of developing conditions) to enable earlier and more targeted treatments. We engaged with the company to understand more about its business model, including how it supported efforts to ensure its products would be accessible to patients who are traditionally not served by medical services. We also wanted to better understand the company's approach to managing human rights risks and impacts across the value chain, given limited existing reporting on this topic.

Action

We engaged directly with the company on two occasions, including with the chief medical officer. The company was forthcoming on both its business model and efforts to increase under-served patient access to genetic testing. On the former, the company said it will continue to balance affordability with maintaining a threshold on margins in the medium term, which will allow it to subsidise new areas of research and sponsored access initiatives. On the latter, the company applies a price cap for all patients and provides a reduced price (or even free testing) for low-income patients, which is currently the lowest among peers. The company also shared details of strategies to educate patients and physicians and genetic counsellors, recognising the need to increase knowledge and capacity in the wider testing ecosystem. On wider human rights risks, the company stated it was soon to commission a human rights risk assessment of its supply chain.

Outcome

Given the company's overall approach and commitment to ensure its products are accessible and affordable for patients, the company was included as a solutions company. We were particularly encouraged by the company's commitment to maintain margins to balance access objectives, as well as its emerging focus on wider human rights impacts across the value chain (the company requested guidance and best practice examples to inform its human rights approach). We await the outcomes of the human rights assessment and the second ESG report and will continue to engage with the company.

AVIVA INVESTORS

INTEGRATION CASE STUDY

Promoting sustainability in fast fashion

ASOS and Boohoo (United Kingdom)

E S G

Issue

Fast fashion has been a growing segment in the apparel industry. However, there have been growing concerns over the environmental footprint and labour conditions of business models, as evidenced by recent findings and public controversies. These concerns have increased regulatory activity around the industry, with several initiatives on supply chain standards launched in 2021. In light of this, we assessed fast fashion companies either already held in our portfolios or under review for investment to better understand efforts to address these concerns and to reduce exposure to regulatory and reputational risk.

Action

We met with Boohoo and ASOS, two companies in the fast fashion segment, to discuss their approach to purchasing practices and supplier relations, as well as their strategy to reduce their environmental footprint. These included considerations of labour costs and living wages in supply chains, supply chain monitoring and engagement, recycled content in garments, sustainable materials, water use and chemical pollution.

Outcome

We welcomed the increased level of awareness of sustainability issues, with both companies publishing new targets on social and environmental issues. However, while we welcomed positive progress in purchasing practices by ASOS, (e.g., the mapping of tier 1, 2 and 3 suppliers, the ringfencing of labour costs and commitment to living wages), we continue to have concerns over Boohoo's purchasing practices, and are unlikely to invest in the company. Similarly, we found a higher level of commitment to water use reduction, recyclability infrastructure and recycled content by ASOS. We will continue to monitor ASOS' performance and engage with Boohoo on social and environmental issues.

INTEGRATION CASE STUDY

ESG in cruise lines

Carnival Corporation, Norwegian Cruise Line, Royal Caribbean (United States of America)

E S G

Issue

The US cruise line sector faces multiple ESG risks, including climate change, toxic emissions and waste and labour management. The COVID-19 pandemic caused the profiles of the US cruise line sector to deteriorate from both a financial and ESG perspective. Consequently, companies raised capital through the debt markets.

Action

Before we decided to participate in any credit issuance, we conducted a deep dive ESG analysis of the three top US cruise lines (Royal Caribbean, Carnival Corporation and Norwegian Cruise Line). The findings were presented at a bi-weekly global high yield meeting with ESG analysts, credit analysts and portfolio managers. We also reached out to all three companies and engaged with two, specifically the CEO of Carnival Corporation and investor relations at Norwegian Cruise Lines. This enabled us to deepen our understanding of the companies' approaches to issues including climate change, pollution prevention, corporate governance sustainability issues and response to the pandemic.

Outcome

Our analysis and engagement concluded the sector, while impacted by the pandemic, was becoming more aware of the importance of sustainability and we noted modest improving momentum. This supported our decision to participate in new credit issuances. Our engagement with the CEO of Carnival was a supportive factor in terms of allocation.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

INTEGRATION CASE STUDY

Innovative financing for Canadian TMT business

Telus (Canada)

E S G

Issue

Telus is a best-in-class telecom operator in Canada. In June, the company issued a sustainability-linked bond (SLB) with an innovative interest step-up feature related to greenhouse gas emissions.

Action

We view Telus as an ESG leader within Canada and believed management's targets were ambitious based on their historical metrics and compared to global peers. The new Telus SLB included a step-up feature that awarded bondholders an extra one per cent on their coupon if the company is unable to reduce Scope 1 and 2 greenhouse gas emissions by 46 per cent by mid-2030. Telus' environmental commitments are aligned to the Paris Agreement. Sustainalytics also provided a third-party opinion that the company's SLB framework aligns with the 2020 Sustainability-Linked Bond Principles. Our investment team analysed the bonds compared to Telus' non-sustainable bonds, as well as other sustainable bonds in Canada. In addition, the team met and engaged with management and discussed the path towards achieving its climate goals.

Outcome

Although we appreciated the interest step-up feature and the company's commitment towards reducing its carbon footprint, we ultimately did not participate in the SLB new issue as valuations appeared expensive. We believed the step-up feature did not justify the 'greenium' due to the low likelihood of that event actually occurring. We were also concerned an increase in supply from other issuers could reduce the premium associated with such SLBs in future. Nonetheless, we remain in active dialogue with Telus on a range of ESG issues and hope to see more innovative financing structures that link corporate objectives with improving ESG metrics.

Company names shown are informational and not recommendations to buy or sell.

INTEGRATION CASE STUDY

ESG integration in credit drives US oil and gas engagements

Various (United States of America)

E S G

Issue

A marked shift across the oil and gas industry has been afoot since 2020, with an increasing number of integrated majors coming forward with net-zero goals. The focus of many investors has been concentrated on a handful of European and US-based majors and justifiably so; the potential of vertically integrated energy incumbents is far greater with a view to shifting business models towards cleaner energy, bolstered by stronger balance sheets. However, this raises the question of how to engage with upstream exploration and production (E&P) as well as midstream companies whose role in the energy transition is obvious, yet more difficult to pin down.

Pure-play upstream companies have tended to lag their integrated peers in terms of target-setting and disclosures. As US shale production is expected to grow again due to increased spending in the Permian, we saw a distinct opportunity to engage with a handful of shale operators on their climate roadmaps.

Action

The ESG team contributes to weekly investment grade and high yield strategy meetings, providing insights into individual issuers and broader sector trends. As part of these regular contributions, ESG analysts provided a portfolio review based on emissions intensities and additional qualitative factors pertaining to climate risk assessments of individual names.

Antero Resources, an independent natural gas and oil company, stood out for its net-zero Scope 1 goal and relatively low MSCI score (BB). The review sparked an engagement request to the company, leveraging the credit analyst's existing relationship with Antero's CFO. The credit and ESG analyst jointly conducted the meeting, focusing on Antero's emissions goal, alignment with management compensation practices and climate disclosures. The discussion revealed the extent to which the company was ahead of its peers in streamlining and environmental practices and embedding emissions reduction measures within its asset base, resulting in a more favourable emissions profile relative to the sector.

Outcome

The insights generated by the engagement meeting were communicated during the regular global high yield meeting. In essence, we felt external ratings agencies had not fully priced in Antero's progress on climate issues, which led to the credit analyst to adjust their recommendation to double our exposure to the issuer. As a result of the engagement, we were subsequently ahead of MSCI's ratings upgrade of Antero (from BB to BBB).

This demonstrates the role of ESG integration in credit portfolios in moving the needle on climate change, as E&P companies are substantial issuers of debt; in March 2021, the amount of debt and equity issued among US E&P companies totalled US$4.4 billion, the most since August 2020, spurred on by higher crude oil prices and lower debt costs. We have since engaged with other E&P companies on climate, jointly with credit analysts and PMs, including Targa Resources, Callon Petroleum Marathon Petroleum, Occidental, ConocoPhillips and will expand our credit engagement programme in 2022.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

INTEGRATION CASE STUDY

Pairing sustainability with shareholder value creation

Danone (France)

E S G

Issue

We have engaged with Danone on succession planning for many years, requesting the separation of the company's CEO and chair, which we view as fundamental to protecting shareholder value. As strong supporters of its stakeholder-based approach to capitalism and purpose-driven "enterprise à mission", we have also pushed for greater clarity over the company's plans to translate ESG commitments into sustainable growth and value creation for shareholders. Board oversight has also been an area of focus in our engagement and an important consideration in our investment views.

Action

We engaged with Danone following the investor activism that led to the departure of Emmanuel Faber in Q1, shortly after it had been decided he would step down as CEO and only retain the chair position. While this entailed a separation of the CEO/chair role, we were concerned about a weak board and the continuation of the sustainability agenda and strong ESG ethos Faber had championed. We requested more assurances concerning the resolution and oversight capabilities of the board, as well as the search for an external CEO with strong performance and sustainability credentials.

Outcome

We welcomed the retention of the division of the CEO/chair role, one of our long-standing engagement points. We also welcomed the appointment as CEO of Antoine de Saint-Afrique, who has a positive track record on profitable growth and sustainability, and the creation of a strategy and transformation committee of the board. The announcement of a composition renewal programme, which will establish a refreshed board by 2023 – except for the chairperson and employee representatives – was also seen as positive given the need to enhance board strength and oversight. We will continue to engage with the company to ensure the leadership and board transition is taking place in line with our value creation and sustainability expectations.

Company names shown are informational and not recommendations to buy or sell.

INTEGRATION CASE STUDY

The investment case for vehicle electrification

Daimler, Ford, Volkswagen (Global)

E S G

Issue

The automotive industry is reinventing itself. Driven by a combination of regulatory pressure, changing consumer preferences and competition for innovation, the industry has made important progress towards electrification. In this atmosphere of change, outperformance will be linked to the quality of transition strategies and their execution. In our view, management should seek a transition that encompasses innovation, a sustainable workforce transition, circularity and safety considerations, and the sustainable sourcing of materials (e.g., steel and minerals for batteries).

Action

We met with European auto manufacturers Daimler and Volkswagen, and US manufacturer Ford to seek clarity on their electrification strategies and ability to continue to perform under a new regulatory and market environment. We expressed the need to develop group-wide positions on facilitating an inclusive workforce transition and encouraged the take-up of new technologies such as green steel and advanced recycling infrastructure. We also assessed the companies' supplier engagement efforts and materials sourcing practices, especially for batteries.

Outcome

The ESG team and equity and credit counterparts were reassured by the remarkable increase in ambition of these companies, which have pledged robust science-based CO_2 reduction targets and internal combustion phase-out targets. In addition to the downside risk protection that increased decarbonisation ambition offers vis-a-vis regulatory risk, our investment views were also informed by efficiencies gained by these companies' progress in sourcing practices, as well as a competitive edge due to investments in new technologies and workforce reskilling.

ESG integration in multi-strategy

ESG integration in multi-strategy

ESG is integrated throughout the Aviva Investors Multi-Strategy investment process. Within the idea generation process, considerations include not only traditional fundamental and technical drivers, but also ESG risks and opportunities. This includes a forward-looking assessment of positive and negative ESG factors that may determine the success of an idea. In many respects, this has been done historically (for instance in regard to poor corporate governance practices or corruption risk in a country), but having it formalised within the investment process ensures consistency and discipline in the evaluation of all ideas. It is now a standard and essential part of our strategic and risk management process, aligned with our four-pillar ESG integration framework.

ESG is also an important driver of investment ideas. In particular, multi-strategy portfolios' flexible and unconstrained approach enables the implementation of specific views via a bottom-up, relative-value long/short strategy for a more targeted expression of an ESG theme.

This is achieved with the input of the sustainable outcomes team on the impact of overarching themes on the real economy, as well as the translation of themes onto individual companies by the ESG corporate research team.

Such ideas can provide another source of alpha and enhanced diversification, as in the case of our **long EU allowance strategy** facilitated through close collaboration between ESG analysts and portfolio managers. In addition to applying our baseline ESG exclusion policy, The approach applies a minimum ESG threshold by which instruments are flagged for review before potential inclusion into portfolios.

We are in the process of establishing a formal ESG review specific to multi-strategy to enhance the integration process.

AVIVA INVESTORS

ESG integration in sovereign debt

ESG analysis forms an integral part of our fundamental assessment of sovereign issuers. This illustrates the "Research" pillar of our ESG integration framework. Sovereign ESG analysis is both quantitative and qualitative – an approach that allows us to form a holistic assessment of the ESG credentials of issuers and how they are likely to evolve.

Quantitative

Our ESG country model assigns a composite ESG score to more than 170 countries. Country ESG scores are derived from over 400 individual data points, which form 11 composite indicators. The score provides an actionable metric, giving a clear overview of an issuer to portfolio managers and analysts on how a sovereign compares to its peers. The scores can be used to highlight potential areas of concern that can be further investigated within our qualitative process.

Qualitative ESG assessment

The qualitative process provides a subjective forward-looking framework to assess sovereign ESG factors, culminating in an ESG momentum assessment that complements the ESG country model.

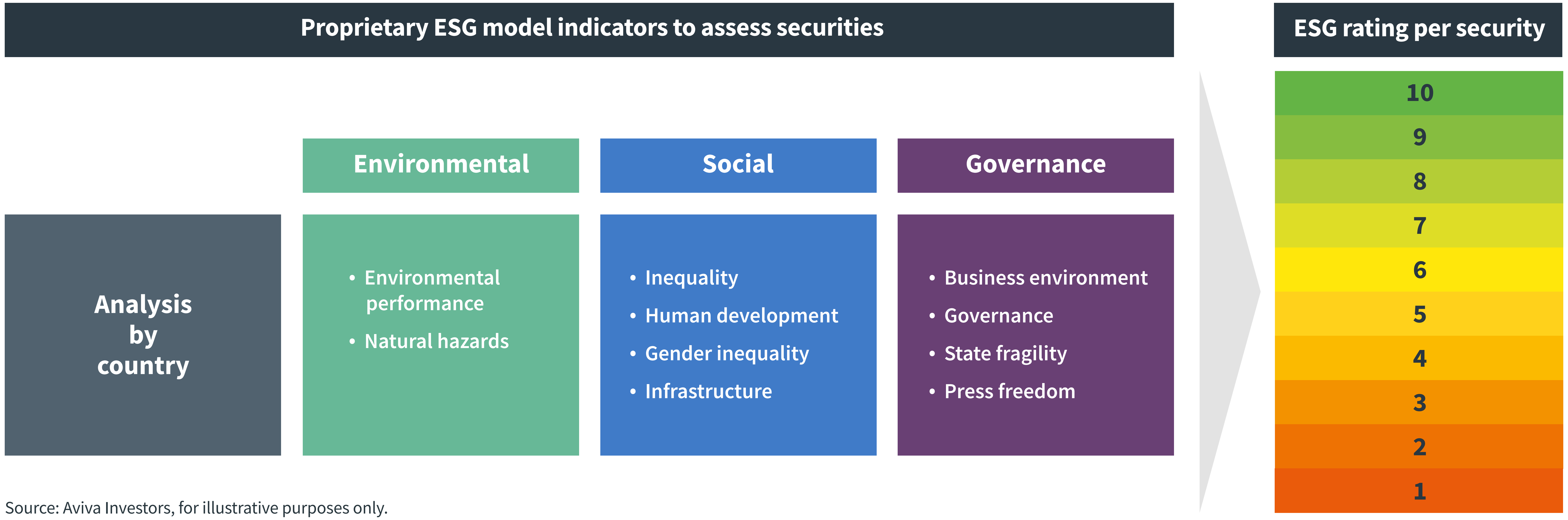
Specific areas of focus for qualitative analysis will vary by country based on materiality to the investment case. For core emerging-market countries, a detailed report is produced to complement the outputs of the fundamental sovereign analysis. Focus areas for the reports are linked to the 11 composite indicators covered in the ESG sovereign monitor.

