Aviva ESG Investment Baseline Exclusions Policy

Introduction

Aviva has a strong track record in promoting sustainability and investing responsibly in the best interests of our customers and our shareholders. We intend to do so in a way that maximises the positive returns for them. Environmental, Social and Governance (ESG) considerations are a central pillar of our investment process enabling us to invest in line with our values and help create a better world for our customers, our families, and communities. Our sustainability ambition is company-wide, accordingly this investment exclusion policy closely aligns to our ESG underwriting statement.[1]

Our investment philosophy promotes the merits of engagement over divestment as a more effective mechanism to deliver positive change and outcomes for our clients, the environment and society. Our preference to stay invested, engaged, and partner with companies as they develop a change strategy, allows us to continue to influence their business model to create more sustainable outcomes.

However, there are specific sectors and economic activities where we consider the sustainability risks to the climate, planet and people are so severe, that they fundamentally misalign with our Responsible Investment Approach[2] and corporate values. In these cases, we forgo the opportunity to engage, and actively exclude companies and industries from our investment universe.

The products, services and behaviour that we consider to be fundamentally misaligned to our core values predominantly focuses on issuers that meet the following criteria:

A. Manufacture products that cause **undue human suffering or fatalities** when used as intended and are subject to widely accepted conventions and norms that have been developed to control their use;

B. Manufacture products that cause **unmitigated environmental harm** and are inconsistent with the widely accepted conventions and norms; or

C. Demonstrate **poor corporate behaviour** that is deemed to be in violation of widely accepted conventions and norms.

This document sets out our ESG baseline exclusions to ensure we:

- Clearly define the sectors and activities we exclude from our investment activities
- Set-up the scope and timings for disinvestment of existing holdings
- Publish the revenue thresholds at which we apply exclusions
- Help drive the transition to a low-carbon, climate resilient economy

1 https://www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/aviva-esg-baseline-underwriting-statement-final.pdf

2 Aviva Life & Pensions UK Responsible Investment Policy: https://www.aviva.co.uk/content/dam/aviva-public/gb/pdfs/personal/services-and-support/our-uk-business/products-and-services/gn22001c.pdf

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Sectors and activities we exclude from our investment activities

Thermal Coal, Arctic Drilling and Oil Sands

Aviva is the first leading insurer worldwide to set a goal to become a net zero company by 2040.[3] We believe the highest emission fuels are not part of a net zero future and this requires immediate action to drive the phase-out of thermal coal and provide support for companies aligned to a clean energy transition.

We also believe strong alliances can drive change and action when addressing complex issues like climate change. That is why we support the objectives of the Paris Agreement[4] to limit global warming to 1.5°C, and are founding signatories of ClimateWise[5] and the Powering Past Coal Alliance[6] which seeks to accelerate the fossil-fuel phase out of coal-fired power stations.

Thermal Coal emits significantly more carbon than any other energy source in today's fuel mix, meaning that reducing the use of Thermal Coal in power generation is a critical first step that must take place if the goals of The Paris Agreement are to be achieved.

Drilling for oil in the Arctic is fraught with difficulty due to the region's extreme climate and remote location. This makes damaging oil spills more likely. A significant oil spill could have irreversible effects on the region, which lacks the infrastructure required for a clean-up operation. This would make such an event potentially catastrophic.

Oil Sands, sometimes referred to as "tar sands" are amongst the most carbon intensive fuels on the planet; Greenpeace (May 2021) estimates that the amount of greenhouse gases emitted per barrel of tar sands oil can be 30% higher than conventional oil, as well as having negative impacts on biodiversity, water quality and local indigenous groups.

We apply exclusions based on revenue limits to investments in Thermal Coal, Arctic Oil and Oil Sands.

Exceptions

Based on our preference for engagement and partnering to develop a roadmap for change, we will make exceptions for companies under the following conditions:

- Companies who have an approved Science-Based Target[7] (SBTi), or an equivalent target validation, that aligns with the goals of the Paris agreement.
- Utilities that we consider to be Paris-aligned, based on an assessment of the entity's capital expenditure plans (available to utilities that are majority owned by a sovereign).
- Non-fossil fuel project finance bonds[8] for real assets projects that do not involve activities relating to fossil fuels.
- Green or Sustainability Bonds, where the proceeds go exclusively to low carbon solutions (renewable energy and/ or sustainable alternative fuels) to displace and/or reduce the share of the activity which sees the issuer excluded.

These exceptions will be reviewed periodically to keep pace with the advancement of scientifically based de-carbonisation pathways and third-party validation processes.

3 3Taking Climate Action - Aviva plc: https://www.aviva.com/newsroom/perspectives/2021/03/taking-climate-action/

4 Details can be found on the European Commission website: https://ec.europa.eu/clima/policies/international/negotiations/paris_en

5 https://climatewise.org/

6 Powering Past Coal Alliance (PPCA): https://poweringpastcoal.org/

7 https://sciencebasedtargets.org/

8 Project bonds are issued to finance a specific project and the bond proceeds are paid exclusively from the cash flow generated by that project. A Non-Fossil Fuel Project Bond relates to a real assets project that does not involve activities relating to fossil fuels.

