

Aviva UK Life Responsible Investment Report

Effective Stewardship



Contents

Message from Amanda Blanc, Group CEO	3
Foreword from Ashish Dafria, CIO	4
About the report	5
2020 summary (Highlights and COVID-19 response)	6
Governance, purpose and organisation of stewardship	11
Investment decisions	23
Engagement	37
Broader market initiatives	53
Direction of travel	64
Appendix	66



CEO foreword



Being the UK's largest insurer brings huge responsibilities – to our people, our customers, our shareholders and to all the communities in which we operate. To live up to them, Aviva aims to create long-term value in a way that benefits the economy, the environment, and society more widely.

We have long taken our responsibilities seriously. But the urgency of the climate emergency and the events of 2020 have focused attention like never before on how business can contribute to a fairer, safer, more sustainable future. Aviva is determined to do the right thing, not just because it is the right thing to do but also because it is a key strategic issue for us. Our ability to perform is entirely dependent upon societies and economies being able to operate effectively.

Our commitment to investor stewardship and Environmental, Social and Governance (“ESG”) is therefore part of the fabric of Aviva. We have set out our objectives in Aviva's Sustainability Ambition, to take action on climate change, build a stronger, more resilient Britain and embed sustainability throughout our business. This ambition includes our goal to become a carbon Net Zero company by 2040, the most demanding goal of any major insurance company in the world today.

The pandemic has underlined just how interconnected we are. It has also created an opportunity to rebuild in a way that aligns with the Paris Agreement goals. We must not waste our chance. So, Aviva is using our influence to support UK leadership on sustainable finance – domestically and internationally – as the UK prepares to host COP26 and the G7.

Facing up to the challenges we face as a society is the best thing we can do for all of our customers, clients and everyone else. We must reduce the risks and seize the opportunities presented by a new kind of economy for everyone. We hope this Stewardship Report makes clear how we are determined to become ever better stewards, living our purpose of being with people today, for a better tomorrow.

Amanda Blanc, Group CEO



I am proud to be joining a company that is challenging itself every day to do more in all aspects of ESG, including accelerating the transition to a low carbon economy, driving positive societal change and generating long-term value for our stakeholders. We are proud of our leadership position today, and committed to becoming even better stewards tomorrow.

Doug Brown, Aviva UK & Ireland Life CEO

CIO foreword



I am delighted to welcome you to our 2020 Stewardship Report, putting into a document what has been a way of life at Aviva: to be strong stewards of investments we manage on behalf of our customers and shareholders. For me, stewardship is not a role or an organisation chart, but a mindset. This report represents our view as an asset-owner, against the Financial Reporting Council's ("FRC") updated 2020 Stewardship Code, and is complementary to the asset-manager view captured in the [Stewardship Report of Aviva Investors](#). The report highlights how we operate as Aviva to drive the positive real-world outcomes we support, including those in our updated climate change and sustainability ambition. We are very proud of our heritage and strong current practices in this area, but we are also firmly of the view that we as an organisation – and we as an asset-owner community – need to make further progress and continue to evolve our practices in pursuit of making all our investments sustainable. This report is an important milestone in that journey.

At Aviva, the approach to stewardship permeates the different parts of the organisation, allowing us to innovate collaboratively, to have healthy internal challenges, but also to speak with one voice and bring our scale and influence to bear towards achieving our sustainability objectives. We work closely on these matters with our affiliates, our in-house colleagues, and also our external asset managers and other strategic partners with whom we share a common vision of the future and of the investment best practices to get there.

Trust and clarity are at the heart of our client relationships and in that spirit this report offers greater transparency in how we act in our clients' best long-term interests in managing our investments. I proudly call out some examples of the progress we have made on this pressing priority:

- as Aviva, being members of the Net Zero Asset Owner Alliance and convening the coalition for the International Platform for Climate Finance initiative
- a bold climate vision, setting ambition of becoming a Net Zero company by 2040, and interim targets to reduce the carbon intensity of our investments by 25% by 2025 and by 60% by 2030
- over £15 billion of investment in green energy, social housing, and other UK infrastructure assets
- developed low carbon investment strategies for our policyholder default funds, with an aim to invest £10 billion of customer assets into these by 2022
- "engagement with teeth" program with Aviva Investors, including a Climate Engagement Escalation programme focused on investments in 30 systemically important carbon emitters.

All of this is designed to enhance sustainability of our investments and to help drive positive societal change, including accelerating the transition to the low carbon economy that our customers want to see. We view our actions as vital to safeguarding our and our customers' long-term financial returns.

We welcome the FRC's definition of stewardship as capital allocation, management and oversight of our investments to support long-term sustainable value creation. In this report we provide details of the progress we have made on stewardship, and also areas where we have continuing progress to make and a view of how we will get there.

Ashish Dafria, CIO



About the report

We welcome the significant developments that have come to fruition this past year across responsible investment, not least the bold action taken by the Financial Reporting Council (FRC) to update its Stewardship Code and maintain its position of global leadership. In line with such developments, this Report has been prepared in accordance with the UK Stewardship Code 2020 (“the Code”).

The Code sets high stewardship standards for asset owners and asset managers and for the service providers that support them. The Code comprises a set of “apply and explain” principles for asset owners, to which we are committed to applying in the spirit of demonstrating effective stewardship in a manner that is aligned with our own business model and strategy.

We recognise that the investment market has changed significantly since the publication of the first UK Stewardship Code and there has been significant growth in investment in assets other than listed equity such as fixed income securities, real estate and infrastructure. We further recognise that these investments have different terms, investment periods, and rights and responsibilities.

Raised expectations under the Code align with the more complex investment landscape of today, which is why we see producing this report as integral to long-term value generation and preservation.

Our stewardship report seeks to disclose how we have sought to exercise stewardship effectively and will continue to evolve along our journey as we recognise the important role we play as guardians of market integrity and in minimising systemic risks.

In this report, when we refer to “we”, “us”, “our” or “UKL” we are referring to Aviva UK Life and Pensions, unless otherwise specified. When we refer to “AI” we are referring to Aviva Investors.

Please see the Appendix of this report which provides a regulatory map to where the Aviva UK Life and Pensions report is compliant with the Code.



Commitment to effective stewardship is at the heart of what we do **as an organisation**

We exercise our stewardship responsibilities across all of our assets, while being mindful of the type of assets, objectives of the beneficiaries (policyholder assets vs. shareholder assets), and the extent to which we can influence where the assets are invested.

We recognise that we have a fiduciary duty to invest all our assets in a responsible way and, for policyholder funds, to continue to invest in line with policyholders' expectations of us. For assets where we have decision-making control on investment strategy, such as our shareholder assets and policyholder assets associated with our managed unit-linked and with-profit products, we directly embed our stewardship ambitions into the investment strategy and day-to-day investment management.

For the remaining subset of products, where the customers have ultimate discretion as to the investment strategy and which funds they select, we recognise that we still play a critical role in shaping the range of funds made available to customers to ensure alignment with broader stewardship ambitions, and to identify default investment solutions for our customers which characterise our stewardship beliefs.

With this backdrop in mind, we have focused our stewardship efforts over 2020 across three key areas:

1. climate change,
2. diversity, inclusion and social mobility, and
3. building a resilient future in response to the COVID-19 pandemic. We explore each of these in turn in this section of the report.

Climate change: supporting the transition to a low carbon economy

We unveiled our new climate goals in 2021 with a clear roadmap indicating how we will successfully deliver on these ambitions. Our climate strategy spans across the entire organisation and is communicated in further detail [here](#):

We are committed to the global transition to a low carbon economy and have committed to:

- achieving Net Zero carbon emissions from our investments by 2040
- reducing the carbon intensity of our investments by 25% by 2025, and by 60% by 2030
- achieving Net Zero carbon emissions from our own operations and supply chain by 2030.

As an asset owner we have the ability to reorient capital flows towards sustainable outcomes and invest in assets which generate long-term value for our customers and shareholders. Over the course of 2020, we introduced the Aviva Investors Climate Transition Global Equity fund into customer funds. The fund targets companies generating revenue from goods and services addressing climate change and those aligning their business for a low carbon world. This is part of a broader suite of Climate Transition funds that Aviva Investors is in the process of launching.

For our shareholder assets, as at 2020, UKL has invested a total of £5 billion in green and renewable energy assets. In 2020 we continued to facilitate the growth of sustainable investments, including investing in the largest offshore wind farm, providing sustainability-linked financing to a leading self-storage provider, financing renewable energy investment in the US hydro-electric sector, and investing in green and sustainable bonds issued by the likes of Alphabet and Kellogg's.

This follows significant provisions made in previous years into higher-quality, lower-emissions trains as a key component of the development of a long-term sustainable transport infrastructure for the UK. We are particularly pleased that the manufacture of these trains will support local economies in the UK, while the long-term cashflows arising from this investment will help us to meet our commitments to Aviva's individual and bulk purchase annuity customers.

Beyond our commitment to Net Zero at Aviva, we have taken positive steps to enable customers to better understand and influence the ESG credentials of their investments. We believe ensuring our customers have access to the information they need to make well-informed decisions with respect to ESG is a core foundation of our fiduciary duty. We have teamed up with Tumelo to develop a platform that helps individual pensioners better engage with their investments and understand the extent to which they are exposed to ESG risk.

We have also worked closely with our in-house investment manager on the development of an ESG focused report for our My Future Focus default fund, that uniquely provides transparency for our customers on the ESG credentials and carbon intensity of the fund, as well as giving details on key engagement and voting activity.

At Aviva, we continue to push the envelope on ESG solutions through our products and offerings, collaborations with industry leaders and policymakers, and investment initiatives that support our ambitious targets to do our part in facilitating the global transition to a low carbon economy.



Our diversity, inclusion and social mobility journey

We are committed to creating a diverse and inclusive organisation, which we believe is a fundamental part of living our purpose of being with you today, for a better tomorrow. It means being there for all our people, serving all of our customers well, and helping to contribute to a fairer and more equal society. We are determined to continue to challenge ourselves in this area and have made a number of positive steps in 2020, as part of the sustainable business aspect of our Aviva Sustainability Ambition (ASA).

Our Group CEO Amanda Blanc was appointed as HM Treasury's 'Women in Finance Charter Champion'. Amanda will be focusing on flexible ways of working and the issues that stand in the way of women reaching their full potential¹.



"We really have a chance to seize this opportunity and change the way we work, to shape organisations to be more diverse and inclusive to create the leaders and CEOs of the future. Taking on this role is a huge honour but also a huge responsibility. Ensuring women have as many opportunities as men in financial services is critical. It's critical for women. It's critical to the future of UK financial services. And a successful, inclusive financial services industry is critical to a revitalised UK economy. There are still far too many barriers blocking women's progress in financial services. We've got to work quicker and harder. Now is the time for less talk, more action."

Amanda Blanc, Aviva UK Group CEO

In addition, we are signatories to both the Women in Finance Charter and the 30% Club and have set ourselves the target of increasing the number of women in leadership roles to 40% by 2024. To date we have:

- increased female leadership to 32%, up from 28% in 2015 – and remain on track to meet our 2024 targets
- ranked in the Sunday Times Top 50 Employers for women
- listed in the LinkedIn Top 25 Employers "where people want to work".

Further to our efforts on gender diversity, we are signatories of the Race at Work Charter and have introduced a number of initiatives to support its five focus areas – from enabling career progression to capturing ethnicity data. Working with the Diversity Practice, we have also developed a bespoke ethnic minority leadership programme in the UK, which we launched in January 2020. 18 employees completed the first programme, and line managers have received guidance on how to help these employees continue to develop their leadership skills.

In early 2020, an ethnic minority leadership programmes were piloted with 18 employees and has proved very successful. We will run this as one of Aviva's leadership programmes in 2021 alongside the female leadership programmes. Aviva is also committed to educating all its employees in the organisation and notable initiatives include development of Anti-Racism Training and the introduction of Reverse Mentoring with black employees and senior executives. We have also published our #BlackLivesMatter action plan on our website.

91% of our people rated us "a good corporate citizen" in our recent internal [employee survey](#), and recognise that in order to be effective stewards we need to demonstrate that we can walk the walk. And it's for this reason that we are concentrating just as hard on who we are as an organisation, as well as the change which we are driving as an asset owner and insurance provider.

We incorporate social mobility as part of our investment decisions and we now have over £2 billion invested in housing association investments in our annuity fund having invested nearly £500m of our annuity portfolio across 16 UK housing associations, via both private debt and public bonds in 2020.

Aviva and the British Red Cross have been working in strategic partnership since 2016 to build safer and stronger communities in the UK and beyond. Many of our people have volunteered since the founding of this partnership through a Global Mapathon, which is designed to help map some of the world's most vulnerable communities who could otherwise not easily be reached by aid organisations in times of crisis.

The activities we undertake as part of our ASA are centred on building a better future for people and the planet. We have built stronger communities by helping 5.1 million people globally and have committed £11.5 million to projects creating a sustainable future for local communities through our Aviva Community Fund.

¹ <https://www.gov.uk/government/news/amanda-blanc-appointed-women-in-finance-champion-as-charter-marks-fifth-year>

How our purpose drives what we do – Building a resilient future **in response to the COVID-19 pandemic**

Building a stronger and more resilient Britain

2020 will forever be remembered as the year in which the COVID-19 pandemic brought human suffering and economic hardship on a global scale. We recognise the critical role which we can play as an asset owner and insurer to help “build back better” and contribute to a resilient financial ecosystem.

In March, we began closing offices across the globe. We took measures to protect our people and the operational resilience of the business so we could continue to provide great service to our customers. This included expanding home working by increasing remote working capacity, building additional laptops, and using new collaboration tools like Microsoft Teams. By April, around 97% of colleagues globally were working from home.

Impacts of COVID-19 were felt by our customers across the world. Aviva’s markets responded with a raft of adjustments to products and services to meet these unexpected needs. This included support for Aviva UK direct, Quotemehappy and General Accident home, motor and personal van customers

who were experiencing severe financial difficulties as a result of COVID-19, by deferring their monthly payments and spreading payments over the remaining term of their policies. We contacted customers who were within two years of their retirement date offering support and guidance through market

volatility and extended our existing working from home cover to our home insurance customers free of charge. We also supported businesses’ shifting to home working, providing them with the same level of protection while they carried out their activities from employees’ homes.

Ensuring that our customers can retire in confidence will continue to be core to our purpose. Through Aviva’s Sustainability Ambition, we are targeting 13% of the UK population to be saving and retiring with Aviva. We believe that investing in UK infrastructure and real estate assets is crucial to helping the UK economy prosper while also generating long-term value for these savings customers, which is why by 2025, we will invest £6bn in green assets, including £1.5bn of policyholder money into climate transition funds.



We believe that we have a responsibility to support our local communities to recover from the COVID-19 pandemic. We invest 2% of our annual profits in local community initiatives, and additionally we committed £43 million this year to charitable partners supporting local communities in the face of COVID-19.

This included a donation of £10 million to the British Red Cross and other National Societies to support communities across our markets by Aviva and Aviva Foundation³, including the creation of a hardship fund in the UK to provide financial support to those most in need, and a pledge of £5m to NHS Charities Together.

Additionally, in the UK, we pledged £18.5 million for the Association of British Insurers (ABI) COVID-19 support fund, to help fund welfare and wellbeing for NHS employees, volunteers and patients, assistance for patients leaving hospital, and long-term mental health support for NHS workers. We also put measures in place to support key workers, including extending

cover for UK customers who are NHS workers to include additional breakdown, courtesy cars, priority repairs and enhanced home insurance cover at no additional cost.

Other markets also supported local initiatives, including Italy's donation of \$200,000 to support the Mutual Aid Fund instituted by the Mayor of Milan, Aviva Poland's support to Warsaw University who sought materials for printing PPE, and Aviva Singapore's pledge to support Sayang Sayang Fund to extend help to healthcare professionals and specific communities that may be particularly impacted.

COVID-19 has shaken the very foundations of society and has had profound implications on a global scale. We recognise that failing to respond to the climate crisis could have equally disastrous implications on our planet, and we endeavour to use the COVID-19 pandemic as a catalyst for change to shape a green recovery which is fair for all.



“In the UK, Aviva has been instrumental in how the British Red Cross has developed and adapted our response to crisis, from recruiting tens of thousands of community reserve volunteers to establishing our new Hardship Fund. Aviva's trust and willingness to fund new and innovative programmes has given us the freedom to evolve, ensuring that the help we offer continues to be relevant and impactful.”

Mike Adamson, CEO, British Red Cross



“The COVID-19 crisis has shown the world can act with speed and determination. We need to match this resolve in tackling climate change. Our window of opportunity is closing. Aviva is working towards a 1.5-degree world.”

Amanda Blanc, Group CEO

Building a stronger and more resilient Britain

>13%

... and growing

UK population saving and retiring with Aviva²

£6bn

by 2025

In green assets, including £1.5bn of policyholder money into climate transition funds

2%

average per annum

Profits invested in the community³

¹ This will cover shareholder and policyholder assets where we have control and data, and the main asset classes of Aviva's core markets (credit, equities, direct real estate and sovereign debt).

