Aviva UK Life Responsible Investment Report

2021 Stewardship in Action

AVIVA

CEO Foreword

This year marked the 325th anniversary of our company. We've been taking care of people and taking on big challenges as a business for over three centuries, and aim to be doing so for the next 300 years too. The choices we're making today will help create what's possible for tomorrow.

Our customers are increasingly demanding that companies act in a sustainable and ethical way, and we aim to lead the way in UK financial services. We were the first major insurer globally to commit to becoming a carbon net zero company by 2040, and our Sustainability Ambition reaches beyond just climate action. We want to help build stronger communities and embed sustainability in everything we do. We're changing the way we do business and want to use our influence to encourage others to do the same.

Our commitment to investor stewardship and environmental, social and governance (ESG) is therefore part of the fabric of Aviva. Facing up to the challenges we have as a society is the best thing we can do for all of our customers, our 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 report makes clear how we are determined to become ever better stewards, living up to our purpose of being with people today, for a better tomorrow.

Amanda Blanc, Group CEO

Aviva plays a crucial role in the lives of our customers, and our scale and market position mean we're also a fundamental part of the wider economic system. Both these factors demand that we act as a responsible business, minimise systemic risk and act as a guardian of market integrity.

We're not just financial investors. We want to help create communities where future generations can thrive. To live up to our commitment to provide our pensions customers with a long-term, stable income, we also want to give those customers a way to help build the sort of future they want to retire into. It therefore makes sense both strategically for our business and morally, as responsible corporate citizens, to promote long-term thinking and sustainability in all our dealings.

Although we're proud of what we have already achieved, we recognise that there's no room for complacency if we are to retain our leadership position on ESG issues. This report sets out how our current stewardship activity builds on our long track record of responsible asset ownership. We also, in line with Financial Reporting Council (FRC) feedback, show how we have continued to develop and evolve our approach. Our customers, and the stability of the wider economy, depend on us, and we're determined to live up to our commitments.

Doug Brown, Aviva UK & Ireland Life CEO

About our report – Hear from our CIO, Ashish Dafria

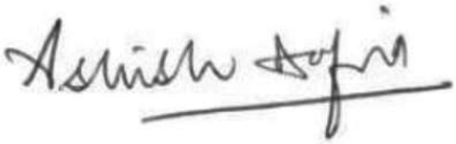
I am privileged to share with you the Aviva UK Life 2021 Responsible Investment Report, which I have reviewed and approved. As I mentioned last year, for me stewardship is not just a process or an organisation chart, but a mindset. This report puts into a document what has been a way of life for us – to be strong stewards of investments we manage on behalf of our customers and shareholders.

At Aviva, our approach to stewardship follows a 'One Aviva' model and permeates the different parts of the organisation, allowing us to innovate collaboratively, to pose healthy challenges to each other, 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 in pursuit of a common vision of the future and of the best investment practices to get there. We have put together this report to represent our view as an asset owner, against the FRC's 2020 Stewardship Code, and it is complementary to the asset manager view captured in the report of Aviva Investors[1].

We were delighted to achieve signatory status last year, and are pleased to share this update covering the 2021 calendar year. The report highlights how we operate to drive the positive real-world outcomes we support, including those in our updated Climate Change and Sustainability Ambition. We are proud of our heritage and strong current practices in this area, but we remain of the view that we – and the asset-owner community – need to make further progress and continue to evolve our practices in pursuit of integrating sustainability into all our investments. As we recount our achievements, we also remind ourselves that there are many more unanswered questions and future aspirations. This report is an important milestone in sharing our progress over 2021 and our direction of travel on this journey.

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; we also include areas where we have continuing progress to make and a view of how we will get there.

Please see the Appendix, which provides a regulatory map setting out how we believe we comply with the Code.



Ashish Dafria, Chief Investment Officer

[1]Aviva's responsible investment and stewardship policies are established, debated and monitored on a Group-wide basis, with the Group executive committee, Group sustainability team and Group CIO providing overall sponsorship and oversight, though please note that the entities in UK, Ireland and Canada are separate legal entities. Throughout this report we use the term 'Aviva UK Life' to refer to the various entities which form the Aviva life and savings businesses under Aviva Life Holdings UK Limited – the main statutory entity being Aviva Life & Pensions UK Limited. Where deemed necessary, we will make the distinction between Aviva UK Life, Aviva Investors (the Aviva asset manager) and Aviva Group, but in other instances we will simply use 'Aviva'.

Contents

Chapter 1: Our purpose, investment beliefs, culture and strategy

Understanding Aviva, our purpose and our investment beliefs
Aviva has been looking after customers for more than 325 years. Aviva's life insurance business began when John Hartley, a London bookseller, established the Amicable Society for a Perpetual Assurance Office. Founded under a charter of Queen Anne, the Amicable claimed to be the world's first mutual life assurance society. Its primary purpose was to ensure that the widows and children of members were provided for in the event of the member's death. Today, our business continues to be focused on providing our customers with security in the face of life's uncertainties. We are guided by our purpose: 'with you today, for a better tomorrow'. For Aviva UK Life this means providing our customers with a long-term, stable income, and using their assets to build a sustainable society they want to retire into.

Aviva UK Life is in a unique position to solve customer problems through each step of their lives, as we are a trusted provider of a broad range of products to both individual and corporate customers covering their savings, retirement, insurance and health needs. We help individuals save and achieve financial peace of mind through their workplace, their advisers or through engaging directly with us, as well as managing their savings and income up to and through retirement. We also help our corporate customers with de-risking solutions for their pension schemes, and promote wellbeing and health within their workforce.

We take our responsibility as an asset owner seriously. We have long been an advocate of responsible investing – it has been part of our investment activities for many years. The vast majority of our assets are managed on our behalf by Aviva Investors, which is a UK pioneer of responsible investing dating back over 27 years, when it published its corporate governance voting policy.

We believe the integration of responsible investing considerations into the investment gives us a better understanding of the opportunities and challenges faced by our investee companies, and can enhance returns on a risk-adjusted basis.

As at 31 December 2021, we have over £285 billion of assets held within customer life and pension products and shareholder portfolios. We invest these assets across several asset classes, the majority of which are in multi-asset solutions utilising equity, credit, sovereign and real assets such as property and infrastructure. Chapter 3 looks into the composition of our assets and our customers more closely.

We apply the responsibility that our customers give us in a way that meets their current and future needs to provide them with both financial and non-financial choices – our customers' welfare will be determined not only by the size of their savings, but also the future state of our world and society. Therefore, 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 investment decisions and engage with investee companies are all designed to serve this aim.

A common approach

Aviva has a common approach to stewardship activities, with centres of excellence across the Group joined by a shared ambition. We provide diversity across markets, products and services, which gives us strong and lasting relationships with customers alongside material capital benefits and cost efficiency. 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 without inhibiting constructive challenge between asset owner and asset manager, holding each other to account where needed to further our stewardship priorities. We practise active ownership across the asset classes in which we invest, including exercising our shareholder right to vote and collaborating with our other investors on market-wide issues. We discuss our interaction with Aviva Investors further in the description of our governance structure in Chapter 2, as well as how we engage with our external asset managers in Chapter 3 from page 46.

Client need	Our stewardship solution
Attractive long-term sustainable returns and income	Genuine scale, heritage and calibre across the Aviva business, which integrates responsible investing in pursuit of – not in lieu of – long-term sustainable returns
Contribute to a better world to live in and retire into	We use our customers' assets as a power for change on ESG topics that matter to them and to society
Comfort from investing responsibly	Robust and evolving management of assets to ensure the operations of the assets we invest in are not intentionally harmful to society

Figure 1: Addressing our client needs through stewardship

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. Core to our investment beliefs is that by taking a long-term responsible investment approach, risk is reduced over time and we can provide enhanced returns for our customers and a sustainable society that they want to retire into. Our long-term investment decisions need to take into account long-term risks and alignment with our customers' investment horizons; this makes sustainability an important and natural factor in our investment decisions. We view this report as a clear signal of our progress to date, and of our intent to continue to realise this belief on behalf of our customers and beneficiaries.

Our values and culture

Aviva values

Care

We understand the positive difference we make in our customers' lives every day. We truly listen to see beyond the policyholder to a person with plans and dreams. We solve problems for our customers, and for each other we build relationships that no one else can.

Commitment

We stand up for what we believe in. We act with courage, keep our promises and take ownership of our work. We understand the impact we have on the world and take seriously the responsibility that brings with it. We will play our part in tackling the climate crisis.

Community

We recognise the strength that comes from working as one team, collaborating and winning together for Aviva, for each other and for our customers. Our strength comes from our connection – to each other, to our customers and partners, and to the communities around us.

Confidence

We believe that the best is still to come – for our customers, our people and society. We're not just here for now; we're here to imagine and to innovate for the future. We are brave and passionate, setting new standards for ourselves and the competition.

Our culture is shaped by our purpose – 'with you today, for a better tomorrow'. Aviva seeks to earn the trust of our customers by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency.

Our people are passionate about doing their best for our customers. Our values guide everything we do, including having the confidence to shape Aviva for today and tomorrow, showing the commitment to deliver on our promises, working together as a community to make Aviva better and more inclusive for everyone, and taking the care to speak up if something is not right so we can build a better Aviva.

The board continues to assess and monitor the Group's culture to ensure it remains effective in serving the best interests of clients and beneficiaries. A culture diagnostic has been developed along with associated action plans, which the board reviews annually. The culture diagnostic combines employee sentiment with other employee and customer data, and is additional to our annual 'Voice of Aviva' employee engagement survey.

Commitment to effective stewardship is at the heart of what we do

Our strategy and ambition

In 2021, Aviva delivered substantial progress on our strategy:

- Focusing the portfolio – leaner and simpler, and focused on our core markets.
- Rebuilding financial strength – bringing our leverage ratio in line with our target and reducing our capital volatility following disposals. We have also returned material capital to shareholders, while maintaining capacity to reinvest for growth and efficiency.
- Taking significant steps to transform our performance – building strong growth momentum across our core businesses, enhancing our customer experience and materially reducing our cost base. At the same time, we have strengthened the Aviva master brand, invested in innovation and launched a market-leading Sustainability Ambition.

Specific to Aviva UK Life, our key business strategic priorities continue to focus on:

- Savings and retirement growth by strengthening our workplace and retail propositions.
- Growing the annuity business in a capital-efficient manner, investing further in the UK and supporting our social purpose.
- Extending the distribution reach of protection and health, and continuing to deliver innovative wellness services.
- Delivering on our promises to be a climate champion by leading the UK's financial services industry in sustainability and ESG.

Our Responsible Investment Policy[2], which we outline in further detail in Chapter 3 from page 39, governs our approach to investing. We use the United Nations Principles for Responsible Investment (UN PRI) definition of responsible investment – "investing that incorporates environmental, social and governance factors into investment decisions, to better manage risk and generate sustainable long-term returns." We believe that our Policy helps us practise active stewardship and ensures alignment with our long-term value culture.

We exercise our stewardship responsibilities across all of our assets, while being mindful of the type of assets, objectives of the beneficiaries (policyholder and shareholder) 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 investment decision-making power, 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 reflect our stewardship beliefs.

With this backdrop in mind our Aviva Sustainability Ambition[3], which was informed by engaging with over 9,000 Aviva stakeholders, is simple – we aim to lead the UK financial services sector on climate change, building stronger, more resilient communities and running ourselves as a sustainable business (see Figure 2). This is mirrored in our stewardship efforts over 2021, focusing on these as the three most important issues and levers of change to address the needs of our long-term customers, as well as the challenges and opportunities that our business faces in delivering our strategy.

Figure 2: Aviva's Sustainability Ambition centred on our purpose

[2]https://www.aviva.co.uk/content/dam/aviva-public/gb/pdfs/personal/services-and-support/our-uk-business/products-and-services/gn22001c.pdf
[3]https://www.aviva.com/content/dam/aviva-corporate/documents/socialpurpose/pdfs/2021-aviva-sustainability-report.pdf

Climate action

We adopt an integrated approach to executing on our climate strategy through involving all our business units. In 2021 we accelerated our approach to tackling the climate crisis, announcing our ambition to be a net zero company by 2040, and aligning all aspects of our business to the 1.5°C Paris target. We also won the Reuters Responsible Business Awards for 'having played a crucial role in accelerating the transition of the finance sector'.

Linked to our long-term investment beliefs outlined earlier, by the end of 2021 Aviva had invested £7.6 billion in green assets – investment in green assets is one of our metrics used to assess progress on addressing climate-related risk and opportunities (see more detail in Chapter 2 on page 25). This includes £4.4 billion in low carbon infrastructure (including low carbon real estate) such as wind farms and solar panels, £1.6 billion in green and similar eligible bonds as well as green and sustainability-linked loans, and £1.6 billion in climate transition funds. Progress was also made on our Aviva Investors Real Assets net zero pathway, published in 2021. This outlines how we will reach net zero emissions across the whole of our real assets platform by 2040. Progress includes:

- £1.4 billion invested in low carbon assets – 56% of our 2025 investment target
- £783 million of our £1 billion target invested in climate-transition-focused loans
- Real estate carbon emissions in our portfolio reduced by 37% and energy intensity by 19% – exceeding our 2025 target

We understand that the highest-emission fuels cannot be part of a low carbon future. By the end of 2022, we will have divested from all companies making more than 5% of their revenue from thermal coal, unless they have signed up to the Science Based Targets initiative or the funding for green project finance has been ring-fenced.

As an asset owner we have the ability to reorient capital flows towards sustainable outcomes and to invest in assets which generate long-term value for our customers and shareholders. We have built on our 2020 work by making a further two climate funds available in 2021: these are the Climate Transition Global Credit Fund and the Climate Transition Real Assets Fund. An allocation was also made to the Climate Transition Real Assets Fund by our range of Mixed Asset Funds, which are available to workplace and advised customers. This climate suite of funds targets companies generating revenue from goods and services addressing climate change, and those aligning their business for a low carbon world. We also launched the stewardship funds on our savings platform and made the Aviva Investors collective versions of the stewardship funds available to cater for ISA investment.

Beyond our commitment to net zero, 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 – see Chapter 3, where we explore this in detail.

We continue to develop our 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. We explore examples of this throughout our report.

Stronger communities

Stronger communities help us to overcome life's challenges and achieve more together. We work with our customers, communities and partners to build a stronger economy and deeper human connections, post-pandemic and beyond. We also help more people find the financial security they need for a better tomorrow. In 2021 our community investment totalled over £31.8 million, helping over 2.1 million people (target: 10 million people by 2025).

We aim to improve our risk management and investment performance while at the same time help to create more sustainable investment solutions fit for the future. As an active owner of capital, our scale and influence help us drive the change required to build a better future for all our clients. This process includes areas such as climate change, biodiversity, human rights, plastics and gender diversity.

In 2021 Aviva and the Red Cross won the Charity Times Awards Corporate Social Responsibility Project of the Year Award for our COVID-19 response. We continue to work together to help communities bounce back from the impacts of COVID-19 and to be ready for future emergencies.

We take our responsibility for protecting vulnerable customers' rights seriously, and our green and accessible products and services enable our customers to be more environmentally responsible or give them easier access to the protection they need for themselves and their families. For example, Aviva and the Resolution Foundation launched a report titled 'Building a Living Pension', focused on closing the pension savings gap for low-to-middle-income families. Aviva is supporting calls for a new Living Pension standard to be created.

Sustainable business

To achieve our ambition, we need to embed sustainability into every part of our business. We have clear policies and systems in place to ensure high standards across fundamental ESG issues such as data protection, combatting corruption and financial crime, fair payment of tax, protecting vulnerable customers, upholding human rights, and supporting employee rights and wellbeing. In 2021 we published our latest anti-modern-slavery statement, and we conducted a Group-wide human rights due diligence assessment to create our action plan for 2022-2023.

Creating a diverse, inclusive organisation is a fundamental part of living up to our purpose of building a sustainable society that our customers want to retire into. It means being there for all our people, serving all our customers well, and helping to contribute to fairer, more equal communities. Having a diverse and inclusive firm ensures we have the range of perspectives and insight that is so important for good decision-making, helping us deliver the outcomes that our shareholders and other stakeholders expect us to achieve.

In 2021 we updated the Aviva plc Board Diversity and Inclusion Statement which sets out how the board supports and measures progress against our commitments. This includes our commitment to increase the number of women in leadership roles to 40% by 2024 and to enhancing the ethnic diversity of our leadership and succession pipeline. Our Group CEO, Amanda Blanc, was also appointed as HM Treasury's new Women in Finance Champion, playing a crucial role in promoting HM Treasury's Women in Finance Charter, and we made anti-racism training a required learning for our employees.

We are a significant investor in the economy, investing in buildings, infrastructure projects and companies around the globe to help our customers save for their future. We invest responsibly by building ESG considerations into all our investment processes, and we have continued to develop new sustainable products and solutions which we cover in more detail throughout this report.

The effectiveness of serving our customers and other stakeholders

Figure 3 below represents how Aviva engages with various stakeholders in line with our strategy and purpose. We believe that maintaining good relationships with all our stakeholders contributes to realising our purpose to provide our customers with a long-term, stable income, and using their assets to build a sustainable society they want to retire into.

Figure 3: Relationships with our stakeholders

We believe that by using the three pillars of our Sustainability Ambition – climate action, stronger communities and sustainable business – as an integral part of investing for the long term, we are able to deliver sustainable growth and help build a better world. We keep these pillars in mind in combination with our purpose, investment beliefs, culture and strategy to facilitate our approach to stewardship and help our clients build a better future for themselves and society.

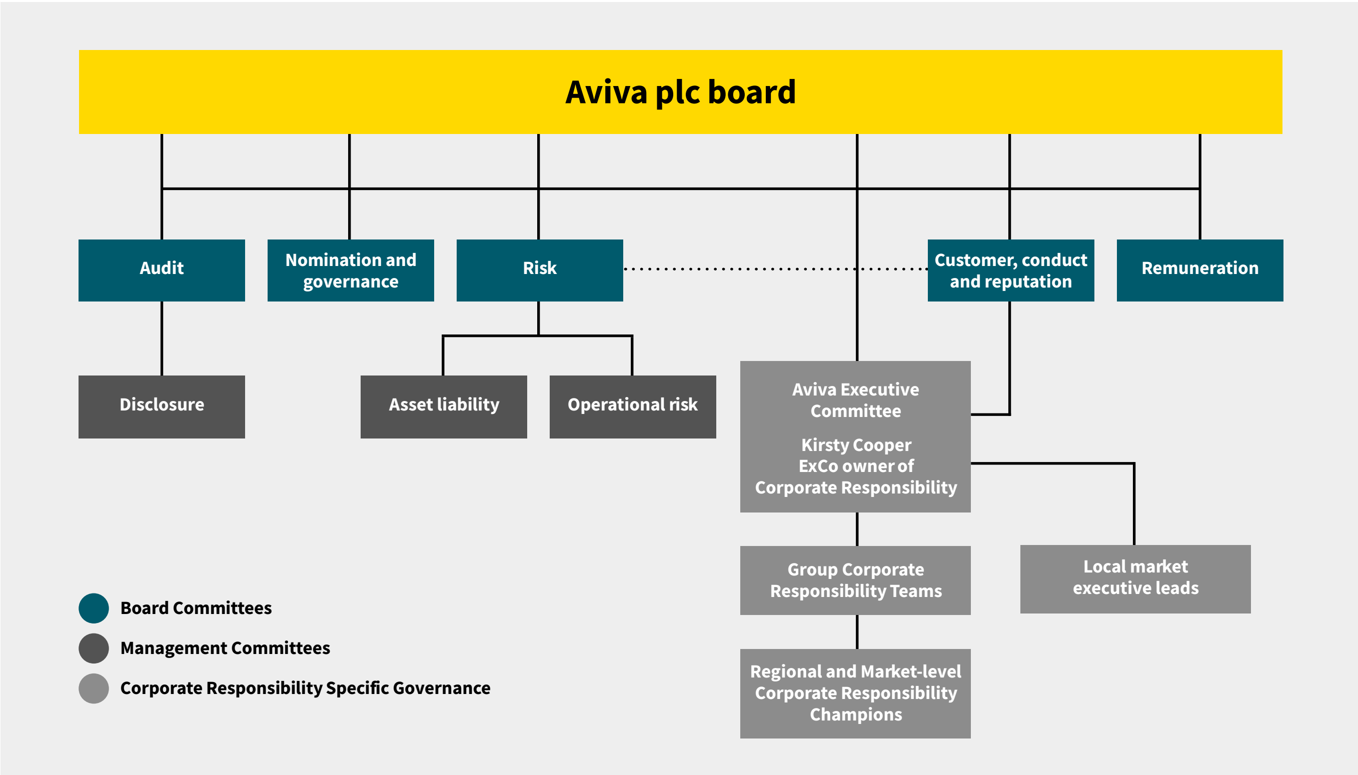
Our approach has been validated by the fact that Aviva Investors received the highest grade of A+ for its ESG strategy, governance and active ownership (i.e. engagement and voting) in the latest UN PRI annual assessment. In Chapter 3, we outline how we communicate with our clients to ensure that the outcomes we aspire to are aligned with their objectives. We have included a range of case studies and examples which evidence this, alongside reflections on the challenges we face and our plans to address them.