ESG views are integrated into the formal country review process, which brings together the assessment of ESG alongside MFVT (macro, fundamental, valuation and technical) factors. At the formal country review meetings, ESG specialists present their country views and debate this with sovereign analysts and portfolio managers. The formal qualitative ESG country reviews are supplemented by bespoke analysis focused on specific developments or emerging ESG trends.

Qualitative insights or concerns can be used to form the basis of bespoke issuer engagement, while the insights gained from such engagement can be used to inform our country views.

The content produced is made available to portfolio managers and investment teams through our main research sharing platform, Confluence, where it can be viewed alongside traditional sovereign country analysis. The ESG scores are also uploaded to the portfolio management system so portfolio managers can see ESG scores for their portfolios in real time and how positioning changes are likely to affect these scores.

ESG proprietary scoring system framework for sovereigns



Source: Aviva Investors, for illustrative purposes only.

INTEGRATION CASE STUDY

Glen Dye Moor, Aberdeenshire, Scotland: Our first investment in nature-based solutions

(United Kingdom)

E S G

Issue

Our ambition is to have a net-zero real assets portfolio by 2040. With most of our debt and equity investments in infrastructure and real estate, residual carbon will always be a reality. Despite ambitious efforts to decarbonise the operation and construction of existing buildings as well as to assess the carbon impact of new infrastructure projects, excess emissions will remain. To have real impact on climate through our direct investments, solely purchasing carbon offsets is not at the core of our net-zero strategy. We must find direct investment opportunities in carbon-removal solutions, the most investable of which currently is forestry.

Action

Our first direct investment in natural capital was 6,300 hectares of Scottish moorland in the Glen Dye area of West Aberdeenshire. In partnership with Par Equity (Par), the Scottish-based forestry investment fund manager, over 3,000 hectares of land will be newly planted and 1,800 hectares of peatlands restored.

Outcome

Over the next three decades, an estimated 1.4 million tonnes of carbon will be locked up via natural solutions on the property. Up to one third (1,000 hectares) of the replanted land will be productive conifer, providing employment for the local community in timber production. The remaining 2,000 hectares of replanting will be native woodland, the design and management of which will be led by Scottish Woodlands Ltd.

INTEGRATION CASE STUDY

Aviva Investors Smart Buildings Programme: The Corn Exchange, Manchester

(United Kingdom)

E S G

Issue

The built environment is responsible for 39 per cent of global carbon emissions. The largest contributors are operational and embodied carbon.[32] Operational carbon derives from lighting, heating and cooling of existing buildings. Embodied carbon comes from construction materials used in new buildings, from their transport and construction processes and the replacement of materials throughout the building's lifecycle, through to demolition and end of life.

Action

Our smart buildings programme (SBP) uses market-leading technology to capture building data, in order to create a bespoke strategy for improved energy performance and carbon management. The Corn Exchange, Manchester, is one of the programme's onboarded sites. Analysis of the building identified excessive electricity consumption and high operating costs of approximately £80,000 per month were due to the asset's inefficient operation.

The SBP identified a review of boiler and chiller set points was needed. This produced a saving of £11,000 per year. Additionally, we created an "out-of-hours" programme to minimise excessive energy usage, which has achieved energy savings of 156,000 kWh, equivalent to the average fuel used by 23 passenger vehicles for one year.

Outcome

Initially, the SBP was implemented for this asset to achieve proposed energy savings of £30,000 per year. The Corn Exchange has exceeded this, having achieved £188,210 of savings, equating to 298 tCO_2e or the carbon emissions produced by 34 homes in a year. Since inauguration, the Corn Exchange has attained over £730,000 in savings through the implementation of tailored efficiency measures. These improvements have meant The Corn Exchange is in a good position to align with our 2035 and 2050 targets for an energy usage intensity (EUI) of 70 kWh/m^2.

32. Aviva investors annual report (2020) Moncaster, A. (2021) The impact of the built environment on climate change – and of climate change on the built environment, Open.ac.uk. Available at: http://www.open.ac.uk/blogs/design/the-impact-of-the-built-environment-on-climate-change-and-of-climate-change-on-the-built-environment (Accessed: 9 January 2022).

INTEGRATION CASE STUDY

St Andrew's Square

(United Kingdom)

E S G

Issue

Carbon emissions from the manufacture of materials used in construction are significant. They constitute 25 per cent of annual emissions from the built environment and more than 50 per cent of new builds. The problem arises where there is a lack of transparent reporting on such emissions. London has recently introduced reporting requirements, but the UK is yet to identify and set limits on the level of embodied carbon that can be emitted during the development of a building.

Action

28 St Andrew Square is a listed building with some modern elements in a prime office location in central Edinburgh. We are carrying out an intelligent refurbishment of the property, investing in a minor additional element of new build and brand new interiors and mechanical, electrical and plumbing (MEP) systems. This gives an opportunity to upgrade the operational energy systems without throwing away the existing building. Overall, approximately 85 per cent of the structure and façade will be retained and there is also potential for further savings from the use of cement replacement concrete and recycled steel. Further to this, the design team will be tracking MEP embodied carbon through Stage 4.

Outcome

The project has an embodied carbon of 310kgCO_2/m^2, well below the best practice standard of 600 kgCO_2/m^2, making St Andrew's Square one of the best performing buildings in our development pipeline. With Stage 4 design commencing in January 2022, this project demonstrates the possibility to transition building stock into high value real estate by capturing both low operational energy and carbon.

INTEGRATION CASE STUDY

Project Indygen

(United Kingdom)

E S G

Issue

Global electricity demand increased by approximately five per cent in 2021. Although the amount of electricity generated from renewables also increased by eight per cent, this is insufficient to meet existing and increased demand.[33] Even during this transitional energy period, industries are not investing enough in this infrastructure to meet current and future energy requirements. This reflects an unsustainable growth trajectory and sectors are continuing to heavily rely on fossil fuel alternatives to meet their requirements. It is expected the renewable energy shortfall will increase unless there is more investment in generation.

Action

To address this problem, we reviewed investment opportunities to support the development and growth of renewable energy generation infrastructure. In 2021, we acquired a portfolio of 2,939 rooftop solar panels and two ground mounted solar installations. The associated lifecycle emissions are less than 100g CO_2e/kWh. These assets have an installed capacity of 12.6MW, equivalent to the energy demands of 13,500 local homes per year. The project was rated as having medium climate transition risk, demonstrating the asset is at a limited risk to future regulatory changes, whilst mitigating against climate change.

Outcome

This project demonstrates our commitment to support the development of renewable energy infrastructure. This contributes to narrowing the supply and demand imbalance for renewable energy sources. Project Indygen is also linked to seven of the United Nations' 17 Sustainable Development Goals, and its assets will facilitate the supply of affordable and clean energy to the grid.

33. McLachlan, R. (2021). Climate explained: how much of the world's energy comes from fossil fuels and could we replace it all with renewables? Available at: https://theconversation.com/climate-explained-how-much-of-the-worlds-energy-comes-from-fossil-fuels-and-could-we-replace-it-all-with-renewables-167190 (Accessed: 9 January 2022).

Tan, W. (2021) What 'transition'? Renewable energy is growing, but overall energy demand is growing faster. Available at: https://www.cnbc.com/2021/11/04/gap-between-renewable-energy-and-power-demand-oil-gas-coal.html (Accessed 9 January 2022).

Lane, A. (2021) How might the world meet its clean energy needs, bbc.com. Available at: https://www.bbc.com/future/article/20211103-can-renewables-replace-fossil-fuels (Accessed: 11 January 2022)

INTEGRATION CASE STUDY

Baseload power and net-zero ambitions in the EfW sector

(United Kingdom)

E S G

Issue

Energy-from-Waste (EfW) plants, which produce baseload energy from waste incineration, play a valuable role in reducing greenhouse gas (GHG) emissions from society's waste stream by diverting waste from landfill, which produces the potent GHG methane.

Additionally, EfW plants can contribute to circular economy measures provided that there are waste separation installations at plants. This is important to the government's recycling goals, as the latest available data shows only 46 per cent of UK plastic waste is collected[34]. Based on this figure, the UK Plastic Pact recycling targets – 70 per cent of plastic packaging should be recycled or composted by 2025 – may not be met.

Action

In 2021, we participated in the refinancing of two UK EfW plants:

- **Viridor:** Viridor Energy is the leading waste management company in the UK. It is taking a leading ESG approach in the EfW sector, with a public commitment to reach net-zero emissions by 2040, and up to £1 billion investment for carbon capture, utilisation and storage (CCUS) technology and adoption.
- **Enfinium:** Enfinium boasts the most efficient fleet of EfW plants in the UK. Its four operational plants have a combined capacity of 2.3 million tonnes of waste processing capacity and 265MW of electricity production capacity. Enfinium's green financing framework for this project was aligned to the Green Loan/Bond principles and achieved "green accreditation", based on a thorough technical independent assessment. The company also has informal net-zero ambitions and is currently exploring carbon saving measures to reduce emissions, including CCUS.

These landmark transactions were two of the three largest infrastructure deals in Europe in 2021 and enjoyed support from our real assets ESG team due to the positive medium-term outlook for the EfW sector, which has support from the UK government based on the need for secure sources of non-fossil fuel baseload energy supply.

Outcome

Investing in this sector demonstrates our commitment to contributing to emissions reductions in the energy sector and reducing landfill waste. Both companies are well placed to benefit from the government's investment in CCUS technology and its confirmed Track 1 CCUS clusters. The plants also have front-end separation facilities focused on the removal of plastics and other recyclable materials for re-use or recycling, contributing towards circular economy principles through reducing resource demand, to minimise the environmental impact.

34. Department for Environment, Food & Rural Affairs – *UK Statistics on Waste*, 2020. Source; Defra Statistics.

Company names shown are informational and not recommendations to buy or sell.

3.3

INVESTMENT APPROACH

Monitoring managers and service providers

Monitoring managers and service providers

Proxy advisers

Aviva Investors subscribes to research from a number of third-party providers, but our main provider of proxy voting and governance research is Institutional Shareholder Services (ISS). See Section on 'Voting Decisions' for more details on how their service meets our needs.

We have a systematic review process with ISS, whereby at the end of each voting season, we conduct a series of meetings to review our voting policy based on emerging trends that we or our advisers have observed.

The objective of these engagements is to identify key areas where our own voting policy can be strengthened, understand what our advisers are expecting with respect to broader trends and set in motion an approval process for modifying our custom voting policy ahead of the new voting season.

Where ISS is not able to meet our evolving expectations (i.e. they are not capturing or analysing the data we require), we will contact other providers through our extensive network who are able to deliver to us what we need.

For example, in 2022 our voting policy has been expanded to hold boards to account for failing to make sufficient progress on gender diversity at senior management level, and this data is coming from another one of our providers, Boardex. We also maintain relationships with ISS's peers so that we are aware of the difference between service offerings.

We monitor ISS research on a constant basis and raise any errors identified so they are addressed immediately and/or not repeated. We also make a record of errors enabling us to (1) review the extent of whether the issues have been addressed and (2) reflect on this log when doing annual reviews and contract negotiations.

We may have questions about information it provide in its reports. We may not always agree with ISS standard research voting recommendations, but this is not considered problematic as firstly, some of the decisions can be very subjective and secondly, we follow our own guidelines.

Finally, we receive regular updates and keep under review any material changes in people, services or operations which occasionally will lead us to seek assurances that there will be no impact on the level of service we receive.

Overall, we are satisfied with the service provided by ISS to help us make informed voting decisions, including how it responds to the issues we raise. All of the aforementioned is taken into account when reviewing our existing contracts/considering alternative providers.

Monitoring managers and service providers (cont'd.)

ESG data providers

With regard to our largest third-party data providers, we hold quarterly review meetings to discuss any shortcomings around data or research output in order to drive continuous quality improvements. These meetings are informed by an internal third-party data record where instances of erroneous data or missing research input are systematically logged by ESG analysts and operations managers.

Additionally, we hold ad hoc meetings to discuss broader trends in ESG that may inform our internal research views.

We also appointed into a new role a head of ESG data to oversee data use applications and the roll-out of bespoke ESG analytics tools for internal and external reporting purposes.

The Aviva Investors market data team is an independent function which takes accountability for managing commercials and renewals with all of our market data service providers. This function operates an hourglass model that sits between the business and the contracted suppliers. There are controls and triggers in place to ensure contracts do not automatically roll and that the service quality and accuracy of data coverage continue to meet the needs of the business.

Aviva Investors' data providers

Data vendors

Large scale data providers with multiple datasets and deep coverage.

FTSE Russell Green Revenue

MSCI

Trucost ESG Analysis S&P Global

FTSE Russell Beyond Ratings standards for positive finance

Data specialists

Innovative and niche providers with specific scope and high quality.

BoardEx

vigeoeiris

NGOs

Specialist analysis, often not for profit. Detailed datasets with issuer scope aligned to purpose.

CDP

Non-government organisations

AVIVA INVESTORS

Monitoring managers and service providers (cont'd.)

Manager research

Our manager research team considers ESG factors in all aspects of its due diligence, investment analysis and decision making. Whilst ESG analysis at the fund selection stage is key, ongoing, in-depth monitoring of ESG practices is essential to judge adherence.

Our established '7P' research framework looks at the following areas: parent, product, people, philosophy, process, positioning and performance. We seek to examine ESG integration through the lens of each as demonstrated in the table below. In judging ESG integration, we seek both qualitative and quantitative evidence of ESG application and consider ESG approaches relative to the manager's promised approach, sector and peer best practice and industry trends.

In 2021, we launched our baseline ESG framework, which is designed to hold external managers accountable to an increasingly high standard of ESG integration. This still allows for a great deal of flexibility whilst ensuring ESG materiality is well incorporated throughout the manager's investment processes.

We use active and regular dialogue with managers to provide robust challenge to approaches and assumptions and to encourage enhancements and increased levels of disclosure.

Should we deem an external strategy to fall short of our expectations around ESG integration, we would first look to engage, and should that fail, we would look to exit that position and replace with a manager with an ESG approach that meets/exceeds our baseline ESG requirements.

We also conduct a biennial ESG survey to remain on top of industry developments and identify best practice. Our 2021 ESG survey received responses from 87 asset managers responsible for a collective £32 trillion in AuM.

Parent	We review and assess the firm-wide commitment to ESG and any relevant cross-organisation policies and procedures.
Product	We identify and interpret any specific ESG product objectives and/or constraints.
People	We look to understand and assess the quality and structure of human capital devoted to ESG integration.
Philosophy	This is where we gauge the manager's view as to the beneficial impact of ESG integration (e.g. beneficial to alpha generation and/or risk management).
Process	We seek to understand how ESG is integrated into the investment decision-making process. This may include areas such as: research, model development, portfolio construction and risk management.
Positioning	By analysing portfolio composition, we seek to ensure alignment with the expectations around ESG integration. If applicable, we may also examine engagement activity and voting history.
Performance	Here we examine how ESG integration has contributed to fund-level performance.

AVIVA INVESTORS

4

Engagement

AVIVA INVESTORS

4.1

ENGAGEMENT

Engagement

Engagement

Approach to engagement

Effective and responsible active ownership has long been part of our fundamental approach to investment at Aviva Investors.

We believe that persistent and constructive dialogue with issuers, corporates and sovereign representatives is vital to preserve and enhance the value of assets on behalf of our beneficiaries and clients. This is achieved through voicing our support for more sustainable practices and gathering insights to inform investment decisions.