We will be able to expand this further as new data and methodologies become available. For more details please see www.aviva.com/climate-goals

² Based on adult population only (18+)

³ The Aviva Foundation is administered by Charities Trust under charity registration number 327489

Chapter 1: Governance, purpose and organisation of stewardship



Who are Aviva?

Understanding who we are as a company, our purpose and values, who we serve and how we are invested has been crucial in developing our approach to stewardship. Our aim is to deliver long-term value to our customers, and the way in which we consider ESG risks, integrate ESG factors into our investments and engage with investee companies are all designed to serve this purpose.

Aviva UK Life and Pensions has existed for 325 years and currently has c.£300 billion of assets under management. We provide over 9 million customers in the UK with insurance, savings and investment products.

Our customers entrust us with the responsibility of managing assets on their behalf. In turn, we are committed to being active asset owners with a strong sense of purpose and duty. We adopt a long-term approach to our investments, where stewardship, sustainability and long-term risk adjusted returns are closely aligned considerations. We view our 2020 Stewardship Report as a clear signal of our progress to date and our intent to continue to realise this purpose.

Aviva Group has a common approach to stewardship activities, with centres of excellence across the group joined by a shared ambition. This common approach enables us to collaborate on research, innovation and broader ESG commitments.

We believe this approach allows us to integrate ESG and stewardship seamlessly throughout Aviva Group, while not inhibiting constructive challenge between asset-owner and

asset-manager, holding each other to account where needed to further our stewardship priorities. We explore this further in the description of our governance structure.

All of UKL's investments are guided by a set of investment beliefs, a core one being that we are a long-term investor and our long-term investment decisions need to take into account long-term risks; this makes sustainability an important and natural factor in our investment decisions. We practice active ownership across the asset classes in which we invest, including exercising our shareholder right to vote, collaborating with our corporate counterparties, and engaging with our asset managers. We regularly engage with Aviva Investors and other asset manager partners to ensure that voting and escalation performed on our behalf is aligned with our stewardship priorities.

We have translated our purpose into action through various initiatives, which we detail throughout our report. We spoke with over 9,000 people – our customers, investors, intermediaries, employees and other organisations we work with – to understand how we can make the biggest impact. What they told us led to our sustainability ambition, which sets out our commitment to create a brighter future. Through this process of creating our sustainability ambition, we have taken the next step in fulfilling our purpose to be with people today for a [better tomorrow](#).

As part of our broader sustainability ambition, we have developed a strategy which covers the three pillars of Environmental, Social and Governance:



Our [2020 Climate Action Plan](#) provides further detail on our approach to implementing our climate strategy, and establishes our vision to be a leader in our sector. We adopt an integrated approach to executing on our climate strategy through involving all our business units, rather than adopting a strategy applicable only to an isolated component of the organisation.

Part of our climate strategy is to seize our opportunity to engage with and influence the entities which we invest in, to drive the transition to a low carbon economy. We have in place a clear escalation and remediation process if our engagement does not have the impact we anticipate, which we detail further in our chapter on escalations and conflict of interest (pages 50-52).

Our Responsible Investment (RI) framework governs our approach to investing. We classify RI according to the United Nations Principles for Responsible Investment (UN PRI)

definition as “investing that incorporates environmental, social and governance factors into investment decisions, to better manage risk and generate sustainability long-term returns.” We believe that our RI framework helps us practise active stewardship and aligns with our long-term value culture. Our RI policy applies to all UKL investment funds, whether beneficially owned by customers or by shareholders, and whether managed on an active or passive basis.

Our RI strategy was approved by the Board of UKL, which also provides oversight over the execution of the policy and its integration into investment strategy and product design.

Aviva is proud to integrate stewardship into its business purpose through our strategies, policies and values. The remainder of our report showcases our stewardship activity to date in greater depth, and identifies where we can continue to improve.



Facilitating effective **stewardship governance**

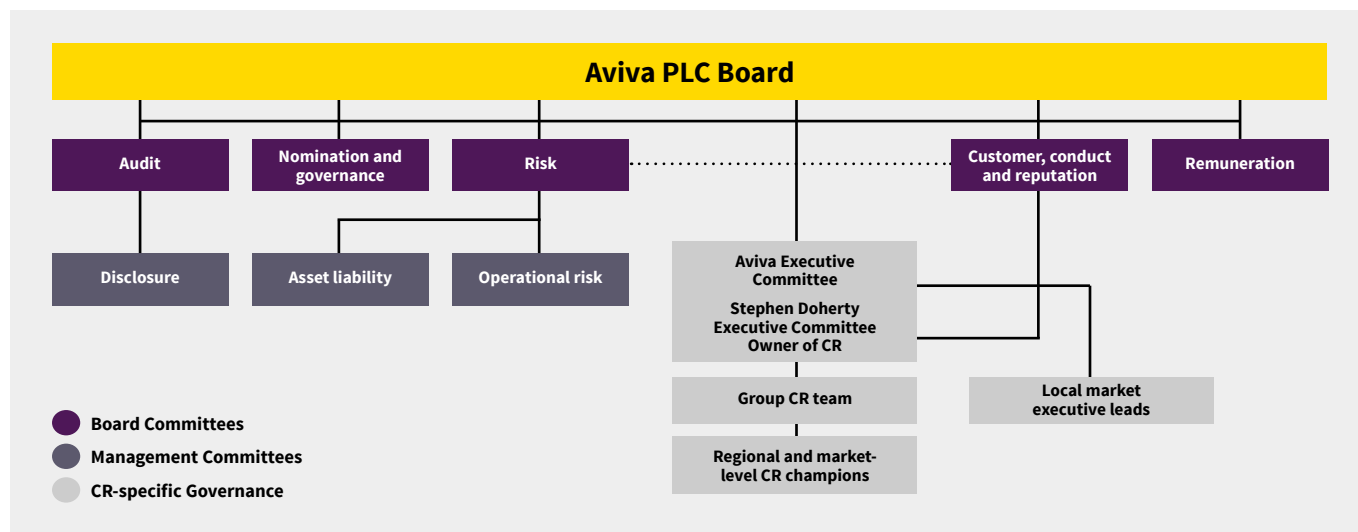
The delivery of effective stewardship requires the support of senior leadership and a level of resourcing and oversight that ensures we deliver on our ambitions. The following section describes how ESG and stewardship is governed within UKL and how we ensure that the appropriate level of expertise, authority and assurance is applied to all of our stewardship activities.

Aviva Group governance structure

Sustainability issues are core considerations in both our leadership decisions and day-to-day business activities. We have a strong system of sustainability governance, with effective and robust controls in place, which recognises the nature, scale and complexity of operations across Aviva Group.

We work to embed stewardship activities across the business and ensure adequate oversight of the investment decision-making process, recognising the importance of collaborating with our colleagues at Aviva Investors and within Aviva Group more broadly. We first outline in Figure 1 our Aviva Group corporate structure, which facilitates this collaboration and enables all parts of the Aviva Group to work towards common stewardship objectives.

Figure 1: Aviva Group governance structure



The Aviva Group corporate governance structure is in compliance with the UK Corporate Governance Code. A key component of this is our Group-level Corporate Responsibility (“CR”) team, which reports to the Aviva Executive Committee. The CR team ensures that the business focuses on material issues such as climate change, human rights and modern slavery, and community resilience, and co-ordinates local action across the markets in which Aviva operates. It also actions strategies and programmes centred on these identified issues with the support of senior leadership.

In 2020 the Aviva PLC Board reviewed and approved the 2021-2023 business plan, which incorporates our climate metrics, operating risk limits and tolerances. This allows climate-related risks and opportunities to be further embedded in our day-to-day decision making in line with our wider risk appetite. The Aviva PLC Board also reviewed and approved the Group’s Climate Plan.

The Aviva Group strategy, values and culture are influenced by the Aviva Executive Committee and the Aviva PLC Board. The Aviva PLC Board provides entrepreneurial leadership of Aviva within a framework of prudent and effective controls, which enables risks (including climate-related risks) to be identified, measured, managed and reported.

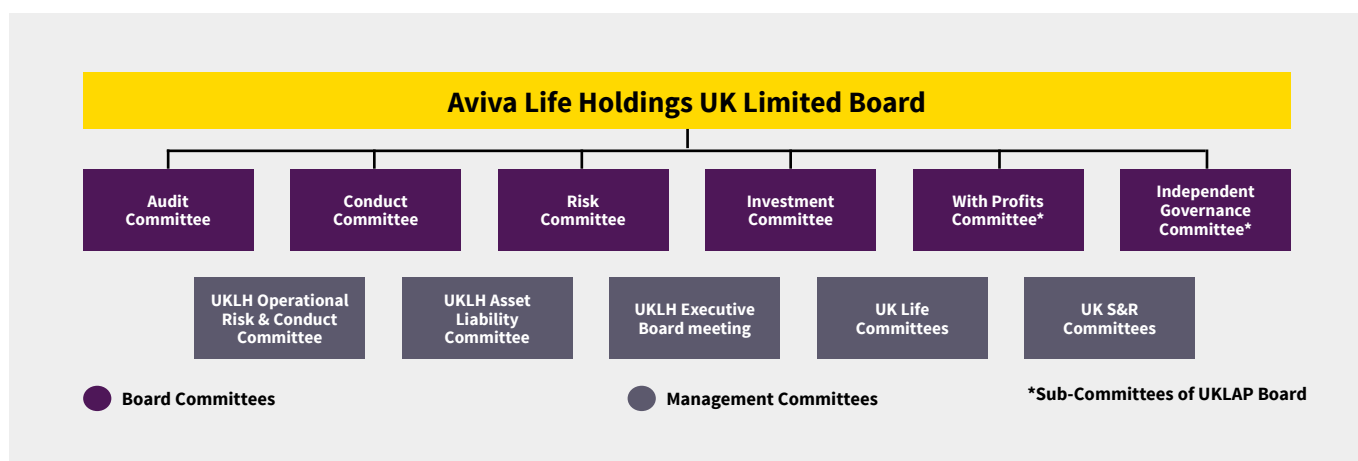
The Aviva ESG Leadership Team

The Aviva ESG Leadership Team (“ESG LT”), which is chaired by the AI CEO with the UKL CIO and other senior management as members, is established to co-ordinate Aviva’s approach to ESG investing. This includes how ESG considerations are integrated into investment processes across Aviva, the approval of ESG investment policies, and the monitoring of stewardship activities. The ESG LT is also tasked with monitoring ESG developments in the market to ensure Aviva’s ESG investment practices remain appropriate and associated risks and opportunities for the brand are robustly managed. The ESG LT presents recommendations to the Group Executive Committee and Aviva PLC Board on ESG investment policies and practices.

Alongside this, various working groups and steering committees dedicated to actioning our climate plan, Net Zero goals and wider ESG investment agenda have been created over the last 12-18 months. Many of these are joint groups across different parts of Aviva.

However, stewardship and climate risks are considerations that are becoming increasingly embedded throughout our existing governance structure, with this topic now a standing agenda item on the UKL Board Investment Committee. We conduct strategic reviews of our management of climate risk across our portfolios and the integration of ESG within our investment strategies, and use our regular reporting of climate metrics, voting and engagement activity to inform the recommended course of action.

Figure 2: Aviva Life governance structure



In addition to the overarching governance structure at Aviva Group level, UKL has its own governance structure which enables sustainability matters to be integrated into our day-to-day business activities. Oversight of the relationship between UKL and its investment managers (including Aviva Investors) is covered by our governance structure, so that matters such as responsible investment, voting rights and management of climate risks are closely monitored. The Aviva UKL Board reports to the Aviva PLC Board described in Figure 1.

UKL’s governance structure consists of Board, Executive and Senior Management responsibilities as described in Figure 2.

To enable our Board and the Executive to execute their roles and responsibilities with respect to sustainability, we have established a governance structure which ensures effective and efficient decision-making. We explore a selection of these committees in further detail in Figure 3, and the role which they play in embedding sustainability into the way we operate as a business.

Figure 3: Insights into a selection of Aviva UKL committees

	Committee	Chair	Key function
Board	Investment Committee	Non-Exec	Responsible for assessing and approving ESG investment strategy and policy consistent with UKL's Board-approved investment beliefs and risk appetite considering investment matters that require Aviva plc Board, Group management or Aviva UKL Board approval; overseeing the relationship between Aviva UKL and its investment managers and custodians, monitoring investment performance; and monitoring our investment management functions. ESG and climate risk is a standing agenda item.
	With Profits Committee	Non-Exec	An independent committee set up with a specific responsibility for oversight of ensuring that fairness to customers is embedded in all Aviva's with-profit funds decision-making. The committee monitors and advises on management decisions that impact customer outcomes, including ESG-related activity and broader investment matters, escalating any concerns to the Aviva UKL Board.
	Independent Governance Committee	Non-Exec	A committee set up to provide independent challenge in respect of the interests of relevant policyholders of workplace pensions and pathway investors. The committee will consider the adequacy and quality of Aviva's policy in relation to ESG financial and non-financial considerations; how these are considered in the investment strategy or investment decision making; and Aviva's adequacy and quality in relation to stewardship.
Executive	Asset Liability Committee	UKL CFO	A committee to support the CFO in the exercise of their delegated authority, to ensure we optimise opportunities to make best use of our capital across the UKL business, while ensuring there is appropriate oversight of the financial risk exposure, risk appetite and solvency of our regulated entities. It also serves to make decisions in relation to the management of (1) the balance sheet (2) financial risk exposure and (3) position against the risk appetites as set by the Boards, which includes climate and broader ESG-related risks and opportunities. It also makes recommendations to the Board or Board sub-committees.
Senior Management	Investment Credit Committee	UKL CIO	A committee to support the UKL CIO in exercising their delegated authority; making recommendations to ALCO or UKL Board for matters including ESG strategy, asset managers relationship and stewardship practices, and monitoring the effectiveness of investment risk management, including climate risk.
	Life Credit Committee	UKL CIO	A Senior Management committee created to review and approve investment transactions impacting the shareholder funds. The committee reviews individual investment recommendations from our Investment Managers, including ESG considerations as a mandatory part of the investment analysis and recommendation.

In addition to the committee structure outlined above, the Senior Management committees benefit from the input of several forums, such as the Business Review Meetings and Investment Forums, that report into the Investment Credit Committee. These forums consider stewardship issues, including voting activity; updates on engagement and any conflicts of interest relating to engagement; and ESG integration and mandate breaches. ESG issues and recommendations are escalated to Executive and Board committees where appropriate.

Figure 4: Our team

Name	Role	Division
Iain Pearce	Chief Finance Officer	UKL
Ashish Dafria	Chief Investment Officer	UKL
Mark Chaplin	Chief Risk Officer	UKL
Darren Roberts	Senior Investment Manager	UKL
Pierre Biscay	Head of Customer Investments	UKL
Keith Goodby	Head of Shareholder Investments	UKL
Sarah Brown	Senior Investment Manager	UKL
David Blackwell	Senior Investment Manager	UKL
Amarjit Pannu	Investment Manager	UKL
Michael Floyd	Investment Manager	UKL
Bianca Hanscombe	Senior Risk Manager	UKL
Gavin Reeve	Senior Oversight Risk Manager	UKL
James Dalby	Investment Services Lead, Platform Propositions	UKL
Jason Bullmore	Investment Propositions Lead	UKL
Sam White	Group Public Policy and Sustainability Director	Group
Simon Oswald	Public Policy Manager	Group
Zelda Bentham	Head of Sustainability	Group
Matt Deakin	UK Climate and Fundamentals Lead	Group
Lucy Dormandy	Senior Manager, Group Corporate Responsibility	Group
Ben Carr	Capital Risk Director	Group
Jean Francois Coppenolle	Counterparty Credit Lead	Group

Incentives and training

We endeavour to embed stewardship into the culture of our organisation. While we have dedicated ESG resources across the Group, we also see stewardship as a joint responsibility and aim to encourage all staff to put ESG considerations at the heart of what they do. In order to enable our staff to play their part in our stewardship journey, we aim to provide them with the knowledge and motivation to make a difference.

We incentivise our people to deliver positive stewardship outcomes

We reward our people for achieving successful stewardship outcomes through our incentive structure. The remuneration committee recently approved a revised long-term incentive plan for senior management roles within the Group, which includes targets aligned to the delivery of the 2020 Climate Action Plan and to the achievement of diversity and inclusion metrics. Approximately 10% of the long-term incentive plan is centred on these metrics.

Further to our long-term incentive plan, our Directors' Remuneration Policy provides us with the flexibility to increase the percentage of Directors' remuneration based on ESG metrics up to a maximum of 20%.