Chapter 2: Governance and organisation of stewardship

Facilitating effective stewardship governance
The delivery of effective stewardship requires the support of senior leadership, sufficient resourcing and oversight to make sure we deliver on our ambitions. The following section describes how we govern ESG and stewardship and how we ensure that the appropriate level of expertise, authority and assurance is applied to all our stewardship activities.

The Group's governance structure
Sustainability issues are core considerations in both our strategic decisions and day-to-day business activities. We have a strong system of sustainability governance, with effective and robust controls in place which recognise the nature, scale and complexity of operations across the Aviva Group. We work to embed stewardship activities across the business, collaborating with our colleagues at Aviva Investors and the Group more broadly. Figure 4 outlines our Group corporate structure, which facilitates this collaboration and enables all parts of the Group to work towards common stewardship objectives.

Figure 4: Aviva Group governance structure



As a UK Premium Listed company, Aviva's governance framework is based on the 2018 UK Corporate Governance Code. We believe that by applying these principles we set the same standards for ourselves as we expect from others. Our Group-level corporate responsibility team, which reports to the Aviva executive committee, is key in delivering against these principles. The corporate responsibility team ensures 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 by developing strategies and programmes on the identified issues with the support of senior leadership.

In 2021, the Aviva plc board reviewed and approved the 2022-2024 Business Plan, which incorporates our climate and sustainability 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 the agreed climate risk appetite. The Aviva plc board also reviewed and approved the Group's pathway to net zero, as well as the Aviva UK Life 2022-2024 Business Plan.

The UK Life Business Plan focuses on two 'hard' climate metrics to track and monitor performance against – our carbon footprint and investment in green assets, as well as monitoring performance against 'soft' metrics including portfolio warming potential, climate value at risk etc. The climate risk appetite, and associated metrics and thresholds, are set by the UK Life board and are included in the regular management information dashboard produced as part of the chief risk officer's report to the board and board risk committee around five times a year. If the overall appetite is breached this will be reported to the board risk committee via the asset liability committee or the executive risk committee, identifying drivers of the position and proposed remedial actions.

The Aviva Group strategy, values and culture are determined 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, monitored and reported.

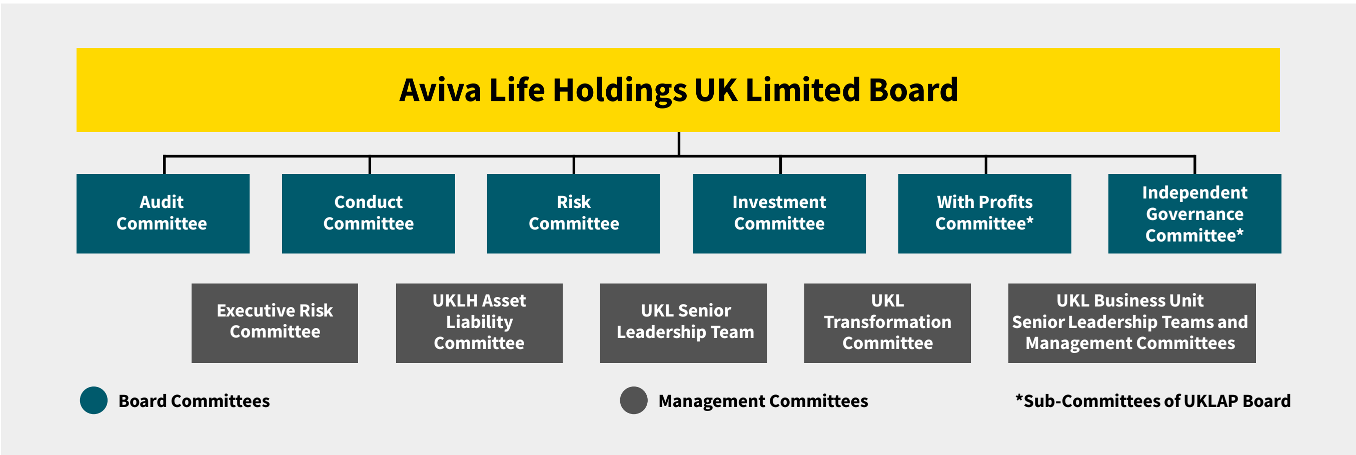
The Aviva ESG Investment Leadership Team

The Aviva ESG Investment Leadership Team (ESG ILT), which is chaired by Aviva Investors' CEO, with the Aviva UK Life chief investment officer (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 ILT is also tasked with monitoring ESG developments in the market to ensure that Aviva's ESG investment practices remain appropriate, and that associated risks and opportunities for the brand are robustly managed. The ESG ILT presents recommendations to the group executive committee and Aviva plc board, as well as business unit boards, on ESG investment policies and practices.

Alongside this, various working groups and steering committees are dedicated to actioning our Climate Transition Plan and the wider ESG investment agenda. Many of these are joint groups across different parts of Aviva.

In addition to the overarching structure at Group level, Aviva UK Life has its own governance structure which enables sustainability matters to be integrated into our day-to-day business activities. Oversight of the relationship between UK Life and its investment managers (including Aviva Investors) is factored into our governance structure, so that matters such as responsible investment, proxy voting and management of climate risks are closely monitored. The UK Life board reports to the Aviva plc board described in Figure 4. UK Life's governance structure consists of board, executive and senior management responsibilities as described in Figure 5.

Figure 5: Aviva UK Life governance structure



Stewardship and climate risk considerations are embedded throughout our existing governance structure. ESG is now a standing agenda item on the UKLH board investment committee, as part of our CIO's regular update to the committee to ensure they are kept up to date with current actions and future plans. Management information also includes regular reporting of climate metrics, voting and engagement activity on a quarterly basis. In addition, we conduct periodic strategic reviews of our management of climate risk across our portfolios and the integration of ESG within our investment strategies, using our regular reporting of climate metrics, voting and engagement activity to provide management information on a quarterly basis to the committees to inform the recommended course of action.

To enable our board and the executives to carry out their roles and responsibilities with respect to sustainability, we have established a governance structure which ensures effective and efficient decision-making. A selection of these committees, and the role they play in embedding sustainability into the way we operate as a business, are described in further detail in Figure 6. Later in this chapter we outline some examples of stewardship items that have been considered by our governance forums in 2021.

Figure 6: Insights into a selection of Aviva UK Life committees

	Committee	Chair	Key function
Board	Investment Committee	Non-Exec	Responsible for assessing and approving ESG investment strategy and policy consistent with Aviva UK Life board-approved investment beliefs and risk appetite; considering investment matters that require Aviva plc board, Group management or UK Life board approval; overseeing the relationship between UK Life and its investment managers and custodians, monitoring investment performance; and monitoring our investment management functions. ESG and climate risk is a standing agenda item.
Board	With Profits Committee	Non-Exec	An independent committee with 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 UK Life board.
Board	Independent Governance Committee	Non-Exec	Provides independent challenge in respect of the interests of relevant policyholders of workplace pensions and pathway investors. The committee considers 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	In addition to monitoring the balance sheet and financial risk, the committee makes decisions to support the chief financial officer in exercising their delegated authority. This ensures optimisation of opportunities and makes best use of capital across the Aviva UK Life business, while ensuring there is appropriate oversight of the financial risk exposure, risk appetite and solvency of 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 Aviva UK Life CIO in executing, implementing and overseeing UK Life's customer and shareholder investments, including investment strategy, responsible investments, asset manager relationships and stewardship practices, and monitoring the effectiveness of investment risk management, including climate risk.
Senior management	Life Credit Committee	UKL CIO	A senior management committee created to review and approve off-market investment transactions impacting the shareholder funds where investment discretion is not passed to our asset managers. 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 business review meetings and other 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, ESG integration and mandate breaches. ESG issues and recommendations are escalated to executive and board committees where appropriate.

Resourcing stewardship

In Chapter 3 from page 38 onwards, we outline our integration of stewardship across all of our activities. Effective integration and management of ESG risks and opportunities is long-standing investment management best practice. As a result, we have structured our team so that our ESG management is driven by and centred around our investment teams. With representatives from both Aviva UK Life and the wider Group, our stewardship activities benefit from access to a range of systems, processes, research and analysis from across the entire business to inform our approach and continue to evolve it effectively. Most of the metrics we receive on our investments come through from Aviva Investors and our other asset managers as part of the quarterly reporting, research and analysis we receive.

However, our team does use systems such as Bloomberg and MSCI ESG Manager on an ad hoc basis to access information including carbon intensity scores, industry sector reviews, company reviews etc. We are actively considering how these tools can be used more effectively to inform our conversations with our managers going forward. See Chapter 3 page 50 for more on our oversight process for service providers.

Our team

Starting with our investment team members, below we outline the key subject matter experts focused on driving forward our ESG and Sustainability Ambition in Aviva UK Life. As well as our in-house asset manager, Aviva Investors, we select other like-minded asset managers to carry out our stewardship responsibilities – see Chapter 3 from page 46 onwards for our research, selection and oversight process.

Figure 7: Our ESG and sustainability-focused SMEs

Investment		
Chief Investment Office	Asset origination	Propositions

Name	Role	Division
Ashish Dafria	Chief Investment Officer	UKL
Bianca Hanscombe	ESG and Climate Lead	UKL
Pierre Biscay	Head of Customer Investments	UKL
Keith Goodby	Head of Shareholder Investments	UKL
Sarah Brown	Senior Investment Manager	UKL
Darren Roberts	Senior Investment Manager	UKL
Sandra McLachlan	Climate Change Manager	UKL
David Blackwell	Senior Investment Manager	UKL
Michael Floyd	Investment Manager	UKL
James Dalby	Investment Services Lead, Platform Propositions	UKL
Jason Bullmore	Investment Propositions Lead	UKL
Kunal Oak	Director of Investments, Savings and Retirement	UKL
Alex Martin	ESG Lead of Annuity Asset Origination	UKL
Marcus Mollan	Director Annuity Asset Origination	UKL
Anand Rajagopal	Head of Public Annuity Asset Origination	UKL
Prasun Mathur	Head of Private Annuity Asset Origination	UKL

In addition, we collaborate extensively with individuals from across the wider business to drive our ESG and Sustainability Ambition forward, including the key subject matter experts below.

Sustainability		
David Schofield	Group Head of Corporate Responsibility	Group
Zelda Bentham	Head of Sustainability	Group
Patrick Arber	Head of International Government Engagement	Group
Matt Deakin	UK Climate and Fundamentals Lead	Group
Lucy McCracken	Senior Manager, Public Policy and Corporate Responsibility	Group
Justine Tate	Sustainability Manager	Group
Darren Knight	Senior Change Manager	Group

Risk		
Mark Chaplin	Chief Risk Officer	UKL
Katy Litt	Enterprise Risk Lead	UKL
Peter Wallace	Senior Enterprise Risk Manager	UKL
Gavin Reeve	Senior Investment Risk Oversight Manager	UKL
Ben Carr	Analytics and Capital Modelling Director	Group
Loubna Benkirane	Head of Climate Risk	Group
Finn Clawson	Head of Credit and Sustainability Risk	Group

Public policy		
Frank Carson	Director of UK Public Policy	Group
Hannah Barker	Senior Public Policy Manager	Group

Given the broad range of stewardship activities we undertake – from selecting individual investments to addressing market-wide and systemic risks with policymakers – we believe it is necessary to draw on a wide range of experience. Our governance structures demonstrate that stewardship is embedded across our culture for all employees, but Figure 7 demonstrates key individuals we deploy with direct stewardship responsibilities and where they sit across our business. These experienced professionals draw upon a diverse range of skill sets to deliver stewardship outcomes for our customers, including but not limited to the following backgrounds, qualifications and professional associations:

Backgrounds

- Investment
- Accountancy
- Actuarial
- Banking
- Law
- Academia
- Corporate governance
- Climate risk management
- Corporate strategy
- Public policy
- Project management

Qualifications/professional associations

- Chartered Financial Analyst Institute: Certificate in ESG Investing; Investment Management Certificate
- Master of Business Administration
- PhD Mathematics
- Masters Political Economy
- Masters International Finance
- Masters Applied Statistics
- Fellow of the Institute and Faculty of Actuaries
- CRO Forum sustainability working group
- Prudential Regulation Authority/Financial Conduct Authority climate financial risk forum scenario analysis working group

In addition we recognise that the diversity of the team extends further than this, and in Chapter 1 we outlined how in 2021 the Aviva plc Board Diversity and Inclusion Statement, which sets out how the board supports and measures progress against the Group's commitments, was updated. This includes our commitment to increasing the number of women in leadership roles to 40% by 2024 and to enhancing the ethnic diversity of our leadership and succession pipeline.

As signalled in our last report, during 2021 we carried out a range of training for our existing employees, detailed on the next page, to support our stewardship activities and ambition as it continues to grow and evolve. We also recruited a number of new individuals, including two ESG and climate change investment managers and a climate data manager, and assigned Bianca Hanscombe, Darren Roberts and Sandra McLachlan as a core group to focus on ESG and climate change management.

Looking ahead

We continue to review our allocation of responsibilities and governance structure to deliver success, including how we further integrate ESG into our existing governance framework, aligned to our philosophy of considering ESG as an integral part of investment decision-making.

Incentives and training

Incentivising our people to deliver positive stewardship outcomes

Incentivising positive stewardship outcomes and long-term value generation is embedded in the culture of our business. Each individual at Aviva is encouraged to tie a range of their personal objectives to sustainability outcomes as part of the annual development process.

Aviva Investors was also one of the first asset managers to integrate ESG factors into pay criteria across the firm. Through its Global Reward Framework, ESG metrics and research are embedded in the investment processes by way of ESG metrics forming part of the investment scorecard and annual risk attestation which all investment staff must provide. The Aviva Investors CIO and investment desk heads consider how investment employees demonstrate their commitment to ESG processes as part of the determination of performance and pay outcomes.

In 2021, Aviva plc's 2021-2023 long-term incentive plan (LTIP) was approved at the annual general meeting (AGM), with 10% of the plan based on ESG metrics split across separate measures (5% for climate, and two diversity and inclusion metrics each with a 2.5% weighting). The climate-related metric is for the percentage reduction in carbon intensity of shareholders' assets.

Following engagement with shareholders in late 2021, it is proposed to fully utilise the flexibility in the Directors Remuneration Policy for up to 20% of the LTIP for 2022-2024 to be based on strategic performance metrics. These will be based on one climate metric (7.5% weighting), one customer metric (7.5%), and two diversity and inclusion metrics (each 2.5%). The breadth of coverage for the climate metric will be increased to include with-profit funds in addition to shareholder assets.

Aviva UK Life continues to increase the incorporation of incentives into our direct lending decisions to deliver against the LTIP targets, such as introducing carbon risk and other restrictions into loan covenants, with some specific examples given in our investment case studies in Chapters 3 and 4.

Training our people require to achieve our stewardship ambition

We provide our staff with the knowledge and motivation to make a difference, in the ultimate interest of clients and beneficiaries. Throughout 2021, Aviva continued to develop the skills of our boards and of our people with respect to stewardship considerations.

Board-specific

Delivery of tailored climate training to the relevant Group and local committees, which for the UK Life Holdings board covered:

- Short-, medium- and long-term goals to meet Aviva's plan to become a net zero carbon emissions company by 2040[4]
- Regulatory drivers, including the Prudential Regulation Authority's (PRA) Supervisory Statement 3/19 (SS3/19) and steps required following our peer benchmarking exercise for Aviva to become 'pioneering' according to an external consultant's climate change market practice assessment – more details on our next steps are covered in our assessment of effectiveness towards the end of this section
- Climate impact metrics – assessing what has been developed, limitations and future development
- Preparation for the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise
- Working through a range of case studies to illustrate the considerations and judgements being made

This equips our senior management to give appropriate direction to the company and ensures challenge, guidance and support are given to the executives.

During 2021, Aviva Group directors also participated in internal training sessions on other ESG subjects, including diversity and inclusion, vulnerable customers, IFRS 17, longevity and cyber security. Following review of their effectiveness, further training sessions are being incorporated into the board and committee plans for 2022.

Firm-wide

- Introduction of two climate change learning modules for employees. One was made mandatory to ensure all employees understand the impact of climate change on the planet and our business. The other optional module is more in-depth and aims to explain why climate-related risks and opportunities should be part of our governance, strategy, risk management and reporting frameworks. In addition, it shows how we integrate these risks and opportunities into our existing frameworks.
- Anti-racism training became a required learning for all employees.
- A guide on 'Tackling Climate Change Together', which explains the sustainability actions we've taken. This includes changes in our office spaces, installation of electric vehicle charging points in our car parks, refocusing our pension scheme fund choices to ethical funds, and calling out when our business practices could be more sustainable.

Bespoke

- In-depth bespoke training deployed to those who hold direct responsibilities to identify, manage, measure and report climate-related risks and opportunities. This was developed by the Aviva UK Life climate-related risks and opportunities project team to educate the relevant employees on the PRA's Supervisory Statement 3/19 – see our case study on this in the next section.
- Continuation of the Aviva Investors 'ESG Know How' programme. This training is designed to provide practical support and guidance to financial advisers to help them navigate the ESG landscape, understand the regulatory changes that may affect business, and provide guidance on advising their clients about ESG. Many of our pension customers have the flexibility to select their own investments within their Aviva pension wrapper. In doing so, they are often influenced heavily by their financial advisers. As a result, we consider it important to upskill not only our own investment staff on their stewardship responsibilities, but also the third-party advisers who help our customers manage their pensions.
- Taking our total number of staff trained on human rights and modern slavery issues to 501 from 407 since the training launched in 2020.

[4]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). This will expand further as new data and methodologies become available.

Facilitating stewardship through our governance structure

We outline examples below which highlight our sustainability governance structure in practice in 2021.

ESG and climate-related decision-making

A number of ESG and climate-related papers go through the Aviva UK Life governance forums for approval or discussion. In most cases, these proposals are submitted to the investment credit committee in the first instance and then, subject to the UK Life delegated authority framework, may be taken right up to the board investment committee for final approval. Below we set out some specific examples of ESG or climate-related proposals in 2021:

- A paper setting out our approach to climate risk in the investment strategy for our annuity products was approved in December. It assessed climate risks with a view to supplementing the strategy with a qualitative overlay to ensure that the strategy is not purely model-driven.
- A paper setting out our approach to carbon reduction in passive equity funds was approved in October. It focused on the key guiding principles that UK Life will use to define the strategy for these investments, which will be a key part of achieving Aviva's Sustainability Ambition.
- Investment views covering both shareholder and customer funds were revised and approved by the investment committee in July to ensure our ESG strategy was fully incorporated.
- Portfolio management information, including climate metrics, is submitted and discussed at each quarterly board-level investment committee meeting and submitted quarterly to the assets and liabilities committee. This also speaks to our internal assurance processes covered later in this chapter on page 26.
- The anti-modern-slavery approach was discussed by the board investment committee in October 2021.

In addition to specific ESG and climate-related matters, where a UK Life committee takes an investment decision, ESG considerations must now be included in the investment recommendations/papers.

Managing climate change impact and the PRA's SS3/19 expectations

Issue

Aviva considers climate change to be a material long-term risk to our business model, and a proximate risk, because its impacts are already being felt. Regulatory, competitor and consumer pressure to act continues to increase and Aviva publicly committed to build on its leadership position within the sector through its Sustainability Ambition detailed in Chapter 1, including a commitment to be net zero by 2040.

This case study details how our sustainability governance structure has helped to validate the approach that Aviva UK Life has taken to manage climate impact in 2021, including delivering the requirements of the PRA's SS3/19 by the regulatory deadline of 31 December 2021. It also provides an insight into our internal assurance processes, which we describe in further detail from page 26.

Action

The UK Life CIO and team are instrumental to delivery and driving improvements in the coverage and granularity of climate change risk metrics across asset classes, to enable more informed divestment or reinvestment decision-making and tracking of progress against the 2040 net zero goal.

In 2021, ongoing climate change governance oversight was provided through existing bodies such as the UK Life asset liability committee and the UKLH investment committee. A new Group-wide Aviva Sustainability Ambition steering committee was also set up, which has UK Life CEO representation.

The two prime metrics we use to track our progress against climate-related risks and opportunities (outlined in further detail on page 25), carbon footprint of investments and amount of green assets, are now monitored on a quarterly basis through the Chief Risk Office Report which goes to the executive risk committee and board risk committee, as well as through other executive-level performance reporting.

In Q1 2021, a UK Life monthly climate change financial risk management steering group (chaired by the chief risk officer) was established to engage senior leads in key business areas and to facilitate action. Key activities evolving from this group included the initiation of change project funding for the CIO SS3/19 project work and establishing foundations to move the oversight of climate change activity in UK Life from the chief risk officer to the CEO. In addition, the UKLH investment committee now reviews an update on ESG investment matters at every meeting – examples were included in our case study on page 22.

UKLH board training was delivered in May 2021, with a deeper dive into climate impact metrics – what they are, what they indicate and current limitations. We also addressed the action we outlined in our last report, which was putting increased focus on assigning the first-line and second-line resources needed to deliver the requirements of SS3/19 by developing their action plans to embed the management of the financial risks from climate change within their areas of the business.