In addition to our commitment to the environment, we believe in strong communities and a strong society.

We therefore apply exclusions to the following categories;

Controversial Weapons and Civilian Firearms

Aviva is a signatory to the United Nations Global Compact and supports United Nations Universal Declaration of Human Rights (UNUDHR).

We apply exclusions to investment in the manufacture, use and distribution of controversial weapons subject to widespread bans or restrictions by International Treaties and Conventions, on the basis they have one or more of the following characteristics:

- The weapon is indiscriminate, i.e. there is an increased risk of civilian casualties
- The weapon can be classified as a weapon of mass destruction with a single use resulting in a large number of deaths
- The weapon is considered to be excessively injurious, i.e. it causes an inordinate amount of pain and suffering, and/or
- The weapon may have long term health impacts on the populations in areas where they are used.

While we consider nuclear weapons as possessing the above characteristics, we also recognize that the defence of a nation is a legitimate and necessary activity to protect the human rights of citizens. We therefore exclude companies that supply state nuclear programmes where the state lacks credible commitments to effective arms control, disarmament and non-proliferation as outlined in the Treaty on the Non-Proliferation of Nuclear Weapons (NPT)[9].

Similarly, we believe the manufacture of civilian firearms is inconsistent with our business purpose and values, given the civilian deaths and injuries resulting from their use. We have, therefore, chosen to apply exclusion limits to investments in manufacturers of civilian firearms.

Tobacco[10]

We believe that supporting the tobacco industry through our own investments and those of our customers, where we have decision making control, is inconsistent with the WHO Framework Convention on Tobacco Control (WHO FCTC)[11] and our own business purpose and values. The direct or indirect use of tobacco products is a global public health risk, increasing the risk of cardiovascular diseases, cancers and respiratory illnesses.

We apply separate exclusion thresholds in relation to tobacco producers and manufacturers, and tobacco retailers and distributors.

9 The NPT is a landmark international treaty whose objective is to prevent the spread of nuclear weapons and weapons technology, to promote cooperation in the peaceful uses of nuclear energy and to further the goal of achieving nuclear disarmament and general and complete disarmament.

10 Cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.

11 https://fctc.who.int/publications/m/item/the-who-framework-convention-on-tobacco-control-an-overview#:~:text=The%20WHO%20Framework%20Convention%20on%20Tobacco%20Control%20(WHO%20FCTC)%20is,globalization%20of%20the%20tobacco%20epidemic.

United Nations Global Compact (UNGC) [12]

At Aviva we believe that companies have a responsibility to their workers, communities and the environment. They can demonstrate this through the adoption of sustainable and socially responsible policies and practices.

The UNGC is a corporate sustainability initiative that calls on businesses to align with universal principles on corruption, human rights, labour and environmental issues and to take strategic action to advance broader societal goals,[13] such as the UN Sustainable Development Goals.[14]

We exclude investments in companies we consider do not meet the UNGC principles. [15]

Based on our preference for engagement and partnering to develop a roadmap for change, we will make exceptions for companies in a structured & time bound engagement programme like our Climate Engagement Escalation Programme (CEEP) to ensure they meet the expectations of the UNGC.

Scope and timings for disinvestment of existing holdings

Scope of policy

A company that does not meet our screening revenue thresholds below is termed an excluded issuer.[16] We are acting now to disinvest excluded issuers from our portfolios, however the process for certain funds will take longer than others. For that reason the policy will be implemented in a succession of stages. Passive investments remain outside the scope of the policy in this release, details for their inclusion will feature in a subsequent release in 2023.

Portfolios in scope:

These restrictions apply to all shareholder, participating and policyholder portfolios where we have control.

Assets in scope – Liquid Markets:

This policy applies to all direct investments in any financial instrument from an excluded issuer or indirect exposure via derivatives to an excluded issuer,[16] except in the case of:

a) derivative short-selling of financial instruments issued by excluded issuers

b) derivative or equity-based exposure to a Well Diversified Financial Index[17] of which an excluded issuer is a constituent

c) investment in a third party fund or passive fund containing financial instruments issued by excluded issuers

d) collateral posted by counterparties

Assets in scope – Real Assets:

This policy will be applied on a forward looking basis to new assets, provision of new finance and granting of new leases, except in the case of real estate and all types of real estate long income investments where less than 10% of contractual rent is derived from tenants that are excluded issuers. The restrictions do not apply to:

a) passive funds and mandates

b) segregated mandates where the client has not agreed to them being applied

c) funds or mandates that are due to be closed in the next 12 months

d) existing real assets investments or borrowers at the time this policy comes into force.

12 The Ten Principles | UN Global Compact: https://www.unglobalcompact.org/what-is-gc/mission/principles

13 https://www.unglobalcompact.org/what-is-gc/our-work/sustainable-development

14 https://www.unglobalcompact.org/sdgs/about

15 Based on internal research informed by MSCI controversy data

16 Companies which derive noted levels of income in line with the revenue thresholds. Where we assess subsidiaries are exposed to excluded activities these will also be excluded.