Incentivising positive stewardship outcomes and long-term value generation is embedded in the culture of Aviva. For example, Aviva Investors was one of the first asset managers to integrate ESG factors into pay criteria across the business. Through its Global Reward Framework, all investment employees are incentivised to integrate ESG considerations into their investment processes by way of ESG metrics forming part of the investment scorecard and annual risk attestation. We also invest for the very long-term (even upwards of 50 years) which makes sustainability an essential priority for our investment decisions.

We recognise also that incentives can be more explicitly incorporated into our lending decisions and are increasingly introducing carbon risk and other restrictions into loan covenants, with some specific examples given in our investment case studies.

We are committed to delivering the training our people require to achieve our stewardship ambition

Throughout 2020, Aviva Group continued to develop the skills of our Boards and of our people with respect to climate change considerations. We delivered tailored climate training to the Group and local Boards/Risk Committees, which included coverage of:

- Aviva's climate-related risks and opportunities
- Aviva's 2020 Climate Action Plan
- Board responsibilities with respect to climate risk
- performance against our long-term carbon reduction targets
- progress made in embedding climate-related risks and opportunities into our risk management and reporting frameworks
- emerging regulations with respect to climate change and ESG
- reputational and legal obligations in the context of climate change.

This training equips our Boards to provide appropriate direction, challenge and guidance to management such that action is taken to identify, measure, monitor, manage and report climate risks and opportunities.

In addition to the training described above, in 2020 a formalised climate training programme was developed by the UKL climate-related risks and opportunities project team to educate our people on the [PRA's Supervisory Statement 3/19](#). This training programme is scheduled to extend into 2021.

This training programme aims to ensure appropriate skills and expertise are developed across Aviva UKL to understand and manage the risks from climate change, and ultimately to increase awareness of climate change and its relevance to the business. It will give all of our employees across the three lines of defence the opportunity to learn about the implications of climate change for our planet and our business, and how we are responding. Some business practices receive focused training for their functions; an example of this is the liability side of our general insurance business receiving ESG training focused on liability risks such as flooding risks, etc.

More in-depth training will be deployed over 2021 to those who hold direct responsibilities for the identification, management, measurement and reporting of climate-related risks and opportunities.

Facilitating stewardship activities through our governance structure **case studies**

We outline two case studies below which highlight the success of our sustainability governance structure in 2020:

Case study: integrating ESG factors into our default solution

Activity:

We endeavoured to integrate ESG factors into our auto-enrolment default solution (My Future). This led to a proposal to the UKL CIO, setting out the merits of integrating ESG factors into the component funds used within the solution, including meeting commercial demand and emerging regulatory expectation, and improving risk-adjusted expected returns for customers.

Outcome:

UKL CIO, with input and support from UKL Risk, AI and Workplace Proposition, approved the integration of ESG factors into the My Future default solutions. The proposal was subsequently presented to and approved by the Aviva Master Trust trustees, who utilise the My Future default solution within the Trust, and was positively received by the Independent Governance Committee (IGC). This is now an integrated part of an important customer retirement solution from Aviva.

Case study: establishing a Net Zero working group

Activity:

We have established a Net Zero working group to help develop the appropriate frameworks required across the business to achieve our Net Zero ambitions. The scope of the working group's support extends to all of Aviva UK Life and Pensions and Aviva UK General Insurance. The working group escalates any issues that arise during their weekly meetings to the Net Zero Steering Committee.

The Steering Committee, which has members from both Aviva UKL and AI, has the necessary authority to resolve any issues escalated by the working group directly without the need for further escalation. This enables efficient decision making and issue resolution. A key topic we consider is balancing customers' long-term interests (which are highly correlated with climate change concerns) against short-term interests where the correlation is slightly weaker. This allows us to make decisions that are holistic and customer-centric in nature.

Outcome:

Over the past year this governance structure has enabled efficient progress against our Net Zero ambitions, as well as achieving alignment and consistency of approach between Aviva UKL and AI. This experience has also highlighted the need for continuing enhancements to our processes to meet the urgent need and our growing ambition to tackle climate risk.

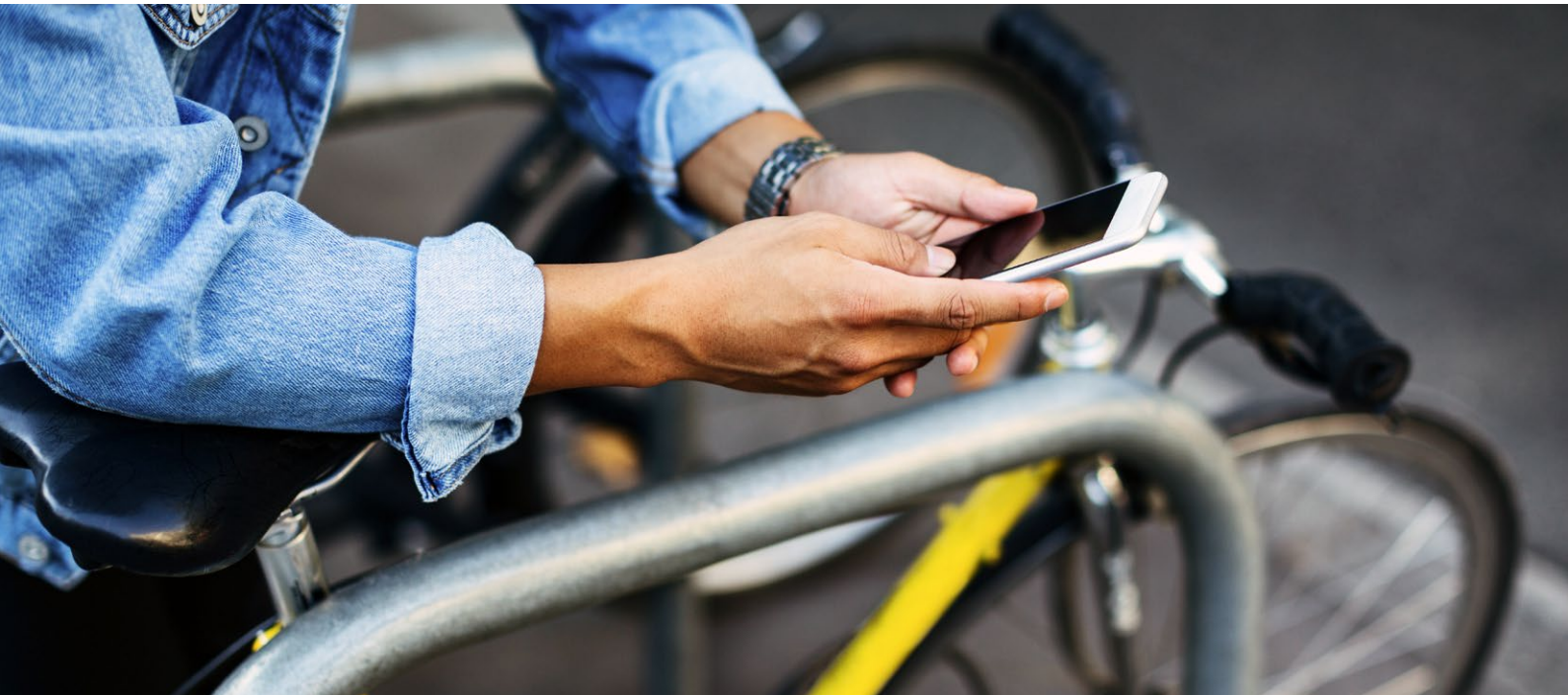


Direction of travel

We have put in place a bespoke ESG governance structure to ensure appropriate focus on ESG and stewardship considerations, and to adapt to the emerging thinking on these topics. However, over time it is our intent to integrate ESG into our existing governance framework, aligned to our philosophy of considering ESG as an integral part of overall investment decision considerations.

As the scope of our stewardship activities and ambition continues to grow and evolve, we are continually reviewing how we allocate and structure our resource to deliver success. In parallel to this, we will continue to train our existing workforce to ensure we can continue to deliver our stewardship duties. We are also committed to reviewing our governance structure to ensure it facilitates the most effective and efficient delivery of stewardship activities, streamlined across the organization. We want to ensure that we are seeking room for improvement and that our structure, processes, and governance framework remain focused on delivering outcomes.

Assurance of reporting expectations



We recognise that obtaining review and assurance of our policies and processes ensures our reporting is fair, balanced and understandable. We are committed to obtaining internal and external assurance over our market-facing reporting where applicable, and seeking support from third-party advisors to ensure our outputs are of the highest quality and coverage. For example, we have obtained assurance from our external auditors PwC on the data contained within our TCFD report.

We place reliance on our internal audit team together with first- and second-line control functions to provide input and oversight of the robustness of our stewardship reporting. We understand that the provision of external assurance on stewardship reporting is an evolving area, and we will monitor developments in this space as part of our annual assurance review.

Our internal audit team review the effectiveness of a range of stewardship activities conducted across the business including a recent audit on climate-related risks and opportunities. Looking forward, further internal audits are planned for 2021, including:

Strategic Executive of Group ESG Commitments:

to assess the set-up of the Group-level plans to execute on the new ESG strategy. This will include ownership, high-level plans, governance, oversight and measurement.

UK Life ESG/Sustainable Finance Investment:

to assess controls in operation to ensure accurate, complete and timely regulatory disclosures on ESG. This will include governance over reporting, and inputs such as product development, product literature and management information (MI).

We also commissioned EY to perform a gap analysis of our current stewardship activities against the expectations of the UK Stewardship Code 2020, to help shape the contents of this report.

Review and assurance of reporting expectations **case study**

Case study: climate-related risks and opportunities audit

Activity

During 2020 we conducted a climate-related risks and opportunities audit, which was set up to assess our progress against the requirements of the PRA's Supervisory Statement 3/19 (SS3/19). The audit centred on the activities of the "Climate-Related Risks and Opportunities Project" (the Project), which is a Group-wide Project that has been running for approximately one year.

The Project has supported with the critical building blocks required to meet SS3/19 requirements, including the development of climate risk preference statements, updated risk policies and business standards, and climate risk metrics including our Climate VaR (Value at Risk) measure. The audit assessed whether Aviva UKL is on track to meet and exceed the expectations of SS3/19, reflecting that we have set ourselves an internal bar which exceeds regulatory compliance.

Result

The audit did not identify any significant issues with the work undertaken to date and recognised the journey Aviva UKL is on to meet the requirements of SS3/19. The audit recognised that UKL is an active member of the Project, and that the collaborative nature of the Project introduces benefits to business-as-usual activities through knowledge, skills and experience sharing.

The audit identified that the UKL second line of defence is well-engaged in climate change activity. The UKL CRO (also the accountable Senior Manager for climate-related financial risk) is a member of the Project Steering Committee, while members of the UKL risk team participate in the Project Working Group and are actively involved in the delivery of a number of workstreams.

The audit identified that some improvement is required to the controls and governance around the Aviva UKL response to climate change. In addition, a further area of improvement was raised in relation to business-as-usual resourcing requirements. The audit noted that UKL climate-related activity is being progressed within the first line of defence (with notable engagement from the CIO team), however UKL is yet to determine the resources (amount and capability) required to deliver and embed the full range of activities required to meet SS3/19.

Outcome

In 2021, we will place increased focus on identifying the first-line and second-line resources we need to deliver the requirements of SS3/19 by the regulatory deadline of 31 December 2021, but also beyond into business as usual. In addition, the audit has resulted in the formal review of our sustainability governance structure, which we will conduct and act on in 2021.

Chapter 2: Investment decisions



How are we **invested**?



At Aviva, we focus on generating long-term value from our investments and recognise our responsibility to create value for a range of stakeholders, which includes customers, shareholders and broader society. Recognising how ESG risks can impact the long-term value of our investments, we see the integration of stewardship and ESG considerations as a core component of our investment process. Understanding how we are invested helps us to identify opportunities for integrating ESG considerations into our investment processes and where we should prioritise stewardship activity.

As of December 2020, UKL is responsible for overseeing over £295bn of assets held within customer life and pension products and shareholder portfolios. Our shareholder funds are managed almost entirely by our in-house asset manager, along with approximately 80% of customer funds. As a member of the same group, AI is governed by the same strategy and approach to stewardship as Aviva UKL. As such, our approach to stewardship leverages AI's resources and expertise to develop and deliver an investment approach which considers stewardship at its core across all asset classes.

We set out our stewardship expectations for all asset managers and continue to monitor asset manager activity to ensure those expectations are being met. More details on our approach to monitoring managers can be found on page 38.

Figures 5, 6 and 7 provide further information on the composition of our assets.

Figure 5: Shareholder assets by asset class (as at 31 December 2020)

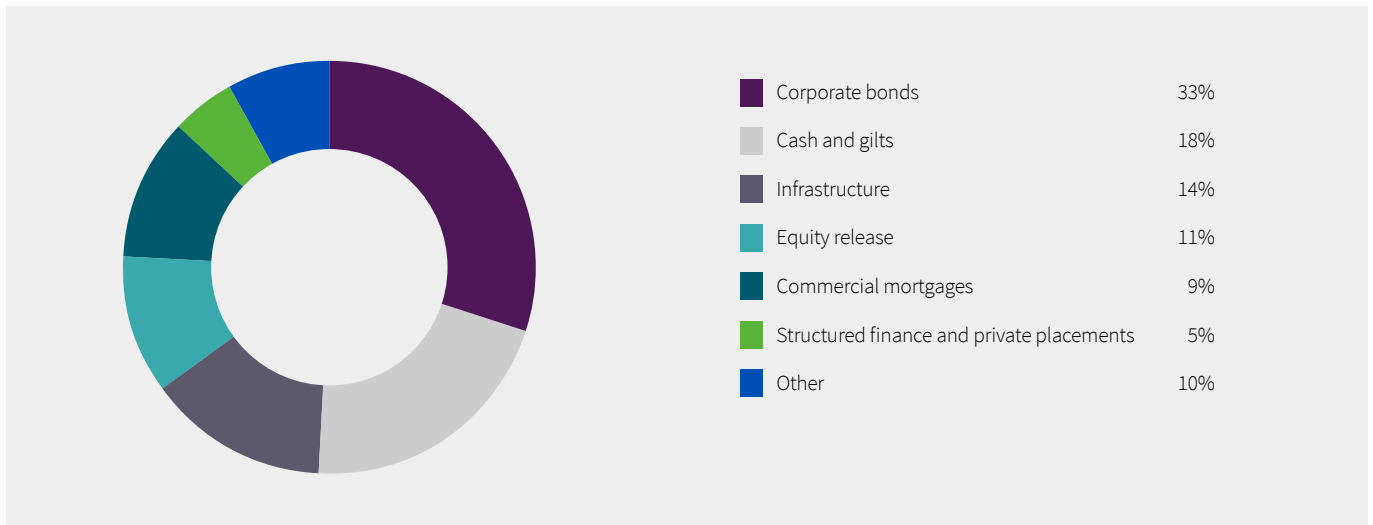


Figure 6: Unit-linked customer assets by geography (as at 31 December 2020):