Following a detailed gap analysis, PRA SS3/19 compliance was discussed at both the July and December 2021 UKLH risk committees. One of the four PRA themes in SS3/19 is scenario analysis – the December meeting included a summary of the impact findings from the industry-wide climate scenario analysis (CBES). The CBES exercise has built capability in climate stress and scenario testing within the Group risk team, as well as highlighting areas of climate change impact management information within UK Life.

The October 2021 UKLH risk committee recommended approval of a climate change risk appetite statement at the subsequent board meeting, and similarly for calibration of climate change metrics at the December UKLH risk committee.

Outcome
The expectations in the PRA's SS3/19 are principle-based and therefore do not explicitly give guidance on how to mitigate the financial impacts of climate change. The Aviva UK Life risk team's view was that UK Life met the minimum requirements of SS3/19 as at the end of 2021, while recognising climate change risk management is an evolving practice. The view was formed through noting the activities above and completing a line-by-line gap analysis against the SS3/19 expectations.

As the science, data, methodologies and tools are developed and matured, we will look to progress our work over the next couple of years. Management agreed a set of actions it will take to achieve the Aviva Sustainability Ambition goals and improve climate change risk management maturity. For example, these actions look at extending the scope of climate impact metrics to cover all asset classes where we have material climate risk exposure, and to a more granular instrument level which will enable more informed divestment or reinvestment decisions.

Assessment of effectiveness and looking ahead
We believe our chosen governance structures and processes have been effective in supporting stewardship, but we have identified a need to accelerate our efforts in order to deliver on our Group Sustainability Ambition. To facilitate this, we carried out a formal review of our sustainability governance structure in 2021. Following the review, an Aviva Sustainability Ambition steering committee has been set up with senior representation from all Aviva business units. This steering committee will oversee all sustainability activity and in turn accelerate our delivery of stewardship activities on behalf of our customers.

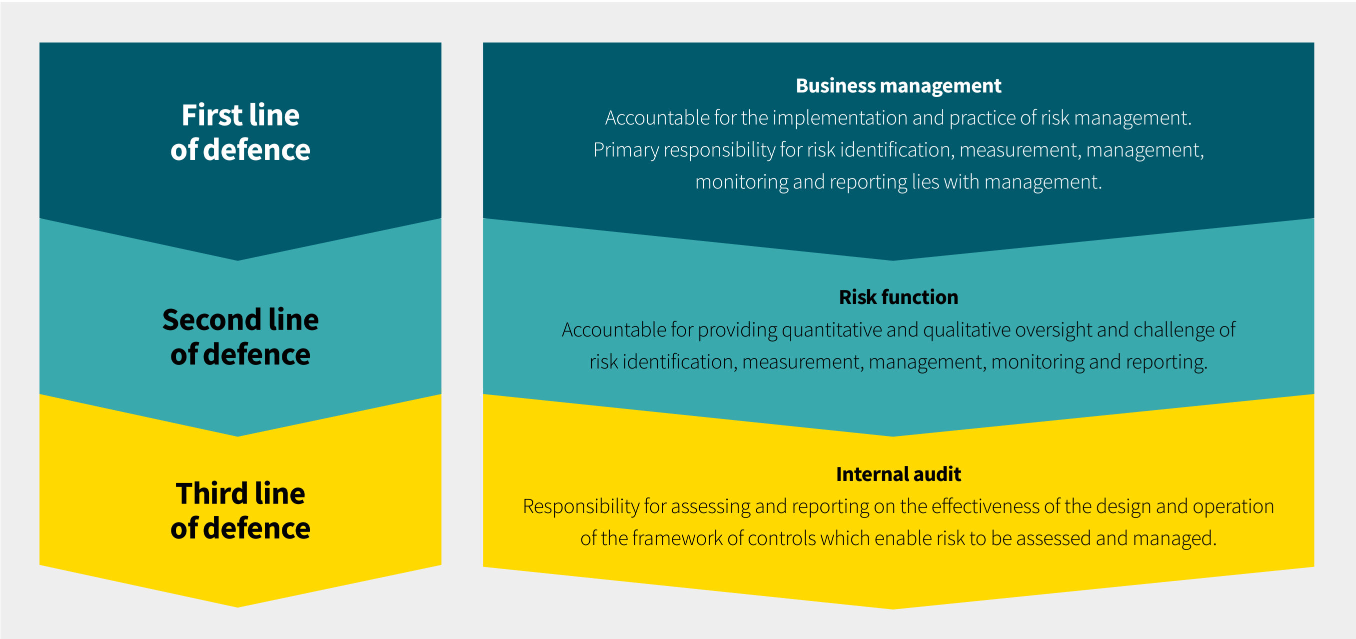
Having reviewed the effectiveness of our climate modules discussed earlier under firm-wide training, we have plans to reimagine the modules for the year ahead into a Sustainability Academy, covering generic content for all as well as more role-specific and specialist learning.

Earlier we outlined that we had conducted a peer benchmarking exercise, following being ranked as 'leading' in an external consultant's climate change market practice assessment in Q3 2020. We were pleased with this ranking and believe this speaks to the effectiveness of our stewardship practices and governance. However, we intend to lift our ranking to 'pioneering'. Some of the actions that we have identified as key to achieving this include: developing a bespoke range of proprietary climate scenarios used to identify tail risks and explore potential impacts; all governance decisions to incorporate climate risk, with first-line business risk owners owning accountability; and developing market-leading proprietary tools and methodologies which shape industry thinking in climate risk identification and measurement, on both risk and alignment.

Assurance and managing conflicts

We recognise that review and assurance of our policies and processes ensures our reporting is fair, balanced and understandable, and continues to improve. In the first instance, Aviva applies a 'three lines of defence' model to oversee and manage risk (see Figure 8 below). We are committed to obtaining internal and external assurance over our market-facing reporting where applicable, and to seeking support from third-party advisers to ensure our outputs are of the highest quality and coverage.

Figure 8: Our risk framework



External assurance
We understand that the provision of external assurance on stewardship reporting is an evolving area, and we continue to monitor developments in this space as part of our annual assurance review. This year we commissioned KPMG to perform a gap analysis of our current stewardship report against the expectations of the UK Stewardship Code, to help shape the contents of this report and improve on the weaker areas identified by the FRC last year.

We use seven metrics to track our progress against climate-related risks and opportunities, our targets and compliance with the TCFD, and to manage our potential exposure to climate-related risks.

Five of these metrics have received independent reasonable assurance from PricewaterhouseCoopers (PwC)[5]. Of most relevance to Aviva UK Life are the following:

- investment in green assets – measurement of Aviva's investment in green and similar eligible bonds, sustainability-linked loans, low carbon infrastructure and real estate, and climate transition funds
- carbon intensity of credit and equity investments in shareholder and with-profit funds – measurement through using weighted average carbon intensity data to assess the exposure of assets compared to 25% reduction target by 2025 to reduce our carbon footprint
- sovereign holdings exposure to climate-related risks – measurement through exposure to countries highly or moderately vulnerable to climate change and review of sovereign holdings with Notre Dame-Global Adaptation Initiative (ND-GAIN) country index scores below 50.

[5]Independent reasonable assurance on 2021 data is provided by PricewaterhouseCoopers LLP and available in the 2021 Climate-related Financial Disclosure report at https://www.aviva.com/sustainability/reporting/climate-related-financial-disclosure/

Internal assurance
We use our 5 P process for the research, selection and oversight of our asset managers, covered in detail in Chapter 3, to ensure that the reporting they provide us with is accurate.

We also rely 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. In addition, we make this stewardship report available for the board and CIO in advance of publication.

Last year's report outlined relevant internal audits we had planned for 2021 to review the effectiveness of a range of stewardship activities conducted across the business. The outcomes of these are set out as follows.

Design of controls over TCFD reporting metrics
At a Group level we took the decision to defer to 2022 the ESG audit we had planned for 2021, and replace it with an audit of the controls in place for the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD), in line with the FCA's mandate for premium listed companies to 'comply or explain' in respect of the recommendations made by the TCFD from 1 January 2021. Aviva has been reporting in accordance with TCFD over previous reporting cycles but, having made ESG a core part of Aviva's strategy, we were looking for heightened assurance over our reporting processes.

An enhanced climate reporting control environment was designed by management during H2 2021 to go live (with a mixture of tactical and strategic processes and controls) in 2022. Aviva UK Life provided data and investment inputs into systems with hand-offs into Group reporting. Our internal audit team carried out an audit to assess the design of key controls ahead of their operation this year, some of which will be subject to assurance by PwC.

Internal audit found that management had significantly improved the design of controls over TCFD reporting metrics and had made satisfactory progress in implementing the improvements in a short amount of time. As part of continuous monitoring, our internal audit team tracked management's completion of the priority activities through the reporting process. Further work remains to implement the target state control framework, and some improvements are planned to be embedded in H2 2022.

Aviva's Sustainability Ambition
The objective of this audit was to assess whether appropriate governance and plans are being established to successfully manage and monitor the execution of the Aviva Sustainability Ambition set out in Chapter 1. The internal audit team found that some improvements were needed.

As a result, a new governance structure for the Aviva Sustainability Ambition strategic delivery was put in place with the setup of a dedicated steer committee and supporting working groups. The governance structure is now aligned with the target outcomes and objectives, supported by milestone project plans and a programme risk management framework. Our 2022 audit plan includes audits over the implementation of the Aviva Sustainability Ambition plans across the Group as initiatives progress.

Review of policies to enable effective stewardship
Stewardship policies that are specific to Aviva UK Life, such as our Responsible Investment Policy and Engagement and Voting Policy, were last updated in 2020 and are updated on approximately a three-year cycle given the long-term focus of ESG, or can be amended on an ad hoc basis if deemed necessary. Later in this section we describe how we updated the Group Conflicts of Interest Policy in 2021 to better account for stewardship-related conflicts.

Managing conflicts

Aviva takes its fiduciary duties to customers and beneficiaries seriously. Our Group Conflicts of Interest Policy is available to all employees on our intranet and covers the main areas of risk strategy, risk appetite, governance, modifications and exceptions, and non-compliance. It aims to protect Aviva, its customers and its employees and ensure that all conflicts of interest, whether perceived or actual, are appropriately identified and effectively managed. It sets out the obligation on all staff to: identify and where possible avoid situations that could result in apparent, potential or actual conflicts; notify their line manager and other relevant parties; register the conflict in the conflicts of interest register; undertake relevant training; and update the status of the conflict if and when it changes.

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. 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 advisers 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.

Another potential area of conflict is where an investee company – 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 UK Life, 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 influence over 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.

Updates to our Policy in 2021

The Policy is reviewed annually by the Aviva plc board. There are plans to update the policy in 2022 to reflect some proposed changes to the composition of some of the subsidiary boards and to clarify the management of conflicts by the Group non-executive directors. As signalled in our report last year, in 2021 we updated the Group Conflicts of Interest Policy to explicitly incorporate guidelines for stewardship-related conflicts. The updated Policy was approved by the Aviva plc board in December. Below is the relevant extract from the Policy.

Voting and engagement

Exercise of voting rights and engagement activity in a manner which is not, or does not have the appearance of being, in the best interest of Clients. Our principal objectives when considering matters such as engagement and voting are always to act in the interests of our clients and underlying beneficiaries, and to treat all clients and beneficiaries fairly. No direct self-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) and investment trusts managed by Aviva Investors are not prohibited from investing in Aviva plc equities, however, 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.

Managing conflicts in 2021

Last year we signalled our plans to create an auditable mechanism for conflicts of interest management. As part of our quarterly business review meetings, conflicts are now a standing agenda item so they can be presented and discussed to agree an appropriate course of action, if deemed necessary. Below is a selection of some of the actual or potential conflicts that were logged in 2021.

- In April 2021, we identified a potential AGM conflict in relation to a commercial relationship we hold. Aviva Investors abstained on one resolution. After investigation, we confirmed that there was no requirement for us to notify the third party and all voting records were made available on our website for full transparency.
- In October 2021 we identified a conflict with an Aviva director in relation to an AGM vote. Specifically, this related to an Aviva director sitting on the board of the company whose AGM we would be voting at. Aviva Investors voted against two resolutions, in line with its custom policy. The conflict was alerted to the Aviva company secretary who was then tasked with letting the Aviva director know.
- In December 2021 we identified a potential vote conflict in relation to five Aviva-managed funds. However, we did not vote in the end as the client did not instruct Aviva Investors to, so the conflict did not arise.

Chapter 3: Clients and investments

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.

As at 31 December 2021, we are responsible for overseeing over £285 billion of assets held within customer life and pension products and shareholder portfolios, approximately 75% of which are managed by our in-house asset manager, Aviva Investors.

As a member of the same group, Aviva Investors is governed by the same strategy and approach to stewardship as Aviva UK Life. As such, our approach to stewardship leverages Aviva Investors' 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 later in this chapter from page 46.

We invest our customers' asset across several asset classes, the majority of which are in multi-asset solutions, utilising credit, equity, sovereign and real assets such as property and infrastructure. Figures 9, 10, 11, 12 and 13 provide further information on the composition of our assets; this includes customer assets and shareholder assets (which back up annuities, capital and reserves, and non-profit funds).

Figure 9: Split of investment assets (as at 31 December 2021)

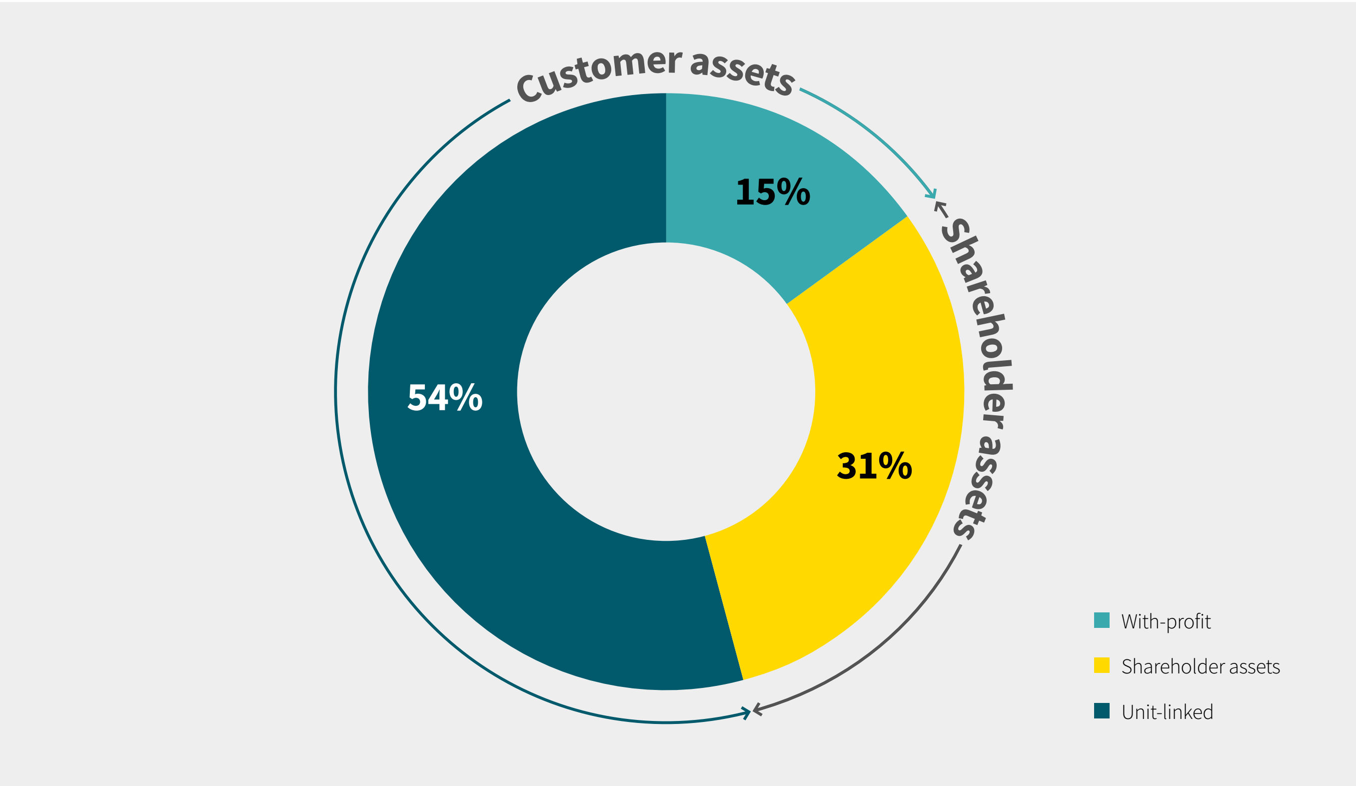


Figure 10: Shareholder assets by geography (as at 31 December 2021)

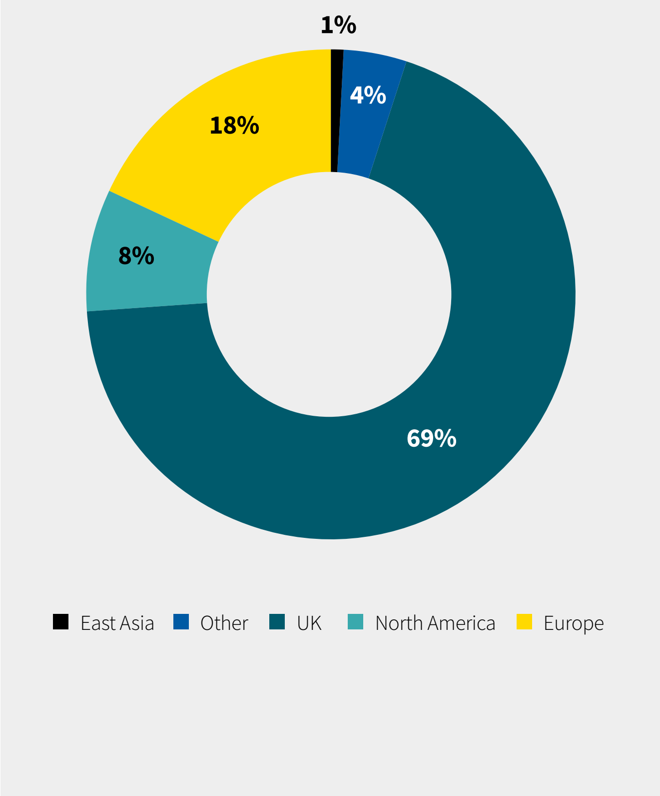


Figure 11: Shareholder assets by asset class (as at 31 December 2021)

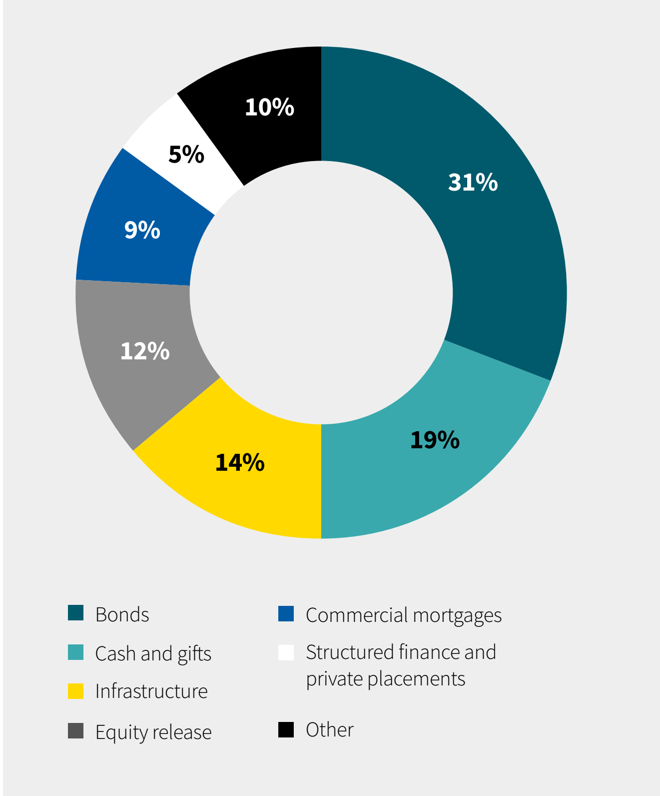


Figure 12: Unit-linked customer assets by geography (as at 31 December 2021)

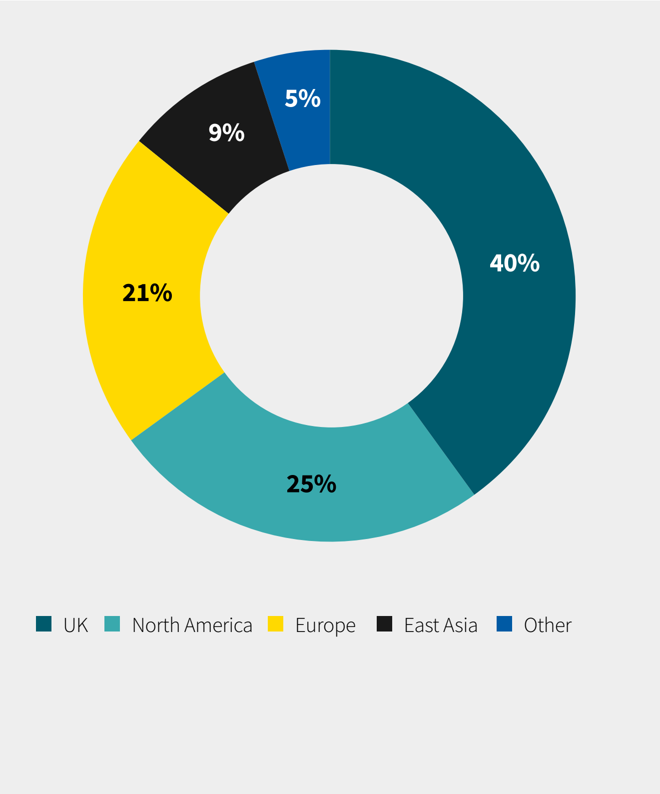
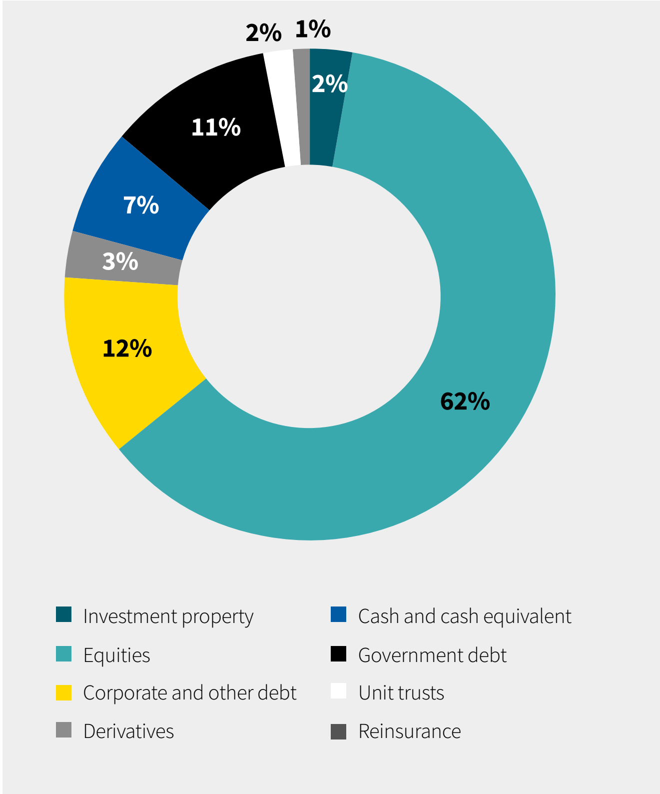


Figure 13: Unit-linked customer assets by asset class (as at 31 December 2021)



Who are our customers?