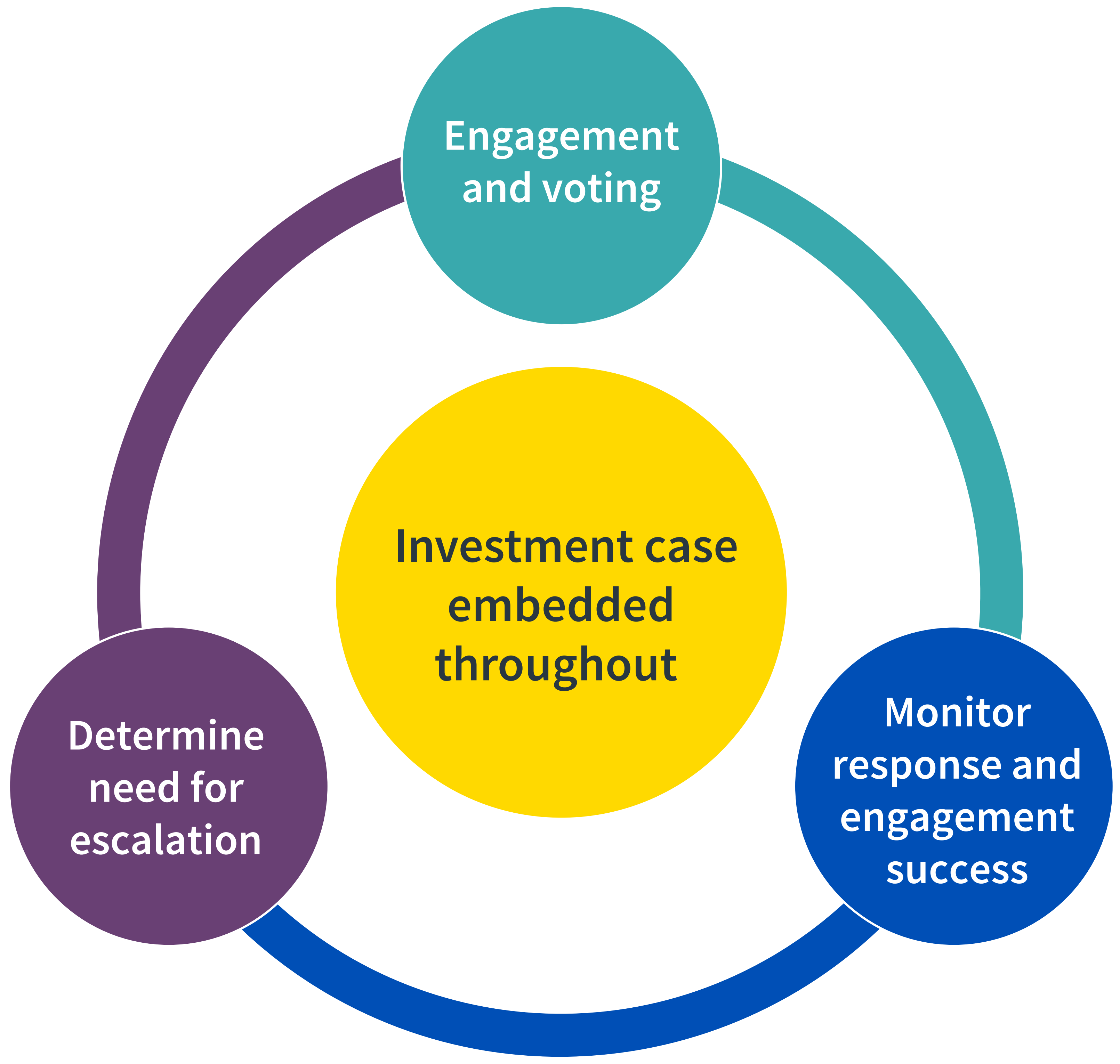
Through written correspondence, face-to-face meetings, phone calls and more collaborative formats, we encourage sovereigns and companies to consider the whole picture of sustainability because this is how they will create the greatest return for investors while helping to build a better future for society.

How we engage

Aviva Investors operates a fully integrated approach to investment and ownership, combining the skills of our fund managers, investment analysts and ESG specialists across asset classes.

During daily, weekly and quarterly discussion forums, we will continually monitor an entity's management and performance, including developments which may have a significant impact on valuation or risk profile. As part of our analysis, we track areas of performance, including management of key ESG areas. If we feel we do not have enough information or have identified gaps, improvements in an entity's awareness or management of their ESG risks and opportunities, we will establish dialogue.

This dialogue will be conducted in close cooperation with, and often led by, portfolio managers and research analysts. Key insights are disseminated in written company, industry and thematic notes to feed into idea generation, analysis, forecasts and conclusions about further escalation.

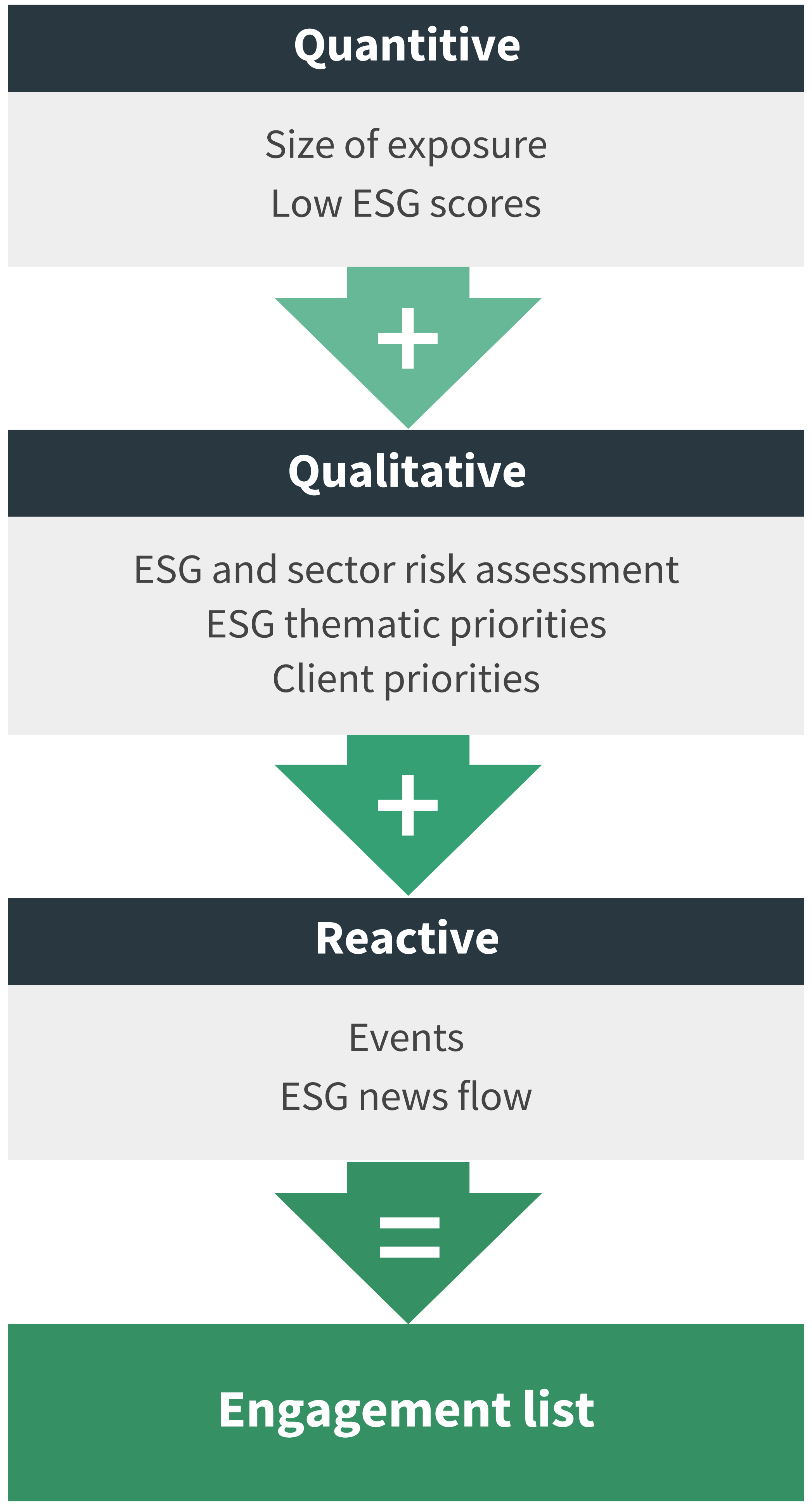


AVIVA INVESTORS

Identifying opportunities

Effective engagement is resource intensive and prioritisation is key.

On an annual basis we draw up engagement plans, bringing together quantitative and qualitative data, including our proprietary ESG scores and internal sector and thematic research, to highlight emerging issues that need to be captured and prioritised. This exercise will also evaluate exposure across asset classes to prioritise corporate issuers and sovereigns and overlay considerations such as the size or value of holdings, recent developments, existing relationships, and where it is most likely to benefit our clients.



Monitoring progress

We record all of our stewardship activities in our in-house database to facilitate the monitoring of issuers, corporates and sovereign representatives in which we are invested. To ensure this is effective, we define expected timeframes for milestones and goals; track progress against the defined milestones and goals; and revise the goals, if necessary, depending on progress.

We review progress against all engagement asks a year after they have been made, and subsequently on an ongoing basis, recognising key strategic changes will take time to be implemented into a company's business process.

We recognise these success factors may be subjective, and influence may not have been the sole driving force for this change. However, we believe it is important to track progress and measure the outcomes of our engagement.

AVIVA INVESTORS

Engagement outcomes

Over 2021, Aviva Investors undertook **672** substantive company engagements, of which **137** were led by equity and credit investment team members.

We also participated in a further **2,287** collaborative letter-based engagements, addressing topics such as climate disclosure and human rights.

The chart below demonstrates the global outreach of our engagement.

In 2021, we achieved **420** engagement 'wins', where we saw changes in entity behaviours in line with a prior Aviva Investors engagement ask.

Engagements by region

Regional Breakdown	
Africa	1.6%
Asia	13.1%
Australasia	3.7%
Europe ex UK	17.3%
North America	28.7%
South America	3.5%
UK	32.2%

197 of these successful outcomes were 'material', changes deemed particularly meaningful in terms of financial materiality and social and environmental impact and outcomes.

At the start of 2021, our CEO set out **annual stewardship priorities for the year** to more than 1,500 companies across 30 countries with a concerted focus on stakeholder business models, diversity and social inclusion, executive remuneration, climate change and effective dynamic leadership.

Sovereign engagement priorities were also articulated for the first time in a letter to finance ministers and central bank governors in over twenty countries in which **material sovereign investments were held**.

While the primary engagement priority categories remain the same as last year's for 2022, we have added several sustainability-related factors for companies to consider, including a heightened focus on biodiversity and the societal implications of the global energy transition.

ENGAGEMENT CASE STUDY

Engaging to improve ESG momentum

HSBC (United Kingdom)

E S G

Issue

In early 2021, concerns were raised over HSBC's ESG credentials regarding its climate policy and stance on geopolitical tensions in Hong Kong and China. Post COP26, the need for financial institutions to align their business practices with the 2016 Paris Agreement is more critical than ever.

Action

When HSBC invited us to take part in its inaugural sustainability roadshow in December, we were keen to engage to determine whether any previous concerns, specifically around climate change, had been alleviated. We participated in a Q&A, where the new HSBC group chief sustainability officer explained the progress being made internally in regard to aiding client transition and divestment away from high-emission sectors. The company made progress towards slowing climate change, becoming a founding member of the Net-Zero Banking Alliance and publishing a new coal phase-out policy. On the surface, this policy is aligned with best practice, committing to phase-out the financing of thermal coal in EU/OECD markets by 2030 and worldwide by 2040, unless those clients can publish a transition plan aligned with HSBC's net-zero 2050 target. However, there are still issues we hope to see resolved following HSBC's 2022 coal policy review. Finally, when asked on how it plans to aid clients' transition, HSBC explained its commitment to provide between $750 million and $1 trillion in financing.

Outcome

In Q1 2021, we downgraded HSBC from a neutral to negative rating, with stable momentum, due to the aforementioned concerns. However, HSBC's new commitments have improved our assessment of momentum to positive. We will continue to monitor HSBC's progress towards its commitments, which may improve our view of the company from this perspective.

ENGAGEMENT CASE STUDY

Diversity, human rights and climate wins in Korean chips

TMT – SK Hynix (South Korea)

E S G

Issue

We have engaged with Korean semiconductor company SK Hynix on human rights, diversity and climate-related issues for several years.

Action

Our latest meeting followed up on previous engagements. We were encouraged to learn SK Hynix has carried out an initial review on its human rights due diligence processes. We continued to recommend it use the Corporate Human Rights Benchmark framework. We have also been asking for progress on female representation at the company and more ambitious environmental targets.

Outcome

The company committed to publish a full report on human rights, likely in July 2022. Management is looking to increase the number of female directors on the board, female leaders and the ratio of female recruits. Environmental targets have been strengthened with net-zero 2050 and RE100 (100 per cent of electricity from renewable sources) targets adopted, together with the aim of tripling water savings by 2050. While the adoption of the latter targets represents strong progress, we continue to ask Hynix to join the Science-based Targets initiative.

Company names shown are informational and not recommendations to buy or sell.

ENGAGEMENT CASE STUDY

Following up on the back of a cyber security breach

T-Mobile (United States of America)

E S G

Issue

In August 2021, T-Mobile experienced a cyber security breach. Robust data protection practices are of material significance to investors, as companies that do not successfully protect and safeguard customer data and information risk cyber attacks and financial losses, as well as reputational consequences.

Action

Following T-Mobile's recent cyber attack, we held a one-to-one call with representatives from the company. While we acknowledge systems and security infrastructure cannot necessarily prevent breaches, we sought to understand the steps being taken to respond to the breach. We encouraged a more proactive approach to cyber security to ensure data is better protected. We also engaged on enhanced disclosure, as external stakeholders would benefit from understanding the scale of the attacks and the company's response to breaches.

Outcome

T-Mobile announced it is implementing several changes on the back of the August attack, including organisational improvements and external advice. These are strategic decisions driven by management. With regards to our questions around transparency, at this stage there are several obstacles, such as defining a breach, to the degree of disclosure we would like to see. T-Mobile is reviewing its current transparency on data protection and was receptive to our suggestions. This is an important topic for the company and its stakeholders, which we will continue to monitor.

ENGAGEMENT CASE STUDY

Climate change and energy, shareholder rights, board composition

Petrobras (Brazil)

E S G

Issue

In February 2021, Brazilian president Jair Bolsonaro tapped retired general and former Defence Minister Joaquim Silva de Luna to take over as CEO of Brazilian energy giant Petrobras. The replacement of Roberto Castello Branco, widely viewed as a move to exercise greater control over the company's fuel-pricing policy, raised questions about growing political influence and associated impact on minority shareholder rights.

Action

We engaged with the company to seek clarity on its strategic vision under the new CEO. We questioned how independently the board would function and requested a detailed explanation of its approach to succession planning and broader governance structures to oversee the execution of strategy, efficient allocation of capital, and presence of a robust risk and controls environment.

At the same time, we explored how the nomination committee ensures adequate experience and skills of board directors and recommended it undertake an external, independent evaluation. In parallel, as a top-30 carbon emitter within our portfolios, we pressed Petrobras to set out a more compelling net-zero climate strategy consistent with the goals of the Paris Agreement that reflected the gravity and urgency of the climate emergency.

Outcome

Subsequent to our engagement, Petrobras improved the quality of its climate-related disclosures, publicly supporting the Task Force on Climate-related Financial Disclosures (TCFD) and strengthening board-level oversight over its strategy. Whilst these are positive steps, the lack of a Scope 3 target remains a key concern and forward-looking conversations will continue to push for a more ambitious group-wide position on climate change, backed up by clear capital expenditure strategies and supportive accounting, as well as improvements in board composition and effectiveness.

Company names shown are informational and not recommendations to buy or sell.

ENGAGEMENT CASE STUDY

Sustained engagement across ESG issues

Equifax (United States of America)

E S G

Issue

We previously engaged with US credit agency Equifax on its sustainability disclosures and governance, in particular board diversity and refreshment. Earlier in the year, the company had announced the appointment of a new female independent director to replace a long-serving non-executive director.