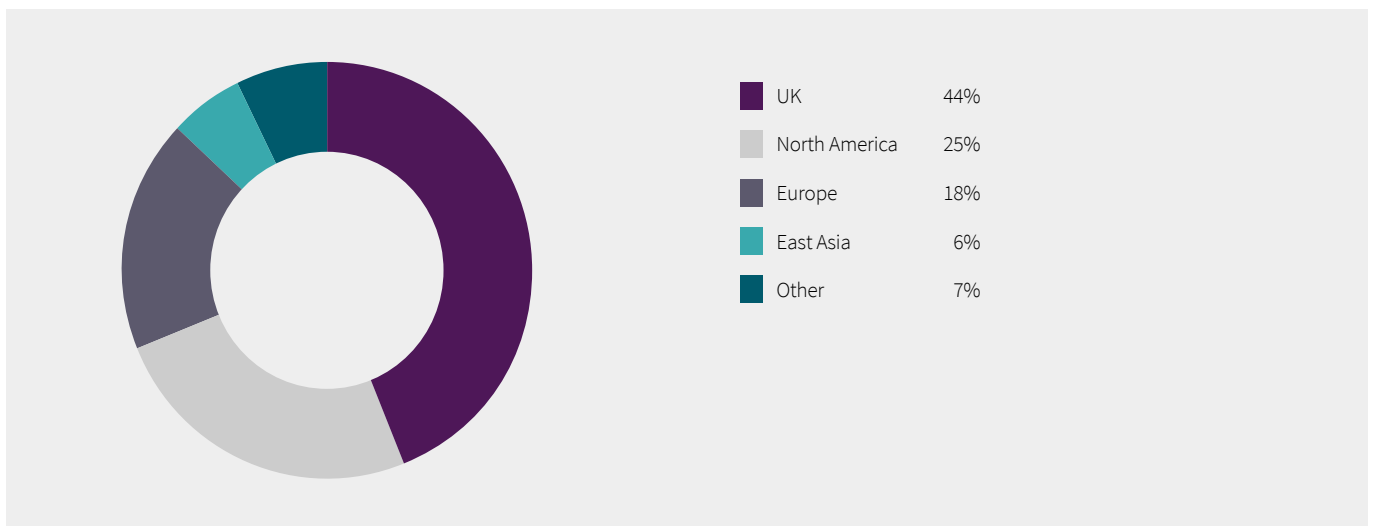
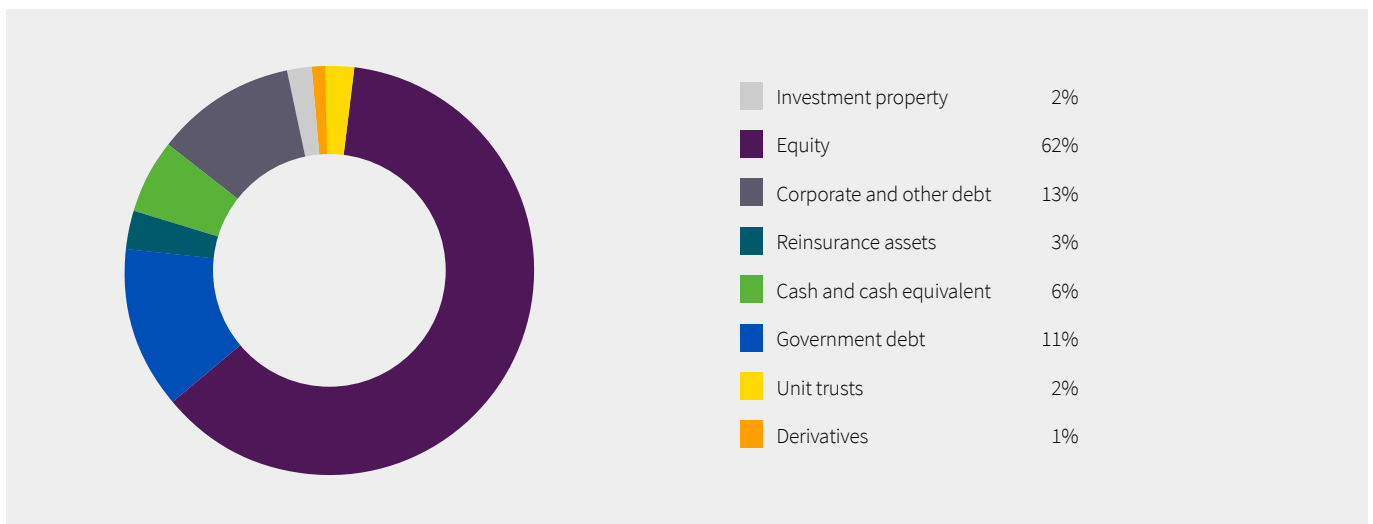


Figure 7: Unit-linked customer assets by asset class (as at 31 December 2020)



Who are our customers?

Understanding our customers is critical to our stewardship approach. We need to understand the time horizon over which they are invested, how they perceive risk and how we can therefore deliver on our fiduciary duty to protect the long-term value of their assets.

Our customer asset portfolio represents both unit-linked and with-profit funds that invest across several asset classes, the majority of which are in multi-asset solutions utilising equity, credit, sovereign and real assets such as property. The funds are utilised within our Workplace Savings and Advisor Platform within our Savings and Retirement business, and legacy life and pension products within our heritage business. We explore the features of two of these categories in further detail below, and articulate our stewardship activities with respect to these customer bases:

Workplace pensions

Our largest customer base consists of employees enrolled in a workplace pension scheme (£81bn as of December 2020), and we are proud that Aviva is the number one provider of bundled workplace pensions in the UK. The shift to defined contribution (DC) pensions means that individuals are increasingly having to take responsibility for their financial futures. We recognise, however, that many of those individuals place their trust in us to manage their money in a way that supports their financial wellbeing in retirement, with over 90% of contributions to a workplace pension now invested in the default investment solution following the introduction of auto-enrolment. Those who are making active investment decisions need investment options that are aligned to their financial needs and their sustainability preferences. They need information on these options to be clear and readily available when making investment decisions.

Adviser platform

The complexity and flexibility of the UK pension and savings system, as well as the fact that wealthy baby boomers are now reaching retirement, has accelerated the need for financial advice and for platform solutions that help financial advisers to look after their clients' assets more effectively. In a short space of time we have built up assets of £32 billion on our adviser platform.

Although these pension customers are receiving professional advice, we retain a responsibility to ensure that those advisers have clear and comprehensive information on our investment options, to ensure that they are delivering the best possible value to the end customer.

Understanding customer needs and preferences

While we understand the key characteristics of these customer groups, we recognise that each customer will have individual needs and that ongoing communication with customers and other stakeholders plays an important role in understanding and providing for our customers' evolving needs.

Our two-way communication approach focuses on the following key areas:

- investing in high-quality research to provide our customers with leading solutions
- consulting with customers and advisers on their preferences and target outcomes
- reporting back on how investments made are contributing to achieving these outcomes
- wider education on ESG matters with customers to inform their thinking.

Results of customer communications flow into our client relationship system, which then feeds into the development of products and client reporting. The communication tools outlined above are being used to seek clarity on:

- whether clients wish to address sustainability themes or issues through their investments
- which particular sustainability themes are important to them, linking these preferences to the [UN Sustainable Development Goals](#)
- whether and how our clients wish to obtain ESG performance which exceeds the benchmark, for example by increasing exposure to high performers from an ESG perspective
- what views our clients have on exclusions, whether our Baseline Exclusion Policy meets their expectations, and whether there are any other exclusions that they would expect to see implemented
- preferences around any labels for their products such as the French Label ISR or the LuxFLAG label.

Client communication and feedback

The following case studies demonstrate how we have applied our two-way communication approach in practice:

Case study: seeking customer views on pension engagement and responsible investing

Activity

We conducted a survey of over 1,000 workplace pension holders to understand their attitudes toward their pension, and their sentiments in relation to ESG integration. The key results of this survey showed:

- over half (55%) of those surveyed don't know where their pension is invested
- 63% of those surveyed believe pension companies need to be more environmentally transparent in where they invest their pensions
- 71% say they want the highest return on their investment
- 25% want their money invested in fossil fuel companies for the purpose of influencing the decisions they make in transitioning to low carbon companies
- 18% placed highest importance on financial services companies ensuring their investments have a positive impact on society over the long term.

Figure 8: Aviva Customer Attitudes Survey

Table 1: Ipsos / Aviva Consumer Attitudes Survey		
Global Concerns	March 2016	July 2020
Disease and pandemics	15%	50%
Climate change	19%	42%
Crime	29%	39%
Poverty and social inequality	N/A	36%
Terrorism	46%	36%
Pollution	15%	34%
Decline in social standards	30%	31%
Global financial crises / market instability	21%	29%
Use of personal data	28%	27%
Identity / cyber fraud / cyber attacks	24%	26%
War / civil unrest	22%	23%
House and personal security	21%	21%
Natural disasters	11%	18%
Lack of natural resources	11%	16%
Globalisation	N/A	9%

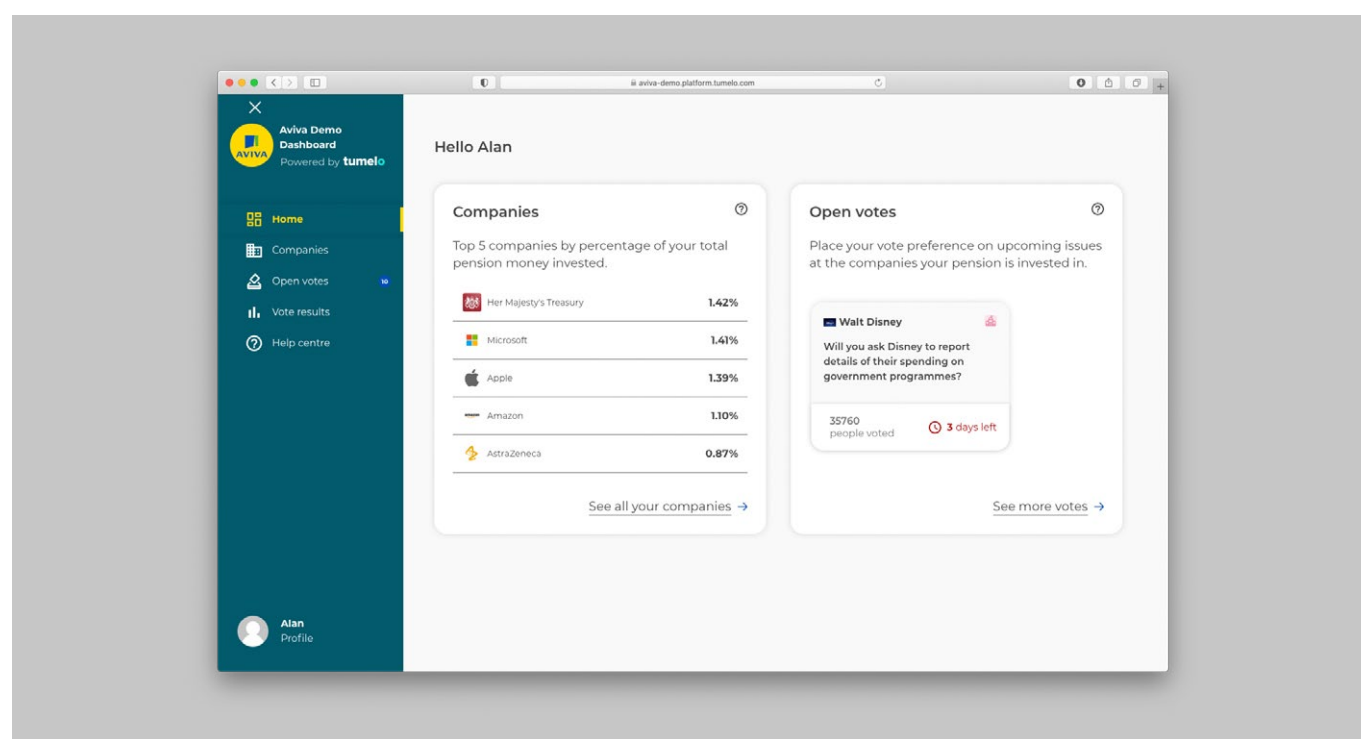
The research also highlighted a clear shift in attitude over the last four years with fears about climate change having doubled to become the second biggest global concern last year, behind disease and pandemics.

However, when speaking to adults with savings, investments, pension or annuity product(s), the majority (71%) agreed that they just want the highest return on their investment. Even among those who make investments labelled as responsible, two fifths (40%) do so because they believe they will get a better return in the long run. We believe that climate and superior returns are aligned in the long run and we are still investigating the implications of these results on our stewardship activities. We are also piloting Tumelo off the back of this survey to increase customer visibility and understanding of ESG issues.

Aviva is piloting an investor opinion tool with Tumelo and a selection of workplace pension customers. Tumelo's platform helps individual pension members to see which companies their pension is invested in and to have a voice on the environmental, social and governance (ESG) issues these companies are facing. A selection of pension savers whose workplace pension is with Aviva have the option to voice their opinion on issues such as climate change, gender equality, human rights, chemical pollution and political lobbying ahead of the companies' Annual General Meetings (AGMs). Their opinions are collected through the platform, anonymised, and sent back to the fund manager, which incorporates them into its decision-making framework. The real-world impact is then reported back to members once the AGM has passed.

Through our partnership with Tumelo we are hoping to give our workplace pension members greater transparency over where their pensions are invested, while empowering them to play an active part in the engagement and voting approach to investing. By doing so, pension savers are being given collective power to influence some of the biggest organisations in the world into making more responsible decisions.

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



Fund choice

We are bringing more funds to customers which will give them the power to choose whether they use their savings to drive the transition to a low carbon economy, minimise their investment in polluting industries, or help have a positive impact on the planet. For example, we have:

- made the Aviva Investors Climate Change Global Equity Fund available on our workplace pension, adviser and customer platforms
- launched the Aviva Stewardship fund range on our savings platforms
- launched Aviva Investors collective versions of the stewardship funds to cater for ISA investment.

Furthermore, our workplace pension customers continue to have the option to select the Aviva 'Stewardship Lifestyle Strategy' – an investment strategy that consistently applies the same range of ethical and ESG considerations throughout its design. Through this strategy members can be reassured that ethical and ESG considerations are integrated all the way through to their selected retirement date. This results in the funds excluding companies that do not meet certain ethical standards or that harm society or the environment.

Client communication and feedback

case studies

Case study: The Big Window project and Censuswide survey

Activity

Aviva issued a survey to 3,000 respondents (1) through Censuswide to understand sentiment towards aligning pension investments to Net Zero, in order to inform decisions on Aviva's own Net Zero targets.

The research showed significant support for Net Zero pensions' targets, with support particularly strong among those due to retire in the 2050s:

- 59% of people think it's somewhat or very important that pension funds become Net Zero by 2050
- two thirds (66%) of millennials (aged 16-34) believe that government should mandate that pension schemes achieve Net Zero carbon emission status by 2050
- 95% of pension scheme members remain in default funds that have traditionally taken little account of climate change.

Furthermore, Aviva's research shows that ethical and ESG investing is particularly front of mind with millennials:

- 43% of millennials are aware that the way in which their pension savings are invested can significantly impact issues such as climate change, compared to only 37% of all ages
- 71% of millennials who have a pension and are aware of ESG/ethically focused funds said they would invest their workplace pension in one if it was available and easy to do so – the highest proportion of all age brackets surveyed.

Outcome

The results of this survey were influential in setting Aviva's new 2050 Net Zero carbon emissions target for its own auto-enrolment default pension funds. This is aligned to the Paris Agreement and the UK Government's Net Zero target. The survey also led to Aviva calling on the UK Government to pass a law requiring auto-enrolment default pension funds to achieve Net Zero carbon emissions status by 2050, to help to address the challenge of climate change.



Case study: communicating with customers

Challenge

We believe that the role of communication in effective stewardship goes beyond individual clients and their assets, to wider education on ESG matters which helps inform customers' thinking. In addition to the development of our interactive client engagement tool with Tumelo, we have also launched the "ESG Know How" programme to support UK financial advisers.

The EU has committed to requiring financial advisers and portfolio managers to ask their customers about their sustainability preferences. The UK will bring forward its own sustainable finance proposals, with the UK Government having committed to at least match the ambition shown by the EU. The proposals will place significant responsibility on financial advisers to evolve their advice processes in order to understand their customers' preferences, the investment options that exist to meet them, and how to bring the two together.

Aviva research indicated many UK financial advisers did not feel confident in their understanding of the investment options to address sustainability preferences, nor the forthcoming regulatory requirements.

Activity

To help UK financial advisers prepare for these regulatory changes and the expected growth in consumer demand for sustainable products and advice, we launched "ESG Know How". This programme consists of five CPD-accredited modules and is designed to meet the rising demand for better adviser knowledge of ESG investing and how regulatory changes will impact advisers and the wider industry. It provides a chance to learn more about the fundamentals of ESG, the regulatory changes, and to hear from experts who have been involved in shaping them.

Outcome

The programme reached over 6,000 participants across the five modules. The focus on regulatory change and the impact it will have on the market, advisers and their customers, as well as access to expert insights from across Aviva Investors, struck a chord with the audience. The modules are available to watch on demand [here](#). This is an example of delivering on stewardship beliefs around transparency and enabling more informed decisions.

Direction of travel

In March 2021, Aviva also announced a new plan to become a Net Zero carbon emissions company by 2040. As part of this ambition, we plan to invest a further £10bn of assets from our auto-enrolment default funds and other policyholder funds into low carbon strategies in the next couple of years. We will also continue to invest in climate transition funds for our customers where appropriate and increase the range of ESG and responsible funds available across our platforms. These targets align to the needs and preferences highlighted in our customer research.

(1) Aviva's research was conducted by Censurwide, with a sample of 3,000 nationally representative respondents aged 16+ in GB between 24.08.2020 - 26.08.2020. Censurwide abide by, and employ members of, the Market Research Society which is based on the ESOMAR principles. This was done prior to their press release on 20 September 2020. Aviva calls on Government to make all UK auto-enrolment default pension funds "Net Zero" by 2050.

An integrated stewardship approach



In this section we describe our approach to ESG integration and stewardship. We provide details of relevant policies, how we ensure our asset managers are adhering to these policies, and describe a number of practical examples.

Our Responsible Investment (“RI”) policy

We take our responsibility as an asset owner seriously. We believe the integration of responsible investing considerations into the investment process enables better understanding of the opportunities and challenges faced and can enhance returns on a risk-adjusted basis. We apply the mandate that our customers give us to invest in a way that meets their current and future needs, reflecting financial and non-financial considerations. Our customers’ welfare will be determined not only by the size of their savings, but also by the future state of our world and society.

Our Responsible Investment policy applies to all our funds, whether beneficially owned by customers or shareholders, and whether managed on an active or passive basis. It covers both ESG integration and engagement.