Here, where we describe how we understand our customers, we are referring to both Aviva UK Life's unit-linked and with-profit funds where we are responsible for the stewardship for customer life and pension assets, as shown in Figure 9.

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 deliver on our fiduciary duty to protect the long-term value of their assets.

Workplace pensions

With over four million members, our largest customer base consists of employees enrolled in a workplace pension (£95 billion assets under management as at 31 December 2021). Covering over 20,000 workplaces, we are proud that Aviva is the number-one provider of bundled workplace pensions in the UK.

The shift to defined contribution pensions means that individuals are increasingly having to take responsibility for their financial futures. However, 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[6] following the introduction of auto-enrolment.

Reflecting the length of time an individual may be invested in a workplace pension, with the average age of our members being 44, our approach when considering stewardship in our investment decision-making sits over a long-term horizon. We offer two main default investment solutions, My Future and My Future Focus, both of which have been designed taking into account the flexibility available to workplace pension members in how they can access their pension savings. Both solutions have a default strategy that can be considered 'universal', providing customers with a choice of how to take their retirement savings, while also offering strategies that specifically target the different retirement options available (purchasing an annuity; full cash withdrawal; or moving into a drawdown arrangement).

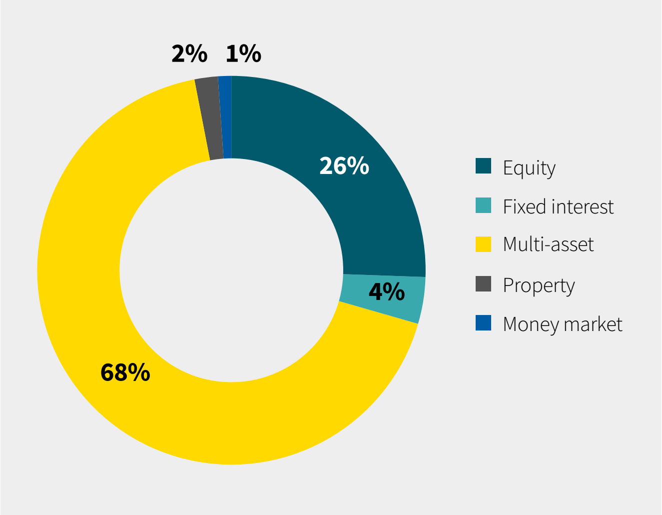
All of these strategies can be broadly categorised into two stages:

- Growth – further away from retirement, with higher allocation to equities to generate above-inflation returns in the value of the members' contributions.
- Consolidation – approaching retirement, with greater focus on reducing the level of investment risk to which the members' accumulated pension savings are exposed and, for those strategies targeting different retirement options, aligning the investments to these strategies.

For those members who wish to make their own investment selections it is necessary for us to provide them with a range of options from which they can choose, and which meet the different preferences and risk profiles of these members. Alongside access to a broad range of fund options, they need information on these options to be clear and readily available to support their investment selection-making, and the case studies that follow reflect how we have facilitated this.

Figure 14 sets out how our workplace assets under management are split between various high-level fund types.

Figure 14: Split of the workplace AUM as at 31 December 2021 between various high-level fund types



[6]https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/dc-trust-scheme-return-data-2020-2021

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 £43.1 billion (as at 31 December 2021) on our adviser platform, which enables the financial advisers of our pensions customers to better support them in the management of their finances.

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 support them in delivering the best possible value to the end customer. Our ESG Know How programme helped deliver on this, which we mention in more detail later in this chapter on page 36.

We provide advisers with a range of tools that they can use to ensure client portfolios are aligned to the financial objectives and risk tolerance of the client, including their sustainability preferences.

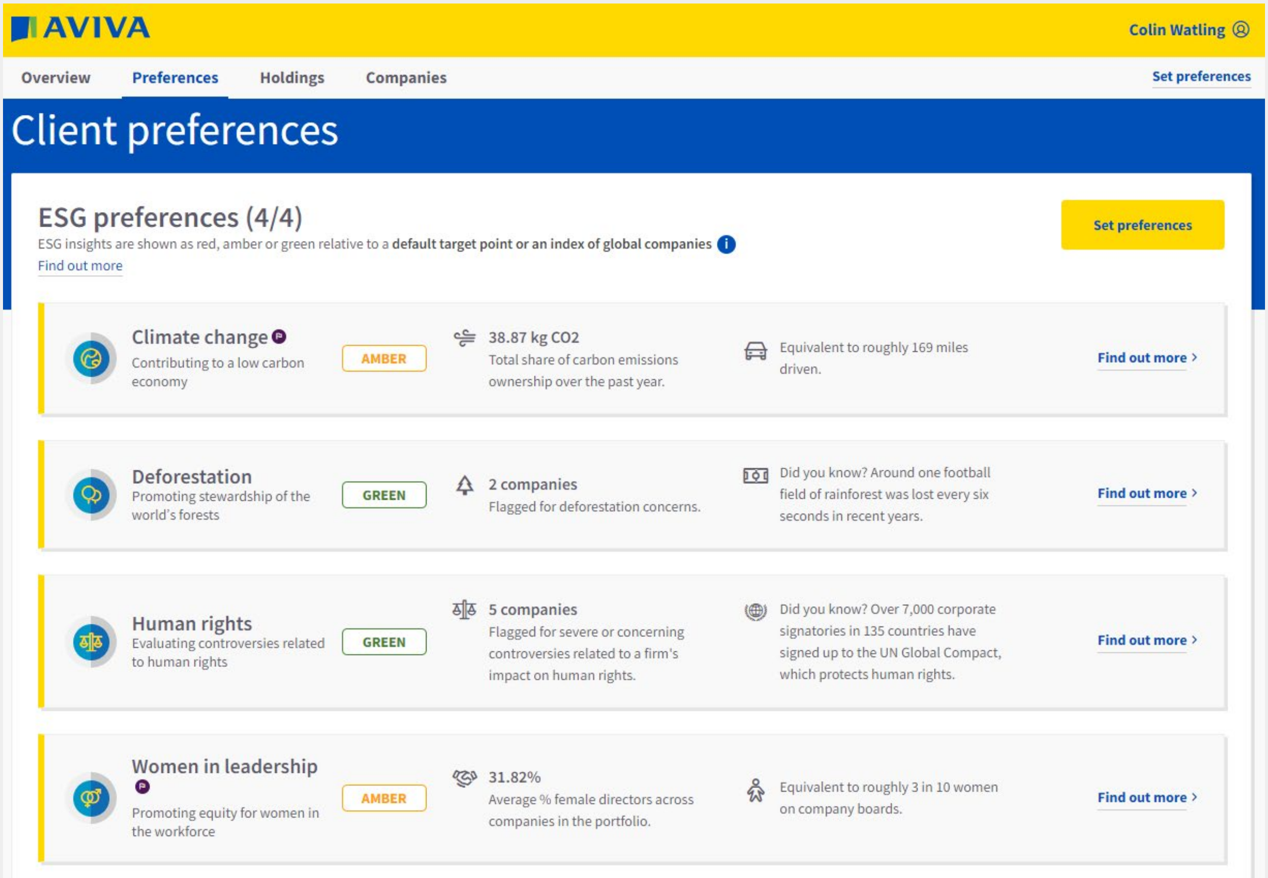
ESG Profiler Tool

For example, in 2021 we launched an ESG Profiler Tool on our adviser platform, enabling holdings, funds or whole client portfolios to be assigned an ESG rating. Figure 15 below is a screenshot of the high-level overview of the ESG preferences page.

The tool uses data sourced from MSCI and other ESG data providers to measure and review the holdings against six ESG preferences using a 'red, amber, green' status. The preferences currently available are climate change (measured in CO2 weight); waste (kg); water security (ltrs); women in leadership (% women on boards); deforestation (involvement); and human rights (involvement). As more data becomes available, we hope to enhance the tool so further preferences will be added to reflect the ambitions of the UN's 17 Sustainable Goals.

This tool improves the transparency of funds, enabling our advisers to select funds that deliver against customer investment appetite and ethical objectives. By providing objective external metrics for the adviser to review and monitor, it also acts as a safeguard against greenwashing.

Figure 15: ESG Profiler Tool preference page



Customer communication and feedback

Understanding customer needs and preferences
Communication with our customers is an essential part of our role in understanding their concerns and letting them know what we are doing on issues that are important to them. 2021 saw unprecedented increases in public concern about the environment, and climate change in particular, with a November Ipsos-MORI poll finding such concerns being the British public's biggest single concern and that concern being at its highest level in the 35-year history of the Ipsos-MORI Issues Index. This is reflected in our own Sustainability Ambition and our communication with customers.

Our 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 reporting. While we understand the key characteristics of our 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. We also believe that the role of communication in effective stewardship goes beyond individual customers and their assets to wider education on ESG matters to support customers in understanding how our products align with their preferences.

Customer reporting
Aviva UK Life provides annual statements for its customers. It directs them to log in to their online account where they can explore ESG and stewardship considerations in more detail. They can also access monthly fund statements.

In addition, our customers are also able to access Aviva's public reporting available on our website including our Sustainability Report, TCFD Report, Climate Transition Plan and Annual Reports, which also cover stewardship considerations.

Usability testing for online ESG triage investment service tool

In 2021 Aviva engaged a third party to carry out usability testing sessions with participants who had prior experience of investing and with an interest in ESG to evaluate a prototype of an online responsible investing and ESG triage tool. The aim was to inform our development process to enable the tool to meet customer needs more effectively.

Participants are taken through an initial assessment to find a suitable investing approach, with different options available. The testing found that participants appreciated that the assessment used ESG statements that they could tailor to their preferences. As a result, they were able to view funds that were targeted to their own beliefs. After going through the initial assessment tool to find a suitable investing approach, participants understood that there were different options available. However, their feedback showed that some of the terminology used to describe these approaches, such as 'ready-made funds', was unfamiliar and made it difficult to understand and compare them.

As for other improvements, on the responsible investing page participants felt they lacked information about the extent of Aviva's involvement in the investment service and commitment to ESG principles. Participants were also hesitant when making selections on the tool as they did not clearly understand how this would impact the output. We will look to address most of these issues by working with a copywriter to eliminate inconsistent terms and effectively manage expectations throughout the customer journey.

Seeking consumer views on global concerns

In 2021 the Group conducted a survey of 1,000 adults representative of the UK consumer adult population to provide insights into key trends and customer attitudes towards a range of topics including retirement, insurance, investments and health.

The research highlighted that fears about climate change have continued to increase, more than doubling over the last five years. With the UK advancing out of the COVID-19 pandemic, climate change now tops the list as the single biggest global concern. We use these results to inform our stewardship activities.

Figure 16: Aviva consumer concerns survey results

Global concerns	March 2016	July 2020	August 2021
Disease and pandemics	15%	50%	42%
Climate change	19%	42%	46%
Crime	29%	39%	38%
Poverty and social inequality	n/a	36%	37%
Terrorism	46%	36%	39%
Pollution	15%	34%	34%
Decline in social standards	30%	31%	33%
Global financial crises/market instability	21%	29%	19%
Use of personal data	28%	27%	28%
Identity/cyber fraud/cyber attacks	24%	26%	28%
War/civil unrest	22%	23%	25%
House and personal security	21%	21%	21%
Natural disasters	11%	18%	25%
Lack of natural resources	11%	16%	18%
Globalisation	n/a	9%	12%

Collaboration with trusted partners in 2021 to facilitate more sustainable investment decisions

We work with a range of third-party providers to deliver solutions that empower our clients who have discretion over their investment portfolios to make more sustainable investment decisions. Two examples are set out below.

Make My Money Matter
Aviva has been working with Make My Money Matter to highlight the important role pensions can play in tackling climate change and, following our own net zero pension announcement, challenging other schemes to commit to net zero.

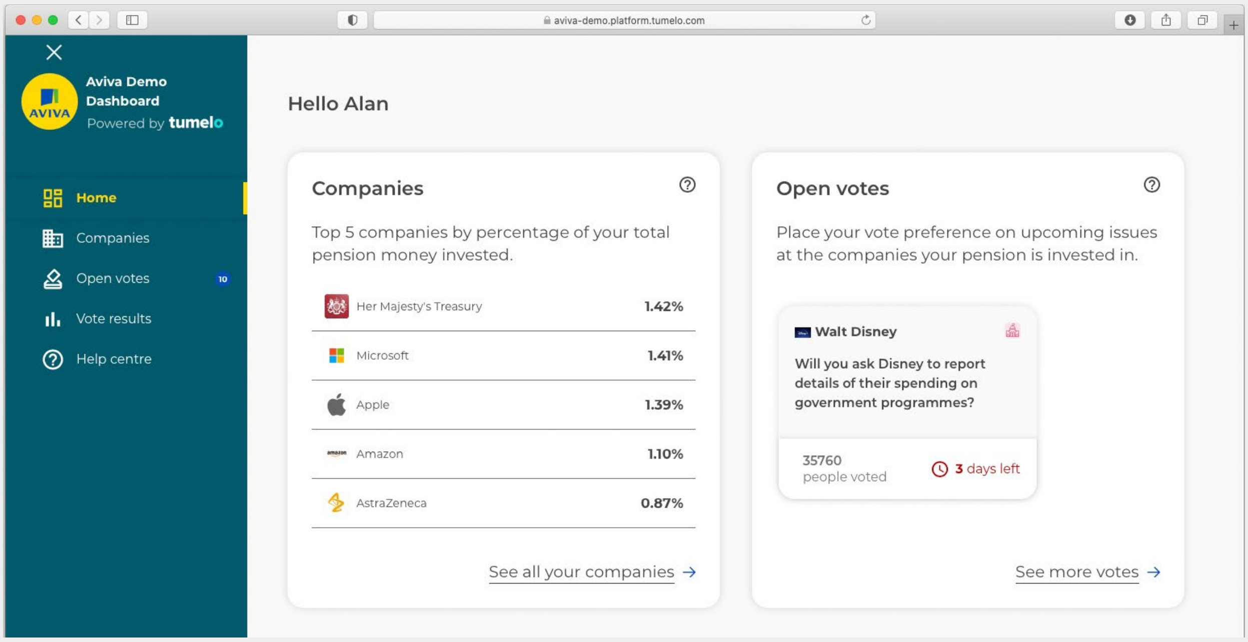
We commissioned research which found that switching to a sustainable pension fund can have a 21 times larger impact on the environment than going vegetarian, giving up flying and switching energy provider. Based upon this research Make My Money Matter launched its 21x Club, urging people to understand what is in their pension and make it more sustainable using Aviva's research to back up their call to action.

Tumelo
In 2021, we extended our pilot with the investor opinion tool from fintech start-up Tumelo, which won Technology Innovation of the Year at the UK Pensions Awards 2021. 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 company's AGM. Their opinions are collected through the platform, anonymised and sent back to the fund manager, which incorporates them into its decision-making framework. The outcome is then reported back to members once the AGM has taken place.

Aviva Investors received reports from Tumelo on how participants had voted and these were regularly checked, particularly on the more high-profile resolutions. Although Aviva Investors will make a vote decision based on what it regards to be in the best interests of the overall fund, Tumelo has helped Aviva Investors understand the focus areas and views from clients, and to validate that there is strong consistency between vote decisions and client preferences.

We believe this gives our workplace pension members greater transparency on where their pensions are invested, while empowering them to play an active part in engagement and voting. 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.

Figure 17: Tumelo landing page dashboard



Empowering customers through increasing fund choice

We have continued to expand the range of funds available to customers, giving 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.

We have built on our 2020 work by making a further two climate funds available in 2021. These are the Climate Transition Global Credit Fund and Climate Transition Real Assets Fund. An allocation was also made to the Climate Transition Real Assets Fund by our range of Mixed Asset Funds, which are available to workplace and advised customers. This climate suite of funds targets companies generating revenue from goods and services addressing climate change, and those aligning their business for a low carbon world.

We also launched the stewardship funds on our savings platform and made the Aviva Investors collective versions of the stewardship funds available 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. During 2021 the decision was taken to strengthen the fossil fuel screens applied to the stewardship funds, for implementation in 2022.

Communication through client and adviser events and education

In 2020 we ran a detailed survey of over 1,000 workplace pension scheme holders to understand their attitudes toward their pension products. ESG was highlighted as a key priority. As a result of this research and the growing client and adviser interest in this topic, in 2021 we ran three client and adviser forum events where ESG was one of the agenda sessions, together with a forum focused on COP26.

For members of a workplace pension scheme, Aviva delivered content to help them deepen their understanding of their investments and ESG, and how ESG considerations are incorporated into investments and the link between the two, timed to coincide with COP26. Overall we saw 1,328 attendees across 13 sessions. A recording of the understanding investments session for members is available on our website[7].

We also continued our ESG Know How programme. This training is designed to provide practical support and guidance to financial advisers to help them navigate the ESG landscape, understand the regulatory changes that may affect business and provide guidance on advising their clients about ESG. The programme consists of six CPD-accredited modules and is designed to meet the rising demand for better adviser knowledge of ESG investing. It provides a chance to learn more about the fundamentals of ESG and the regulatory changes and to hear from experts who have been involved in shaping them. In 2021 we added an additional module focused on 'Net zero – what a credible pledge looks like and what it actually means for the investment advice process'.

The programme reached over 5,000 external participants across the six modules, which are available to watch on demand[8]. The content, as well as giving access to expert insights from across Aviva, struck a chord with the audience. This is an example of delivering on stewardship beliefs around transparency and enabling more informed investment decisions. Over the next year we plan to develop the learning process and release an additional module.

[7] https://workplace.aviva.co.uk/financial-education-clients/understanding-investments/
[8] https://www.avivainvestors.com/en-gb/capabilities/esg-know-how/

Our assessment and direction of travel

We believe that we employ a good range of communication methods, including our reporting suite and customer survey, and tools such as Tumelo, ESG Profiler and Make My Money Matter, and have communicated effectively with our customers over 2021. We are proud that Tumelo won Technology Innovation of the Year at the UK Pensions Awards 2021 and believe this validates our approach. However, customer opinions and preferences will continue to change, so we must continue to investigate how to evolve our products and services in line with stewardship considerations. In particular, we are looking forward to considering the full set of results from our commitments to carry out targeted research and a series of webinars in relation to Tumelo to fully evaluate its effectiveness.

In addition, we have committed to investing £10 billion of auto-enrolment assets in low carbon strategies by the end of 2022, and to continue to enhance customer- and adviser-facing tools to make ESG choices simpler and easier.

An integrated approach to stewardship

As outlined in Chapter 1, 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 risks and opportunities. 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.

Aviva Investors has a Responsible Investment Philosophy[9], which explains our approach to ESG integration and includes the following commitments:

- integration of material ESG factors into the investment approach for all asset classes and regions where we operate
- exercising rights and obligations as shareholders and utilising voting power to ensure that companies are being run for those that own them – not simply those that run them
- being responsible stewards of assets and engaging with issuers, borrowers and counterparties to encourage the adoption of progressive ESG practices over time
- identifying clients' ESG preferences and seeking to provide them with suitable investment solutions to meet their ethical and sustainability needs
- seeking to positively influence market reforms to help shape a more sustainable capital market that can deliver better long-term financial and social outcomes for our clients
- endeavouring to hold ourselves to the same governance and ethical standards we expect of others.