Action

We supported all resolutions at Equifax's 2021 AGM to reflect the company's improvements, despite some remaining concerns over long-serving directors on key committees. We liaised with Equifax in response to an email providing an update on the company's expanded ESG commitments. This commitment includes new quantitative ESG disclosures on its website, such as initial SASB-aligned reporting and an EEO-1 report, greenhouse gas emissions baseline data and a commitment to reach net-zero greenhouse gas emissions by 2040.

Outcome

While we acknowledge the advances made by the company and its receptiveness to our asks, we will press for further improvements regarding gender diversity and committee composition. We note Equifax's website states its intent to validate its emissions targets with SBTi and will emphasise the importance of this in future engagements and encourage Equifax to make it a sustainability priority.

Company names shown are informational and not recommendations to buy or sell.

Engagement in real assets

We believe being active owners of real assets through engagement with our stakeholders is critical to creating environmental and social outcomes for our clients and society.

We believe engagement in real assets can be defined as structured interaction on environmental and social issues with our customers, including borrowers and occupiers, suppliers and the communities we operate in. This engagement can be carried out through the transaction process or through ongoing asset management.

In private debt asset classes, we actively engage in transactions through creating covenants and incentives that mandate or encourage environmental and social impacts. In equity investments where we own assets directly, we focus asset management resources on engaging occupiers and our suppliers to reduce building energy use, and engaging communities to create positive social impacts.

ENGAGEMENT CASE STUDY

30 Station Road

Various (United Kingdom)

E S G

Issue

There are increasing concerns from tenants over how environmental sustainability and issues regarding health and wellbeing are being addressed in the real estate sector. Tenants are focusing on their occupancy of rented spaces to address their own ESG ambitions and enhance welfare.

Action

30 Station Road is an asset under development. A BREEAM rating of 'Excellent' is being targeted alongside a commitment to installing efficient asset-optimised technologies and metering systems to help reduce water usage by 40 per cent compared with similar buildings. The installation of ten electric-vehicle (EV) charging points in the basement will support increased occupier demand for low-carbon transport alternatives and provide an infrastructure to reduce associated Scope 3 emissions. Around 300 bicycle spaces will be implemented, promoting health and wellbeing whilst reducing carbon emissions from transport. Nesting boxes on the roof to provide safe habitats and encourage local wildlife will also be installed. These technologies are vital in ensuring buildings run efficiently and improving occupier wellbeing.

Outcome

Once completed, the building will offer 79,000 square feet of office space. With increasing occupier demand for sustainable offices, our investment in this initiative will improve tenant attraction and retention alongside generating optimal investment performance. The opportunity to improve the channel of communication between landlord and tenants serves as a demonstration of our commitment to collective sustainability ambitions. The value of embedding sustainability and wellbeing into our design is evidenced by all floors within the building already being pre-let.

ENGAGEMENT CASE STUDY

Decarbonising real estate with sustainability-linked leases

Various (United Kingdom)

E S G

Issue

Efforts to decarbonise the real estate sector must involve more cooperation between landlords and tenants to improve the sustainable occupancy and management of buildings. However, barriers to cooperation involve a split-incentive problem preventing landlords from making necessary changes to enhance efficiency. An effective tool gaining traction in the commercial property sector to address this is 'green' real estate leasing. A sustainable lease is a standard form lease that includes additional clauses encouraging both owners and occupiers to enhance the environmental performance of a building. We have implemented several sustainability-linked leases that have successfully embedded sustainable KPIs as well as commercial incentives within the structure.

Action

In 2021, we negotiated an environmentally friendly lease with the office-letting company Landmark at Irongate House in the City of London. This new lease is aligned with the Green Leasing Framework developed by the Better Buildings Partnership.

The framework aims to reduce the environmental impacts of buildings whilst increasing tenant engagement and identifying ways to save money through energy efficiency. With this lease, tenants at Irongate House are required to share their energy usage data with the landlord. Landmark is also encouraged to procure energy from renewable sources, helping to cut emissions. The lease also includes an obligation for Landmark to initiate an energy optimisation programme.

Outcome

Sharing utility data will be key to monitor the building's energy performance and identifying further opportunities to implement energy-saving initiatives. Reducing emissions generated by our assets is essential as we look to meet our net-zero targets. The energy optimisation programme will look for opportunities to optimise energy performance of the building in use and reduce energy demand. Installing energy-efficient technology helps reduce energy consumption and emissions, future-proofing assets and reducing costs for occupiers.

Company names shown are informational and not recommendations to buy or sell.

ENGAGEMENT CASE STUDY

Decarbonising real estate with sustainability-linked loans

Various (United Kingdom)

E S G

Issue

Globally, 39 per cent of all energy-related carbon emitted comes from building and construction according to the World Green Building Council, with operational emissions accounting for about 28 per cent[35]. The transition to low carbon will define the real estate sector over the next decade. There is a window of opportunity as we reconfigure our assets in response to COVID-19, where delivering healthy and low-carbon products into the market can meet the needs of tomorrow's occupiers.

Action

This year we provided Bruntwood, a family-owned property company, with a £276 million, 15-year sustainability-linked loan facility. Bruntwood has net-zero goals for new buildings by 2030 and for its entire portfolio by 2050 and agreed to a number of sustainability performance metrics as part of the deal. These metrics are primarily focused on reducing its carbon emissions and procuring green energy. It includes a commitment to review performance targets regularly throughout the term, in line with an anticipated evolution of ESG measures over the loan period.

Outcome

Embedding our sustainable transition loan framework into this deal represents our commitment to help the industry decarbonise, and we are proud to be assisting one of the industry's first movers on sustainability to increase the scale and scope of its decarbonisation efforts.

Once completed, the building will offer 79,000 square feet of office space. With increasing occupier demand for sustainable offices, our investment in this initiative will improve tenant attraction and retention alongside generating optimal investment performance. The opportunity to improve the channel of communication between landlord and tenants serves as a demonstration of our commitment to collective sustainability ambitions. The value of embedding sustainability and wellbeing into our design is evidenced by all floors within the building already being pre-let.

35. World Green Building Council – Bringing Embodied Carbon Upfront, September 2019.

4.2

ENGAGEMENT

Collaboration

AVIVA INVESTORS

Collaborative engagement

Active engagement and collaboration with other investors is an important, if not essential, requirement for being able to exercise appropriate influence at companies.

Collaboration allows information sharing on existing and emerging sustainability risks and enables aligned stakeholders to exert their collective influence to bring about change. We are connected to shareholders and broader stakeholders through various national, regional and global forums that facilitate collective discussion and action.

In 2021, Aviva Investors placed a particular focus on its participation in the following industry initiatives.

- 30% Club
- Access to Nutrition Initiative
- Asian Corporate Governance Association (ACGA)
- Asia Research and Engagement (ARE) Asia Transition Platform
- Carbon Disclosure Project (CDP)
- Change the Race Ratio
- ChemScore
- Climate Action 100+
- Corporate Human Rights Benchmark
- Digital Inclusion Benchmark
- EV100
- FAIRR Initiative
- Finance for Biodiversity
- Investor Alliance for Human Rights
- ShareAction
- Workforce Disclosure Initiative
- World Benchmarking Alliance

For a full list of collaborative initiatives, please see in **Appendix**.

AVIVA INVESTORS

COLLABORATION CASE STUDY

Pushing for accountability on human rights

Compass Group (Global)

E S G

Issue

We have had long-standing concerns about allegations of modern slavery in company supply chains operating in the Middle East. As part of our involvement in the CCLA's Find It, Fix It, Prevent It Initiative, we and a small group of investors have been engaging with Compass Group regarding allegations of poor working conditions in the Gulf region where the company operates a joint venture, ADNH Compass.

Our engagement focused on the treatment of migrant workers, including those being prevented from travelling back to their home countries during the pandemic.

Action

We, alongside our investor peers, engaged with Compass and requested it carry out an independent investigation into the migrant worker journey from key sourcing countries to the Gulf region, and to publicly report on the findings of this review, as some of its peers like IHG have done.

We also asked the company to address its lack of disclosure on salient human rights issues, which are essential to enable investors and wider stakeholders to hold the company to account on human rights risks and impacts.

Outcome

The company has made demonstrable efforts to show its commitment to improving on the issues raised. The board of the joint venture recently committed to hiring an expert organisation to conduct a detailed investigation into the recruitment and treatment of workers from seven sourcing countries. The company has also hired a human rights expert to improve the company's human rights due diligence, particularly in high-risk countries. Since our engagement, there have been several key personnel changes in its HR function.

This suggests further engagement is needed to build on the company's commitments and ensure Compass puts in place robust human rights due diligence to mitigate risks in its own operations and supply chain before they manifest into human rights abuses.

Company names shown are informational and not recommendations to buy or sell.

COLLABORATION CASE STUDY

Engaging on the distribution of COVID-19 vaccines

GlaxoSmithKline (Global)

E S G

Issue

Since the start of the global roll-out of COVID-19 vaccines in late 2020 and early 2021, most doses have been deployed in high- and upper-middle-income countries. Early on, the World Health Organization (WHO) cautioned political leaders on the risks resulting from vaccine inequities, which may slow global recovery efforts.

Vaccine manufacturers have a responsibility to ensure their products reach patients in need, particularly in underserved parts of the world. We supported an appeal by the Access to Medicine Foundation to the pharmaceutical industry to work with WHO and other relevant bodies to scale up the roll-out of vaccines across low-and-middle income countries. One such body, COVAX, aims to accelerate the development and manufacture of vaccines and guarantee fair and equitable access for every country.

Action

GSK, one of the world's largest vaccine manufacturers, responded early in the pandemic, entering a research collaboration with French pharmaceutical giant, Sanofi. GSK had established various supply deals with many developed market authorities; however, at the time of our engagement, the company had yet to confirm manufacturing capacity reserved to supply COVAX.

We met with GSK's chairman to discuss the board's perspective on strategy, performance and governance. We also expressed the need for companies to finalise a vaccine supply agreement with COVAX to support an effective response to COVID-19 across low-income countries.

Outcome

GSK later issued an announcement confirming plans to support COVAX. In doing so, both Sanofi and GSK committed to make 200 million doses of their COVID-19 vaccine available, once approved by regulatory authorities. This marked a welcome step forward, particularly against the backdrop of projections by the International Chamber of Commerce (ICC) Research Foundation, which found advanced economies remain at risk of a sluggish economic recovery if infections continue to spread unabated in emerging markets.

COLLABORATION CASE STUDY

Collective engagement on succession planning

BT (United Kingdom)

E S G

Issue

The Investor Forum is an independent body that helps investors work collectively to escalate material issues with the boards of UK-listed companies. In March 2021, BT made a surprise announcement regarding the departure of its chair. This was followed by press speculation on replacement candidates. Succession planning is an important topic for investors to escalate concerns about candidates' suitability. We agreed with other Investor Forum members that a strong external candidate was needed given the strategic challenges BT faced.

Action

The Investor Forum engaged with the senior independent director about the chair recruitment process and criteria being considered. The emphasis from the investor group was on the future chair's capacity to oversee a difficult change programme as well as balance complex stakeholder interests. Given the context of the departure of the incumbent chair, building a positive relationship with the CEO was also raised as a concern.

Outcome

BT went through a well-executed succession planning process and announced the appointment of an external chair in August 2021, who had experience of chairing large companies. The Investor Forum concluded the engagement after confirming BT would be the candidate's main priority. The engagement was a success for the investor group.

COLLABORATION CASE STUDY

Facial recognition initiative

Various (Global)

E S G

Issue

Whilst the primary goal of facial recognition often aims to serve a positive purpose, the technology can sometimes undermine our fundamental rights. There have been a number of controversies, which have raised questions on risks potentially outweighing the opportunities, especially where mass surveillance is concerned. This is an important issue for the technology sector.

Action

We joined a collaborative initiative led by Candriam, with 53 global institutional investors representing over USD 5 trillion in assets under management. The investor group sent an investor statement in June 2021, which received strong press coverage. The initiative is also seeking to engage with companies involved with facial recognition technology. Aviva Investors will lead several company engagements, which remain confidential at this stage.

Outcome

This initiative was initiated in 2021. Its timeline is estimated to be two years, with a purpose of encouraging best practice on the matter. Investors are still at the initial dialogue phase. The group intends to publish a paper in mid-2022 describing the findings from company engagements and then encourage best practice on demonstrating their respect for human rights.

Company names shown are informational and not recommendations to buy or sell.

COLLABORATION CASE STUDY

CDP – annual disclosure, non-disclosure campaign

Various (Global)

E S G

Issue

We are a founding member of CDP (previously known as Carbon Disclosure Project) since its inception almost 20 years ago. CDP was established to encourage companies to provide regular disclosure on climate data for investors to integrate into their investment process, recognising the paucity of data at the time. Over the last two decades, it has expanded to cover forest and water disclosure; it has significantly increased the number of companies requested from the original 500 to over 7,000 and undertakes this annual, industrial-scale engagement request on behalf of over 500 investors with over $110 trillion in assets.

Action

We use the annual ratings from these surveys as input material into our sustainable outcomes analysis. Data generated by these disclosure responses are a critical input into the ESG outputs of numerous data providers whose services we, and the financial service industry in general, use.

Outcome

Despite the impending climate crisis, the size of investors requesting data and the fact such requests have been repeatedly made for nearly 20 years, just under 50 per cent of the 7,143 companies responded to requests for data in 2021. We support CDP's additional non-disclosure programme, where we play a more proactive role in requesting companies respond to CDP. In 2021, we were the lead investor on 35 companies achieving a 36 per cent response rate versus the 25 per cent rate of the overall non-disclosure campaign.

AVIVA INVESTORS

COLLABORATION CASE STUDY

Corporate Human Rights Benchmark (CHRB)

Various (Global)

E S G

Issue

The Corporate Human Rights Benchmark (CHRB) ranks 230 globally listed companies in five high-risk sectors on their human rights policies and practices. Aviva Investors has been a founding member of the CHRB since its inception, alongside co-founders APG and Nordea.

The last CHRB assessment took place in 2020 and assessed companies on a sub-set of indicators, focusing on core aspects such as human rights due diligence (HRDD) – a key tool for addressing a company's salient human rights issues across the value chain. The 2020 assessment identified 106 companies that scores zero on all HRDD indicators, indicating they are not currently in a position to mitigate, address and remedy their salient human rights issues, ultimately presenting risks to people and, by extension, their business.

Action

Following the 2020 assessment, Aviva Investors took two simultaneous and complementary actions. Firstly, and consistent with the preceding years, we voted against the management of all 106 companies to communicate our impatience at their lack of progress and willingness to take HRDD seriously. Secondly, we joined forces with a group of 208 global investors, representing US$5.8 trillion in assets under management and coordinated by the Investor Alliance for Human Rights (IAHR), to publicly call out the 106 laggard companies, many of whom had repeatedly scored zero on HRDD indicators over consecutive CHRB benchmarks. The IAHR subsequently coordinated a collaborative engagement helping to significantly increase the scale of investor activity on the CHRB results; 25 investors are now actively involved in engaging with the 106 laggard companies, many with existing relationships with companies.

Outcome

To date, 34 of the 106 companies have responded to investor requests to engage, representing a 32 per cent response rate with 20 direct engagements either having taken place or scheduled to take place in the coming months. In some instances, companies are doing more than they are disclosing publicly; however, in most cases, companies are simply not aware of or prepared to acknowledge the gaps in their approaches. A minority of companies are engaging constructively and taking on board our requests, using the CHRB framework as a tool to help focus their efforts. The coalition is currently planning an engagement strategy for 2022, including escalation with companies that have repeatedly failed to engage and who don't show progress in the 2022 ranking.

