

# Aviva Sustainability Ambition

## Net Zero 2040

### Key messages for investment and pension customers

#### What?

- In March 2021, we set out the Aviva Sustainability Ambition (ASA)
- Part of this ambition is to become a Net Zero (emissions) company by 2040, and this includes the investment and pension funds we manage for our customers
- Whilst we have this ambition, the primary objective of our funds remains to deliver financial returns for our customers

#### Why?

- Climate change is one of the greatest threats facing us all, and as such will affect long-term financial returns and as well as society at large
- The timeline for our net zero ambition is aggressive, when compared to that of, for example, the UK government, which is legally committed to becoming Net Zero by 2050, and this reflects Aviva's view that we are facing a climate emergency which needs urgent action

#### How?

- In practice, different funds will reduce the impact of their carbon emissions at different rates, depending on the opportunities available over time
- We can only achieve our ambition with the help of UK, and other, governments, technological developments, industry and society – so, we will continue to encourage action from others and if we cannot achieve our ambition, we will explain why not

### Aviva's ambition

Climate change is one of the greatest threats facing us all, and as such will affect long-term financial returns and as well as society at large. Aviva is committed to helping create a better tomorrow for both people and planet and as such has set a clear and compelling climate ambition.

Aviva announced in March 2021 an ambition to be a net zero company by 2040, to drive the transition of the economy to a more sustainable future.

We are aiming for a 25% reduction in the intensity of real estate and listed equity and listed corporate bonds emissions for Scope 1 and Scope 2 in our Shareholder and With-profit portfolios by 2025 (31 December 2024) from a 2019 baseline.

We are aiming to reduce the carbon intensity of Aviva's investments by 60% by 2030 from a 2019 baseline for the scope of assets above and will look to expand this over time. The expanded scope will be set out in our external reporting over time.

This ambition covers all Aviva's funds, in total, where Aviva defines the investment strategy and has ultimate decision-making power.

We regularly review our activities towards our ambition. We expect to publish our second Climate Transition Plan in 2025. This will take into account the latest view of methodology and data quality.

### Our customers

**Whilst most pension and investment assets are in-scope of the ambition, our net zero ambition is set at Aviva Plc level** and not every fund or portfolio will be expected to decarbonise at the same rate. It does not constitute a hard target for our funds, unless explicitly stated in their objectives.

The primary objective of our funds remains to deliver financial returns for our customers, but we believe the two are intrinsically linked.

This does not mean all funds will reduce the impact of their carbon emissions at the same rate as each other. Nor does it mean that they will cease to invest in assets that are currently associated with significant emissions. **Rather, it means that over time we will aim to evolve our funds to decarbonise in support of this long-term ambition.**

## Our approach

We do not underestimate the scale of the challenge ahead. Many pieces of the puzzle are still missing: the data is imperfect. Methodologies are incomplete. There is no consistent global set of standards. Achieving this ambition depends on government, customers and business accelerating their own transition.

But the urgency of the climate crisis means we can no longer wait for everything to be neatly laid out before we act. We may not know every step, but the direction is clear, and we will continue to take action to reach our ambition. Success will depend on government action, new technologies and innovations. It will require new partnerships and ways of working. It will take science, technology, government, industry, and society all pulling in the same direction.

We have already taken steps and will continue to reduce carbon emissions as appropriate, through a combination of capital allocation and active stewardship.

To achieve the ambition, we use several levers:

### Climate and Nature Risk Management

Considering climate and nature factors as part of our investment process to understand investment risks and identify opportunities with the aim of enhancing investment returns. We expect this to contribute to positive real-world outcomes over time.

This will be through a combination of active management decisions, portfolio tilts, sector constraints and caps, optimisations, and asset allocation decisions.

We expect our fund managers to consider climate-related risks as part of their fiduciary duty and management agreements; it is anticipated that this will support our decarbonisation ambitions while meeting the long-term objectives of the funds. This should ensure relevant sustainability factors and sustainability risks are identified, considered and integrated within the investment decision-making process; and assist in transitioning towards net zero.

For passive investments we will look to implement baseline exclusions, customised benchmarks, and optimisation approaches, where appropriate, to decarbonise portfolios in a risk-controlled manner.

### Engagement

#### Engage with companies to support them on the transition to net zero

We see engagement as a critical part of our strategy to decarbonise. We will participate in streams of engagement that offer the most meaningful and effective

impact through our asset manager engagement as well as smaller bilateral or collaborative programs within the industry. We will focus on companies and assets that contribute the most to emissions and work closely with our managers to ensure there are clear, well-defined and timebound objectives to decarbonise their operations.

Through the Aviva Investors 2020 Climate Engagement Escalation Programme, we have focused on investments in thirty global 'Systemically Important Carbon Emitters' requiring them to deliver net zero for their Scope 3 emissions by 2050. We have already made good progress on engagement and will continue to hold their actions to account through voting and potentially divesting if we do not see sufficient progress.

We will also conduct more targeted engagement with the top emitters to understand their commitment to decarbonise their businesses and setting clear objectives.

#### Engaging with governments to help them implement the policy interventions needed to transition to a sustainable economy.

We see the duties of financial market participants, and the concept of macro stewardship (working with governments to advocate for a more sustainable financial system), as crucial to harnessing the power of markets to deliver the changes to the financial system that embeds sustainability and also finances a sustainable real economy. We see it as one of the most important and influential tools to deliver on our net zero ambition as we try to pivot the world towards a low carbon economy. We will engage with policymakers to seek interventions to address market failures and correct them to put markets on a more sustainable footing that will transform the real economy.

### Divestment

As outlined above, 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, this allows us to continue to challenge 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<sup>1</sup> and corporate values. In these cases, we forgo the opportunity to engage, and actively exclude companies and industries from our investment universe as per our Aviva Baseline Exclusion Policy.

<sup>1</sup>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>.

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 have, therefore, already divested from companies if they derive more than 5% of their revenue from coal unless they have an externally verified and science-based transition plan.

## **Solutions**

Climate change is creating an opportunity to explore new and existing products and services to support efforts to transition towards a net zero pathway.

We developed the Climate Transition range to help investors to support the transition to a low carbon economy across all core asset classes. These funds invest in companies and physical assets deemed to be responding to climate change effectively as well as those providing solutions for climate change mitigation and adaptation.

- Climate Transition European Equity Fund
- Climate Transition Global Equity Fund
- Climate Transition Global Credit Fund
- Climate Transition Real Assets Fund

As at 31<sup>st</sup> December 2023 we have invested £1.6bn of policyholder money into transition and climate-related funds since the end of 2019, which exceeds the original aim of £1.5bn by 2025. We will continue to explore solutions on behalf of our customers that capitalise on the opportunities and support decarbonisation.

We also intend to make it easy for our customers to make climate friendly choices and provide the tools to support customers' investment choice from a climate perspective. This improves the transparency of funds, enabling customers to understand if a fund meets their investment appetite and own sustainability objectives.

Aviva Life & Pensions UK Limited. Registered in England No 3253947. Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm reference number 185896.

ASAJD 05/2024