The Aviva Investors Principal Adverse Sustainability Impacts Statement[10] also details the ESG themes we prioritise when making investment decisions, aligned to the Group's Sustainability Ambition. A summary of themes is included as follows.

Climate
Consistent with our Sustainability Ambition, we engage to help ensure that our investments do not have a material adverse impact on climate-related sustainability factors. Accordingly, we prioritise engagement relating to greenhouse gas emissions. Climate considerations, with respect to physical and transition risk, are embedded within our fundamental investment processes, active ownership approach and voting policies, and we ensure that all mandatory issues relating to greenhouse emissions are made available to investment staff and are actively considered in our investment and stewardship approach.

Biodiversity
Urgent action is needed to reverse the loss of biodiversity. Climate change is also closely linked to biodiversity loss, and the success in tackling one of these issues fundamentally depends upon success in tackling the other. Aviva Group signed the Finance for Biodiversity pledge and joined the Terra Carta Initiative in May 2021. As part of our Finance for Biodiversity pledge commitments, we aim to play our part in reversing the loss of nature by 2030. We, therefore, prioritise biodiversity-related issues pertaining to activities negatively affecting biodiversity-sensitive areas.

Diversity
We are strong proponents of the need for more women in senior management and on company boards. As such, we also prioritise issues relating to board gender diversity.

[9] https://static.aviva.io/content/dam/aviva-investors/main/assets/about/responsible-investment/downloads/investment-philospophy.pdf
[10] https://www.avivainvestors.com/content/dam/aviva-investors/main/assets/capabilities/sfdr/downloads/ai-pai-statement-20211125.pdf

Our Responsible Investment Policy

In addition, Aviva UK Life has a Responsible Investment Policy[11] which applies to all Aviva UK Life investment funds, whether beneficially owned by customers or by shareholders, and whether managed on an active or passive basis or internally or externally managed. Our Responsible Investment Strategy was approved by the board of Aviva UK Life, which also provides oversight for the execution of the Policy and its integration into investment strategy and product design. The investment team is responsible for monitoring the performance of UK Life and pension funds against the Policy, and ensuring that our principles are embedded into our internal control environment. The key principles of our Responsible Investment Policy that drive our integrated investment approach are:

- ESG factors are material sources of both investment risk and outperformance 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 policymakers to seek systemic change.

[11]https://www.aviva.co.uk/content/dam/aviva-public/gb/pdfs/personal/services-and-support/our-uk-business/products-and-services/gn22001c.pdf

ESG and stewardship in practice

The vast majority of our investments are sourced through mandates with our in-house asset manager, Aviva Investors, and Schroders manages the majority of our remaining active investments. The CIO team is responsible for asset manager monitoring and selection, and all our asset manager partners, including Aviva Investors, are assessed against our Responsible Investment Policy. See later in this chapter from page 46 for more details on our manager oversight process.

As long-term responsible investors, ESG factors are considered in every investment decision presented to the UK Life credit committee and, ultimately, every approval. It is a mandatory part of the assessment. ESG considerations are also taken into account when considering and ultimately approving new asset classes.

How ESG integration can differ for different investment decisions

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/or Group sustainability team. Investments can be, and have in the past been, declined during this process on ESG grounds (see example later in this section on declining deals with misalignment to our ESG considerations), ensuring ESG is at the heart of the investment process.

Through our in-house asset manager, analysis of ESG factors is undertaken by investment teams with support from a dedicated ESG function. The investment teams across Aviva Investors have access to a variety of ESG data and analytical tools to support their assessment of sustainability risks, including the proprietary ESG scoring tool. Analysts and portfolio managers use these tools and data to evaluate and provide further insights on the ESG characteristics of portfolios.

Aviva Investors also has individual Responsible Investment and Sustainable Risk Policies available on its website[12] which set out how the ESG integration process can differ according to the asset class; a summary of a range of these is included below. In the case of sovereigns and liability-driven strategies, we also touch on how our approach may differ according to region.

Credit and equities

All available ESG research reports, analysis and data must be considered by portfolio managers and investment analysts to support investment analysis and decisions. They are supported in their assessment of sustainability risks through a variety of ESG data and analytical tools made available to them. It is not possible for the ESG analysts to produce corporate research for every company held in the portfolios or being considered for investment. In the case of companies not covered by ESG analysts, the relevant asset-class-specific investment analyst is responsible for incorporating the appropriate assessment of specific ESG criteria and material sustainability risks.

[12]https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

Multi-asset and macro, and liability-driven

The preceding paragraph describes a general approach which also applies to multi-asset and macro and liability-driven strategies in many ways. The following considerations also apply to some of the other assets classes used in these strategies:

- Money market funds: a list of issuers is approved on a quarterly basis, which is influenced by ESG criteria. As part of the counterparty assessment process, approval is required by an ESG analyst alongside compliance, the portfolio manager and credit analyst approval.
- Multi-strategy range: all investment ideas implemented within the Aviva Investor Multi-Strategy (AIMS) range of funds must be approved by the Strategic Investment Group, of which an individual from the responsible investment team is a member, to ensure material ESG factors are considered when evaluating investment themes, country exposures and underlying securities in individual baskets. AIMS strategies consider ESG factors based on proprietary and external data and tools to flag instruments for review before potential inclusion. The process also includes a quarterly ESG review of securities already held. The review flags and potentially removes securities with an ESG rating below predetermined thresholds, potentially leading to their removal.
- Sovereigns: individual teams complete deep-dive assessments on the fundamentals of individual countries using a qualitative approach to sovereign research, which includes consideration of ESG and sustainability factors. See our case study that follows for more on the proprietary framework monitoring tool that was developed specifically for this asset class.
- Liability-driven strategies: these are typically portfolios composed of government debt securities of varying durations issued by G7 countries. Consequently, the extent to which ESG considerations materially impact portfolio construction is limited relative to strategies with broader and more diversified universes. Liability-driven investment teams monitor ESG ratings of securities using our sovereign proprietary framework tool. Where issuers exhibit comparable pricing, technical and fundamental characteristics, investments are steered towards countries with stronger ESG credentials.

Real assets
The real assets responsible investment team is responsible for ESG and sustainability strategy, execution and reporting throughout the real assets platform. This includes overseeing the integration process through investment and asset management, as well as in internal and external reporting.

The team is also responsible for providing opinions on investment or asset management decisions deemed to have significant ESG or sustainability risk factors. Investment decisions are taken by nominated investment committees in real assets, with each committee making a balanced decision using ESG and core financial and technical data. Where appropriate, the real assets responsible investment team attends the investment committee to represent its opinion, without being a voting member of the committee.

Our case studies over the next pages demonstrate some examples of our ESG integration and should also be considered with Chapter 4 on engagement.

An integrated approach to stewardship – case studies

Set out below are five case studies from across a spectrum of asset classes that demonstrate our integrated approach to stewardship. These should be read in conjunction with Chapter 4, which focuses on engagement and has additional, relevant case study examples.

Promoting sustainability integration in fast fashion

Fast fashion has been a growing segment in the apparel industry, but there have been growing concerns over the environmental footprint and labour conditions of the business model. We are pleased that Aviva Investors has assessed fast fashion companies that we consider for equity and credit holdings. We hope to see further progress continue at pace at these companies and improve the apparel industry overall, in line with our Sustainability Ambition and focus on climate.

Issue
Concerns have increased the level of regulatory activity around the apparel industry, with several regulatory initiatives on supply chain standards launched in 2021. In light of this, Aviva Investors assessed fast fashion companies under review for investment to better understand efforts made to address these concerns and reduce exposure to regulatory and reputational risk.

Action
Aviva Investors engaged with Boohoo and ASOS, two companies in the fast fashion segment, to discuss their approach to purchasing practices and supplier relations, as well as their strategy to reduce their environmental footprint. This included consideration of cost of labour and living wages in supply chains, supply chain monitoring and engagement, recycled content in garments, sustainable materials, water use and chemical pollution.

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

New sovereign ESG/franchise risk framework – ESG integration in sovereign debt

ESG analysis forms an integral part of the fundamental assessment of sovereign issuers. The analysis incorporates both quantitative and qualitative considerations.

Issue

In late 2021, Aviva UK Life launched its matching adjustment portfolio (MAP) emerging market debt mandate, with Aviva Investors as the asset manager. In advance of the launch, a framework needed to be put in place to manage exposures to franchise and ESG risks that assume greater magnitude when investing in emerging-market countries.

Action

We drew upon the jurisdiction index applied across Aviva for objective country-level risk ratings and created a bespoke index score focused on political and social/human rights risk factors that are most pertinent to franchise risk considerations. Both emerging-market and developed-market countries were assessed in aggregate to develop the bespoke jurisdiction index. This country-level analysis was then supplemented with assessments on sovereigns' climate action and warming potential, e.g. an assessment against a country's climate action pledges and climate change vulnerability and resilience – such as using the ND-GAIN Country Index.

Outcome

The framework allows UK Life to avoid investing in sovereigns that are associated with ESG and franchise risks that are not aligned with our risk tolerance. Controlling such risks ensures that our investments are in line with strong sustainability principles, and managing such risks should also reduce volatility in future returns arising from litigation risk, transition risk and physical risk.

Although initially intended specifically for the emerging-market debt mandate, this framework has since also been applied to developed-market sovereigns and sub-sovereign bonds for our MAP mandate. This was driven by a need to define relative risk appetite across such countries and was also helped by the fact that developed-market countries were already assessed (along with emerging-market countries) when the framework was set up.

Increasing our sustainability-linked financing agreement with Big Yellow

In fixed-income asset classes, ESG considerations can be incorporated into transactions by including covenants in deal terms to mandate or encourage positive environmental and social impacts. This case study is an example of how sustainability-linked key performance indicators that drive progress on our priority theme of climate have been implemented on our behalf by Aviva Investors, and we hope to see similar transactions in future.

Issue

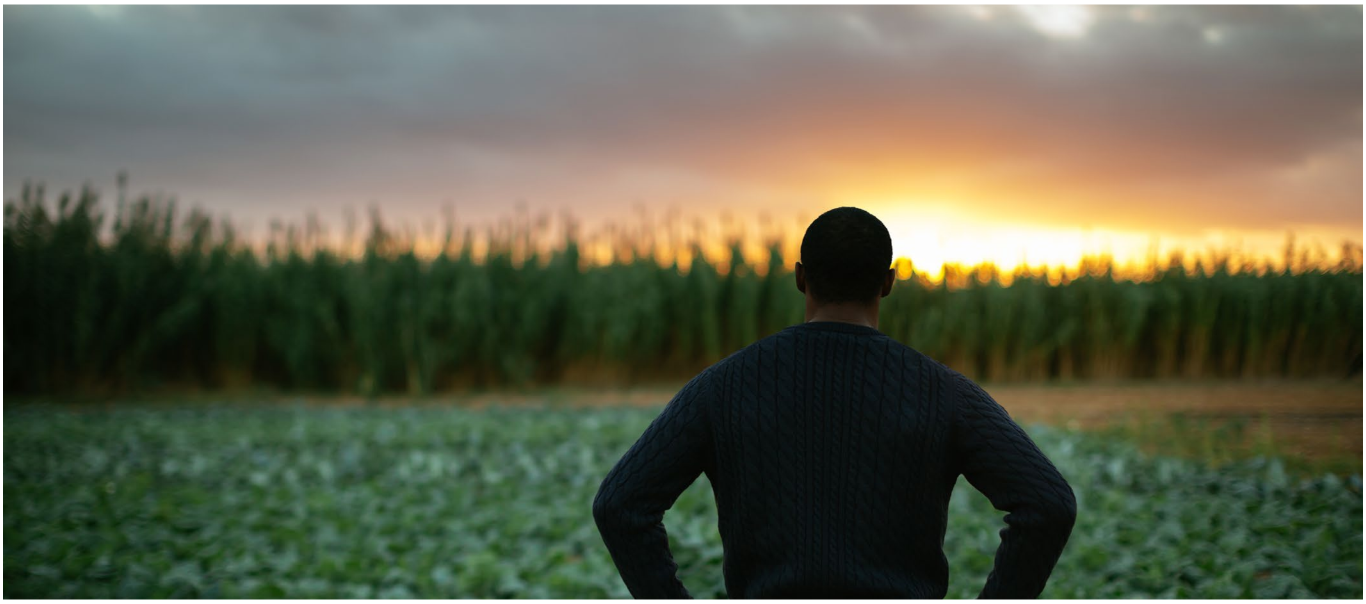
Until more recently, investors have attempted to align portfolios with the need to lower carbon emissions in three different ways: certain types of investments, for example stakes in the fossil fuel sector, might be reduced; environmental factors that underpin investment decisions could be incorporated into the pre-investment analysis; or portfolios could be positively tilted towards sustainable investments such as renewable energy producers. While these approaches have their merits, they primarily focus on ESG through a risk-based lens. This fails to give asset owners an explicit inducement to operate in a more climate-friendly manner. Moreover, the impact on the environment of investing in this way is far from straightforward to measure.

Action

Building on our 2020 case study, in 2021 as part of originating assets for our annuity book, we worked with our in-house asset manager to complete a further £50-million sustainability-linked financing agreement with Big Yellow Group, the UK-based self-storage company. Aviva UK Life supported the inclusion of ESG key performance indicators as part of the agreement, linked to improvements in the sustainability credentials of Big Yellow's portfolio of buildings. These included the continued installation of solar panels across properties, which will reduce emissions and running costs, and the business being on track to achieve 'net renewable energy positive' status by 2030. Big Yellow Group will benefit from a margin reduction on the loan, conditional on achieving these targets which will be assessed on an annual basis over the full life of the agreement.

Outcome

This investment and its ambitious ESG key performance indicators were fully aligned with Aviva's Sustainable Transition Loans Framework and our efforts towards making sustainability a more material consideration for borrowers and therefore supporting the transition towards a low carbon future. Financing frameworks such as this enable companies like Big Yellow to benefit from more favourable lending terms while we reduce the carbon footprint of our assets. Further, including sustainability elements in loans ensures properties are more resilient to future climate-related risks, such as the spikes in fossil fuel prices linked to global regulatory change that we are currently experiencing.



Declining deals with misalignment to our ESG considerations

In 2021, one of our asset managers presented us with a range of deals that Aviva UK Life chose not participate in as the deals did not align with our ESG considerations. Overall, around 11% of the deals with this asset manager were not progressed due to ESG reasons[13]. Examples include:

- **Energy #1** – the project provided critical natural gas infrastructure, moving gas from source to point of processing. Credit and pricing metrics were relatively strong, however the deal was not progressed due to concerns about the source of the gas, including shale gas.
- **Energy #2** – the gas pipeline was fed by shale gas. It was presented as a 'green' investment, but there was no apparent recourse to the green assets.
- **Energy #3** – a crude and refined products pipeline where the credit and pricing metrics were relatively strong, however the deal was not progressed due to ESG considerations.

Declining these deals is a practical consequence of our commitment to our Sustainability Ambition and climate focus.

Enhancing our workplace defined contribution default fund with BlackRock

Issue
Acknowledging that ESG factors are material sources of investment risk across both active and passive investment solutions, we wanted to enhance our workplace defined contribution default fund (My Future) in conjunction with BlackRock as the manager of these funds.

Action
We worked closely with BlackRock on the design and launch of a fund for use in our auto-enrolment solution. The fund aims to explicitly incorporate ESG considerations in alignment with our customer needs using a framework that is designed to overweight companies with a higher ESG score, while also aiming for a 50% reduction in carbon intensity compared to the FTSE Developed Index.

The BlackRock World ESG Insights Equity Fund uses BlackRock's proprietary ESG framework, designed to assess how companies are dealing with the ESG risks and opportunities that they face. It is based on quantitative and qualitative research techniques, which can then help to define a broad range of descriptors that define 'good and sustainable' business practices.

Outcome
In April 2021 the My Future fund began investing in the BlackRock solution and the allocation in these funds reached £1.7 billion by the end of 2021. We will continue to increase our exposure to the fund until we reach our target allocation, which works out as 50% of each fund's equity allocation. We will also continue to monitor this solution to ensure it remains effective in delivering our needs and consider other development opportunities utilising the same framework, including regional equity and credit versions.

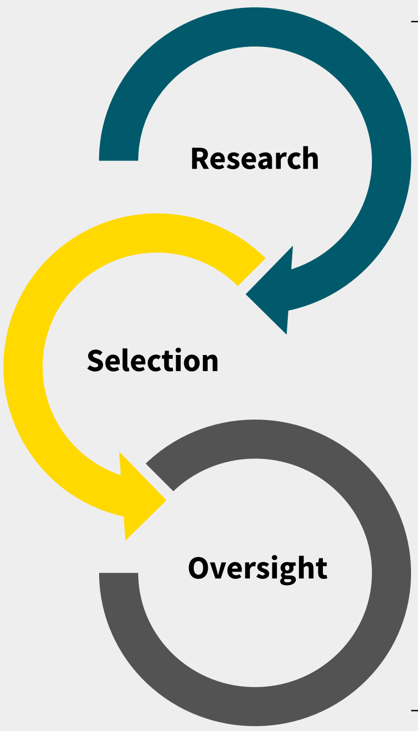
[13] Some deals did not progress due to more than one reason.

Monitoring asset managers and service providers

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 apply that oversight to our in-house asset manager which manages the majority of our assets, although we benefit from a common purpose and approach. However, we also seek like-minded external asset managers.

As part of our manager research and selection process, we consider the extent to which their values, stewardship policies and commitments align with our own. For example, Schroders, our second-largest asset manager, is committed to achieving net zero emissions by 2050 or sooner[14]. Figure 18 below offers a summary of our manager research, selection and oversight process before we turn to the detail.

Figure 18: Manager research, selection and oversight



- ESG considerations are incorporated in the selection and oversight process for all managers
- The selection of managers includes an assessment of their approach to ESG and alignment with Aviva UK Life's Responsible Investment Policy
- In any manager selection process the CIO team will include detailed ESG considerations in requests for proposals
- We then perform thorough due diligence on shortlisted candidates using our 5 P process (see following information), including the review of ESG considerations in investment decisions and ongoing monitoring of their commitment to ESG
- There will be a minimum threshold of ESG integration needed before any new mandate is awarded, or for our work with that asset manager to continue

[14]https://www.schroders.com/en/media-relations/newsroom/all_news_releases/schroders-reinforces-its-commitment-to-achieving-net-zero-with-science-based-targets/

The 5 P process

Here we outline how an assessment of an asset manager comes together, using each element of the 5 P process to perform due diligence with examples of typical questions we ask to inform this assessment. This process is used both to assess shortlisted candidates and to monitor our existing managers, including Aviva Investors, as we continue to hold them to account against our Responsible Investment Policy.

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.

Questions asked to inform our assessment:

- What is the firm's culture?
- Are they signatories to the PRI Stewardship Code? What is their rating?
- Is the firm committed to ESG issues and sustainability?
- Does the company follow corporate governance best practice?
- Is there demonstration of senior decision-maker/management buy-in to ESG?
- How does ESG manifest in the corporate culture?
- What is the firm-wide voting policy and restrictions?

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 assets under management and flows, commitment of the firm to the strategy, and its overall competitiveness.

Questions asked to inform our assessment:

- What exclusions are applied to portfolios?
- Are there any ESG or climate-related targets?
- What level of reporting is provided on ESG and climate metrics?
- How well are green credentials promoted?

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.

Questions asked to inform our assessment:

- Is there a dedicated and well-resourced ESG team?
- Is there a clear dialogue between the ESG team and portfolio managers?
- Are portfolio managers able to articulate ESG considerations for individual holdings?
- Are portfolio managers committed to ESG issues?

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.

Questions asked to inform our assessment:

- Is there evidence of ESG factors in analyst research and stock recommendations?
- Is there use of in-house proprietary ESG ratings or external research agencies?
- Is there evidence of engagement on ESG-related issues?
- What does their reporting and monitoring look like?

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.

Questions asked to inform our assessment:

- Is there ESG performance reporting and evidence of recent engagement work?
- Can the manager provide voting statistics linked to ESG?
- What is the ESG score relative to the benchmark?

ESG rating outcome

Our 5 P assessment provides a framework to consider ESG factors which we aggregate into a stand-alone ESG rating between 1-5, which Figure 19 summarises. We consider a minimum ESG rating of 3 to be required for investment. If an asset manager is subsequently assessed to be below 3 as part of our ongoing oversight, we will place that strategy on watch. If our monitoring continues to identify 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.

Figure 19: Our ESG rating system

5 Superior	• Manager clearly articulates ambitions and approach • Manager is well resourced and responsible investment is fully integrated in investment decision-making and stewardship
4 Good	• Manager satisfactorily articulates ambitions and approach • Manager is sufficiently resourced and has senior responsibility • Responsible investment is sufficiently integrated in investment decision-making and stewardship
3 Fair	• Manager somewhat articulates ambitions and approach • Manager is rudimentarily resourced and has manager responsibility • Responsible investment is considered in investment decision-making and stewardship on a case-by-case basis
2 Poor	• Manager articulates limited ambitions and approach • Manager is insufficiently resourced and has limited manager responsibility • Responsible investment is rarely considered in investment decision-making
1 Impaired	• Manager does not articulate ambitions and approach • Manager has neither resourcing nor manager responsibility • Responsible investment is not integrated in investment decision-making and stewardship

Ongoing monitoring and oversight
As part of our ongoing monitoring and oversight process, our ratings for parent, product, people and process are adjusted to reflect the level of ESG integration, and the overall rating continues to be an aggregation of the five components.