More broadly, while the CHRB has been a key tool in identifying gaps in company practice, it has also had an influence over the business and human rights landscape, helping to highlight the limitations of relying on companies to voluntarily meet their responsibilities to protect human rights. While we continue to engage with the laggards, we are also encouraged by the emergence of mandatory human rights due diligence legislation around the world. We expect this increased regulatory focus to sharpen companies' minds on improving their human rights performance or expect to face increasing shareholder unrest at AGMs.

COLLABORATION CASE STUDY

Multi-year sustained engagement yielding climate progress

Hon Hai, BP (Global)

E S G

Issue

We have continued our constructive multi-year dialogue with Hon Hai and BP (as a lead co-ordinating investor) on their climate strategy on a bilateral basis, as well as part of our involvement in Climate Action 100+, a collaborative engagement of more than 370 investors seeking greenhouse gas emissions reductions from the world's largest emitters.

Action

BP's continued responsiveness to feedback and its leadership's commitment to meaningfully engage and evolve its approach has given us confidence the business can deliver on its commitments related to the Paris Agreement. Building on its ambitious 2020 net-zero pledge and the release of its 2050 strategy roadmap and short, medium and long-term targets for operational emissions (Scopes 1, 2) and energy produced (Scope 3), 2021 saw the company lower its long-term price assumptions to be 'broadly in line with a range of transition paths consistent with the Paris climate goals', a long-standing engagement request; more substantive action to better align executive remuneration with its emissions performance; and the adoption of more robust policy for engagement with trade associations (Aim 6) as part of its updated 20 'net zero by 2050 or sooner' aims. A new condition to support the Paris accord led to the termination of BP's membership in three lobby groups last year. Furthermore, the company leads peers in having committed to facilitate a just transition in priority areas and to contribute to the anticipated goals of the upcoming UN Biodiversity Convention to ensure new projects achieve a 'net positive' impact on biodiversity.

In parallel, building on its November 2020 net-zero emissions commitment, we continued our dialogue with Hon Hai around providing a roadmap on how it will achieve net zero. We discussed setting SBTi approved targets and improving governance of climate change. We also further encouraged Hon Hai to set a 100 per cent renewables commitment.

Outcome

BP's recent announcements represent material developments as product use typically accounts for the vast majority of an oil and gas company's carbon footprint. The company's climate strategy is now market leading as the first oil and gas major to put in place a triple net-zero target covering each of its operating emissions; upstream energy produced and downstream energy products sold. We believe open dialogue and partnership is crucial to decarbonisation and will continue to engage with BP over its approach and plans.

Hon Hai has continued to improve its disclosure and governance around climate change. The company's latest CSR report, whilst not fully aligned to TCFD, shows significant enhancements to both data and qualitative disclosure. Hon Hai's CDP score has improved significantly as a result. We will continue to be an active participant of this initiative and will also include Hon Hai's role in decarbonising key industries, for example through its EV activities.

Alongside the announcement of its 2021 financial results, BP announced plans to significantly ramp up its energy transition-focused investments over the next several years, along with the unveiling of more extensive and ambitious emissions reduction goals. Highlights of the announcement include increasing the proportion of total capex allocated 'transition growth businesses' to around 50 per cent by 2030, and the introduction of a new Scope 3 goal to achieve net-zero lifecycle emissions from energy products the company sells by 2050.

Company names shown are informational and not recommendations to buy or sell.

COLLABORATION CASE STUDY

Scaling sustainability disclosure and governance oversight at a Chinese e-commerce giant

Alibaba (China)

E S G

Issue

We have historically had concerns around Alibaba's corporate governance. The company started making improvements in 2018, for example publishing its first dedicated sustainability report; it also changed its VIE structure and provided more transparency around CEO succession planning. However, disclosure of ESG data has been limited since then. Given the company's position as a global technology leader, we believe it should aspire to international best practice on sustainability and reporting.

Action

We have engaged with the company on a bilateral basis for several years, and through our long-standing collaboration with the Asian Corporate Governance Association (ACGA) as well as other thematic collaborative initiatives. We encouraged Alibaba to improve its consistency of ESG reporting and disclosures so that the investment community, as well as other stakeholders, can better understand its strategy and performance on material ESG issues. Our expectation is for Alibaba to communicate a sustainability strategy with key objectives it regularly reports against. We also communicated the importance of strengthening the capacity of its investor relations (IR) function in the interest of enhancing responsiveness to minority shareholders.

Outcome

There has been a noticeable change in Alibaba's dialogue with investors, who have benefited from quality engagements with IR and its ESG director. In December 2021, Alibaba released its new ESG strategy and goals, including a new 2030 pledge to achieve operational carbon neutrality. It also set a Scope 3+ target, a pioneering initiative aiming to facilitate 1.5 gigatonnes of decarbonisation across its business ecosystem by 2035.

Notably, the company has committed to provide annual disclosure on material ESG topics and instituted a three-tier ESG governance framework to oversee, enable and support the achievement of its carbon neutrality targets and broader ESG goals. Whilst we are encouraged by the leadership team's greater willingness to understand the issues, reflected in its recent stakeholder survey and materiality assessment, we will look for further demonstration of how the firm delivers on its sustainability strategy.

We expect the company to thoughtfully respond to shareholder feedback from its recent materiality assessment and embed this in its broader strategy. In 2022, we will monitor progress against these developments and continue to encourage the company to embed sustainability into each aspect of its businesses, with a focus on aligning reporting with international best practice standard frameworks, including GRI and, with respect to climate change, the CDP's annual questionnaires on climate change and forests and the Taskforce on Climate-related Financial Disclosures (TCFD).

Company names shown are informational and not recommendations to buy or sell.

COLLABORATION CASE STUDY

Collaborative engagement with Asian banks and energy companies aimed at accelerating the shift towards achieving international climate goals

Various (Asia)

E S G

Issue

We are one of the six founding members of a new multi-year collaborative engagement programme, The Asia Transition Platform, coordinated by Asia Research & Engagement (ARE).[36] This aims to accelerate the shift towards achieving international climate goals through engagement with at least 50 Asian companies across its major financial markets, with an initial focus on carbon risk and coal at financial institutions and coal-exposed power companies.

Action

We have met with representatives from various companies on a bilateral basis and through this collaborative initiative to discuss their climate strategy and outline recommendations on how we expect their process and disclosures to align with the objectives of the Paris Agreement. Examples of actions we seek to promote include Asian banks committing to stop financing fossil fuel expansion and related infrastructure.

Outcome

Since the launch of the programme in 2021, several companies have made enhancements to commitments and disclosures around climate change. For example, we appreciated the response by Singaporean banking group OCBC following our letter on the bank's approach to climate risk management. Most notably, the group's acknowledgement of systemic risks from climate change, plans to align to TCFD reporting (including embarking on a climate-related portfolio assessment), and recent strengthening of its metals and mining policy to prohibit new financing to thermal coal mines. We also welcome the climate index OCBC has developed, assessing consumer attitudes to climate change and related messaging.

Likewise, Japan's Mitsubishi UFJ Financial Group (MUFG) revised its environmental policy to clearly state its intent to contribute to the realisation of a decarbonised society and reflect its net-zero 2050 plan. It will also alter its portfolio to align with the goals of the Paris Agreement.

As a result of "transforming our portfolio", the bank believes it can achieve net-zero-financed emissions. It joined NZBA and has started internal discussions for target setting of Scope 3 emissions.

Our engagement in 2022 will focus on encouraging the company to enhance disclosures on its approach to engagement for corporate finance, setting minimum standards to companies so it is clear to all parties what the thresholds are.

Another request is for the company to expedite timelines for disclosure on sector-wide carbon targets or interim portfolio carbon targets. We believe it is important to have strong and clear policies in sectors with long-duration assets that are clearly incompatible with the Paris Agreement. This is even more critical as MUFG is taking a long time to produce interim targets for financed carbon. Finally, we seek improved disclosure around its governance mechanisms, including appointing directors with climate change expertise to the board to support the relevant climate strategy discussions. Although we understand there are directors with experience on MUFG's board, it remains unclear if there is a transparent and consistent board nomination process that includes climate change considerations.

36. https://www.asiareengage.com/asia-transition-platform.

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

COLLABORATION CASE STUDY

Engaging on sustainable protein and climate and water impacts of the fast food supply chain

Various (Global)

E S G

Issue

In 2021, we continued our engagement on the two issues of sustainable protein and climate and water impacts of the fast food supply chain. These issues are critical since agriculture accounts for 11 per cent of global emissions (25 per cent if including emissions from land-use change, e.g. deforestation), and 70 per cent of freshwater withdrawals. Livestock and fish production consumes 83 per cent of global arable land, yet provides just 37 per cent of the world's protein and 18 per cent of global calorie consumption. And it has been estimated 70 per cent of deforested land in the Amazon basin can be attributed to the beef industry[37].

Action

We have been working with the non-profit group FAIRR for several years to support its work to encourage more sustainable agriculture. This year, together with other investors, we engaged with Sainsbury's to encourage a shift to more plant-based protein. We also engaged with McDonald's and Restaurant Brands International (RBI – owner of Burger King) to ask for better management of the climate and water impacts in their meat and dairy supply chain.

Outcome

Following our engagement, Sainsbury's has increased shelf space for chilled meat alternatives by 40 per cent, and resources dedicated to its plant-based product portfolio as well as investing in R&D of alternative proteins. Sainsbury's is one of the few companies tracking the split of animal versus plant-based dairy and protein.

We were pleased to see the companies ramped up their climate commitments, with five out of six fast food brands targeted by the $11 trillion global investor engagement stating they will set, or have already set, science-based targets (SBTs) to reduce their emissions. However, the companies have been much slower to address water scarcity and pollution risks to their meat supply chains. RBI intends to carry out a water risk assessment in its supply chain by 2023 and implement a water strategy by 2024. McDonald's is aligning with a 1.5°C ambition (previously 2°C) and is one of the most advanced quick-service restaurants in its engagement with suppliers.

However, concerns remain over its efforts to improve water stewardship in its supply chain, as well as the degree of corrective actions taken when suppliers do not meet the company's sustainability expectations.

We plan to continue these engagements in 2022.

37. Source: Exane BNP Paribas report, FAIRR.

Company names shown are informational and not recommendations to buy or sell.

4.3

ENGAGEMENT

Escalation

Escalation

Where engagement with companies, whether on strategic, performance, general ESG or specific voting issues, is undertaken, the effectiveness of such engagements will be measured and evaluated on a regular basis. We maintain a database to record our voting and engagement with companies, which allows us to review the effectiveness of our activities.

There will be times when, despite engagement with companies, our concerns have not been adequately addressed. Under these circumstances, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy.

'Engagement first' philosophy

Aviva Investors' ESG philosophy promotes the relative merits of engagement over divestment as the more effective mechanism of delivering positive change and outcomes for our clients and society. Our strong preference for engagement is built upon two key factors. Firstly, there is a lack of critical mass in the market for divestment (in the first instance) to be a meaningful tool for change – there is a queue of other investors ready to take our place should we decide to sell. Secondly, and more significantly, while divestment sends a signal of dissatisfaction to a company, it does not allow for a clear communication of a desired future state and expected roadmap for change. We prefer to stay invested, engaged, and partner with companies as they develop a climate strategy, allowing us to continue to influence the transition pathway as well as the pace. However, we recognise that for our engagement approach to have impact, it must be accompanied by a robust escalation process. There are a number of escalation tools available to us including the ultimate sanction of divestment.

Considerations when determining escalation

In making decisions as to whether engagement will be escalated, a number of factors will be considered, including:

- circumstances in which an issue has arisen;
- relevant best practice standards and investor guidelines;
- reasons and explanations provided by the company;
- potential significance of the issue for our investments and our clients;
- pattern of issues, in combination or over time;
- client mandates, preferences and portfolio strategies; and
- traction the initiative and objectives will have with the wider shareholder base, and scope for collaboration with other stakeholders.

AVIVA INVESTORS

Forms of escalation

Aviva Investors has and will use all engagement tools available to hold companies responsible and drive alignment with our expectations. The particular approach and avenues we adopt will depend on the circumstances of each case and may change in light of progress or other developments.

Escalation may include:

Enhanced engagement: Additional meetings will be organised with company management and/or non-executive directors to improve performance. In tandem, we will express concerns via company brokers and advisers.

Collaborative engagement: We will join forces with other investors to represent a larger block of shares. For example, CA100+, a major global initiative that aims to help limit global warming to less than 1.5 °C, is one of the most effective collaborative engagement initiatives. Over 370 investors with US$35 trillion under management are using a 'divide and conquer' strategy to ensure limited engagement resources are employed most effectively to spur change at over 100 of the world's biggest greenhouse gas emitters. We also participated in ShareAction's coordinated letter-writing campaign to banks, which called for more robust and relevant climate-related disclosure to be supplied to investors. **See collaboration case studies** for more information on positive outcomes at companies following collaborative engagement, supported by Aviva Investors.

Public statements: On an annual basis we will write open letters to investee companies and sovereigns outlining our stewardship priorities and key expectations. The 2021 letter from our CEO to more than 1,500 companies across 30 markets and 21 sovereigns can be found **here**.

Shareholder meeting action, including joint statements and questions: We may circulate a statement of issues or raise concerns at shareholder meetings. This has the advantage of allowing us to engage the whole board, raise awareness, and potentially gain press attention. For example, during the 2021 voting season, we issued a joint statement of support with other CA100+ co-lead investors to be read out at BP's annual shareholder meeting, outlining priority areas of focus for 2022 to ensure its strategy is consistent with the goals of the Paris Agreement. As part of our collaboration with Asia Research & Engagement (ARE), we also presented questions to the boards of Huadian and Huaneng at their 2021 AGMs concerning plans and disclosure relevant to climate change mitigation.

Voting against the company: Where a company continues to fail to meet our expectations, as shareholders we may choose to withhold support or vote against management.

The following resolutions are most relevant: director appointments, auditor appointments, approval of the annual report and/or accounts. Companies will be informed of voting intentions in advance of votes being taken, and reasons for the vote after it has taken place, to improve company performance against metrics in line with our engagement strategy. Full detail on our voting policy can be found on **our website**. We may use any combination of votes and may also decide to ratchet up these votes over time.

Shareholder resolutions: In certain markets it may be appropriate to file/vote for a relevant shareholder resolution. These are proposals put forward by shareholders in an effort to change a company's approach. Their effectiveness varies by jurisdiction as in the US they are advisory, and investors must avoid 'micromanaging' the company. However, with careful planning, investors can succeed. In 2021, we voted in favour of 82 per cent of climate and social shareholder proposals.

Selective divestment: Where neither engagement or voting has proven effective in driving required change, we may sell the entity's shares and/or credit, thereby raising companies' cost of capital.

AVIVA INVESTORS

ESCALATION CASE STUDY

Climate engagement escalation programme (CEEP)

Various (Global)

E S G

Issue

Despite the prominence of climate change on the global agenda, new temperature records are being broken year on year. The latest instalment of the IPCC assessment report (AR6) summarises the severity of the situation in stark terms, that climate change is "widespread, rapid and intensifying". Similarly, the IEA's latest reports articulate in the clearest terms yet the necessity of meeting global net-zero emissions by 2050.

Over the last 18 months, investors have seen a raft of companies publish long-term climate ambitions. While this marks tremendous progress, it is now incumbent on companies to evidence the robustness of their transition plans. Oftentimes, these strategies are either misaligned with what science dictates or lack the details of delivery.