Responsible Investment principles

The key principles of our RI policy that drive our integrated investment approach are:

- ESG factors are material sources of both investment risk and out performance opportunities, and therefore should be integrated within all active investment decision-making processes as a core determinant of future performance expectations
- we (via our asset managers) should actively exert influence over the companies we invest in to improve their sustainable ESG performance
- focused engagement is more effective in seeking to initiate ESG changes than divesting; however, it is appropriate to exclude companies from active investment mandates who are engaged in activities that inherently contradict sustainable ESG goals and are not actively progressing business change to remedy this
- we should apply a minimum level of Responsible Investment criteria on all actively managed investment products we offer, primarily via our Exclusion policy
- we should support customer choice by providing a range of funds, and investors should receive full and clear disclosure on the Responsible Investment performance and positioning of funds
- where we identify market failures, we engage with regulators and policy makers to seek systemic change.



ESG and stewardship in practice

The Aviva UKL Board is responsible for providing oversight to the execution of the policy and its integration into investment strategy and product design, including regular policy review. The investment team is responsible for monitoring the performance of UKL funds against the policy, and ensuring that our principles are embedded into our internal control environment.

The vast majority of our investments are sourced through mandates with our internal or external asset managers. The CIO team is responsible for asset manager monitoring and selection, and all our asset manager partners, including Aviva Investors, are assessed against our RI policy. More details on our manager oversight process can be found on page 40.

As long-term responsible investors, ESG factors are considered in every investment decision presented to the Life Credit Committee (LCC) and, ultimately, every approval. It is considered a mandatory part of the assessment, and awareness exists throughout the investment teams. ESG considerations are also taken into account when considering and ultimately approving new asset classes.

When an asset manager considers investments on our behalf they will consider ESG factors as part of the investment recommendation. For long-term non-traded investments, such as Real Estate, Infrastructure or Structured Finance lending, ESG factors are a critical part of investment rationale. Appropriate guidance is sought from the subject matter experts, including the Aviva Investors Global Responsible Investment team and/or the Group Public Policy and Sustainability team. Investments can and have in the past been declined during this process on ESG grounds alone, ensuring ESG is at the heart of the investment process.

Case study: declining a liquefied natural gas financing

ESG considerations are often complex, and not one-size-fits-all. We were some while back presented with an opportunity to finance liquefied natural gas (LNG) liquefaction plants in the US, the rationale being LNG is a greener transition fuel. However, while LNG is viewed by some as a transition fuel that burns cleaner than coal or oil, further research highlighted that a significant proportion of gas supply in this instance was from fracking activities, which can cause significant climate impacts, including due to gas losses from the drilling/extraction process. Investment debate on the opportunity highlighted heightened ESG and sustainability risks, trumping any financial return considerations, and the transaction was declined.

An integrated stewardship approach

case studies

Case study: supporting Net Zero with our investment portfolio – our ambition to be net zero by 2040

We have committed to become a Net Zero carbon emissions company by 2040, which covers both our internal operations and our investments. Our 2040 Net Zero plan means:

- Net Zero carbon emissions from our investments by 2040
- a clear pathway to Net Zero: a cut of 25% in the carbon intensity of our investments by 2025 and of 60% by 2030. This is ahead of the 50% cut required by the Paris Agreement
- Net Zero carbon emissions from our own operations and supply chain by 2030.

It will cover our Scope 1, 2 and 3 emissions, and include shareholder assets and policyholder assets where we have decision-making control. We need to start planning this future now, even if we will not have all the answers today. First, we will use all these tools to drive down the carbon intensity of our portfolios:

- active ownership: using our voice and vote to pressure companies and directors
- divesting where necessary
- tilting investments towards cleaner sectors and the best companies within sectors
- increasing the amount of our shareholder and customer investments going into sustainable impact and Net Zero-aligned funds and assets.

Alongside our efforts, we see a growing trend of societal and regulatory pressure on corporates to cut their emissions. There will also be government action to decarbonise national electricity grids, electrify transport and tackle the difficult challenges of heat and agriculture. No sector will come through this transition unchanged.

As active asset owners, we want to be progressive with our commitments not only to be good corporate citizens but to effectively demand similar commitments from the companies in which our customers' assets are invested.

Even after cutting the emissions of our portfolio, we anticipate some investments will still be emitting carbon. These are likely to be in sectors that are hardest to decarbonise, like transportation, steel or cement. We may also still continue to have investments that have temporary carbon emissions, such as the construction of hospitals and schools. We will therefore actively invest in assets with negative emissions, in order to net our overall position. These assets will include net negative companies, negative emissions technologies and nature-based solutions.

We believe the highest-emission fuels are not part of a Net Zero future. We will therefore stop investing in coal (power generation or mining). We are already members of the Powering Past Coal Alliance, but we want to go further faster. We've been taking action on coal over the last few years and by the end of 2022, we will have divested all companies making more than 5% of their revenue from thermal coal unless they have signed up to the Science Based Targets initiative. We will divest the equities, put the bonds into run-off and put the companies on our Stop List. Because we support companies making the transition to low carbon, we will only continue to invest in ring-fenced, non-fossil-fuel project finance bonds.

Case study: private assets and deal origination

Challenge

Buildings are responsible for around 40% of energy consumption and 36% of CO₂ emissions in the EU, with almost 75% of building stock considered inefficient. In order to accelerate the transition of these buildings, Aviva Investors developed a proprietary framework for Sustainable Transition Loans for Commercial Real Estate, originating £189m of transition-focused loans in 2020 and committing to delivering £1bn by 2025.

Activity

In addition to lending to specific low carbon and renewable energy projects, UKL works closely with our in-house manager to incorporate ESG covenants into the deals we invest into for our annuity portfolio. In 2020 we originated two deals focused on the climate transition, one to CLS Holdings plc ('CLS') providing £154 million towards the refinancing of 12 UK assets, and another of £35 million to Big Yellow Group, the UK-based self-storage company. The debt facilities were structured to include key performance indicators linked to sustainability targets.

In the case of CLS, these were independently reviewed to provide assurance that they are aligned with the Loan Market Association sustainability-linked loan principles. We provided CLS the incentive of lower interest costs based on delivery of specific targets which will be assessed annually throughout the life of the facility.

For Big Yellow Group, we included a green clause in the transaction subject to the sponsor installing solar panels on additional security properties.

Outcome

Explicitly linking debt financing to sustainability objectives helps to drive the transition to a low carbon economy, through motivating the companies which we invest in to take action to improve the carbon footprint of their operations. Targets will be managed and monitored as part of ongoing loan management and monitoring. Following such evidence being provided, any financial incentive will be signed off by the credit function before being implemented.

Underpinning all of this is an emphasis on ESG considerations with a strong belief that close attention to ESG issues as part of investment decision-making makes good, long-term commercial sense. Asset origination is a collaborative effort, with the Aviva UKL investment and risk teams working closely with Aviva Investors to drive successful outcomes.



Case study: Global Real Estate Sustainability Benchmark assessment – Unit Linked Fund

Challenge

The Global Real Estate Sustainability Benchmark (GRESB) is a framework used to assess and benchmark the ESG performance of real assets. It is split into a Management Component, measuring the entity's ESG strategy and leadership, and a Performance Component, measuring asset performance. The outcome of the assessment is an overall GRESB score which ranges from 1 (Low) star to 5 (High) stars. Each year the score is relative to the submission peer group, providing a good reflection of the fund's relative performance. The data also provides valuable insight into key areas of focus for a fund, assisting fund and asset managers on their investment planning to strengthen ESG credentials.

Activity

This year, our "20 Gracechurch Street Unit Trust" held within our largest unit-linked property fund was submitted to GRESB, achieving a score of 80%, 10% higher than the GRESB average. Furthermore, the fund was awarded 'Sector Leader' within its peer group as well as a GRESB Green Star, highlighting a significant achievement for the fund. The fund outperformed the GRESB average within both the Management and Performance Components. This clearly demonstrates that the fund has a leading approach to ESG, and that our investment in the Smart Buildings Programme to continuously improve asset performance has both been recognised and is adding value to 20 Gracechurch Street.

Outcome

Generating value for our customers is a key priority. While this year's scores showcase the fund's strong ESG credentials, we will be using this data to add further value to the fund by identifying areas for improvement and increasing asset resilience. This will help to protect value and minimise climate transition risk in the long term.



Case Study: investing in UK social housing

Challenge

Through the investments which they make, insurers and pensions funds can play a vital role in the development and improvement of social housing. Alongside public sector funding, the private sector can provide innovative funding models which link financing to environmental and social improvements. Private debt investment in the sector now exceeds £80 billion, and can deliver benefits for housing associations as well as attractive investment returns.

Activity

In 2020 we invested nearly £500 million of our annuity asset portfolio into the social housing sector, taking our total investment in social housing over £2 billion. This included £37.5 million in Wales & West Housing, one of the leading social landlords in Wales, a £60 million deal with Coastal Housing Group and a £75 million placement with Settle Housing.

Financing provided to Wales & West will support its ambition of supplying an additional 2,500 new homes over the next five years, the vast majority of which will be social rented homes for those in greatest housing need. The funding will also enable Wales & West to focus on working in partnership with the Welsh Government to advance a programme of decarbonisation across its portfolio of homes. Our financing provided to Settle included supporting the commitment for all properties to meet 'EPC C' standards or better by 2025.

Outcome

Social housing has an important role to play in society through the provision and development of new affordable homes. Wales & West is also particularly focused on improving the energy efficiency of its homes, something we see as important as we look to decarbonise our investment portfolios. This investment delivered on our desire to seek out investment opportunities that generate good investment outcomes for our customers, while having a wider positive impact on local communities.



Chapter 3: Engagement

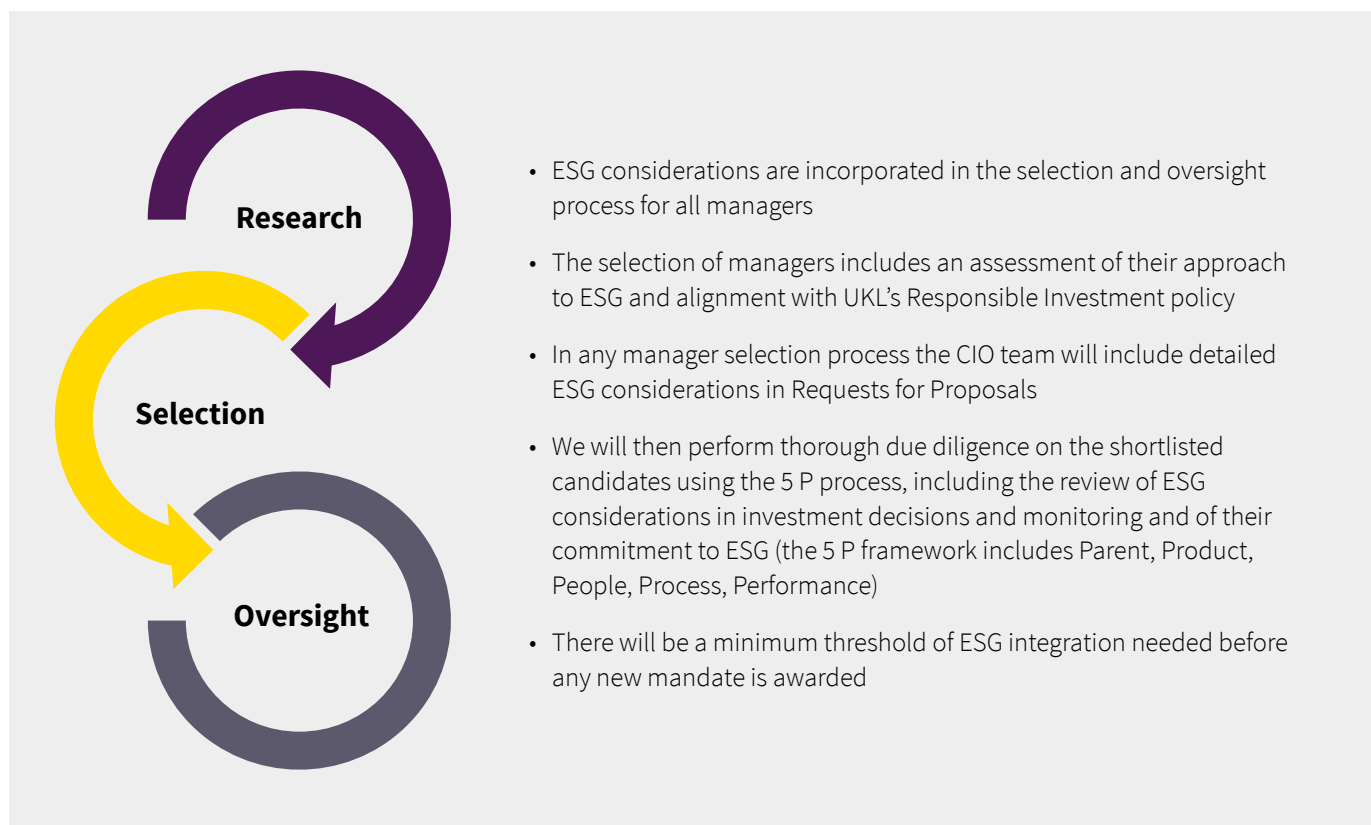


Monitoring asset managers and service providers

We have a close and direct relationship with our asset managers and especially with our in-house asset manager Aviva Investors, which controls a large portion of our AUM. Maintaining oversight and ensuring our asset managers are investing in line with our values, purpose and long-term investment beliefs are crucial to our climate and stewardship commitments.

We maintain accountability for our asset manager activity and conduct thorough analysis from selection to the ongoing oversight to ensure their approach to ESG is aligned with our Responsible Investment Policy.

Figure 9: Manager research and selection



5 P process

1 Parent

An assessment of the ability of the manager's employing entity to provide a steady and well-resourced platform from which to execute the investment strategy. It will encompass financial solidity and capital buffer, commitment of the business to the particular strategy, market reputation and capacity to recruit high-quality staff, commitment to the investment manager, and strategic stability.

2 Product

The purpose of this part is to evaluate the fund as a product and identify any undesirable restriction applied to the management of the fund. Consideration is also given to the price, the level of AUM and flows, commitment of the firm to the strategy, and its overall competitiveness.

3 People

An assessment of the quality of key investment personnel and their capacity to contribute positively to the performance characteristics of the portfolio. The rating will encompass the manager's assessed level of insight, motivation, integrity and experience.

4 Process

An assessment of the overall philosophy and the steps taken by the manager to implement their analytical capacity into an investable product. It will capture the adherence to a process that makes use of the manager's strengths, the appropriate use of information and fair value targets, the conviction and risk elements of the final portfolio, and awareness of liquidity. Performance needs to be repeatable.

5 Performance

The performance record will be commented on from the perspective of the manager's ability to outperform through a hypothetical business cycle, and from the perspective of the trend effects of the manager's "investment style". This criterion is not rated.

Oversight

Our Responsible Investment (RI) policy governs how ESG considerations should feed into investment decision-making processes for each asset class. Our asset managers are expected to comply with the principles set out in this policy.

To do this, we request regular management information from each of our appointed asset managers on engagement activity, voting and ESG integration into investment processes. We also perform annual review and due diligence meetings dedicated to stewardship with our asset managers, where we can use this information to challenge and escalate any stewardship concerns.

As part of our broader manager oversight responsibilities, we will meet with the Fund Managers on all of the underlying investment desks at least once a year. The UKL CIO team evaluates funds and strategies based on the 5 P process, assigning an overall rating of 'Superior', 'Good', 'Fair', 'Poor' or 'Impaired' based on an aggregation of the 5 P and ESG scores. It is the team's belief that a fund that can demonstrate strong and robust attributes in these areas is more likely to outperform over the long term on a risk-adjusted basis.

An agenda is provided to the managers in advance of the meeting to establish the key topics that the Investment team wish to cover; structured around the 5 Ps identified above along with ESG-related discussion points that need to be covered.

Although we expect our managers to provide detailed reporting on the ESG characteristics of mandates, we accept that full ESG integration in active solutions often depends

on proprietary ESG research and can, therefore, lack easily understandable optics (such as high aggregate ESG scores or low carbon exposures) seen in more quantitative-based approaches. We will, therefore, qualitatively assess the level of ESG integration as part of the due diligence process, which is considered under each of the Ps. Focus will typically be on:

- culture and ESG policies
- internal and external research resources
- how ESG is embedded in the process
- engagement activities
- portfolio exposure and weightings to companies and themes such as climate risk.

Each strategy will be assigned an ESG score between 1-5, with 5 representing a strategy that fully integrates ESG and 1 representing a strategy that does not consider ESG at all. This will be driven by our assessment within the context of the 5 P criteria.

If our monitoring identifies significant concerns with our expectations of future long-term performance, we will look to make changes such as changing the underlying manager, closing funds or reducing our allocation to managers. Where appropriate, we incentivise long-term performance of asset managers through performance fees, which are deferred. This means an element of the fee we pay asset managers is aligned to the long-term performance of our customers' funds. Some examples of where our monitoring processes have led to specific outcomes are detailed on the next page.