We request quantitative and qualitative information from each of our appointed asset managers on a quarterly basis, covering 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. The following are some examples of quantitative information we assess:

- portfolio carbon intensity using a range of measures including Scope 1 and 2 carbon emissions, carbon in oil and gas reserves, and exposure to oil sands
- ESG scores (proprietary and MSCI)
- ESG metrics (e.g. using the UN Sustainable Development Goals to define metrics to assess water intensity, diversity, board composition, human rights governance etc.).

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. Some examples of where our monitoring processes have led to specific collaborative outcomes aligned to our needs are detailed on the next page.

Monitoring and holding service providers to account
In addition to our asset managers, Aviva UK Life adheres to the requirements set out by the Group in order to select, manage and oversee our suppliers, including our service providers, including those which play a role in stewardship. We have regular communication with our service providers with an operational and controls focus to ensure alignment with our expectations.

Oversight is performed by a dedicated team which is responsible for the monitoring of material investment service providers, including ensuring that the obligations of each supplier are clearly defined and key performance indicators are used where appropriate to measure the key elements of the service. The team conducts periodic supplier due diligence to review the key third party suppliers' control environments and other appropriate measures, e.g. review of ISAE 3402 reports or equivalent, and IT risk and general business continuity plans, to ensure that the right controls are in place and continue to operate effectively. A central supplier governance team monitors compliance with Aviva's group-wide framework.

Over the next year, we have committed to review our framework to see if there is anything further we could be doing as best practice in respect of ESG and stewardship considerations.

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 considerations as 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. We have a close and direct relationship with our asset managers, in particular with our in-house asset manager Aviva Investors, which controls the majority of our customer assets at around 75-80%.

In 2021, we were satisfied with the services provided and consider them to be aligned with our needs. This was reflected in the results of our 5 P oversight process, in which none of our asset managers' ESG ratings were downgraded. Examples of our 5 P process in practice are set out as follows.

Selection of a new asset manager

Issue
In 2021, Aviva launched a competitive tender process with a view to replacing an existing actively managed European-ex-UK equity mandate for Aviva UK Life policyholders. The successful manager needed to have a clearly defined and repeatable investment process that was aligned to our customers' long-term interests.

Action
Our team used the 5 P assessment process to shortlist candidates and then integrate this information into the structure of the tender questions to ensure alignment with our customer needs. In addition to ESG featuring in the questions related to each of the 5 P categories, a stand-alone section also asked candidates to respond to 13 more questions on ESG integration.

Outcome
We were pleased to be able to select a new asset manager, with its fund scoring the highest or equal-highest across all the 5 P categories. The asset manager demonstrated robust responses to our tender, showcasing its focus on providing long-term value in line with our customer needs. Its tender also included details of its proprietary sustainability rating tool to formalise its ESG-integrated approach. Under our process pillar, the asset manager scored very well on ESG and climate metrics. This process also highlighted some areas of improvement for some of our other asset managers. We will continue to monitor the asset manager and its performance using the 5 P process to ensure it remains effective in delivering our needs.

Monitoring and holding an asset manager to account

Issue
In 2021, we learned that one of our asset managers failed to be accepted as a signatory to the UK Stewardship Code. We consider being a signatory of the code as a good reflection of alignment with our values, purpose and long-term investment beliefs.

Action
This knowledge prompted an ad hoc review of this particular asset manager using our 5 P assessment process. Our assessment questions under 'parent' ask whether asset managers are signatories to relevant stewardship and responsible investment codes, so we needed to understand more from this asset manager about its failed application. The asset manager was responsive to our questions and shared the same disappointment, emphasising its commitment to stewardship. It was able to provide us with concrete next steps and clear commitment from senior management on how it was going to rectify the issue, which allowed us to refrain from downgrading the manager temporarily.

Outcome
The asset manager gave us confidence that it would be making another application to the Code in the next available submission window, using a range of advice and assessment to ensure that the good stewardship work it has been doing was reflected appropriately in its submission. We were pleased that this asset manager achieved signatory status with its second submission.

Unit-linked multi-asset mandate review

Issue
In Q4 2021 Aviva UK Life conducted a review of a large multi-asset mandate made available to our life and pension customers. This forms part of the ongoing oversight process for all investment mandates, with deep-dive discussions directly with fund managers on an annual basis.

Action
The customer investment team held in-depth conversations with the portfolio managers to understand the main drivers of performance over the last 12 months along with the evolution of the team's market views and current portfolio positioning. The team's 5 P framework was used to assess the team on a forward-looking basis and consider the level of ESG integration evident within the strategy.

Outcome
Under the product pillar, we identified a focus on improving the ESG credentials as part of the product and an emphasis on ensuring the manager's entire multi-asset book qualifies as of Article 8 products under the EU Sustainable Finance Disclosure Regulation (products that promote environmental or social characteristics while ensuring good governance standards). However, we identified that we would like to see progress on the ESG-related reporting to better assess integration and the impact on investment outcomes. With ESG being integrated into the investment process and a strategic goal to enhance ESG credentials, our 5 P process assessment resulted in the manager maintaining a 'Fair' rating.

Chapter 4: Engagement

Engagement approach and activity

Approach
Aviva UK Life delegates its engagement activity, which applies equally to actively and passively managed holdings, to its asset managers under the provisions of the respective investment management agreements. We expect engagement behaviour to be consistent with our Aviva Sustainability Ambition outlined in Chapter 1, and the Aviva UK Life Responsible Investment Policy and Voting and Engagement Policy. With a shared philosophy and common processes, engagement through our internal asset manager benefits from consistency.
This chapter should be considered in combination with the content in Chapter 3.

Although executed by our asset manager engagement, we maintain accountability for the framework for engagement with investee companies on our behalf. Having the robust processes in place to our monitor asset managers, as we described earlier, allows us to leverage their expertise and resources to deliver the desired engagement outcomes.

For listed companies, Figure 20 below displays how engagement targets are identified and Figure 21 sets out how engagement activity is delivered at Aviva. 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 executives.

Figure 20: Identifying companies for engagement

Identifying companies for engagement

Quantitative

Size of exposure
Low ESG scores

+

Qualitative

ESG company and sector risk assessment
ESG thematic priorities
Client priorities

+

Reactive

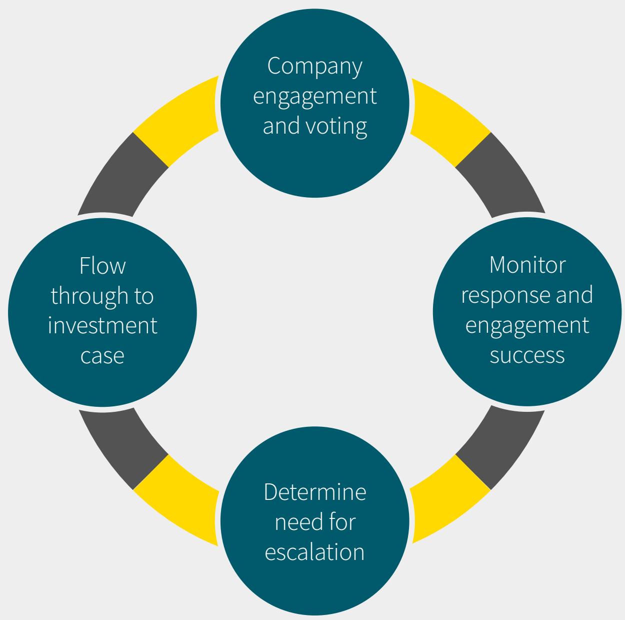
Company events
ESG news flow

=

Company engagement list

Figure 21: Engagement execution

Engagement execution



How our engagement differs and evolving our approach
We also have exposure to other asset classes across both customer and shareholder funds, including property and infrastructure. How our approach to ESG integration differs according to different asset classes, and examples of this, have been demonstrated in Chapter 3, in addition to the engagement case studies at the end of this section. 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 ESG issues with our portfolio companies, including borrowers and occupiers, suppliers and the communities in which they operate.

The vast majority of engagement is carried out via Aviva Investors during the initial transaction process or through ongoing asset management. We also engage with 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 apply the same fundamental approach to engagement across different regions, but country risk is considered, particularly in relation to sovereigns, which we outlined in Chapter 3.

Last year's report signalled our plans to consider how best to evolve our Voting and Engagement Policy to capture the nuances of these asset classes. In response to this, in Chapter 3 we have included references to Aviva Investors' Responsible Investment and Sustainable Risk Policies, which set out how ESG integration can differ according to different asset classes. We have also provided an increased range of case study examples which reflect differences in engagement approach according to asset class. We will continue to build on this work and consider how to pull these considerations into the Aviva UK Life Voting and Engagement Policy in future.

Activity
Through our regular asset manager communications and monitoring, we discuss engagement opportunities, policy and approach to ensure that engagement activity is aligned to our purpose. On an annual basis, we conduct a deep-dive exercise to assess progress and agree focus areas, which feed into the Aviva Investors focus themes introduced in Chapter 3. In 2021 our focus areas were: stakeholder business models; diversity and social inclusion; executive remuneration; climate change; and effective dynamic leadership. We communicate these focus areas to our asset managers, but we recognise that we could enhance the process by increasing collaboration to set engagement objectives.

In addition to our engagement approach already outlined, to demonstrate our commitment to our Sustainability Ambition and focus area of climate change, page 68 details our climate escalation programme where we have pivoted our approach by increasing our engagement efforts, and we are particularly pleased with what the programme has achieved so far.

Our next voting season review is likely to result in further changes to our voting policy and engagement priorities, anticipating more work to be done on human rights and labour standards. In terms of diversity and inclusion, we acknowledge that our work will need to go beyond tackling board diversity as we need to see meaningful change across the organisation.

The following data and case studies represent our key engagement activity in 2021. Last year we acknowledged a need to provide material from our external asset managers. As a result, this year we have included some data and case study examples from Schroders, our second-largest asset manager.

Engagement in 2021

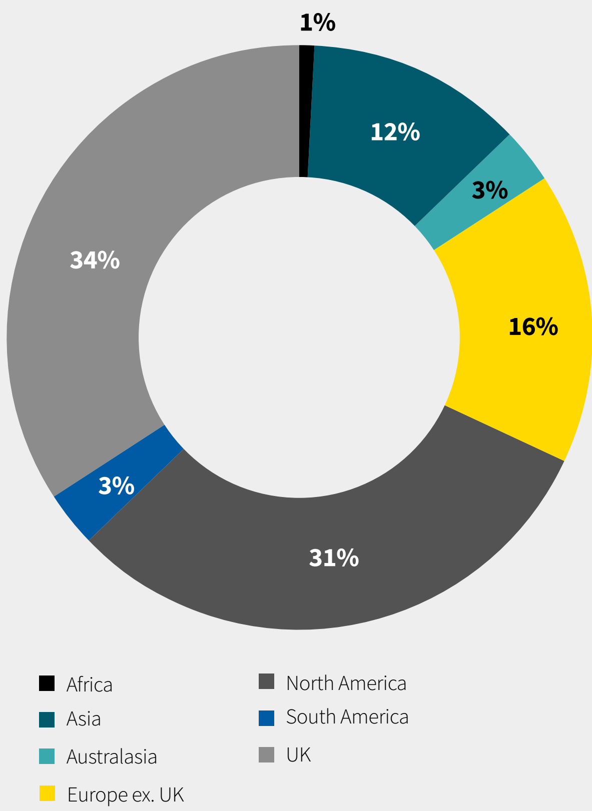
The following data and examples are reflective of Aviva UK Life mandates only.

In-house engagement

In 2021 Aviva Investors, who manage the majority of our assets, recorded **401 engagement successes**[15] where changes in corporate behaviours were recorded in line with the engagement request.

In addition, Aviva Investors undertook **2,408 engagements** including **1,014 substantial interactions.**

Figure 22: Engagements by region



[15]Please note the large increase in this number compared to the previous year is a function of changes to our internal reporting mechanism that has allowed us to capture and track interactions on a more granular basis.

The following are a selection of case studies carried out on our behalf on the focus-area topics outlined earlier in this section, along with other ESG topics of importance to us and our customers.

Environmental engagement for biodiversity and agricultural supply chain resilience

Protecting and enhancing the planet's precious biodiversity is an integral part of Aviva's long-standing commitment to sustainability. In 2021 we published our Biodiversity Policy to take action on tackling biodiversity loss, which complements our Aviva Sustainability Ambition and climate change focus area. We are pleased with the progress Aviva Investors has made in the following example, tackling a range of issues on this topic. Although it is great to see this selection of companies making progress, we fully support Aviva Investors' plans for further engagement and to pursue enhanced disclosure on the lagging areas identified.

Issue

Aviva Investors has taken stock of the alarming rate of biodiversity loss we have experienced in the past decades. There is increasing evidence that human activity is destroying nature worldwide, with the population sizes of mammals, birds, fish, amphibians and reptiles seeing an alarming average drop of 68% since 1970. This has been referred to as the Sixth Mass Extinction.

Agriculture has been noted to have a major role in this decline, with deforestation and land use change having been fuelled by population growth and changing consumption trends. Importantly, agriculture and other land-use changes not only contribute significantly to biodiversity loss and climate change (almost a quarter of total greenhouse gas emissions) but are also strongly affected by them, therefore posing an important risk to corporate supply chains and global food systems[16].

Action

In light of these concerns, Aviva Investors met with three leading names in the beverage sector – Diageo and Anheuser-Busch, in which we have equity and bond holdings, and Pernod Ricard, in which we have an equity holding – to discuss supply chain resilience and agricultural practices. Engagement focused on their approach to sustainable sourcing practices, namely their agricultural practices and supplier relations. More specifically, we wanted to assess supply chain resilience by evaluating progress made by these companies on key best practices such as water risk assessment and management, implementation of regenerative agriculture programmes to assist with soil resilience and carbon sequestration, the use of pesticides and fertilisers, and farmers' training, among others.

Outcome

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

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

Decarbonising real estate with sustainability-linked leasing

This case study demonstrates proactive engagement from Aviva Investors to negotiate an environmentally friendly lease with one of its customers in pursuit of our net zero Sustainability Ambition and our climate change focus area. We encourage Aviva Investors to continue to negotiate similar leases with its other customers, and to monitor energy usage data and procurement of energy to identify further opportunities for energy saving.

Issue

Efforts to decarbonise the real estate sector must involve a greater level of landlord and tenant engagement to improve the sustainable occupancy and management of buildings. An effective tool gaining traction in the commercial property sector to address this problem is sustainable real estate leasing. A sustainable lease is a standard-form lease which includes additional clauses encouraging both owner and occupier(s) to enhance the environmental performance of a building.

Action

In the real assets business at Aviva Investors, a number of sustainability-linked leases have been implemented with embedded sustainable KPIs as well as commercial incentives within the lease structure.

In 2021, Aviva UK Life championed the negotiation of an environmentally friendly lease at a prominent location in London. This new lease is aligned with the Green Leasing Framework developed by the Better Buildings Partnership. The framework aims to reduce environmental impacts of buildings while increasing tenant engagement and identifying ways to save money through energy efficiency.

Outcome

With this new lease, the customer will have to share its energy usage data with Aviva UK Life. This will be key to monitoring the building's energy performance and identifying further opportunities to implement energy-saving initiatives.

The customer is also encouraged to procure energy from renewable sources, helping cut emissions associated with the burning of fossil fuels. Reducing emissions generated by our assets is essential to meet our net zero by 2040 targets.

The green lease also includes an obligation for the customer to initiate an energy optimisation programme to identify efficiency and reduce energy demand on site. Examples include installing energy-efficient technology that helps reduce energy consumption and associated emissions, creating future-proof assets while reducing costs for occupiers.

Social engagement with Rio Tinto on its social licence to operate

We believe the following is a good example of our diversity and social inclusion focus area in action on a company to which we have equity exposure. It is positive to see that Rio Tinto continues to be open to investor engagement and improve on its past record. We encourage Aviva Investors to continue to press the company, and other mining companies, to mitigate gaps in existing protocols and strengthen disclosures.

Issue

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

Action

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

Outcome

Over the past year Rio Tinto has made laudable efforts to strengthen internal practices, policies and governance to reaffirm and protect its social licence to operate. This is exemplified in the roll-out of a "new integrated risk plan" and launch of an Indigenous Advisory Group. We commend the company's open admission of the issues identified and demonstrable commitment to review and redefine what is best practice for cultural management in the mining industry. We note that Aviva Investors will continue to press the company to mitigate gaps in existing protocols for managing indigenous cultural heritage and strengthen disclosures on progress of measures being undertaken. The disclosures should cover the roll-out of relationship management training for local line managers and the establishment of a robust mechanism to ensure that real-time traditional owner perspectives on site significance are captured and appropriately escalated to board level.

Decarbonising real estate with sustainability-linked loans

In certain fixed-income asset classes, engagement at the outset of a transaction can be used to negotiate covenants and incentives that mandate or encourage positive environmental and social impacts. This case study is a great example of how Aviva UK Life used the Aviva Investors proprietary framework for Sustainable Transition Loans for Commercial Real Estate to accelerate the climate transition of buildings and drive progress on our priority themes of climate. We hope to see similar transactions in future.

Issue
Globally, 39% of all energy-related carbon emitted comes from building and construction according to the World Green Building Council, with operational emissions accounting for about 28%[17]. The transition to low carbon will define the real estate sector over the next decade.

Action
In 2021 Aviva UK Life provided Bruntwood, a family-owned property company, with £64 million as part of a larger 15-year sustainability-linked loan facility. Bruntwood has net zero goals for new buildings by 2030 and for its entire portfolio by 2050, and agreed to a number of sustainability performance goals as part of the deal. These goals are primarily focused on reducing its carbon emissions and procuring green energy, and includes a commitment to review performance targets regularly throughout the term in line with an anticipated evolution of ESG measures over the loan period.

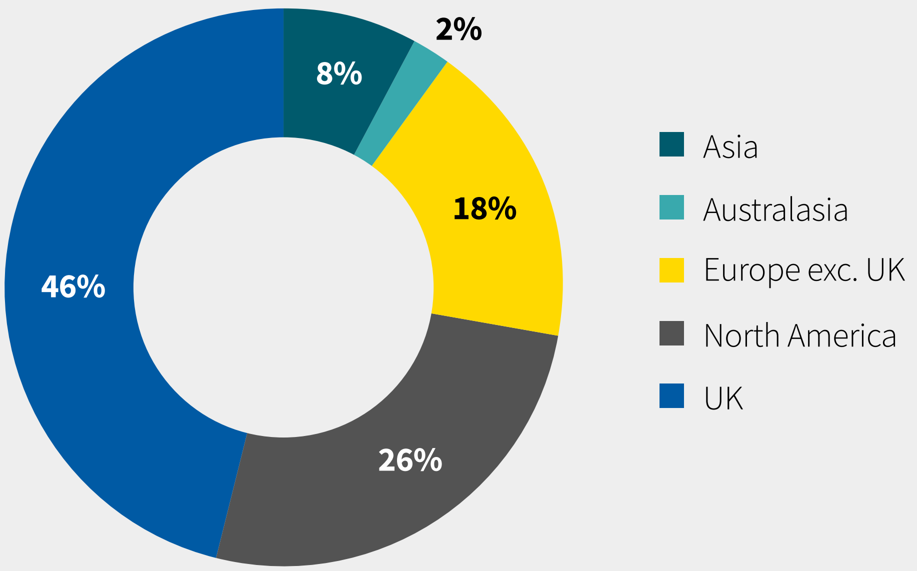
Outcome
In harnessing the Aviva Investors sustainable transition loan framework, UK Life is demonstrating its commitment to helping the industry decarbonise, and we are proud to be assisting one of the industry's first movers on sustainability to increase the scale and scope of their decarbonisation efforts.

[17]World Green Building Council – Bringing Embodied Carbon Upfront, September 2019.

External asset manager engagement

The following data and examples are reflective of Aviva UK Life mandates managed by our second-largest asset manager, Schroders. In 2021 Schroders undertook **453 engagements** on our behalf. Figure 23 demonstrates these engagements according to region.

Figure 23: Schroders engagements by region



The following is a case study on engagement carried out on our behalf by Schroders with a company in which we have an equity and bond holding on our focus area topics outlined earlier in this section along with other ESG topics of importance to us and our customers.

Engagement with First Group

This case study demonstrates pursuit of a range of strategy and governance objectives in alignment with our expectations and touching on our focus areas of stakeholder business models and effective dynamic leadership. We are pleased that Schroders appears to hold an influential engagement relationship for constructive dialogue focused on long-term value creation, and we hope to see further changes to maximise the opportunities from First Group's remaining UK business.

Issue
Schroders is a top-three shareholder in leading transport operator First Group. It has liaised closely with the two other leading shareholders (one of which is an activist) since 2017 to press for changes on a range of strategy and governance issues at the company. Schroders was dissatisfied with the previous chair for not driving change forward in line with its expectations and that of other shareholders. The activist shareholder called an extraordinary general meeting, which Schroders supported, and in collaboration with other shareholders the chair and a range of other board members stood down.