17 A well-diversified financial index features at least 30 constituents and has individual constituent weightings not more than 20% of the index (includes broad-based and sector indices).

Timings for disinvestment of existing holdings

No new investments in excluded issuers will be allowed from the point at which this policy comes into force.

Wherever possible, any disinvestment from an issuer held at the date this policy comes into force will be completed as reasonably practicable, typically within a period of 90 calendar days.

Where the investment manager considers it is in the interest of investors to do so, such divestment may be delayed for a total period not exceeding 12 months,[18] except for our active regulated funds where divestment will be no longer than six months to meet regulatory requirements.

In the case of real assets, new assets that subsequently become excluded issuers shall be disinvested within 12 months[19]

Screening Revenue Thresholds

The application of these thresholds is reliant on information provided by third-party data providers and both Aviva and third-party proprietary models.[20]

Activity	Description	Revenue Threshold [21]
Arctic Oil	Companies that derive revenue from the production of Arctic Oil. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude. This factor includes offshore or onshore oil production.	≥ 10%
Civilian Firearms	Companies that manufacture firearms and small arms ammunitions for civilian markets. Excludes products exclusively sold for the military, government, and law enforcement markets.	≥ 5%
Cluster Munitions & Landmines	Companies involved in, among others, development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of Cluster Munitions and Landmines.	0%

18 Only in cases where disinvestment is not possible, liquidity does not allow or it is deemed to have an adverse impact on investors, will the divestment period be extended beyond 12 months. Our public commitment outlined in our Net Zero announcement is for thermal coal disinvestment to be carried out by 31st December 2022, however there may be some residual divestment of coal required in early 2023.

19 This is on a best endeavours basis due to the illiquid nature of real assets. Subject to legal and regulatory requirements.

20 Data from third party data providers may be incomplete, inaccurate or unavailable. Where we seek to rely on proprietary models these may similarly rely on information, which is incomplete, inaccurate or unavailable. As a result, there is a risk that we may, from time to time, incorrectly assess a security, issuer or index. There is also a risk that we, or the third-party data providers on which we may depend, may not interpret or apply the relevant ESG characteristics correctly. We do not warrant the fairness, accuracy or completeness of any data used, or assessment made, in connection with this policy.

21 Maximum estimated percentage of revenue

Screening Revenue Thresholds (continued)

Activity	Description	Revenue Threshold
Nuclear Weapons	Companies involved in, among others, development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of nuclear weapons, where this supplies nuclear states outside of the NPT. We retain discretion within the scope of this screen to additionally exclude companies involved in nuclear weapons, where this supplies nuclear states within the NPT but Aviva Investors considers the state to have undermined widely accepted non-proliferation arms control treaties, conventions and norms. This will predominantly relate to the UN's Nuclear Non-Proliferation Treaty but may extend to other existing conventions where relevant.	0%
Biological & Chemical Weapons	Companies that manufacture chemical or biological weapons and related systems and components.	0%
Depleted Uranium	Companies involved in the production of depleted uranium (DU) weapons, ammunition, and armour, including companies that manufacture armour piercing, fin stabilized, discarding sabot tracing rounds (APFSDS-T); Kinetic Energy Missiles made with DU penetrators; and DU-enhanced armour, including composite tank armour.	0%
Incendiary (white phosphorous)	Companies that manufacture incendiary weapons using white phosphorous.	0%
Laser blinding weapons	Companies that manufacture weapons utilising laser technology that causes permanent blindness to the target.	0%
Non- detectable Fragments	Companies that manufacture weapons which use non-detectable fragments to inflict injury to targets.	0%
Oil Sands	Companies that derive revenue from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include; revenue from non-extraction activities (e.g. exploration, surveying, processing, refining), ownership of oil sands reserves with no associated extraction revenues, or revenue from intra-company sales.	≥ 10%

Screening Revenue Thresholds (continued)

Activity	Description	Revenue Threshold
Thermal Coal	Companies that derive revenue from either; • Mining of Thermal Coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes; revenue from metallurgical coal, coal mined for internal power generation (e.g. in the case of vertically integrated power producers), intra-company sales of mined thermal coal and revenue from coal trading. • Thermal Coal-based power generation.	≥ 5%
Tobacco Producer	Companies that manufacture Tobacco Products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves.	0%
Tobacco Retailer or Distributor	Companies that derive revenue from either; • Wholesale distribution of Tobacco products to retailers and other distributors. This exclusion does not include a manufacturer that distributes its own Tobacco products unless it also provides logistics or distribution services to other tobacco companies. • Retail of Tobacco Products. Companies that sell private-label tobacco products manufactured by a third party are considered Retailers.	≥25%
UN Global Compact	Companies not subject to a structured & time bound engagement programme, which are not considered by Aviva Investors to meet the standards of the UN Global Compact based on internal research informed by MSCI data.	N/A

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