Monitoring asset managers and service providers **case studies**

Evolution

In the past year, our asset manager oversight and engagement has continued to evolve. We conduct regular, action-focused discussions with our asset managers - with ESG consideration a standing item on the agenda for all desk reviews. This results in us gaining more insights and examples on how ESG is integrated into the investment and stewardship decision-making processes.

Outcomes

Case study: downgrading an asset manager

Last year we downgraded one of our external equity managers due to unsatisfactory levels of ESG integration into their investment process. This resulted in a downgraded rating for 'Process' as part of our 5 P oversight process and a reduction from 'Superior' to 'Good' overall. While we were comfortable the manager in question was meeting the minimum levels of integration, we were unable to award a 'Superior' rating based on our assessment of their ESG and stewardship activity. We have since engaged with the manager on the perceived shortfalls and are pleased to report a number of enhancements have been made to their process to address this shortcoming.

Case study: collaboration with our asset managers

Acknowledging that ESG factors are material sources of investment risk across both active and passive investment solutions, we have enhanced our workplace Defined Contribution default fund (My Future) – in conjunction with Blackrock as the manager of these funds – to incorporate our ESG ambitions into this passive solution.

The My Future fund is now able to invest in the World ESG Insights Equity fund being launched by BlackRock, aimed at explicitly incorporating ESG considerations in fund design. The framework is designed to overweight companies expected to perform better over time because of a focus on capturing ESG risks and opportunities, while also aiming for a 50% reduction in carbon intensity compared to the FTSE Developed Index.

My Future Growth, Consolidation and Drawdown funds will begin to allocate to the BlackRock World ESG Insights Equity Strategy in a controlled manner, until it accounts for 50% of the respective equity allocations.

Case study: engagement with AI

AI manages the majority of our AUM and therefore our engagement and collaboration with AI is particularly important. An example of an outcome as a result of our collaborative efforts has been the creation of Aviva Investors' Climate Engagement Escalation Initiative, which was approved by the ESG Leadership Team (chaired by the AI CEO, with membership of UKL CIO).

Through this initiative we identified a target list of 30 companies from the oil and gas, metals and mining, and utilities sectors, based on their contribution to global carbon emissions. These companies alone are estimated to contribute towards approximately a third of all global emissions on an annual basis. The companies have been further split into two risk categories based on the availability of Scope 3 disclosures and quantitative ESG scores. The two risk categories are described as follows:

Risk Category 1 Companies (7 companies)

- Progress against Aviva Investors' climate asks will be assessed over 12 months
- Non-responsive companies will be placed on the divestment list with a 6-month implementation period

Risk Category 2 Companies (23 companies)

- Progress against Aviva Investors' climate asks will be assessed over 36 months
- Non-responsive companies will be placed on the divestment list with a 6-month implementation period



Engagement: approach and activity

Approach

The previous section describes the expectations for our asset managers and how we engage with them to ensure the standards we set are met. The approach especially comes to life in our engagement with – our internal asset manager – with the benefit of a shared philosophy and common processes.

Through our asset manager engagement, we maintain accountability for the framework for engagement with investee companies. Having robust processes in place to monitor asset managers allows us to leverage their expertise and resources to deliver the desired engagement outcomes.

For listed companies, the following diagram displays how engagement targets are identified and engagement activity is then delivered. This defines our engagement approach for both equities and corporate debt, which captures the majority of assets invested in our customer funds. Engagement routinely takes the form of meetings or calls with the Board or senior sustainability executives.

Figure 10: Identifying companies for engagement

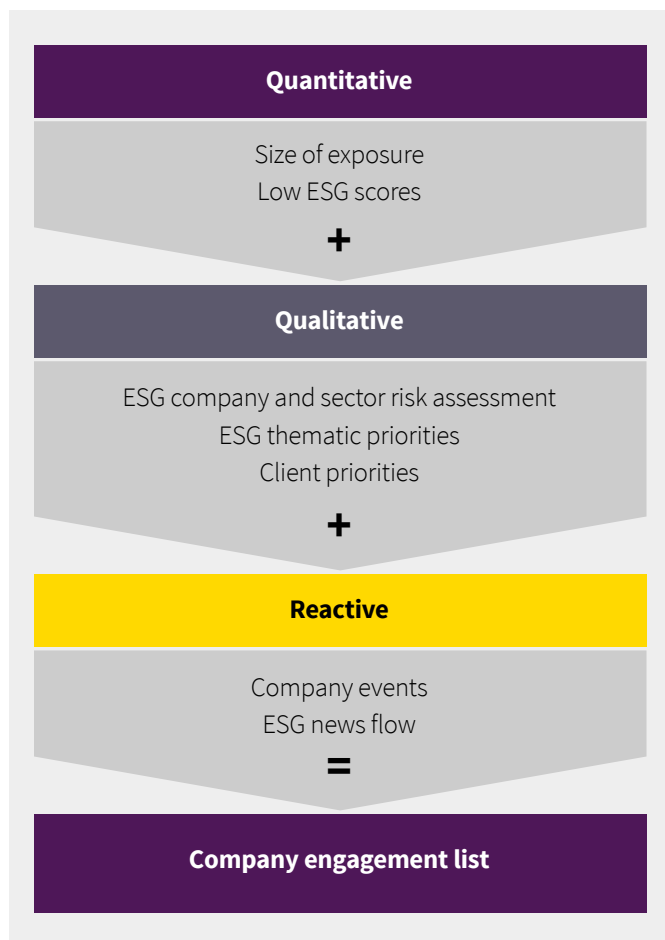


Figure 11: Engagement execution



We also have exposure to other asset classes across both customer and shareholder funds, including property and infrastructure, and will engage across other asset classes on an ad-hoc basis. This is demonstrated in the case studies provided on the following page. 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 define engagement in real assets as structured interaction on environmental, social and governance issues with our customers, including borrowers and occupiers, suppliers and the communities we operate in.

This engagement is carried out via Aviva Investors during the initial transaction process or through ongoing asset management. We also engage with the borrowers in creating covenants and incentives that mandate or encourage environmental and social impacts. In equity investments where we own assets directly, Aviva investors will engage with occupiers and our suppliers to reduce building energy use, and engage communities to create positive social impacts. We are considering how to best evolve our Voting and Engagement Policy to capture the nuances of these asset classes.

Activity

Through our regular asset manager communications and monitoring, we discuss the engagement opportunities policy and approach, to ensure that this engagement activity is aligned to our purpose and beliefs.

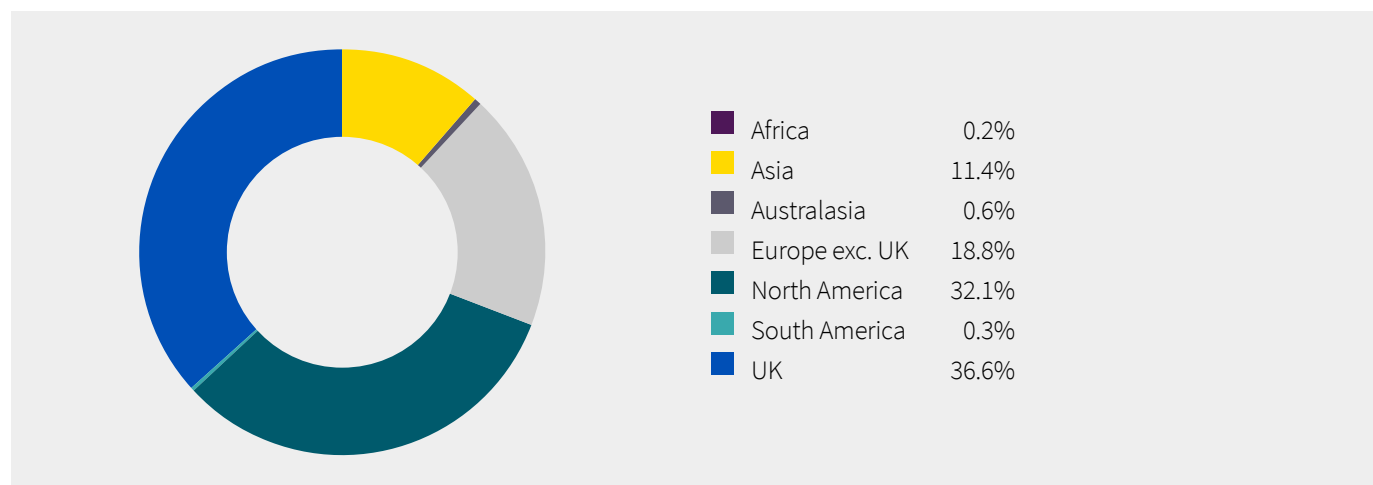
The following data and case studies represent key engagement activity undertaken on our behalf by Aviva Investors. Updates on the engagement activity of all of our managers is provided and reviewed by the investment team on a regular basis. We will evaluate creating an aggregate picture for our 2021 report.

Over the past year Aviva Investors recorded 90 engagement 'wins' where changes in corporate behaviours were recorded in line with the engagement ask.

Our 2020 engagement statistics: key numbers

- Undertook 3,428 company engagements including 1,501 substantial interactions
- Recorded 90 incidents on engagement successes

Figure 12: Engagements by region



Engagement

case studies

Case study: reducing energy demand in direct property investments

Activity

Offices are a significant contributor to the climate crisis, often using the highest volumes of energy in commercial real estate. Through Aviva Investors, we targeted one of the highest-energy-consuming assets held within our largest unit-linked property fund to reduce energy demand through basic engineering interventions, such as tightening time schedules for the heating, ventilation and air conditioning system in reception, reducing fan speeds overnight, and installing a timer on hot water tanks for periods of no occupancy. Since July 2019, Berkeley Square has reduced its energy intensity by 18%, achieving considerable progress in a year through our Smart Buildings Programme.

Outcome

On-site initiatives achieved over 1,000 megawatt hours of energy consumption savings, which equates to approximately £133k in avoided costs for our occupier. 251 tonnes of carbon savings were achieved through the programme, equivalent to that emitted by 29 average homes per year. This results in a less carbon-intensive asset, contributing to a more attractive investment opportunity and driving value preservation for our clients in the long term.

Case study: AT&T governance concerns

Activity

Historically we have had concerns over the board composition and oversight at AT&T, particularly following data breaches, employee discontent and customer issues. The acquisition of Time Warner in 2018 therefore presented additional governance risks, specifically with regard to integration and culture. We had previously assigned a negative ESG rating to AT&T.

Given our substantive credit exposure in AT&T, Aviva Investors arranged a call with the company to discuss relevant ESG risks. The company outlined a series of positive changes including the separation of the CEO and Chair roles, an issue which Aviva Investors have been advocating over prior years.

Outcome

The rating for AT&T was updated from negative to neutral to reflect the number of areas where it has progressed. These include the shift in approach on corporate culture, its good performance on human rights and the targets it has set to reduce its environmental impact. Our forward-looking engagement is now centred on gender diversity and strengthening oversight of cyber-related risks.

Case study: HSBC – protecting human rights

Activity

In June 2020, the Hong Kong Government introduced a new security law – a response to the democratic protests that swept the region through much of 2019 and early 2020. The law permitted the detention and prosecution of individuals deemed to be a threat to national security. The law also contained provisions which specifically targeted the financial sector, including the right for authorities to freeze financial assets of anti-government protesters. Furthermore, the US Government in its response imposed international sanctions on Hong Kong Government officials who were perceived to be leading the introduction of the new law.

Both events presented a set of complex political, regulatory and social challenges for international financial companies operating in the region. HSBC and Standard Chartered were two banks with large exposure to these risks.

Aviva became concerned over potential human rights risks and Aviva Investors was the first global investor to publicly voice concern over HSBC's support of the new law. The team at Aviva Investors subsequently met with the management of HSBC and Standard Chartered in the following weeks to better understand ESG and investment risks arising from the situation and to outline expectations.

Outcome

Both companies outlined their actions to preserve their legal and social licence to operate. A potential solution was also discussed with HSBC to follow a precedent set by the telecoms sector in creating principles and disclosure frameworks for dealing with sensitive customer information requests from governments. We continue to monitor the environment in Hong Kong and any associated impact on, and response from, banks operating in the region.

Case study: Glencore – climate transition

Activity

While global coal demand is expected to decline according to projections by the International Energy Agency, the commodity is still supported by robust growth in most Asian markets. As such, the fate of coal is inherently tied to decisions made in Asian capitals, notably China, where half of the world's coal-powered energy is consumed. While from a valuation perspective Glencore's decision to hold these assets is considered to benefit future cash flows, it necessitates in our view a credible, long-term climate roadmap, cognisant of transition risks and underpinned by interim targets.

Particularly against the backdrop of the EU Green Deal and interim 2030 reduction target, the team at Aviva Investors have continued to engage with the company's Chairman, Tony Hayward, as well as outgoing CEO, Ivan Glasenberg, focusing on Glencore's climate strategy.

Outcome

Glencore announced targeting Net Zero emissions by 2050, across Scope 1, 2, and 3, in contrast to peers that have primarily focused on direct emissions. In doing so, the company announced interim targets of reducing Scope 3 emissions by 40% by 2035 before reaching Net Zero in 2050. In addition, revenue generated by its coal operations is expected to be recycled into Glencore's portfolio of transition metals, which will benefit from increasing demand due to a combination of decarbonisation trends, electrification and population growth.

We are currently working with our other asset managers to collect similar engagement metrics to those provided above for Aviva Investors. Where we already receive data, we are investigating how we can aggregate this data, in order to provide a complete view of engagement activity that is conducted on behalf of UKL for future reporting periods.

Exercising rights and responsibilities

Another key way in which we engage with investee companies is by exercising our shareholder voting rights. While voting rights are delegated to our asset managers, we expect voting behaviour to be consistent with our sustainability expectations. Quarterly reporting is requested of asset managers on all voting and engagement activity that has been conducted on our, and our customers', behalf. We seek justifications for the voting positions taken by managers and challenge those we believe are inconsistent with our RI policy or sustainability expectations.

We expect our asset managers to consider all voting opportunities as a means to influence companies to adopt sustainable business models. This does not mean that we require asset managers to vote whenever they are able to, however they should assess voting options and make conscious decisions on whether, and how, to vote. We do not require all our managers to have exactly the same votes, however we do expect voting behaviour to be consistent with our sustainability expectations, which we expect to result in consistent voting behaviour. We also expect our asset managers to co-operate and collaborate with other shareholders, where appropriate, to increase their influence on companies we invest in.

Voting records for all beneficial holdings across portfolios are made publicly available via [our website](#).

Overview of our voting activity in 2020

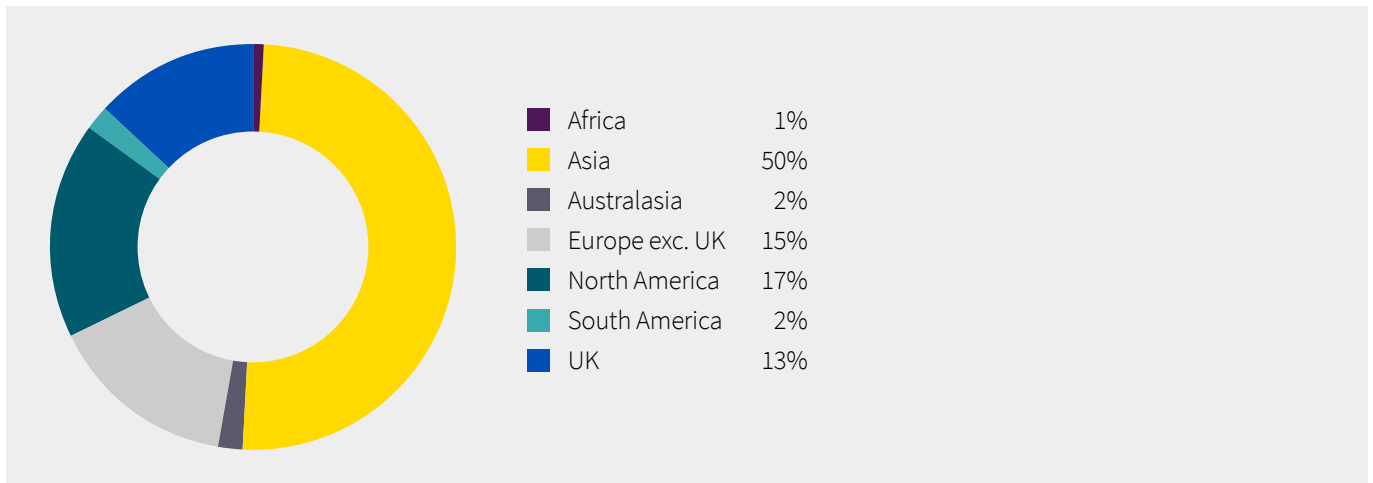
The following is a summary of votes undertaken by Aviva Investors, who represent about 80% of our assets under management:

- voted on **72,025** resolutions at **6,457** shareholder meetings
- voted against **24%** of management resolutions, including **43%** of pay proposals
- voted in favour of **98%** of climate and social shareholder proposals.