Action

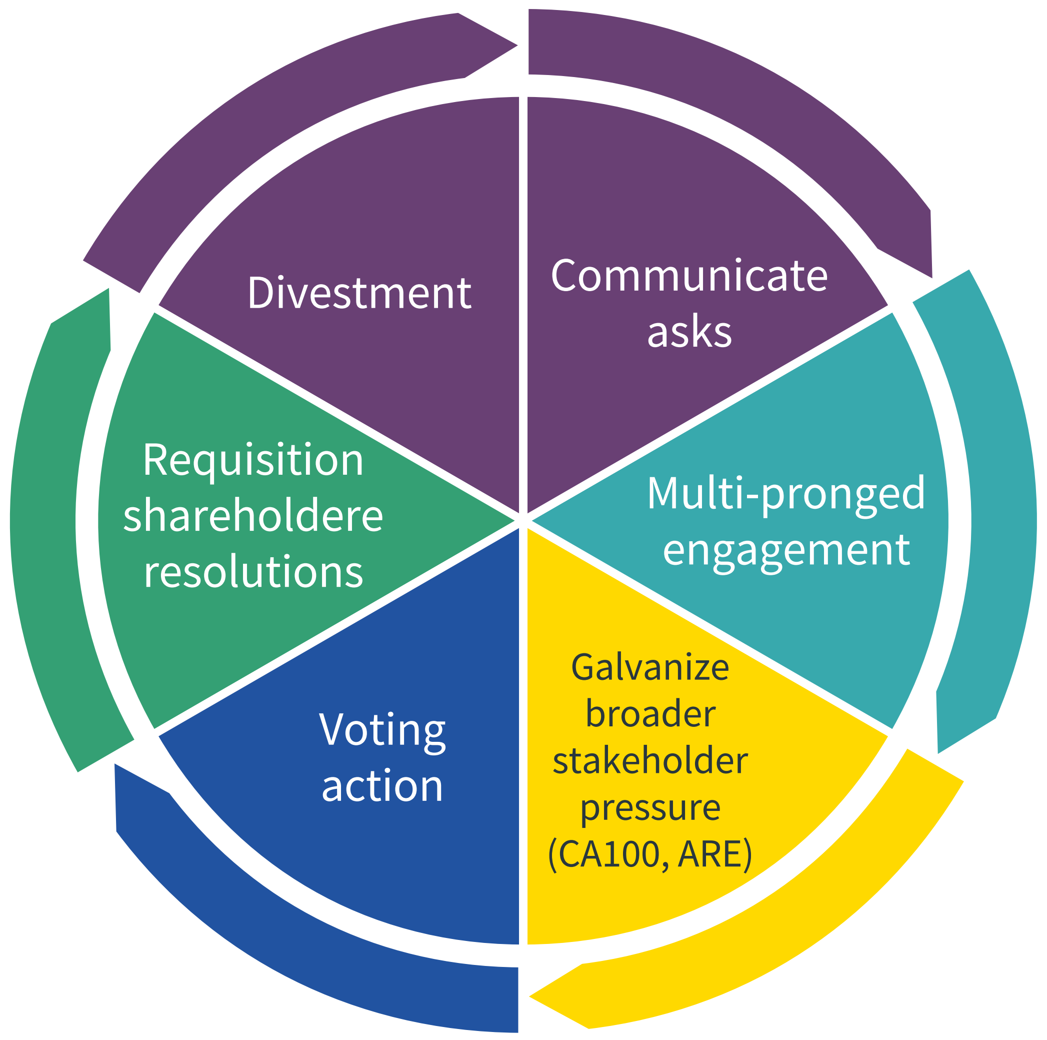
In response, Aviva Investors is seeking to drive the adoption of robust net-zero 2050 emissions targets alongside clear near-term transition roadmaps.

Since January 2021, we have been engaging with 30 of the most systematically important carbon emitters from the oil and gas, mining, steel and utilities sectors across our equity and credit strategies, to address gaps in their climate action commitment and performance towards a low-carbon future. In doing so, Aviva Investors engages with companies which account for nearly a third of global carbon emissions. The reality is that a transition to a low-carbon economy requires unprecedented progress across multiple sectors simultaneously. This is why the programme is intended to help concentrate our efforts in driving change amongst 30 systemically important carbon emitters, accompanied by strong indicators of genuine behavioural changes such as adjustments to compensation structures to reflect climate goals.

The focused engagement programme will operate for a period of three years and emphasise action across several areas: (i) robust climate targets, aligned with the scientific consensus on climate change, (ii) transition plans, (iii) climate governance, (iv) appropriate climate disclosures, (v) lobbying.

A formal assessment of company progress using our proprietary framework is conducted on a bi-annual basis. Outcomes of this analysis will determine candidacy for further escalation – and for particularly poor performing or unresponsive firms – divestment across our equity and credit portfolios where Aviva Investors has discretion to take action.

A robust escalation approach to track and drive progress through life of programme

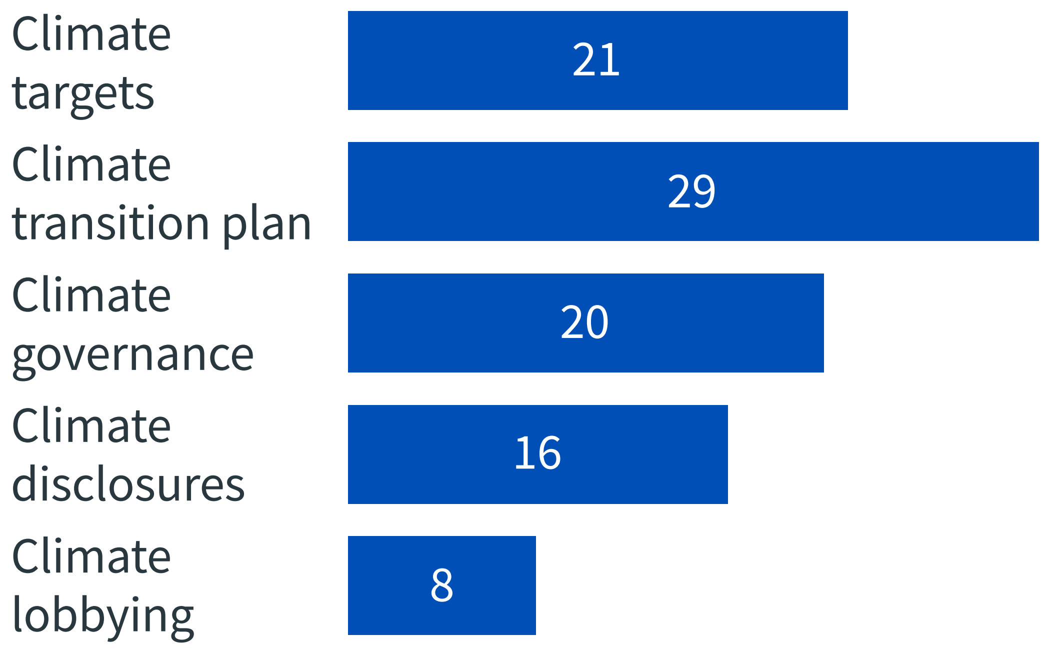


Outcome

While acknowledging we are in the early stages of a long journey, there were a number of positive outcomes during the year that have given us cause for optimism.

As of the end of 2021, we had conducted 120+ engagements across the focus group and secured 94 wins across the five programme asks, particularly with respect to the formalisation of public climate commitments, progress on board governance and climate reporting.

Breakdown of 2021 CEEP wins



AVIVA INVESTORS

ESCALATION CASE STUDY

Climate engagement escalation programme (CEEP) (cont'd.)

Various (Global)

E S G

Questions still remain over the variations of scope of commitments and clarity on the details of delivery. Nevertheless, these developments will form a strong foundation for us to build on in the coming year.

Reliance industries has demonstrated a significant change in its ambition with its new goal to become net zero by 2035 and plans to invest in four 'gigafactories' to produce photovoltaic modules, batteries, fuel cells and electrolysers for green hydrogen, as well as transition away from refining oil for combustion fuels to focus on petrochemicals. To demonstrate commitment to the low-carbon transition and hold itself accountable to achieve its net-zero ambition by 2035, 2022 engagement will focus on urging the company to adopt formal intermediate targets to reduce Scope 1, 2 and 3 emissions in the short to medium term and disclose more detail on its climate action and future plans, including how it plans to reach its net-zero by 2035 goal.

Valero Energy has enhanced its disclosures in presenting an updated report following the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and agreeing to participate in the CDP climate change questionnaire for 2021. The company has also tightened board and committee oversight of climate-related risks and compliance, including "GHG reductions and renewable fuels strategy" and introduced a new "energy transition performance measure" into its incentive compensation programme for executive officers. We look forward to seeing how this good governance practice helps accelerate Valero's climate progress and will focus on encouraging the company to develop longer-term targets or a Scope 3 emissions reduction target.

Marathon Petroleum has enhanced its reporting on diversity, equity and inclusion; greenhouse gas emissions; biodiversity; stakeholder engagement; and other related topics. Its reporting now includes an estimate of the Scope 3 emissions from the products it processes and markets to the consuming public. Crucially, the company has disclosed more detail on its greenhouse gas emissions intensity goal tied to compensation, and made progress in reviewing its business against a "less than 2-degree" or "low-carbon" scenario, using scenarios developed by the International Energy Agency (IEA).

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

TOTALENERGIES – Geographically limited emissions target overhangs reassuring pivot to renewable energy

Issue

We met with TotalEnergies on several occasions over the course of 2021 to discuss the parameters of its climate strategy and explain our decision to 'abstain' on the management-resolution filed at its May AGM calling on shareholders to approve its energy transition strategy.

Action

We welcomed the company's pioneering decision to provide shareholders with a regular vote on its energy transition plan and recent progress, most notably setting absolute medium-term (e.g. 2030) emission reduction targets on a Scope 1-3 basis; which has provided confidence in demonstrating to shareholders it is on a trajectory compliant with its longer-term goals. However, we explained certain gaps in its strategy needed to be mitigated to provide investors with reassurance it would be able to transition within the timeframe specified to deliver net-zero GHG emissions across all material emissions globally, in line with the science on limiting global warming to 1.5°C above pre-industrial levels. Example areas for further improvement included setting out an explicit worldwide net-zero Scope 1-3 absolute reduction target by 2050 with intermediate milestones; a specific quantitative Scope 3 emissions reduction target; more tangible and quantitative capex commitments; and a clearer operational strategy for the low-carbon transition that included reducing the sale of gas, which holds stranded asset risks.

Outcome

TotalEnergies has since strengthened its 2030 commitment to 40 per cent net emissions reduction from oil and gas operations (Scope 1 and 2) versus 2015 levels to achieve greater emission cuts. It has also provided welcome colour on growth plans to accelerate renewable power capacity and to reduce emissions from its own operations, having installed more than 400 emissions reduction projects. As part of its September announcements, TotalEnergies also provided change to details on its capital spending plan for 2022-2025, setting the figure at $13 billion-$15 billion during the four-year period (down from a prior peak of $16 billion). We have been impressed that investment in renewables will reach 15 per cent of capex by 2025 and more than 20 per cent by 2030. Management's prediction for 2030 low-carbon capacity of 100GW is the largest by far amongst European producers. We will continue to engage and assess the company's transition pathway and progress ahead of its next AGM.

Priorities

In 2022, we will continue to use this targeted programme in tandem with our **macro engagement with policymakers** as an important tool to drive transformational climate change at the necessary speed and scale.

Specific areas we are looking to raise the bar include the following:

- Board of directors and C-suites should evidence **relevant competencies in climate-related issues** and this should manifest in the formal board nomination process.
- Meaningful consideration of **material climate risks in company accounts and associated audits**.
- Evidencing **the employment of best practice just transition principles to** understand and alleviate the social impact of company decarbonisation strategies.

We are also increasing the stringency of our minimum sanctions to encourage companies to align their efforts with the goals of the Paris Agreement. Chairs or other responsible directors of companies persistently falling short of our climate expectations and/or demonstrating insufficient responsiveness will receive a vote against during the 2022 AGM season. Refer to our **global voting policy** for more detail on the hierarchy of proposals we will target if a voting sanction applies for companies.

Company names shown are informational and not recommendations to buy or sell.

5

Exercising rights and responsibilities

Holding management to account through voting

Voting is a crucial part of the investment process and we have had a formal and considered voting policy since 1994. Our voting policy is reviewed annually and signed off by the Aviva Investors board.

We have explicitly incorporated corporate responsibility disclosures and performance into our voting since 2001; being one of the first asset managers to do so globally. We actively exercise our rights as shareholders to promote responsible and sustainable practices in companies in which we invest.

Our 2021 voting statistics – key numbers

- Voted on **70,956** resolutions at **6,648** shareholder meetings
- Voted against 26.6 per cent of management resolutions, including **46.8** per cent of pay proposals

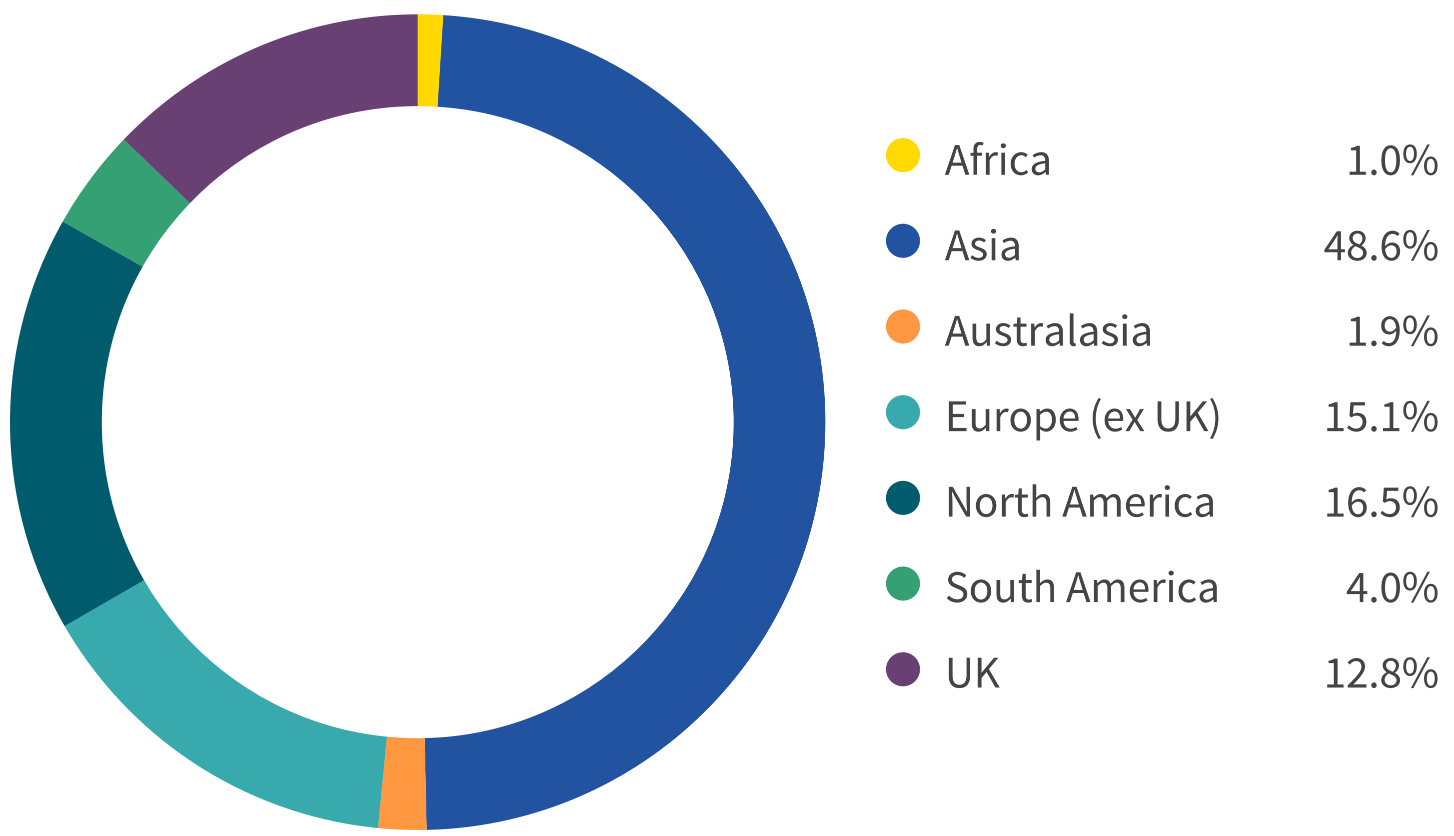
Source: Aviva Investors.