In 2021, engagement focused on conflicting ideas for the sale of the company and therefore the business strategy. The CEO wanted to keep the US business and sell the rest, but Schroders believed the opposite to be in better alignment with long-term value creation. Eventually the company, following shareholder pressure, agreed to put the US business up for sale.

Action
While supporting the principle of the sale, Schroders eventually voted against the sale of the US business to EQT as it believed the price did not reflect its true value. However, the sale did receive majority support, so Schroders accepted this and focused its engagement on how to support the CEO and the business going forward.

Outcome
Schroders currently has constructive engagement with the company and has been pleased with the chair/acting CEO's actions, which now focus on the opportunities in the remaining UK business.

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 Global Voting Policy[18], managed by our in-house asset manager, Aviva Investors. This Policy is in alignment with our Aviva UK Life Responsible Investment Policy and Voting and Engagement Policy.

Our Global Voting Policy highlights areas of focus and priority that may lead to engagement and voting action to promote responsible and sustainable practices. These areas include: board leadership and effectiveness; accountability; remuneration; corporate responsibility; and investment trusts. These feed back into driving progress on our engagement focus areas introduced in Chapter 3. In our Tumelo case study on page 35 we also outlined how the tool enables our customers to input their voting preferences to influence the ultimate voting decision.

Aviva Investors uses Institutional Shareholder Services (ISS) for notification of shareholder meetings and for execution of voting rights at such meetings. ISS identifies and notifies Aviva Investors of forthcoming meetings in respect of UK Life's holdings based on the holdings that are provided to ISS from the relevant custodians, which are automatically linked to any notice of meeting that ISS has procured through a variety of sources. All new funds are set up for voting automatically (arranged between the custodian and ISS).

Aviva Investors will make vote decisions for these meetings based on its Global Voting Policy, together with issues identified by its own or external research, and following engagement with companies where deemed necessary or helpful for making the vote decisions. The vote decisions are submitted on the ISS vote platform and are electronically lodged with the companies/their registrars.

Although we do not have voting rights in connection with fixed income instruments, we have considered the ways in which we can influence borrowers as fixed-income investors. To that end, the Aviva Investors Sustainable Transition Loans Framework embeds measurable ESG commitments into our lending programme. We have committed to originating £1 billion of sustainable loans over the next four years. Examples of loans made under this framework are provided on pages 44 and 57.

Quarterly reporting is requested of our in-house asset manager on all voting and engagement activity that has been conducted on our behalf and from our other asset managers on a regular basis. We seek justifications for the voting positions taken by managers and challenge those we believe are inconsistent with our 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[19].

In 2021, we collaborated with one of our external asset managers, BlackRock, on voting implementation. By sharing our in-house voting policy, BlackRock was able to review and verify the policy to ensure it is in line with the investment objectives and policies of the relevant fund and agree a process for managing conflicts relating to voting. This gives us more control on how our shares are voted and therefore increased alignment with our Sustainability Ambition.

[18]https://static.aviva.io/content/dam/aviva-corporate/documents/socialpurpose/pdfs/policies-responses/2020_Voting_Policy.pdf
[19]https://www.aviva.co.uk/services/about-our-business/about-us/our-approach-to-responsible-investing/

Voting activity in 2021

The following data and examples are reflective of Aviva UK Life mandates only.

In-house voting

The following is a summary of votes undertaken by Aviva Investors, who manage the majority of our assets:

- Voted on **50,918 resolutions** at **4,636 meetings**
- Voted against **24% of management resolutions**, including **45% of pay proposals**
- Voted in favour of **81% of climate and social shareholder proposals**

Figure 25: 2021 voting activity by region

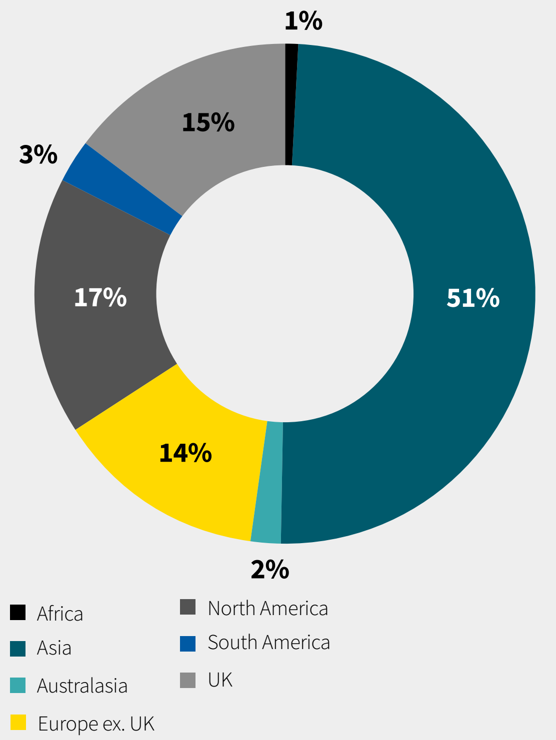


Figure 24: 2021 voting activity by issue

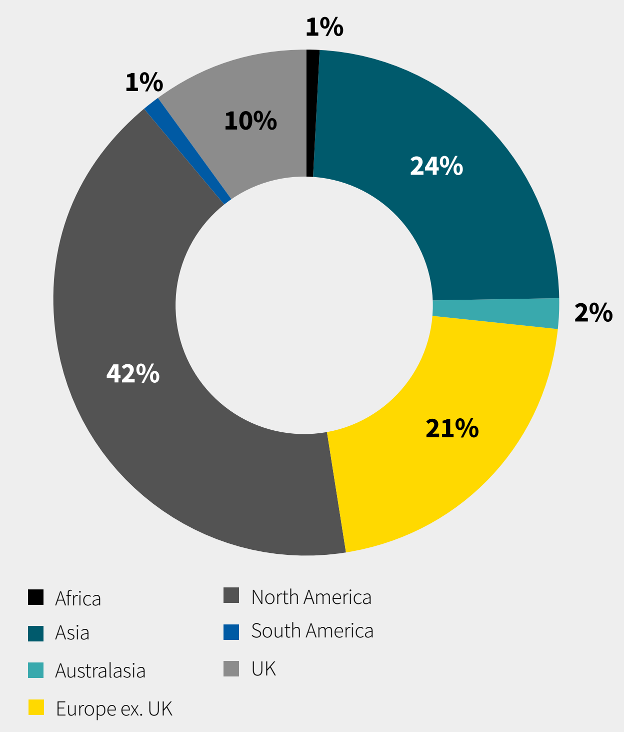
	Total number of resolutions	Per cent non-support
Anti-takeover measures	65	22%
Auditors	3,623	23%
Climate-related	23	22%
Directors	22,820	33%
Other	6,309	12%
Related-party transactions	1,741	16%
Remuneration	5,266	48%
Report and accounts	2,919	9%
Share issues/capital-related	6,053	13%
Shareholder resolution	698	66%
Shareholder resolution (supported by management)	635	19%
Takeover/merger/reorganisation	766	21%

External manager voting

The following is a summary of votes undertaken by Schroders, our second-largest asset manager:

- voted on **3,050 ballots** at **1,149 shareholder meetings**
- voted against management on **18.6% of non-salary compensation items**

Figure 26: 2021 voting activity by region



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 and voting activity is outcomes-focused, and we set high standards for those we and our asset managers engage with. The 5 P process covered in Chapter 3 enables us to escalate stewardship activities where our expectations are not met.

We believe we should use our position as a large asset owner to encourage companies towards improving the way they operate. We also believe it is important to use our influence 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 is undertaken, whether on strategy, performance, general ESG issues or specific votes issues, the effectiveness of such engagements will be measured and evaluated on a regular basis.

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
- raising concerns with appropriate regulatory authorities
- considered public statements and press comment
- divestment of holdings

Where engagement ultimately fails, the company may be added to Aviva's Investment Stop List, which is maintained and issued centrally. We may choose to make no further investments and/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 that immediate disposal may have a detrimental financial impact. For discretionary portfolios, we allow the asset manager to manage the escalation and divestment process, with appropriate notification to Aviva UK Life.

Aviva Investors also has 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, nuclear weapons, or firearms for civilian use). Last year's report signalled plans to review and update the exclusion policy in 2021 – following this, a Group-wide policy has now been developed to include thermal coal in line with our Sustainability Ambition. We expect this policy to be announced and published in 2022.

Exercising rights and responsibilities case studies

This section outlines the rationale behind key escalation decisions and other examples of exercising rights and responsibilities undertaken on our behalf, based on ESG themes. The case studies at the end of Chapter 3 also demonstrate how we have escalated matters from our asset managers.

The following examples are from activities conducted by our in-house asset manager, Aviva Investors.

Informa proxy voting example on board governance

As outlined earlier in this chapter, executive remuneration is one of our focus areas for voting, so we are pleased that Aviva Investors has escalated this and other governance issues with Informa, in which we have an equity and bond holding. We believe this case study demonstrates the importance of using escalation tools such as votes against actions that do not align with our principles and collaborating with other investors. Although the outcomes have been somewhat mixed so far, we continue to encourage Aviva Investors to strive for further changes at Informa.

Issue
Concerns with the arrangements at Informa have persisted for a number of years, and in particular around remuneration awards and the introduction of a new restricted share plan (RSP) which has resulted in votes against various pay resolutions at shareholder meetings since 2020.

Repeatedly large votes against management resolutions raised concerns over the effectiveness of the board, the company's response to shareholder views and the overall culture of the business.

Action
At Informa's 2021 AGM, in addition to voting against the remuneration report, Aviva Investors also voted against the chair of the remuneration committee, Stephen Davidson, to reflect ongoing concerns. In addition, the decision to adjust the 2018 long-term incentive plan (LTIP) award was particularly controversial.

Aviva Investors continued engagement with the company directly and through the Investor Forum, a collaborative engagement which was initially established in response to both the ongoing pay concerns and the need for better chair succession.

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

Since October 2021, Informa has also appointed three new non-executives, including a new remuneration committee chair who will bring a fresh approach to discussions and who has the necessary experience. However, we continue to remain alert to the possibility that the company could once again see significant votes against at its 2022 AGM, particularly if concerns around the RSP remain and retrospective changes are made to the 2019 LTIP targets.

Proxy voting approach to holding to account for lack of progress on improving ethnic diversity

As outlined earlier in this chapter, diversity and social inclusion is one of our focus areas for voting, so we are pleased that Aviva Investors has escalated concerns with companies on this topic using a range of tools including writing to boards and voting against management at AGMs. We welcome the changes that companies have made since, but support Aviva Investors in continuing to ask for greater action across all levels of a company and for enhanced disclosures on the topic.

Issue

We believe that the balanced representation of board directors with respect to gender, ethnicity and social background is a critical business issue; one that is essential for ensuring a deep understanding of key stakeholders and securing the best available talent. Additionally, companies have a responsibility to actively promote social inclusivity and help break down, rather than reinforce, social barriers.

Action

At the start of 2021, Aviva Investors wrote to boards to explain our expectations. It also informed them that it had extended its voting policy to cover ethnic diversity (though it has been holding companies to account for poor gender diversity since 2013). Aviva was among the first investors to do this.

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

Outcome

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

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

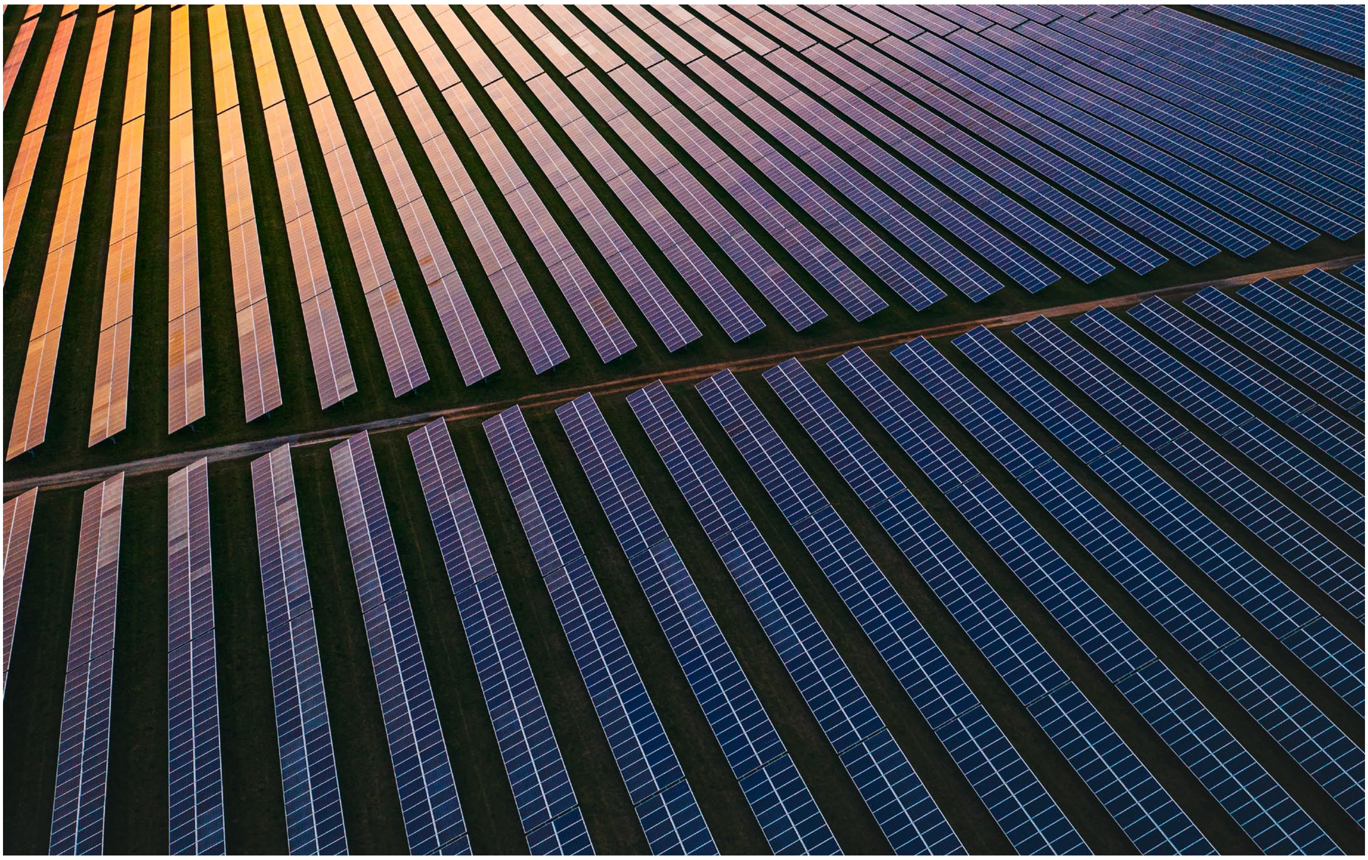
Escalating decarbonisation

An example of decarbonisation escalation, in line with our needs, has been the Aviva Investors' climate engagement escalation programme. With climate being a focus area of our engagement and central to our Sustainability Ambition, this programme signals clear actions we are taking against companies who are not decarbonising rapidly enough, and sets a public precedent for further improvement in the industry.

Issue
The programme targets engagement with 30 systemically important carbon emitters, which currently produce 30% of global Scope 3 emissions, to encourage the reduction of their carbon footprint. The programme was approved by ESG leadership (chaired by the Aviva Investors CEO, with membership of the Aviva UK Life CIO).

Action
In 2021, engagement focused on climate targets, transition plans, management incentives, climate disclosures and climate lobbying. During the year activities included developing an evaluation methodology, undertaking a baseline assessment, initiating targeted engagement and completing a year-end review of progress. 122 individual company engagements were carried out, and 95 positive changes linked to the engagement requests were recorded.

Outcome
Following assessment, 16 of the 30 companies were placed on a watchlist for potential escalation in 2022. As part of this escalation process Aviva Investors announced it intends to vote against the election of directors at companies where their commitments on climate change, biodiversity and human rights fall short of our expectations. Aviva Investors is committed to full divestment of targeted companies that fail to meet its climate expectations. We will continue to work collaboratively to ensure that the programme remains effective.



The following is an example of escalation conducted by Schroders, our second-largest asset manager.

Escalating engagement with GlaxoSmithKline

We are pleased with the escalation tools that Schroders has used with GlaxoSmithKline (GSK), in which we have equity and bond holdings, making progress on our focus areas including stakeholder business models, executive remuneration and effective dynamic leadership. We believe this case study demonstrates the impact Schroders can have individually and through collaboration via the Investor Forum. We look forward to seeing further progress, particularly with regard to GSK's healthcare business.

Issue

Schroders has been engaging with GSK for over 20 years, and it therefore has a long-standing engagement relationship covering a range of ESG issues. Over the course of 2021 Schroders had numerous meetings with GSK's executive team and the board, which covered pay, strategy, succession planning and the bids it received for the purchase of its healthcare business. Schroders had been disappointed with GSK's operational performance in the face of the global COVID-19 pandemic, and its initially muted response to the race for a vaccine.

Action

Schroders was able to escalate engagement, conducting four meetings with the GSK chair. It also escalated engagement through its liaison with an activist investor who shared some similar views on the long-term strategy for the company, as well as in collaboration with the Investor Forum, which was used to conduct a joint investor meeting with the GSK chair.

Outcome

GSK has now made changes to give shareholders assurances on its strategy and has shared its plans, which have satisfied Schroders that GSK is taking shareholder feedback on board. Schroders was particularly pleased that the healthcare business will now be split off from the pharmaceuticals business, as it believes this will create good long-term shareholder value. Schroders is also happy with GSK's proposed roadmap for the evolution of its management and board structures and succession planning.

GSK is beginning to implement an improved pay plan, which will reflect two separate structures in relation to the split of the business into healthcare and pharmaceuticals. Schroders is happy with the pay plan for the pharmaceuticals business as it matches the targets announced at its capital markets day, which it believes to be stretching, and includes ESG targets and a robust total shareholder return component. Schroders looks forward to receiving information about the pay plan for the healthcare business and continuing to engage with the company on promoting market best practice.

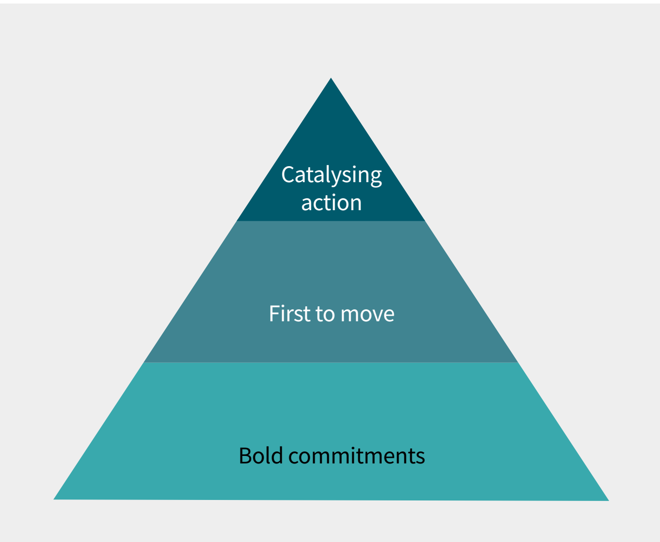
Chapter 5: Broader market initiatives – collaboration and systemic risks

Collaboration and systemic risks

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

Figure 27 demonstrates our belief that courage to change, bold plans, optimism and catalytic action are required to pivot the world towards a low carbon economy while the window to keep the 1.5°C climate target alive remains slightly ajar. We believe these attributes embody the true leadership necessary for progress that is not only right for us as a business – and which will protect value for our clients and broader stakeholders – but is right for society. We know we cannot do this alone: we must all work together to create powerful change – governments, markets, the financial system and broader society. Aviva will continue to lead from the front.