Figure 13: 2020 voting activity by issue

	Total number of resolutions	Percent non-support
Directors	28,290	32%
Remuneration	7,680	43%
Auditors	5,369	22%
Shares Issues / Capital Related	10,506	15%
Report & Accounts	4,862	10%
Related Party Transactions	3,079	18%
Takeover/Merger/Reorganisation	1,258	9%
Anti-takeover Measures	90	31%
Shareholder Resolution	936	55%
Shareholder Resolution (Supported by Management)	1,133	14%
Other	8,822	13%

Figure 14: 2020 voting activity by region



Exercising rights and responsibilities

case studies

The following section outlines the rationale behind key voting decisions based on ESG themes

Company	Vote	Rationale
Cranswick plc	We voted against the remuneration report resolution at the 2020 AGM, which included a proposed pay package for the Group CEO of c.£2.9 million (including payment of the maximum allowable bonus).	<p>We expect the remuneration committee to exercise due care and apply discretion when determining the level of executive pay-outs.</p> <p>Ahead of the company's AGM in August 2020, we observed from the annual report that the Group CEO's pay versus the median employee pay for the year increased significantly: up from 79:1 to 101:1.</p> <p>We were concerned that positive financial performance was not being fairly distributed with the workforce.</p>
ExxonMobil	We acted in 2020 by voting against the re-election of all nine directors on ExxonMobil's board.	<p>Exxon remains committed to a strategy of continuing oil and gas production, betting on a swift recovery in fuel prices. Our view is that Exxon's strategy remains risky and could further misallocate capital as the company prioritises carbon-intensive resources over mapping out a credible transition strategy.</p> <p>As such, we had ongoing concerns with respect to the company's governance of climate-related risks, weak targets, and the extent to which it subjects unproved reserves and unsanctioned capex to stringent resiliency criteria.</p>
Mizuho Financial Group	We supported a shareholder resolution at Mizuho's AGM in June 2020 which would require the company to disclose its climate risks and publish its plans to ensure investments were aligned with the Paris Agreement.	Although Mizuho had strengthened its policy in April 2020 to end financing for new coal power projects, we supported the proposal for continued improvement of the company's climate-related disclosures.
BHP	We voted against a shareholder resolution requesting that the company place a moratorium on activities at cultural heritage sites, refrain from enforcing contractual rights on Native Title Holders from speaking publicly, and disclose its expectations regarding Industry Association lobbying on cultural heritage issues.	<p>We were initially intending to support this resolution as it would reinforce the company's commitment to protect cultural heritage sites. However, upon engagement with BHP, we gained a deeper understanding of the company's existing efforts to ensure native title holders' right to free, prior and informed consent (FPIC). It was apparent that BHP is already meeting many if not all requirements set forth in the shareholder resolution to ensure that native title holders are continuously consulted, and their consent is obtained from the outset.</p> <p>An open-ended moratorium may result in material operational risks as BHP is currently operating across four different jurisdictions, each with its own legal frameworks. This could have material financial implications.</p>

Escalations

Earlier in this chapter we describe how we engage with investee companies and with the asset managers who engage on our behalf. All of our engagement activity is outcomes-focused and we set high standards for those we and our asset managers engage with. Where expectations are not met, it is imperative that we have a robust escalation process, that engagement targets are clear and that we will take action where their activity does not align to our purpose, strategy and ambition.

We believe we should use our position as a large asset owner to encourage companies towards improving the way they operate. We believe it is important to use our influence as asset owners to try to drive behavioural change, rather than walk away and lose any influence to change things for the better. However, if engagement does not lead to positive change, we reserve the right to divest.

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. Aviva Investors maintains 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.

We expect our managers to use all engagement tools available, which may include:

- additional meetings with company management and/or non-executive directors
- expressing concerns via company brokers and advisers
- withholding support or voting against management and the non-executive directors
- circulation of a statement of issues at an AGM

- requisitioning resolutions at an AGM
- requisitioning a general meeting
- collaboration with other investors on shareholder resolutions, engagement meeting and voting
- raising concerns with appropriate regulatory authorities
- considered public statements and press comment
- divestment of holdings.

We believe we should use our position as a large asset owner to encourage companies towards improving the way they operate. We believe it is important to use our influence as asset owners to try to drive behavioural change, rather than walk away and lose any influence to change things for the better. However, if engagement does not lead to positive change, we reserve the right to divest.

Where engagement ultimately fails, we add the company to Aviva's Investment Stop List, which is maintained and issued centrally. We may just make no further investments or divest our existing holdings.

Where we decide to divest, we will divest any equity holdings within 90 business days. We expect to run off existing fixed-income investments where we believe it may have a detrimental financial impact of immediate disposal.

For discretionary portfolios, we allow the asset manager to manage the escalation and divestment process, with appropriate notification to UKL.

We also have a selective exclusion list of sectors we do not invest in, such as companies that make controversial weapons (landmines, cluster munitions, blinding laser weapons, biological, chemical, depleted uranium and incendiary weapons, or nuclear weapons or firearms for civilian use), and tobacco companies. We will be reviewing and updating our exclusion policy in 2021 to include thermal coal, oil sands and Arctic drilling in line with our climate ambition. All will be subject to materiality thresholds that will be detailed in the policy.

Climate engagement escalation programme

We consider climate change to be the greatest systemic challenge facing society, the global economy and companies. Failure to act will have catastrophic and pervasive consequences, including for capital markets and asset valuations. While Aviva maintains an “engagement first” philosophy, we recognise that for our engagement approach to have impact, it must be accompanied by a robust escalation process.

As part of the programme, Aviva Investors have identified 30 systemically important carbon emitters from the oil and gas, mining and utilities sectors that together contribute towards nearly a third of global carbon emissions. The companies have now been included within a targeted climate engagement programme. Our engagement with these companies is centred on following five areas:

- 1. Climate targets:** Set 2050 Net Zero Scope 3 emissions targets for the entirety of their business operations. Targets and transition plans should be aligned with science and ideally validated by the Science Based Targets initiative.
- 2. Transition plans:** Climate roadmaps must include near-term transition targets and be fully integrated into corporate strategy, capital frameworks and the core investment case communicated to the market.
- 3. Management incentives:** Climate objectives and targets must be meaningfully reflected in short- and long-term variable pay plans for senior leadership and the wider business.
- 4. Climate disclosures:** Align disclosures with the TCFD framework, including high-quality reporting of business impacts under various climate scenarios. This should enable investors to model different projections of underlying asset valuations.
- 5. Climate lobbying:** Align all lobbying activities with the ambitions of the Paris Agreement. This must include a critical evaluation of positions promoted by trade.

We will receive six-monthly updates from AI on progress against objectives set for companies as part of the climate engagement escalation programme through our ESG Leadership Team as described on page 15. Our expectation is that we will be informed when there are concerns with companies delivering on expectations and that these concerns are flagged well in advance of any sale recommendation.

As we look to widen our ESG integration and engagement, we acknowledge that a robust escalation policy will be instrumental. We look forward to progressing our new Climate Engagement Escalation Programme in 2021 to align with our Net Zero ambitions by 2040.



Conflicts of Interest



Aviva takes its fiduciary duties to customers and beneficiaries very seriously. Our principal objectives when considering matters such as voting and engagement are always to act in the interests of our customers, and to treat all customers fairly. Please find the link to our Conflicts of Interest (COI) policy [here](#).

One key area of conflict is how we exercise our voting rights over any Aviva shares that we hold. We adopt the following approach in this regard:

- no investment is permitted in an Aviva plc equity, bond or money market issue by any Aviva Group company or associate. Collective investment schemes (excluding Tax Transparent Funds (“TTFs”)) and investment trusts are not prohibited from investing in Aviva plc equities, bonds or money market issues
- 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
- 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 advisors and 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.

We have highlighted another potential area of conflict, where the company we invest in – and a potential engagement opportunity is identified – is also a client of Aviva plc. We endeavour to robustly manage potential conflicts in our stewardship activities and therefore exercise formalised segregation of duties within Aviva UKL, such that proposition or underwriting teams are not involved in investment stewardship processes and activities, and in turn those executing stewardship responsibilities have a limited view of Aviva’s business clients.

We also maintain an arm’s-length relationship with Aviva Investors, who engage on our behalf. Being another step removed from Aviva’s business relationships, the asset manager can engage from an unconflicted position.

Looking forward, we aim to ensure that our conflict of interest policy explicitly incorporates guidelines for stewardship-related conflicts. In future, we will also evaluate creating an auditable mechanism for COI management.

Chapter 4: Broader market initiatives – collaboration and systemic risks



Collaboration and systemic risks

Our influence

No single company or even a group of companies can make the world sustainable. This is going to take action from governments too. We are campaigning for systems-level change so that not just our investment but the whole financial system works towards a sustainable future. By working in partnership with our clients, policymakers and regulators, we are at the forefront of creating transformational change to make capital markets sustainable.

Collaborative engagement with other investors is an important, if not essential, requirement for being able to exercise appropriate influence on companies. Collaboration allows for information sharing on existing and emerging stewardship issues and enables aligned stakeholders to utilise their collective influence to bring about change. We are connected to stakeholders through various national, regional and global forums that facilitate collective discussions and action.

We have detailed below a number of the initiatives we are proud to be involved in, and we have been founding members of several of these.

We follow this with details of our work on Net Zero, further details of our approach to market-wide and systemic risks, and a number of case studies on both collaborative engagement and systemic risk.



Themes	Initiatives	Involvement
Environment – Climate Change	TCFD Science Based Targets initiative SASB principles	Signatory and AI have included the request to report as part of their company engagement Signatory Looking to report against them this year
	United Nations Net Zero Asset Owner Alliance United Nations Net Zero Asset Manager Initiative	Signatory AI signatory
	Low carbon infrastructure investment Better Building Partnership – pathway to Net Zero	AI signatory
	RE100 pledge EV100 pledge	Signatory Signatory
	Operational carbon impact	Independently assured
	Powering Past Coal Alliance Finance Principles	Signatory
	Race to Zero	Signatory
	PRI	AI Signatory, not Aviva as an asset owner
	EU High Level Expert Group on Sustainable Finance	Signatory this was AI, not Aviva as asset owner. Also this predated 2020
Governance – Diversity and inclusion	Tackling the systemic issue of racial discrimination	Initiator
	Living Wage Employer 30% Club Women in Finance Charter Armed Forces Covenant	Certified Signatory Signatory Signatory
Pensions	Scams campaign	Initiator
	Tumelo research on customer attitudes towards ESG issues	Initiator
Building Back Better	Strengthening use of an “Antimicrobial Resistance” (AMR) lens on investment	Initiator
	Our commitments towards investing £10 billion in infrastructure and real estate investment	Initiator
	Committing on 2% average per annum profits invested into the community	Initiator
Social – World Benchmarking Alliance	Providing publicly available benchmarking of corporate performance against the UN Sustainable Development Goals	Aviva, the Index Initiative, the UN Foundation and the Business and Sustainable Development Commission were brought together by a common belief that the private sector can strongly contribute to, as well as benefit from, the global ambition of the SDGs and that corporate performance benchmarks are powerful levers for change.

Aviva UKL is an active voice in the financial services landscape and recognises the importance of broader stakeholder commitments. As active asset owners we take our responsibilities in addressing risks that affect the financial market seriously and are also committed to improving the overall functioning of markets. This involves exercising our rights and responsibilities over assets, calling out risks and supporting policy makers to bring about necessary changes.

We use our voice to raise awareness around the concept of “market failures” that stem from risks in the system and in particular their distinction from “market inefficiencies”. It is by recognising this distinction and addressing these failures that we, alongside policy makers, can bring about the policy interventions necessary to transform markets. It is also how we issue a call to action to our peers to play their role too. This can be seen in the work we have done with the Asset Owner Net Zero Alliance as well as our collaboration with governments on key policies as detailed below.

Our work to promote well-functioning markets and bring about a sustainable financial system is integrated across Aviva, as we undertake stewardship at both a micro level (identifying risks by way of our investment research and mitigating such risks through corporate engagement) as well as at macro level (market reform work to bring about systems change as well as through broader market collaborations).

Figure 15: Micro and Macro level stewardship



Collaboration and systemic risks

case studies

Case study: engaging with policy makers and governments on environment – climate change

We recognise that climate change is the world's biggest market failure and are working actively with the UK Government to address this and bring about market reform. Three examples of when we engaged with the Government to address the risks posed by climate change are highlighted below.

1. Oral evidence to Treasury Select Committee on Green Finance [here](#)
2. Oral evidence to Environmental Audit Committee on COVID-19 and green recovery [here](#)
3. Engagement with Government and policy-makers: Aviva Supplementary Evidence to the Treasury Select Committee on Decarbonisation of the UK Economy and Green Finance [here](#)

Case study: macro-economic research and engagement on pension reform

As active asset owners with a large pensions pool, we understand the need to improve the pensions marketplace. We have engaged with the UK Government on this topic as well as including our response to DWP's Consultation on "Taking Action on Climate Risk: improving governance and reporting by occupational pension schemes", which focuses on ensuring that everyone has sufficient means to live above the poverty line and therefore how employers should provide a living pension as well as a living wage i.e. minimum contributions. We look forward to sharing the outcomes of this research in the 2021 Stewardship Report.

We also aim to create value and address risks not only for our clients and beneficiaries but also for all our wider stakeholders. This can be seen in our campaign to tackle pension scams. We gave oral evidence to the Work and Pension Select Committee's inquiry on "Protecting Pension Savers – five years on from the pension freedoms: Pension scams", where we highlighted the prevalence of the problem, outlined steps that can be taken to prevent pension scams and called on government and the pension industry to do more to tackle the issue.

As an insurer we take pride in our engagement with pension savers and recently conducted research with Tumelo to provide transparency to their workplace pensions and tying it to ESG issues (as seen on page 28).

Case study: market reform at the Centre for Excellence

Our market reform agenda represents the natural progression from our integration and stewardship work. Where market failures such as unpriced externalities exist, or where there are systemic or stability risks, we engage with policymakers to reform markets as market participants cannot correct these issues alone.

In effect, we identify long-term and market-wide risks through our research, exercise our rights and responsibilities over the assets we own, including engaging with corporates, to address and mitigate such risks. We then also use these risks to inform our market reform work to ensure our actions for change have practical application and are not created in a vacuum.

Within our dedicated Sustainable Finance Centre for Excellence which acts as a nerve centre for accelerating and co-ordinating cross-business action to drive change, we are focusing on four major areas of market reform. These four areas are designed to encompass environmental and social issues, with climate change and biodiversity pertaining to environment and anti-microbial resistance and diversity pertaining to social. All four areas are interdependent and are reflected in our priorities as well as how we carry out initiatives.

In 2020, our work has been shaped by the impact of the pandemic. In turn, the impact of the pandemic has helped to reinforce the significance of sustainability and the need for careful consideration and management of our interaction with nature and our use of the planet and its resources. It has demonstrated the deep-rooted interconnectedness of sustainability issues, and created an unprecedented opportunity to rebuild in a way that aligns with the Paris Agreement goals and ensures the UK hits its legally binding Net Zero goals by 2050. We must not fail to seize it.

We are stepping up and taking part in what is an unprecedented opportunity to effect change and use our position to drive and support UK leadership on sustainable finance – domestically and internationally – as the UK prepares to host the 26th UN Climate Change Conference of the Parties (COP26) and the G7.

Case study: engaging with academics – Aviva's input into Dasgupta Review

The Economics of Biodiversity: The Dasgupta Review is a similar review to a 2006 review by Sir Nicholas Stern, which is credited with transforming economic understanding of the climate crisis. Aviva Investors provided input to the review, highlighting the failures of capital markets, including how they force short-termism upon investors and corporations; fail people by destroying the resources they rely upon; and by assuming they have no ethics. We proposed policy makers shift towards innovative, forward-leaning regulatory approaches to correct market failures and expose inefficiency.

Case study: engaging with communities to address systemic racism

Challenge

By making inclusion an integral part of how we treat our customers, clients, partners and people, we see better decisions made in a better workplace, and a workforce that is more representative of our customer base. Inclusion to us refers to the fair and equitable treatment of all – regardless of gender, age, race, disability or sexual orientation. Last year the Black Lives Matter movement focused attention on the widespread inequality faced by the black community. All of us, as individuals and organisations, need to do more to address structural inequalities and confront all forms of racism and discrimination both in our industry and the wider world.

Activity

After the death of George Floyd in May 2020 we began a concerted programme of listening to the thoughts and experiences of our people with regard to racial discrimination, and diversity and inclusion, more widely. Working with our Origins community, a group of colleagues who join together to celebrate cultural difference, and expert guidance from The Diversity Practice, INvolve and Business in the Community, we developed a three-pillar Black Lives Matter action plan on addressing racial discrimination: employee support, community action and providing education, including black history lessons and mandatory anti-racism training. Some additional actions include: taking a stand against Facebook's policy on hate speech by pausing our advertising spend across its platforms (June 2020); Aviva Investors announcing that it would vote against company directors that failed to increase ethnic diversity at board level (January 2021); and becoming founder signatories of the CBI Race for Ratio and the Canadian BlackNorth Initiative.