2021 voting activity by issue

	Number of resolutions	Non-support (%)
Anti-takeover measures	83	19%
Auditors	5,207	23%
Climate-related	25	20%
Directors	28,737	33%
Other	8,900	12%
Related party transactions	2,871	19%
Remuneration	7,803	47%
Report & accounts	4,933	8%
Share issues/capital related	9,246	16%
Shareholder resolution	800	35%
Shareholder resolution (supported by management)	1,106	18%
Takeover/merger/reorganisation	1,245	25%

Source: Aviva Investors.

2021 voting activity by region



Source: Aviva Investors.

Voting decisions

Votes are determined by the stewardship function (ESG analysts) in conjunction with portfolio managers, who inform the decision-making process by bringing their knowledge and assessment of company strategy and any special circumstances. The starting point for vote decisions is the Aviva Investors global voting policy, which covers sustainable outcomes; board leadership and effectiveness; controls and audit; share capital authorities; shareholder rights; data security; remuneration; investment trusts; our process; and remuneration principles.

In order to target our stewardship activities, we have distilled the UN Sustainable Development Goals into three key pillars: people, earth and climate. These are directly related to what we see as the three greatest sustainability challenges of our time: social inequality, biodiversity loss and climate change.

Following on from this, we have identified three sustainable outcomes we want to deliver to create a more sustainable future for people and the planet. These are a net-zero, nature-positive, and more socially just economy and society. Our voting policy aims to support delivering these three sustainable outcomes. For example, we will not support the chair of the board or chair of the sustainability committee of companies (particularly those that operate in high-impact sectors) that have not made sufficient progress in providing the market with investment-relevant climate disclosures, including not having published or committed to publish science-based targets. A similar approach is taken for concerns over **human rights** and in our voting for concerns over **board diversity**.

To support us in making voting decisions on thousands of meetings a year, we subscribe to research from a number of third-party providers. These include Institutional Shareholder Services (ISS), the Investment Association's IVIS service and MSCI. We use research for data analysis only and do not automatically follow research provider voting recommendations.
We also receive recommendations from ISS based on our own policy, which we can override in consideration of other factors, including internal views, additional context provided in external research, and company explanations.

We voted at 98 per cent of the meetings we were eligible to vote at. Unvoted meetings were primarily due to additional costs associated with legal and administrative processes in certain jurisdictions, which outweighed the benefits to our clients of casting a vote.

Given the number of companies we own in our portfolios (including index funds), we seek to prioritise engagement by size or value of holding and where it is most likely to benefit our clients. This allows us to consider additional context from the company, which occasionally results in us changing a vote. In addition, every year we write to the large majority of the companies we hold to notify them of our voting policy (highlighting any changes we have made), and also direct them to our voting records, where they are able to see how we have voted at their AGMs, etc., and our reasons for not supporting any resolutions.

As can be seen from our voting records, we have a strong record of opposing

> We seek to prioritise engagement by size or value of holding and where it is most likely to benefit our clients. As can be seen from our voting records, we have a strong record of opposing resolutions and holding boards to account

AVIVA INVESTORS

Voting decisions (cont'd.)

resolutions and holding boards to account. We maintain a database to record our voting and engagement with companies, which allows us to review
the effectiveness of our work. For our priority holdings, we review these on a quarterly or half-yearly basis.

There will be times when, despite voting against and/or engaging with companies, our concerns have not been adequately addressed. Under these circumstances, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy. As part of our escalation process, we may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise our voting rights against the board.

As a last resort we may requisition a general meeting of a company or a resolution at an annual general meeting, or support others who are doing so. We may also make public statements where we believe this is appropriate. However, we expect this to happen only in the most extreme cases.

Significant votes

In line with the Pension and Lifetime Savings Association (PLSA) vote reporting guidance, we provide clients with details of what we consider to be the most 'significant votes' in relation to their portfolios.

The purpose of this is to help pension trustees meet their regulatory duties, to demonstrate how they are acting as effective stewards of their assets. Over time, this reporting should give clients a better understanding of how well asset managers are using their votes to hold management to account and improve the sustainability of companies.

The key criteria we look at in determining significant votes undertaken for portfolios include:

- Whether the vote is high-profile or controversial, which may include a significant level of public, media or political interest;
- The commercial impact of a vote e.g. the approval of a large merger or acquisition;
- The potential impact on stewardship outcomes from our key areas of focus, e.g. if our voting decisions seeks/has achieved an improvement in the diversity of the board or more broadly across the organisation;
- Shareholder resolutions deemed material, e.g. even if they don't obtain majority support, they are likely to encourage the board to address ESG issues that are creating unnecessary risks for the company; and
- How significant the holdings are in relation to the fund and to Aviva Investors', aggregate holding – the larger the holding, the more ability we have in driving change.

Voting decisions (cont'd.)

Other considerations

Clients – While we do not consult clients ahead of each vote (given the significant practical challenges this will create), we are always keen to understand their views on particular issues or companies and are happy to provide details of how we voted after the event. In 2021, we were also involved in a pilot scheme with the start-up Tumelo, enabling end investors to have a voice and be empowered to be part of the voting process. We regularly checked to see how the participants were voting, particularly on the more high-profile resolutions. Obviously, checking is different from being influenced, but this pilot certainly gave us a better idea of the focus areas and views from our clients and it was pleasing to see such views were similar to ours.

More broadly, we have been working with our client experience project team and will institutionalise a standard question asking clients about their stewardship preferences and priorities. This will be invaluable in shaping our voting policy and engagement plans to continue to meet client aims and expectations.

There may also be occasions where voting exceptions have been specifically agreed with our clients in segregated funds, but generally we retain responsibility for ensuring voting is carried out in a manner consistent with our own approach to stewardship. If a pooled fund investor asked us to vote a certain way, we would not be able to do this unless it was consistent with our view or the vote direction was in the best interests of all investors in that fund. We may also contact clients if there is a conflict of interest.

Stock lending – we manage our own stock lending programmes and have strict procedures in place that allow us only to lend shares up to agreed thresholds. We also **recall shares on loan** for the purposes of exercising voting rights where there is good reason to do so (for example, for contentious meetings or on especially important matters) and when this is considered to be in the best interests of our clients.

Voting disclosure – In line with best practice, we make all our voting history (decisions and a summary of our engagement) publicly available on our website.

For voting disclosure, meetings are updated one month in arrears (for example, a meeting held on 1 December 2021 will be displayed on 1 January 2022). In addition to providing the key reasons in respect of any against votes and abstentions, we provide detailed rationale on resolutions we have 'exceptionally' supported.

As already mentioned, we made voting more inclusive and accessible through a pilot with Tumelo so that people can see more easily and in real time the voting we are doing on their behalf. Moreover, for our standard reporting we also show our voting record for the fund in question.

Fixed income votes – Voting has the most direct relevance to equity investments as shareholders have the right to vote at shareholder meetings, such as annual general meetings (AGMs). As the name suggests, shareholders have an annual opportunity to exercise their voting rights and hold boards to account.

However, Aviva Investors' stewardship principles are also applied to other asset investment classes such as fixed income and property, where appropriate. For example, bondholder meetings may be convened to seek consent from the relevant bondholders in respect of amendments to trust deeds or indentures that may affect the terms of the bonds. Decisions on these votes will be determined by the fixed income analysts and fund managers, based on what they consider to be in the best interests of the funds and clients.

AVIVA INVESTORS

VOTING CASE STUDY

Voting for enhanced D&I disclosure

Union Pacific Corporation (United States of America)

E S G

Issue

Our expectations for companies on diversity and inclusion include setting a strategy to increase the number of ethnically and socially diverse employees in senior management, report against targets and publish gender and diversity data.

A shareholder resolution was proposed that requested the board of directors adopt a policy requiring Union Pacific to disclose on its website its consolidated EEO-1 report. This is a comprehensive breakdown of its workforce by race, ethnicity and gender that the company is required to submit annually to the U.S Equal Employment Opportunity Commission (EEOC).

Action

This shareholder resolution was selected given it is consistent with our views and the issue is sufficiently material to the investment case, which is why we chose to support this resolution. Union Pacific already disclosed some workforce/diversity data and has made commitments to improve diversity; however, we believed additional disclosure would allow shareholders to better assess the effectiveness of the company's diversity initiatives and management of related risks.

Outcome

The shareholder resolution was approved with 86 per cent of the votes. The company has now disclosed its EEO-1 reports from the past three years (2018-20), which has enabled us to better assess the effectiveness of its diversity initiatives and management of related risks.

This has supported our view of the company of having improving momentum, from an ESG perspective.

Company names shown are informational and not recommendations to buy or sell.

VOTING CASE STUDY

Upholding corporate culture in standing against sexual harassment and gender discrimination

Microsoft (United States of America)

E S G

Issue

Corporate culture is a key issue for the tech sector. More specifically, sexual harassment has been an ongoing issue for this company. Between 2010 and 2016, Microsoft received 238 discrimination and harassment lawsuits; of these, only one case was upheld, whilst the rest were dismissed. This is a material concern as controversies related to workplace sexual harassment and gender discrimination are a risk for the sector, company and shareholders.

Action

At Microsoft's AGM in November 2021, a shareholder resolution was filed, requesting Microsoft to report on the effectiveness of its workplace sexual harassment policies. The resolution received an unprecedented level of support, with 78 per cent of Microsoft shareholders voting for, despite management recommending shareholders vote against it (an event which is quite uncommon).

Outcome

As a result of this resolution being passed, Microsoft stated it would commission an independent review of how it handles harassment claims and make the results public. We will be monitoring progress on this, especially given its intention to acquire Activision Blizzard, a company which has an extensive history of sexual harassment and discrimination claims.

VOTING CASE STUDY

Improving board composition at Equinix

5 GENDER EQUALITY
12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Equinix (United States of America)

E S G

Issue

Equinix is a global digital infrastructure company that operates data centres and provides interconnection solutions. In a world of ever-increasing data traffic, Equinix's environmental targets in its data centres and interconnected business are recognised in playing a role in the fight against climate change. Whilst we are supportive of its sustainability efforts, we have had concerns around board composition at the company for several years, including the presence of a number of long-serving directors and the lack of gender diversity, which compromised its ability to exert independent oversight.

Action

We have taken action in recent years through our voting powers on specific directors' re-elections who have been on the board for several years. In addition to reducing the overall independence of the board, they sit on key board committees, which should comprise of independent directors only. We also have concerns that the board chair is non-independent. However, we exceptionally supported his re-election in 2021 because of the board refreshment in recent years. We engaged with the company to make it aware of our voting stance, views and expectations on board composition and other critical issues such as remuneration.

Outcome

Since 2019, there have been material improvements to the composition of the board. Two additional female directors have been appointed, replacing two long-serving directors. This has resulted in an increase in independent directors. Whilst the CEO and chair roles are separated, we will continue to monitor the company's corporate governance, especially as the chair is not independent.

VOTING CASE STUDY

Blocking the offer for Spire Healthcare – the commercial importance of exercising voting rights

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Spire Healthcare (United Kingdom)

E S G

Issue

On 26 May 2021, Spire Healthcare Group, a private hospitals operator, announced it had reached an agreement to be acquired by Ramsay Health Care. Under the terms, Spire shareholders would receive £2.40 in cash for each share held, valuing the company at £962.6 million.

On 5 July 2021, the company announced an increased and final recommended cash offer by Ramsay. Under the new terms, shareholders would receive £2.50 per share (valuing Spire at approximately £1.041 billion), representing a 4.2 per cent increase on the prior offer price and a 30 per cent premium to the share price on the day prior to the announcement of the initial offer.

For the offer to proceed, shareholders would need to approve it at the general meeting and court meeting on 19 July 2021.

Action

We voted against the acquisition as we were not supportive of the deal at the price(s) being offered. Our view was that the discount to Spire's historic average multiple is not sufficiently attractive to gain control, especially when the company's outlook is as promising as it ever has been. We also ensured that none of our shares were on loan to enable us to vote 100 per cent of our holding.

Outcome

The total votes in favour of the resolutions were 69.9 per cent (at the general meeting) which were below the minimum threshold of 75 per cent needed for the acquisition to go ahead. Accordingly, the acquisition of Spire by Ramsay terminated, and the scheme lapsed. We are pleased a significant number of other shareholders shared our views and, although the share price fell by almost ten per cent on the day the offer was not approved, the shares have bounced back and were trading significantly above the preannouncement price as at December 2021. The importance of exercising voting rights cannot be underestimated.

VOTING CASE STUDY

A change of chair needed following ongoing shareholder dissent from shareholders

Informa (United Kingdom)

E S G

Issue

We have had concerns with governance at Informa for a number of years, in particular around the quantum of executive pay and introduction of a new restricted share plan (RSP). This resulted in us voting against various pay resolutions at shareholder meetings since 2020. Large votes against management resolutions have repeatedly raised concerns over the effectiveness of the board, the company's response to shareholder views and the culture of the business.

Action

At Informa's 2021 AGM, in addition to voting against the remuneration report, we voted against the chair of the remuneration committee Stephen Davidson, to reflect our ongoing concerns. In addition, the decision to adjust the 2018 LTIP award was particularly controversial.

We also continued our engagement with the company directly and through the Investor Forum, collective engagement that was initially established in response to ongoing pay concerns and the need for better chair succession.

Outcome

The resolution to approve the remuneration report was not passed (only 38.3 per cent supported). The resolution to re-elect the remuneration committee chair only just passed with 53.4 per cent of the votes. It is disappointing issues still remain but the appointment of the new chair, in place since the AGM, has provided a fresh opportunity to address our concerns and for a more constructive approach to shareholder engagement.

Since October 2021, we have also seen the appointment of three new non-executives, including a new remuneration committee chair who will bring a fresh approach to discussions and has the necessary experience.

Of course, it is still possible the company could once again see significant votes against at its 2022 AGM, particularly if concerns around the RSP remain and retrospective changes are made to the 2019 LTIP targets.

Company names shown are informational and not recommendations to buy or sell.

VOTING CASE STUDY

Holding boards to account for lack of progress on improving diversity

Various (Global)

E S G

Issue

Improving diversity and inclusion was one of our priority focus areas for the year and will continue to be. This is because we believe the balanced representation of board directors with respect to gender, ethnicity and social backgrounds is a critical business issue, one that is essential for ensuring a deep understanding of key stakeholders and securing the best talent. Additionally, companies have a responsibility to actively promote social inclusivity and break down rather than reinforce social barriers.

Action

At the start of 2021, we wrote to boards to explain our expectations in this area and, moreover, to inform them we had extended our voting policy to ethnic diversity (we have been holding companies to account for poor gender diversity since 2013). We were among the first investors to do this.

During the year, we voted against or abstained on the re-election of 137 board and/or nomination committee chairs for their boards not having at least one ethnically diverse director, particularly if a credible diversity strategy had not been disclosed. We also engaged with several companies specifically on their progress (or lack of) and relevant disclosures.

Outcome

A number of the companies we voted against or engaged with have addressed the issue since their AGMs and almost half of FTSE 350 companies now have one ethnically diverse director, double the level in 2020. For example, we exceptionally supported the re-election of the chair of FTSE 350 financial services company Brewin Dolphin due to positive disclosures and initiatives on ethnicity. We engaged with the company in February, and it was pleasing to see Brewin appoint a director from an ethnic minority background in May. We voted against the chair of CRH plc, a building materials business in the FTSE 100, and again, since the AGM, the board has addressed the lack of ethnic diversity.

Of course, this is not only a board-level issue. Companies need to do more at senior management levels and throughout the business and we will continue to actively engage on this. In addition, we expect companies to provide greater disclosure on their approach to ethnic diversity, including how they plan to tackle the issue.