Outcome

Although we are starting to lay foundations to ensure we are supporting black colleagues, educating our people and challenging company and industry norms, we know this in itself doesn't eradicate racism and discrimination in our society. Moving forward we are committed to driving systems-level change to fight against racism in the financial sector and beyond.

“My goal is to help make Aviva better through our wonderful people. For that to happen, we need an inclusive culture that attracts and keeps a diverse workforce of talented people representing every age, race, ability, gender and sexual orientation, and supports them to be at their best.”

Danielle Harmer, Chief People Officer

Case study: engaging with industry on director racial and ethnic diversity – social

Challenge

£24 billion – or 1.3% of GDP – is the estimated potential benefit to the UK economy if black and ethnic minority individuals were in occupations commensurate with their qualifications. The current lack of diversity in senior business roles presents a market failure by depriving the economy of this additional value and failing to deliver positive outcomes for society.

Activity

Aviva joined the “Change the Race Ratio” initiative to drive an increase in racial and ethnic diversity among board members and senior leadership, as well as to drive transparency around actions and to help drive the creation of an inclusive culture in which talent from all diversities can thrive.

In 2020, we undertook targeted research to analyse the impact of racial discrimination on companies’ stakeholders and to set our expectations of company action with a view to changing our own investment and engagement practices to drive change.

Outcome

Insights from this research were used to shape our voting policy. Where information on director ethnicity is available, we will now not support the re-election of the nomination committee chair (or other resolutions when the nomination chair is not up for re-election) if the board lacks ethnic diversity and has not outlined a credible diversity strategy.

These insights are also shaping our engagement with companies, enabling us to drill down on diversity-related issues for example in relation to leadership, strategy and governance, including looking for a clear articulation of how a company plans to have “at least one” ethnic minority representation on the board.

We are funding research by the Living Wage Foundation – to be made available as a public good – on the disproportionate impact on black, Asian and minority ethnic workers of low pay, economic uncertainty and the impact of COVID-19 in increasing the risk of post-pandemic redundancies. This should help raise awareness and improve corporate behaviours.

Case study: engaging with the healthcare industry to strengthen the use of an antimicrobial resistance (AMR) lens on investments

Challenge

The COVID-19 pandemic meant that 2020 was a year in which the potential for health crises to become financial crises was highlighted as never before. The WHO has described antimicrobial resistance (AMR) as one of the greatest threats to global health today. This is reflected in the fact that at least 700,000 people die each year due to drug-resistant diseases, a figure that is projected to rise to 10 million a year by 2050. As resistance is rising, antibiotics are becoming less effective. This threatens the prevention and treatment of a growing list of infections, including pneumonia, tuberculosis and gonorrhoea.

Activity

To help address this issue, in November 2020, we became a founding member of the coalition for Investor Action on AMR, as one of 12 investors (with a combined AUM of \$6.7 trillion). The initiative, launched at the World Economic Forum in Davos, is backed by the Access to Medicine Foundation, the FAIRR Initiative, the Principles for Responsible Investment and the UK Government Department of Health and Social Care.

Outcome

The coalition is harnessing investor efforts to align the broader financial community with international initiatives such as the WHO Global Action Plan on AMR. As a member, we are strengthening our use of an “AMR lens” to assess, integrate and mitigate AMR-related risks when making investment decisions. As part of the coalition, we have committed to raise awareness on AMR as a market failure and engage with policymakers on AMR funding and regulation to correct this, as well as to continue to highlight its investment materiality pact.

Case study: engaging with corporates – BP Shareholder Resolution

Challenge

We have a responsibility to engage with companies so that they are aligned to the UK's Net Zero targets and our own ESG goals and ambitions. BP's capital expenditure is primarily allocated to fossil fuel exploration and extraction, with a pivot to gas being its primary reference point when challenged on climate change. Of concern was the company's lack of disclosure demonstrating that its strategy is consistent with the Paris climate goals. This included an absence of targets and metrics to demonstrate how the business aims to meet the Paris goals.

Activity

We also continue to play our role as a responsible asset owner engaging with the companies, projects and assets we own on issues such as climate change, human rights and diversity. For example, as part of Climate Action 100+, Aviva Investors co-filed a resolution at BP to provide clarity on how the company's strategy is consistent with the goals enshrined in the Paris Agreement. It does so by asking the company to include in its corporate reports (1) how it evaluates consistency of each new material capex investment with the Paris goals; (2) a review of its financial and non-financial performance metrics and targets to ensure that these reflect the aims of the Paris climate agreement; and (3) reporting on progress on an annual basis.

Outcome

The resolution was approved by 99% of shareholders at BP's 2019 AGM and, as a result, BP unveiled a transformative new corporate strategy in 2020 entitled 'Reimagining Energy', which sets a new benchmark for the sector. The company has committed to being Net Zero for oil and gas extracted by BP and significantly reducing carbon intensity for traded energy. BP subsequently outlined a roadmap for change which included a 40% reduction in oil and gas over the next decade while increasing new energy capex by 10 times to £5bn.

Collaboration and systemic risks: Net Zero

A single company or even a group of companies cannot make the world Net Zero. This is going to take action from governments too. We are campaigning for systems-level change so that not just our investment but the whole financial system works towards a sustainable future.

Governments must support the transition by making it pay to do the right thing, stopping subsidies for fossil fuels and shifting this support to low carbon energy through pricing carbon. Markets need clear and loud price signals. Governments must set dates to phase out unsustainable things like coal power stations. And governments need to act to make sure it is a 'just transition' where people are supported through the significant change to the economy and their lives.

Governments are starting to press companies to adopt better climate disclosure (through the TCFD approach), but disclosure isn't enough. What counts is action. We want governments to go further and require companies to disclose action plans which align their business strategies to science-based climate goals, including short- and medium-term milestones. Only then will governments better mobilise the trillions of pounds in capital markets to flow into the right sustainable investments.

This November, the world will come together for the delayed Climate Conference in Glasgow (COP26). We are leading a coalition of businesses, NGOs and others from civil society calling for a new way to make finance flow towards the sustainable investments the planet needs. (Read more about our call for a Climate Finance Platform [here](#).)

As a company, we have a long track record in helping shape public policy in this area, including helping to found the World Benchmark Alliance, and we use our membership of trade associations to insist they support the climate transition too.

We pledge to continue arguing the case for an economic recovery driven by cutting carbon and creating new jobs, infrastructure and opportunities in a Net Zero economy.

Aviva's Net Zero commitments

While we strive for market change, we recognise that we are a key player within the market and we have a responsibility to lead by example, particularly in areas as important as climate change.

Aviva is committed to supporting a low carbon economy through a just transition that will improve the resilience of our economy, society and the financial system in line with the 2015 Paris Agreement target on climate change. We were one of the first insurers to sign up to the United Nations-convened Net Zero Asset Owner Alliance. We target a reduction in the carbon footprint of our investments by 25% by 2025 and by 60% by 2030, and we aim to transition assets to Net Zero by 2040. We have also joined the Net Zero Asset Managers initiative and we are working with others to develop an underwriting methodology in order to help accelerate our ambition to become a Net Zero company by 2040.

In December 2020, the Real Assets platform published a pathway to reach Net Zero emissions by 2040. This extends to assets under management across real estate, infrastructure and private debt, and is supported by five ambitious short-term investment goals which will be delivered in the next four years to 2025. The scope and boundary of this Net Zero pathway extends to direct investments, such as directly owned and managed equity assets, and financed emissions, which are loans and other debt instruments made to third parties.

The Net Zero target is focused on seizing the opportunities created by the climate transition and complements the Real Assets business plan launched in December 2020. The Real Assets platform has already made significant progress toward delivery of the Net Zero target and supporting investment goals. Over the past five years the platform has invested £5.2 billion in low-carbon and renewable energy infrastructure including solar, wind and energy centres, taking their total energy generation capacity to 730MW in the UK and Europe. A sustainable lending strategy was launched in 2020 following £200 million of climate transition focused debt investments placed in utilities and real estate sectors. In 2020, energy saving programmes in real estate delivered over £700,000 in avoided energy costs for occupiers and contributed to a 10% reduction in carbon emissions measured against a 2019 baseline. (TCFD)

A key part of Aviva’s Net Zero commitment for 2040, a key commitment is participating in the PRA’s 2021 Climate Biennial Exploratory Scenario. Additionally Aviva will work collaboratively with the UNEP FI, industry associations, sector peers, academics, professional bodies, external consultancies, regulators and international agencies. We will also support engagement with COP26 in Glasgow (November 2021), helping to create a more sustainable world for our customers and society by encouraging climate conscious policy and regulatory measures as well as advocating for the creation of an International Platform for Climate Finance. As the climate changes, we will need to adapt to new conditions, and employ strategies that deliver for humanity, biodiversity, and the climate simultaneously. (TCFD).

Figure 16: Aviva’s climate goals

Achieving Net Zero on the carbon emissions we produce ourselves by **2030**, from our suppliers by **2030** and from customers and shareholders investments by **2040**.

Creating a better tomorrow: Aviva’s climate goals

Our plan is to become a Net Zero carbon emissions company by 2040* – the most demanding target of any major insurance company in the world today.

Targeting Net Zero on carbon emissions we produce ourselves by **2030**, from our suppliers by **2030** and from customers’ and shareholders’ investments by **2040**.

<p>Today</p> <ul style="list-style-type: none"> • First major UK financial services company to target Net Zero carbon by 2040 • Operational emissions cut by 66% since 2010 • New ‘Climate Engagement Escalation Programme’ – to drive change in high-emitting companies or divest them • Submitting climate targets to SBTi for validation • Offering customers Climate Transition Funds and Net Zero-aligned default pensions • Annual reporting on progress and first insurer to commit to putting our climate disclosures (TCFD) to an AGM vote 	<p>By the end of 2021</p> <ul style="list-style-type: none"> • Aviva will have stopped underwriting insurance for companies making more than 5% of their revenue from coal or unconventional fossil fuels, unless they have signed up to Science Based Targets <p>By the end of 2022</p> <ul style="list-style-type: none"> • Divest from companies which make more than 5% of their revenue from coal, unless they have signed up to Science Based Targets • Expected to invest a further £10bn of assets from its auto-enrolment default funds and other policyholder funds into low carbon strategies (of which £5bn has already been announced) 	<p>By 2025</p> <ul style="list-style-type: none"> • 25% cut in carbon intensity of investments • 100% renewable electricity for all offices, which total 230,231 square metres, and 100% electric/hybrid vehicle new leases for our 1,540-strong motor fleet • Aviva will invest £6bn in green assets, including £1.5bn of policyholder money into climate transition funds • Aviva investors will invest £2.5bn in low carbon and renewable energy infrastructure and deliver £1bn of carbon transition loans 	<p>By 2030</p> <ul style="list-style-type: none"> • 60% cut in carbon intensity of investments • Net Zero operations • Net Zero supply chain • £100m committed to nature-based solutions 	<p>By 2040</p> <ul style="list-style-type: none"> • Net Zero company with Net Zero carbon investments
--	--	--	--	---

Read more about our climate goals at www.aviva.com/climate-goals

*This will cover shareholder and policyholder assets where we have control and data; and the main asset classes of Aviva’s core markets (credit, equities, direct real estate and sovereign debt). We will be able to expand this further as new data and methodologies become available. For more details please see www.aviva.com/climate-goals

Direction of travel: looking forward

Our stewardship activities will continue to be outcome-focused and positioned at the heart of what we do

We are proud of our rich heritage and leadership on stewardship matters, the further progress we have made on stewardship this year, and the active role that we have played to deliver a better tomorrow for our customers. We operate with a common approach across Aviva to drive the positive real-world outcomes we support. At the same time, we also know that there is more we need to do to continue to drive change.

We have identified a selection of key areas in which we have ambitions to accelerate activities over 2021 and will hold ourselves to account to demonstrate progress as our stewardship maturity continues to grow.

Team structure and resources

We are committed to embedding stewardship into the heart of our investment process and making sure that our people and structures evolve in line with our ambitions. While we are able to leverage expertise across Aviva, including Aviva Investors, we intend to also formalise named individuals in UKL responsible for stewardship integration in coordination with the wider Group.

Creating a robust governance structure

We are reviewing our current governance structure to respond to our sustainability ambition and to integrate stewardship activities across our business. We will build on the current governance framework to incorporate both clear accountability and needed agility into our decision-making processes.

Expand our training programme

Our training programme to date has been focused on climate-related considerations, and we recognise that this can be expanded to capture other emerging themes. We will review our training programme for 2021-2022 and reflect on appropriate representation of other components of stewardship activity, such as our voting rights and responsibilities, our engagement and escalation processes, and how our people can practically implement change to align to our strategic ambition statements.

Conflict of Interest (COI)

Managing conflicts of interest is a key tenet of our investment decision making processes. Looking forward, we aim to ensure that our conflict of interest policy explicitly incorporates management of stewardship related conflict of interests. In future, we will also evaluate creating an auditable mechanism for conflict of interest management, as well as update our Voting and Engagement and RI policies to reflect this.

Reporting on Voting and Engagement

Updates on the voting and engagement activity of our managers is individually provided and monitored by UKL on a regular basis and made available on our website. We will look to report on a more holistic basis across our holdings in our 2021 report.

Direction of travel: looking forward

Continue to engage with our stakeholders

As active owners we are committed to addressing systemic risks in the market. We have often engaged – and aim to further enhance this engagement – with key stakeholders such as governments, corporates, customers and policy makers to promote a well-functioning financial market.

Continue to engage with our asset managers

We have seen an evolution in how we engage with our asset managers and look forward to expanding the breadth of engagement on stewardship topics with both our in-house and external asset managers. We have an active dialogue on engagement topics to continue to further promote the stewardship culture.

Fair, balanced and understandable reporting

We are committed to ensuring fair, balanced and understandable reporting by continuing to engage with our external auditors and advisors. We will ensure we continuously reflect on and adapt emerging best practice in stewardship reporting, which we anticipate will emerge throughout 2021 and beyond as other asset owners progress with their respective reporting processes.

Ethnic diversity on our Board

While we have made some progress through our work on the Diversity Practice and the measures we have introduced following our signing of the Race at Work Charter, we recognise that action is required to improve the ethnic diversity of our board. We commit to having at least one ethnic minority member on the Aviva plc Board by the end of 2021.

Improve our diversity data gathering

Gathering diversity insights from our employees helps us to provide support to those from minority backgrounds and learn how, where and when we need to intervene. As of January 2021, 53% of our people opted to complete diversity data. We will push to increase this number by the end of 2021.

Our company places sustainability and long-term value at the heart of what we do, and we are excited to further develop our approach to stewardship to constructively push the boundaries of the possible.

Appendix A

The report should be read in its entirety to obtain the fullest picture of our active ownership activities during 2020.

To facilitate navigation, the table below provides links to the sections within the report that demonstrate how Aviva UKL applies the 12 Principles of the 2020 UK Stewardship Code.

Stewardship Code Principles	Section within the document	Relevant pages
P1: Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society	Foreword by Amanda Blanc Foreword by Ashish Dafria Commitment to effective stewardship Who are Aviva	3 - 4 6 - 10 12 - 13
P2: Signatories' governance, resources and incentives support stewardship	Facilitating stewardship activities through our governance structure Our team Incentives and training	14 - 16, 19 - 20 17 18
P3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Conflicts of Interest	52
P4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Broader market initiatives – collaboration and systemic risks	53 - 63
P5: Signatories review their policies, assure their processes and assess the effectiveness of their activities	Assurance of reporting expectations	21 - 22
P6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	How are we invested? Who are our customers? Client communication and feedback	24 - 30
P7: Signatories systematically integrate stewardship and investment, including material, environmental, social and governance issues, and climate change, to fulfil their responsibilities	An integrated stewardship	31 - 36
P8: Signatories monitor and hold to account managers and/or service providers	Monitoring asset managers and service providers	38 - 42
P9: Signatories engage with issuers to maintain or enhance the value of assets	Engagement	43 - 46
P10: Signatories, where necessary, participate in collaborative engagement to influence issuers	Broader market initiatives – collaboration and systemic risks	53 - 63
P11: Signatories, where necessary, escalate stewardship activities to influence issuers	Escalations	50 - 51
P12: Signatories actively exercise their rights and responsibilities	Exercising rights and responsibilities	47 - 49

In addition to the table above, please refer to page 64 – Direction of Travel for our forward-looking strategy and the recognition of our strengths and areas of improvement.



Thank you

Aviva Insurance Limited, Registered in Scotland Number 2116. Registered Office: Pitheavlis, Perth PH2 0NH. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