Company names shown are informational and not recommendations to buy or sell.

VOTING CASE STUDY

Executive pay immune to COVID-19

Various (Global)

E S G

In our 2020 Responsible Investment Review, we highlighted that we had voted in favour of more executive pay arrangements in 2020 than in previous years and that companies should be given credit for showing restraint (in many cases, reducing pay) as a result of the global pandemic, having gone through a period of paralysis in 2020. However, we also said we had reservations this will not continue in 2021, and in our letter to companies, we made it clear they should show restraint when determining executive pay during periods of low wage inflation, cost-cutting initiatives and when there has been a significant erosion in stakeholder value.

Unfortunately, our reservations have been proved right. Or, in other words, there has been a significant uplift in the number of remuneration-related resolutions we did not support in 2021, compared to 2020 (H1). There are many reasons we vote against pay arrangements, but most are based around pay and performance misalignment.

In 2020 we supported 78% of all UK remuneration-related proposals – this fell to 67 per cent in 2021. The US numbers are more telling because in 2020 we only supported 38 per cent of all remuneration-related proposals and this number has fallen to 32 per cent.

Behind these figures are a significant number of companies that have adjusted targets for bonuses and share awards to effectively neutralise the financial impact of the pandemic, so directors continue to be rewarded. Others have made significant retention awards to compensate directors for loss of earnings.

Fairness and equality is the issue here and the consideration of broader stakeholder interests, not just shareholders. How have companies treated their employees during the pandemic (reduced hours or wages perhaps, redundancies, staff safety and wellbeing)? How are they protecting their supply chains and customers? Have they been bailed out by shareholders and/or government (and not paid the money back)? In times of distress, when stakeholders are negatively impacted, any bonus to executives is understandably going to attract attention.

The dilemma for companies whose management teams have navigated the ship through choppy waters is whether they should be penalised (for failing to hit pre-set bonus targets). But in our view, steering companies through periods of difficulty should be part of management's job (that's what their salary pays) and, most companies faced very similar issues. The real test is whether management actions result in long term stability, and in some cases, survival. Achieving this should absolutely result in directors being rewarded (preferably though long-term incentives) but this goal will be considerably more difficult if stakeholders have been disenfranchised.

In 2020 we supported 78 per cent of all UK remuneration-related proposals – this fell to 67 per cent in 2021. The US numbers are more telling because in 2020 we only supported 38 per cent of all remuneration-related proposals and this number has fallen to 32 per cent

VOTING CASE STUDY

Executive pay immune to COVID-19 (cont'd.)

Various (Global)

E S G

Despite the increase in votes against, the majority of UK companies appear to understand how large awards to executives will be perceived by stakeholders who have experienced uncertainty and difficult times during the pandemic. This is a good thing given our significant investment in the UK. Companies in other markets have not been so sensitive to the bigger picture and this could have repercussions in the long run, especially if companies don't learn from large votes against. For example, investors have revolted against executive pay in record numbers in the US.

Companies such as General Electric, AT&T and Starbucks have failed to win a majority of shareholder support for pay packages. In the UK, we voted against pay at JD Sports and Diageo because the pay ratio between CEO and average employees was excessive.

The quantum of executive pay and unjustifiable differentials with the workforce remains a problem and will continue to drive robust voting action by Aviva Investors (average FTSE 100 pay fell 17 per cent to £2.69 million but is still 86 times higher than the median full-time worker in UK).

In 2022, we are also looking for structural change on top of quantum constraint with pay to be more clearly aligned with sustainability objectives.

Sustainability metrics need to represent a more material part of executive pay, and targets incentivising unsustainable practices should be retired. We would not expect total pay outcomes to increase following this change.

> In the UK, we voted against pay at JD Sports and Diageo because pay ratio between CEO and average employees was excessive

Company names shown are informational and not recommendations to buy or sell.

AVIVA INVESTORS

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About us

From micro to macro ESG engagement

In one way, 2021 was no different to previous years as corporate engagement formed the bedrock of our stewardship activity, as did integrated ESG practices across our portfolios. We voted on 70,956 resolutions at 6,648 shareholder meetings.

However, it was considerably different in many other ways. Firstly, we upped the ante on our climate escalation policy, which focuses on 30 'systemically important carbon emitters' responsible for around 30 per cent of global Scope 3 emissions. The enhanced focus is on long-term net-zero targets, clear roadmaps for change, strong governance and reporting to enable accountability for delivery, and the alignment of corporate lobbying with the commitments of the Paris Agreement.

By targeting the largest polluters in global carbon emissions, positive changes should flow through to wider industry practices and amplify the impact. But for those that fail to meet our climate expectations within a fixed timeframe (both in our equities and credit investments), we will divest.

Our sustainable outcomes approach expanded across asset classes, supporting the United Nations' Sustainable Development Goals, specifically focusing on People, Climate and Earth.

Yet arguably the biggest shift was in crystalising and reframing our market reform efforts under the label macro stewardship. It is not a coincidence this occurred during a historic year for climate change efforts, with COP26 and the G7 meeting both hosted in the UK.

Our asks for mandatory corporate transition plans and Mark Carney's $130 trillion Glasgow Financial Alliance for Net Zero (GFANZ) represent key successes in this area. We continued to convene public and private stakeholders under the auspices of a proposed International Platform for Climate Finance, with the specific aim of creating a more coordinated finance plan to support the implementation of the Paris Agreement.

Engaging with governments as sovereign bondholders also formed part of our macro stewardship agenda. We wrote to finance ministers and heads of central banks in 21 countries from the UK to Brazil and urged them to address climate risks, warning of the risks to their sovereign debt. This activity has not only been worthwhile, but generated impact and investment insights as well.

Markets are amoral, people are not. This is our guiding philosophy on market reform. There is no grand architect of our current global financial system; it has evolved out of treaties, pacts, and spontaneous innovation and mission creep. Though far from ideal, this offers us the opportunity to change things from within. As knowledgeable practitioners, we have the ability to affect change in the financial system and help maintain market integrity, thereby helping to create a better version of capitalism.

If to exercise stewardship on something is to leave it in a better condition than when it was entrusted to you, then embedding macro stewardship into markets themselves should be a legacy of which we could all be proud.

AVIVA INVESTORS

Governance of ESG and ESG specialists

The next few pages introduce you to all of the people across Aviva Investors who have an ESG investment governance or execution role.

Mark Versey
Chief Executive Officer

Colin Purdie
Chief Investment Officer, Liquid Markets

Daniel McHugh
Chief Investment Officer, Real Assets

Mirza Baig
Global Head of ESG Investments

Steve Waygood
Chief Responsible Investment Officer

Abigail Herron
Global Head of ESG Strategic Partnerships

Ed Dixon
Head of Responsible Investment, Real Assets

Andy Ford
Head of ESG Investment Specialists

Cyril Martin
Head of Investment Solutions Strategy and Design

ESG specialists embedded within the business

Our ESG views are informed by connected thinking across asset classes, across multi-stakeholders and across the industry. Our ESG colleagues facilitate knowledge-sharing across the business and upskill the investment teams.

Aaron Harper-Williams
Head of ESG Data

Alice Fisher
ESG Stewardship Operations Analyst

Andrea Perales Padron
ESG Analyst

Candice Thorpe
Head of ESG Strategic Development

Doris Ko
ESG Operations Manager

Eleanor Austin
Sustainable Outcomes Analyst

Eugenie Mathieu
Senior Impact Analyst (Earth Pillar Lead)

Greg Heywood
ESG Investment Director

Greta Talbot-Jones
Responsible Investment Associate Director

Jack Morris
Responsible Investment Associate

Jess Foulds
Senior Manager

Kiran Sehra
Biodiversity Analyst

Louise Piffaut
Head of ESG Equity Integration

Louise Wihlborn
ESG Analyst

Luisa Jobson
Sustainable Outcomes Analyst

Luke Mulley
ESG Analyst

Mikhaila Crosby
Responsible Investment Associate

Nathan Leclerq
Senior Corporate Governance Analyst

Oliver Morriss
Macro Stewardship Analyst

Olivia Ekeke
ESG Investment Director

Rachana Nirgudkar
Corporate Governance Analyst

AVIVA INVESTORS

ESG specialists embedded within the business (cont'd.)

Rebecca Vine
Senior Corporate Governance Analyst

Richard Butters
Senior ESG Analyst

Rick Stathers
Senior Impact Analyst (Climate Pillar Lead)

Sora Utzinger
Head of ESG Corporate Research

Thomas Dillon
Head of ESG – Sovereign

Thomas Tayler
Senior Manager

Trevor Keeling
Sustainable Design Associate

Vaidehee Sachdev
Senior Impact Analyst (People Pillar Lead)

Yevgeniy Hildebrandt
ESG Investment Specialist

AVIVA INVESTORS

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Appendix

AVIVA INVESTORS

Appendix: Collaborative list

Founders

- Founding signatory of the Carbon Disclosure Project
- (CDP) & first asset manager to formally integrate corporate responsibility to voting policy
- Founding signatory of ClimateWise
- Founder of Corporate Human Rights Benchmark (CHRB)
- Founder of Corporate Sustainability Reporting Coalition
- Founder of Digital Inclusion Benchmark
- Founding signatory to the Farm Animal Investment Risk & Return (FAIRR)
- Founding partner of Oxfam 365 Alliance Coalition with call to action at Rio+20 Coalition
- Founding signatory to the Powering Past Coal Alliance Finance Principles
- Founding partner of Project Everyone
- Founder of the Sustainable Stock Exchange Initiative
- Founding member/sponsor of TeamPride
- Founding member of the Trinity Challenge (Data-driven solutions to global health issues)
- Founding signatory of the UN Principles for Responsible Investment (UN PRI)
- Founding member of the World Benchmark Alliance (WBA)

Members

- Member of Finance for Biodiversity
- Member of Global Financial Alliance for Net Zero (GFANZ)
- Member of Net Zero Asset Managers Initiative (NZAM)
- Member of 30% Club
- Member of Aldersgate Group
- Member of Asian Corporate Governance Association (ACGA)
- Member of Association of British Insurers (ABI)
- Member of Better Building Partnership (BBP)
- Council of Institutional Investors
- Member of the European Fund and Asset Management Association (EFAMA)
- Asked to join European Commission's High-Level Expert Group on Sustainable Finance European Sustainable Investment Forum (Eurosif)
- Asked to join the FSB Taskforce on Climate-related Financial Disclosures
- Global Investors for Sustainable Development (GISD)
- Aviva Investors joined the Green Finance Taskforce (a govt initiative to push green finance in the UK and implement recommendations from the TCFD)
- Global Real Estate Sustainability Benchmark (GRESB)
- Institute of Chartered Accountants in England and Wales (on ICAEW's Financial Reporting Committee)
- Member of the Institutional Investors Group on Climate Change (IIGCC)
- Aviva Investors became a supporting member of the International Cooperative and Mutual Insurance Federation (ICMIF)
- Member of the International Corporate Governance Network (ICGN)
- The Investment Association Investor Action on Antimicrobial Resistance, FAIRR
- Member of the Investor Forum Investor Group on Climate Change
- UN-Convened Net-Zero Asset Owner Alliance
- Plastics Solutions Investor Alliance
- Member of PLSA (previously: National Association of Pension Funds)
- Sustainability Accounting Standards Board (SASB)
- Member of the UK Sustainable Investment and Finance Association (UKSIF)
- Aviva is first insurance company to join UNFCCC Climate Neutral Now
- Member of the World Business Council for Sustainable Development

Signatories

- Signatory to Finance for Biodiversity Pledge
- Signatory to Business for Nature Pledge
- Signatory of Access to Nutrition Initiative
- IIGCC investor letter on EU net zero emissions target
- ShareAction – Chemical decarbonisation initiative
- Arctic refuge / ANWR Investors letter urging oil and gas companies to not drill in Arctic refuge
- Signatory to the Business in the Community Ireland, Low Carbon Pledge
- CCLA Investor letter on modern slavery
- CERES FAIRR initiative on fast food supply chains
- Signatory of Cerrado Manifesto (deforestation), FAIRR
- Signatory to the Change the Race Ratio campaign
- Signatory to Climate Change Commitment (Launched by Better Building Partnership)
- Signatory to FRC Stewardship Code
- Global Reporting Initiative (GRI)
- Pensions and Lifetime Savings Association Marine plastics letters
- Signatory to Race at Work Charter
- Investor support for Seafood Business for Ocean Stewardship (SeaBOS)
- Signatory to the Social Mobility Pledge
- Signatory of Terra Carta

All collaborations and awards current unless otherwise disclosed.

Appendix: Collaborative list (cont'd.)

Signatories (cont'd)

- The UK Social Impact Implementation Task Force signatory
- Signatory to the UN Environment Programme Finance Initiative (UNEP FI)
- Signatory of the UN Global Compact
- Signatory to the UN Principles for Sustainable Insurance
- Signatory to the UN PRI Investor Statement on Corporate Action on Deforestation
- Signatory to the UN PRI Investor Statement on Palm Oil
- Signatory to Women in Finance Charter
- Powering Past Coal Alliance Finance Principles

Collaboration/event

- Aviva and WWF climate-focused collaboration 'Transition Plans for a Net Zero Future'
- Candriam – Collaborative Initiative on Recognition Technology (FRT)
- G7 and the World Benchmarking Alliance's Sustainable Supply Chain Initiative
- Access to Medicine Index
- Asia Research & Engagement (ARE) – collaborative initiative 'Energy Transition Platform' and 'ReEngage'
- ACTIAM – collaborative satellite-based engagement towards zero deforestation
- ICCR – Collaborative initiative on Ranking Digital Rights ('RDR')
- World Benchmarking Alliance (WBA) – G7 Sustainable Supply Chain Initiative
- World Benchmarking Alliance – collaborative initiative related to Digital Inclusion Benchmark CIC
- Interfaith Center on Corporate Responsibility (ICCR) – collaborative initiative
- The Prince's Accounting for Sustainability Project
- Became a partner of British Red Cross
- Business for Nature
- Aviva was the first carbon-neutral international insurer
- Carbon Tracker Initiative
- Climate Action 100+
- The Economics of Ecosystems and Biodiversity
- Forum for the Future
- Global Initiative for Sustainability Ratings (GISR)
- Grantham Institute
- The International Integrated Reporting Council
- International Sustainability Unit (ISU)
- The Investment Association Remuneration and Share Schemes Committee
- Chair of the Investment Association Sustainability and Responsible Investment Committee Natural Capital Declaration
- Aviva calls for pension funds to be net-zero by 2050
- Launched Roadmap for Sustainable Capital Markets & Sustainable Markets Manifesto
- Shareholder Voting Working Group (SVWG)
- Smith School Stranded Assets Programme, University of Oxford
- Collaboration with Tomorrow's Company
- UN Conference on Trade and Development (UNCTAD) event
- CEO speaks at UN General Assembly on Sustainable Finance
- Pledge at the UN summit to 'balance of economic development, the welfare of people and a sound environment, by incorporating these considerations into business activities'
- Strengthening use of an "Antimicrobial Resistance" (AMR) lens on investment
- Investors Policy Dialogue on Deforestation (IPDD)

Awards

- Corporate Adviser Awards for Best ESG Asset Manager 2021
- Ranked A by ShareAction on Responsible Investment in 2020
- Stewardship Disclosure (Asset Manager) award category at the ICGN Global Stewardship Awards (Nov 2019)
- ESG Manager of the Year, Global Investors, Group Investment Excellence Awards (July 2019)
- UN Foundation Award for Business Leadership on the Sustainable Development Goals (Oct 2018)
- UN Momentum for Change Award in 2017 for our commitment to reducing our environmental impact, and for helping to write the world's first corporate governance code and the UN Principles for Responsible Investment (Oct 2017)
- Responsible Investor Award for Innovation & Industry Leadership (June 2017)

All collaborations and awards current unless otherwise disclosed.

Important information

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