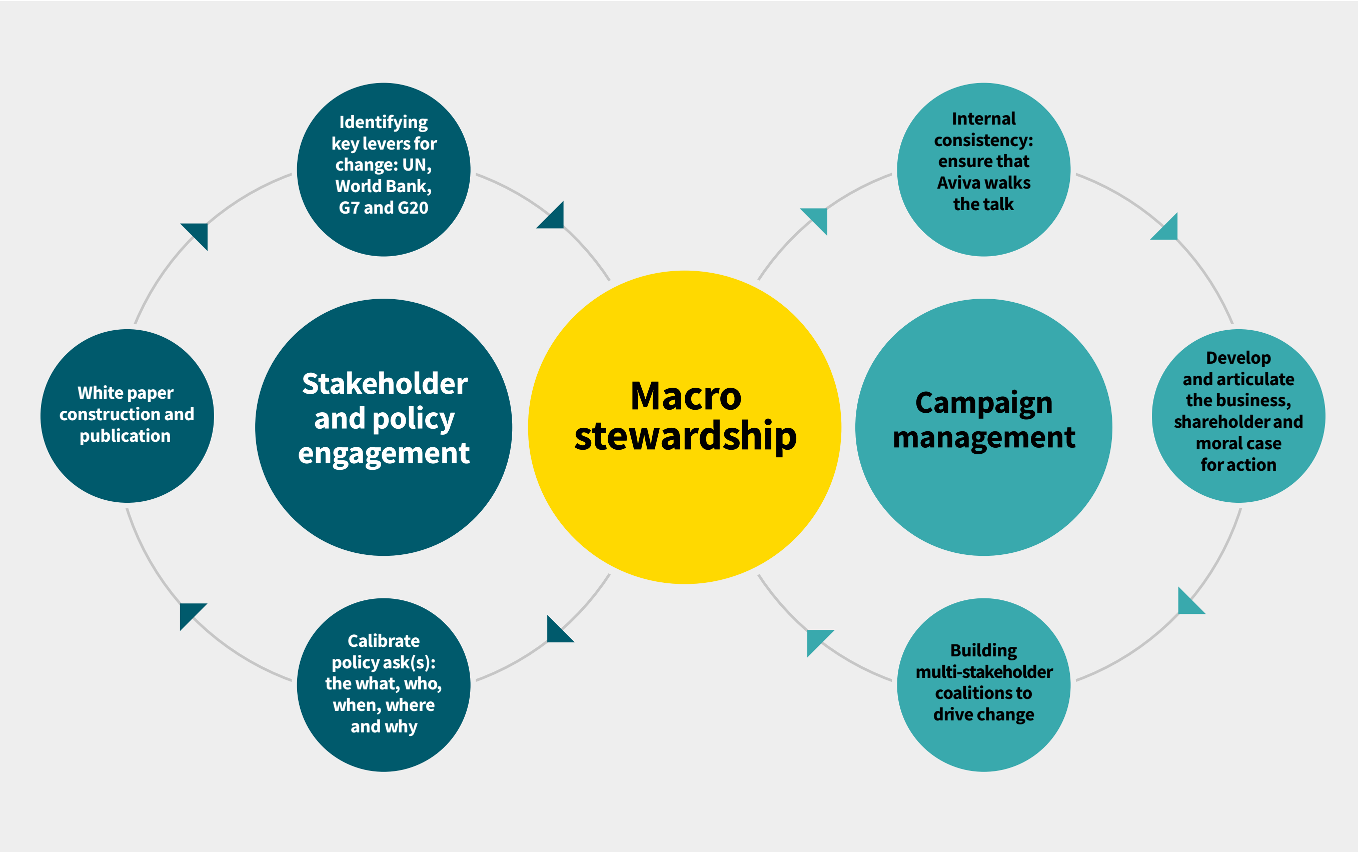
Figure 27: Attributes of a leader



Our responsible and proactive leadership brings together all of our capabilities and strengths to seek to correct the financial system. We see the duties of financial market participants, and the concept of macro stewardship, as crucial to harnessing the power of markets to deliver the transition to a financial system that embeds sustainability and also finances a sustainable real economy.

Through the Aviva Sustainable Finance Centre for Excellence we target risks and failures that are the most material in both financial and non-financial terms where we have agency, opportunity and expertise to act and positively influence the response of policymakers, regulators and peers. We harness insights from our investment activities to ensure that our engagement with those who shape the rules of the game is robust and well-informed. Figure 28 demonstrates how we use macro stewardship to correct market failures.

Figure 28: Correcting market failures through macro stewardship



Collaboration

Industry collaboration is an important requirement for being able to exercise appropriate influence and improve the markets we operate in and, ultimately, society. 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. Below is a range of initiatives we are proud to be involved in, some of which we then bring to life in our case study examples towards the end of this chapter.

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

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

Signatories
- Signatory to Finance for Biodiversity Pledge
- Signatory to Business for Nature Pledge
- Signatory to Access to Nutrition Initiative
- IIGCC investor letter on EU net zero emissions target
- ShareAction – Chemical decarbonisation initiative
- Arctic refuge/ANWR Investors letter urging oil and gas companies to not drill in Arctic refuge
- Signatory to the Business in the Community Ireland, Low Carbon Pledge
- CCLA Investor letter on modern slavery
- CERES FAIRR initiative on fast food supply chains
- Signatory to Cerrado Manifesto (deforestation), FAIRR
- Signatory to the Change the Race Ratio campaign
- Signatory to Climate Change Commitment (launched by Better Building Partnership)
- Signatory to 2012 FRC Stewardship Code
- Global Reporting Initiative (GRI)
- Pensions and Lifetime Savings Association marine plastics letters
- Signatory to Race at Work Charter
- Investor support for Seafood Business for Ocean Stewardship (SeaBOS)
- Signatory to the Social Mobility Pledge
- Signatory to Terra Carta
- Signatory to the UK Social Impact Implementation Task Force
- Signatory to the UN Environment Programme Finance Initiative (UNEP FI)
- Signatory to the UN Global Compact
- Signatory to the UN Principles for Sustainable Insurance
- Signatory to the UN PRI Investor Statement on Corporate Action on Deforestation
- Signatory to the UN PRI Investor Statement on Palm Oil
- Signatory to Women in Finance Charter
- Powering Past Coal Alliance Finance Principles

Identification and actions in 2021

The micro and macro approach to stewardship set out above works in combination with our governance structure described in Chapter 2. This allows Aviva UK Life to identify and monitor market-wide or systemic risks. They are considered from both an asset and liability perspective, which ultimately leads to discussion at the asset liability committee, and thereafter potential escalation to the board.

This approach is also closely tied to our Group Risk Management Framework, available on our intranet for our employees, which sets out how risks (including market-wide and systemic risks) must be identified, measured, managed, monitored and reported.

The Risk Management Framework comprises the systems of governance, risk management processes and our risk appetite framework and is owned by the Aviva plc board (and adopted by the subsidiary boards). Management is responsible for identifying all material short- and long-term risks to the business with the risk management function in place to identify, oversee and challenge the completeness of this. All risks must be kept up to date in the business-wide key risk register.

A variety of tools and processes are available to support identification, measurement, management, monitoring and reporting processes for risk, including stress testing and scenario analysis related to the management of climate change as well as other possible risk events. At a Group level, Figure 29 below details some key market-side risks identified during 2021.

Figure 29: Key risks relevant to Aviva UK Life identified at a Group level in 2021

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Economic and credit cycle – uncertainty over prospects for future macroeconomic growth, inflation, credit and current low interest rates, and the response of Central Banks, could adversely impact the valuation of our investments or credit default experience. This could also impact the level of the returns we can offer to customers going forwards, and our ability to profitably meet our promises of the past.	Uncertain	Credit risk, market risk, liquidity risk	We limit the sensitivity of our balance sheet to investment risks. While interest rate exposures are complex, we aim to closely duration-match assets and liabilities and take additional measures to limit interest rate risk. We hold substantial capital against market risks, and we protect our capital with a variety of hedging strategies to reduce our sensitivity to shocks. We regularly monitor our exposures and employ both formal and ad hoc processes to evaluate changing market conditions. Other actions taken in the past include reducing sales of products with guarantees and shifting our sales towards protection and unit-linked products.	The follow-on effects of the financial stimulus measures to cope with the pandemic are now coming more into focus, including the impact of interest rate rises, risk of a deflating asset bubble and the risk of inflation (potentially impacting credit quality of counterparties as well as squeezing real wages, which adversely impacts discretionary saving, insurance new business and renewals, and lapse risk). While inflation pressures are expected to recede in 2023, there is a risk inflation becomes entrenched and persistent. The Group's balance sheet has hedges in place to mitigate these risks.

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Climate change – potentially resulting in higher-than-expected weather-related claims (including business continuity claims), inaccurate pricing of general insurance risk, possible changes in morbidity and/or mortality rates, reputational impact from not being seen as a responsible steward/investor, as well as adversely impacting economic growth and investment markets. This also includes transition risks for our investments relating to the impact of the transition to a low carbon economy, and litigation risk where we provide insurance cover.	Increasing	General insurance risk, life insurance risk, credit risk, market risk	Our climate-related financial disclosure sets out how Aviva incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics (e.g. climate value-at-risk) and targets. We are committed to aligning our business to the 1.5°C Paris Agreement target and plan to be a net zero company by 2040. The Group CRO was responsible for overseeing the embedding of a framework for ensuring climate-related risks and opportunities are identified, measured, monitored, managed and reported through our risk management framework and in line with our risk appetite.	Aviva considers climate change to be a significant long-term risk to our business model. Global average temperatures over the last five years have been the hottest on record. Despite the UNFCCC Paris Agreement, the current trend of increasing CO2 emissions is expected to continue, in the absence of radical action by governments, with global temperatures likely to exceed pre-industrial levels by at least 2°C and weather events (floods, droughts and windstorms) increasing in frequency and severity. Disclosure of potential impacts against various climate scenarios and time horizons will become increasingly common for all companies.
Longevity advancements (e.g. due to medical advances) – these contribute to an increase in life expectancy of our annuity customers and thus future payments over their lifetime may be higher than we currently expect.	Stable	Life insurance risk (longevity)	We monitor our own experience carefully and analyse external population data to identify emerging trends. Detailed analysis of the factors that influence mortality informs our pricing and reserving policies. We add qualitative medical expert inputs to our statistical analysis and analyse factors influencing mortality and trends in mortality by cause of death. We also use longevity swaps to hedge some of the longevity risk from the Aviva Staff Pension Scheme, and longevity reinsurance for bulk purchase annuities and for some of our individual annuity business.	There is considerable uncertainty as to whether the improvements in life expectancy that have been experienced over the last 40 years will continue into the future. In particular, there is likely to be a reduced level of improvement from the two key drivers of recent improvements, smoking cessation (as you can only give up smoking once) and the use of statins in the treatment of cardiovascular disease (where the most significant benefit from use in higher-risk groups has now been seen). Despite continued medical advances emerging, dietary changes, increasing obesity and strains on public health services have slowed the historical trend since around 2011. In the UK, this has led to some significant industry-wide longevity reserve releases in recent years, as the assumptions around future longevity improvements have been weakened. The potential impact of the COVID-19 pandemic on medium- and longer-term longevity projections, via ongoing direct effects (e.g. endemic COVID-19) or via indirect effects (e.g. strains on the NHS), also adds to the uncertainty, but we do not currently anticipate a material impact on the overall outlook.

Key trends and movement	Trend outlook	Risks impacted	Risk managed	Outlook
Pandemic – in an increasingly globalised world, new, or mutations of existing, bacteria or viruses may be difficult for stretched healthcare systems to contain, disrupting national economies and affecting our operations and the health and mortality of our customers.	Stable	Life insurance risk (mortality, longevity, morbidity), general insurance risk (business interruption, travel) and operational risk	We have contingency plans which are designed to reduce as far as possible the impact on operational service arising from mass staff absenteeism, travel restrictions and supply chain disruption caused by a pandemic, which we were able to put into action during the current COVID-19 pandemic. We reinsure much of the mortality risk arising from our Life Protection business, and we hold capital to cover the risks of a 1-in-200-year pandemic event. We model a range of extreme pandemic scenarios, including a repeat of the 1918 global influenza pandemic and COVID-19. In the Group and commercial insurance business we manage our potential exposure through our policy wordings. As an investment manager and investor, we engage with companies to ensure the responsible use of antibiotics to reduce the risk that antimicrobial resistance negates the efficacy of medical treatment.	There remains uncertainty around the outlook for the COVID-19 Omicron variant. The long-term impact on mortality and morbidity is dependent on the extent natural immunity develops in the general population, the efficacy of new healthcare treatments and possible future strains that may emerge. Trends such as global climate change, urbanisation, antimicrobial resistance and intensive livestock production are likely to increase the risk of future pandemics, while reductions in migration and international travel as a result of COVID-19 are likely to be temporary, making the containment of future pandemics more challenging. We expect the experience and learnings from the current COVID-19 pandemic will improve the effectiveness of the public healthcare response to any future pandemics.

In addition to the risks and actions taken in Figure 29, Aviva UK Life also looks to its asset managers to align our investments in response to market-wide and systemic risks. We consider this as part of our manager oversight process detailed in Chapter 3. Our regular investment meetings with our asset managers are used to discuss emerging market-wide issues. These items may then be escalated through our governance structure as outlined in Chapter 2, such as via the investment credit committee and asset liability committee. COVID-19 is an example of one of the Group risks that was also raised at the Aviva UK Life investment meetings last year, specifically in relation to our commercial mortgage portfolio.

As a result of the ongoing COVID-19 pandemic (along with macro and political headwinds), we have continued to monitor the Aviva UK Life commercial mortgage portfolio for distress. In anticipation of heightened volatility, we set up a dedicated weekly working group steering committee (in March 2020) to consider requests from our borrowers largely as a result of COVID-19, such as a delay in interest payments or restructuring loans, enabling us to react with agility. These meetings were dominated by commercial mortgage loans, but we also considered similar requests from within our other private asset portfolios.

One example managed through the steering committee was in relation to our commercial mortgage exposure to a London commercial landlord. This borrower was forced to shut a number of property assets as a result of the COVID-19 restrictions and weakened consumer sentiment. We agreed a two-pronged approach to tackling this challenge, which was approved by the steering committee in 2021. Step one involved providing a short-term loan to initially stabilise the borrower. Step two involves a longer-term debt restructuring including debt tranching, reducing debt exposure and reshaping the debt service profile based on cash flow expectations to optimise the capital structure and ensure it is more sustainable. We expect the restructuring to complete in H1 2022. By stabilising the borrower in this way, we have also reduced our credit risk and contributed to the local economy by reducing the need for the borrower to make large-scale job cuts.

Assessment of effectiveness

We believe that the details above outline the strength of our processes to promote well-functioning markets and bring about a sustainable financial system, in combination with collaborating effectively across the industry to do this. In particular, we leverage the strength of a common purpose and approach through our in-house asset manager.

In addition to the details around managing our commercial mortgage exposure to a landlord, our case studies in Chapters 3 and 4 also demonstrate our efforts to reduce risks in issuers, particularly on market-wide risk such as climate change. We feel that the case studies provide a balanced view since they consist of context, actions taken, outcomes and our next steps. Reflecting on some of the actions taken in Figure 29, we have managed to increase our resilience since we hold substantial capital to deal with shocks. We have used a variety of hedging strategies which have allowed us to reduce exposure to risks such as inflation and longevity.

The following pages take a more in-depth look at what we believe to be successful examples of our actions taken in 2021 to improve the overall functioning of markets, involving exercising our rights and responsibilities over assets, calling out risks and supporting policymakers to bring about necessary changes.

Addressing climate change as a market failure
We are seeking to play our part in tackling the climate crisis we all face, first and foremost because it is the right thing to do for our customers, for society and for our own business. We believe unmitigated climate-related risks present a systemic threat to societal and financial stability and to our business over the coming decades. Here we reflect on how we have advocated for systemic change to the international financial architecture in 2021 so we can collectively deliver on the goals of the Paris Agreement, in addition to our Sustainability Ambition set out in Chapter 1.

Other systemic issues are also inextricably linked to climate change. Greater biodiversity and protection of nature supports climate mitigation and adaptation, but with rising temperatures exacerbating biodiversity loss and vice versa. Inequalities and human rights breaches are exacerbated by climate change because it disproportionately affects already marginalised people and is disproportionately caused by those better off. We collaborate across our industry by driving global alliances such as the Glasgow Financial Alliance for Net Zero (GFANZ), which sits as an umbrella grouping for sectoral net zero alliances such as the United Nations-backed Net Zero Asset Owner Alliance (NZAOA), United Nations-backed Net Zero Insurance Alliance (NZIA), Net Zero Asset Managers initiative (NZAM) and ClimateWise.

Our action at COP26

Issue
In the run-up to COP26, many finance actors were thinking about what their pledges, commitments or role might be to act on climate change. As an investor that has been at the forefront of sustainable finance for several decades, we hoped to see some of the causes that we have supported and been advocating for action on for a long time, taking meaningful steps forward.

At COP26, as well as governments stepping up, finance needed to do so as well. With a thematic ‘finance day’ set aside in the first week for a focus on action from our sector, there was pressure to ensure that what was announced was meaningful. Although promises need to be kept and talk turned into action, finance day felt like a quantum leap forward.

Action
At COP26 Aviva played a prominent role as a leading member of the GFANZ, which brings together 450 financial firms committed to net zero on or before 2050 with science-based interim targets and over USD 130 trillion in assets under management. Aviva CEO Amanda Blanc co-led GFANZ work calling on G20 governments to introduce: economy-wide net zero targets aligned to 1.5°C; the reform of financial regulations to support the net zero transition; the phase-out of fossil fuel subsidies; pricing carbon emissions; mandatory net zero transition plans and climate reporting for public and private enterprises by 2024; and unlocking the trillions in climate finance required to support developing economies to meet the transition to net zero.

Outcome
One of the headline announcements was the initial report of progress made by GFANZ. There are clear parallels between GFANZ and the Glasgow Financial Accord that we advocated for at the start of 2021 to bring together the Race to Zero financial groupings and set out how they would align with the Paris Agreement[20]. We are delighted at its creation and privileged to play a role in taking its work forward.

A second headline moment was the announcement made by the UK Chancellor of the Exchequer, Rishi Sunak, that the UK would be the first net zero financial centre and would require mandatory transition plans from companies and financial institutions. This is something we called for along with WWF in a report earlier in 2021[21].

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

With the world watching, and finance attending and contributing to a COP at scale for the first time, it felt like the industry delivered its statement of intent. The delivery and impact of these commitments remains to be seen. It is now time to turn that talk into systemic action, and quickly. We are ready to play our part.

[20]https://www.avivainvestors.com/content/dam/aviva-investors/main/assets/about/responsible-investment/downloads/responsible-investment-annual-review-2020.pdf
[21]https://www.aviva.com/content/dam/aviva-corporate/documents/sustainability/communities/transition-plans-for-a-net-zero-future.pdf

Seeking the reform of the international financial architecture to tackle climate change

Issue

In the run-up to the UK hosting COP26, attention turned to the progress made towards the achievement of the goals of the Paris Agreement. One of the key questions posed by the Coalition for an International Platform for Climate Finance (IPCF) was how to harness global finance to deliver those aims through a smooth, well-managed and just transition to net zero.

Action

In April 2021, on the fringes of the Biden Climate Summit in Washington, Aviva launched a White Paper setting out proposed reforms to the international regulatory and supervisory architecture that oversees global finance. These include reform of the Organisation for Economic Co-operation and Development (OECD), and the IPCF to act as a climate finance 'bridge' to link financial institutions' investment appetite with the climate investment needs of developing countries, as well as supporting countries in bringing investment opportunities to market through technical assistance to create capital-raising plans to fund their Paris commitments and to structure projects for private investment.

Recommendations were also made for the work of the International Monetary Fund, World Bank, Financial Stability Board, and participation of finance ministers and central bank governors in the Coalition of Finance Ministers for Climate Action and Network for Greening the Financial System respectively.

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

Outcome

Reform of the international financial architecture was a key element of the policy debate at COP26. GFANZ published two documents with considerable alignment to our White Paper. First, the policy advocacy workstream of GFANZ published a Call to Action[22] that included suggestions to take forward proposals for reform of the international financial architecture through the G20 Sustainable Finance Working Group. Second, GFANZ Chair Mark Carney published a paper[23] setting out proposals for a series of country platforms to mobilise finance for developing countries and emerging markets.

[22]https://assets.bbhub.io/company/sites/63/2021/10/GFANZ-call-to-action.pdf
[23]https://assets.bbhub.io/company/sites/63/2021/11/Country-Platforms-Action-Plan.pdf

Seeking corporate action through collaborative engagement

Corporate engagement is another example of action we have taken to yield climate progress. Chapter 4 outlines some examples of this. This additional example touches on the power of collaborative engagement. We encourage our asset managers to further leverage collaborative initiatives, such as Climate Action 100+, to collaborate further.

Issue
Our in-house asset manager has had multi-year sustained engagement with Hon Hai and BP, in which we have equity holdings, on their climate strategy on a bilateral basis, as well as through Climate Action 100+, as a lead co-ordinating investor.

Action
BP's continued responsiveness to feedback and leadership's commitment to meaningfully engage and evolve its approach gave Aviva Investors confidence that it can deliver on its commitments related to the Paris Agreement. Building on its ambitious 2020 net zero pledge and the release of its 2050 strategy roadmap and short-, medium- and long-term targets for operational emissions (Scopes 1 and 2) and energy produced (Scope 3), 2021 has seen the company lower its long-term price assumptions to be 'broadly in line with a range of transition paths consistent with the Paris climate goals', a long-standing engagement request. It has also taken more substantive action to better align executive remuneration with its emissions performance and adopted a more robust policy for engagement with trade associations as part of its updated 'net zero by 2050 or sooner' aims.

A new condition to support the Paris climate accord has led to the termination of membership in three lobby groups this year. Furthermore, BP leads peers in having adopted a commitment to facilitate a just transition in priority areas and to contribute to the anticipated goals of the upcoming UN Biodiversity Convention and ensure that new projects achieve a 'net positive' impact on biodiversity.

In parallel, building on its November 2020 net zero emissions commitment, Aviva Investors continued dialogue with Hon Hai around providing a roadmap on how it will achieve net zero. It discussed setting targets approved by the Science-Based Targets initiative and improving governance of climate change. It also further encouraged Hon Hai to set a 100% renewables commitment.

Outcome
We strongly believe that open dialogue and partnership will be crucial to achieving successful decarbonisation, and we encourage engagement to continue with these companies to learn more about their approach and future plans.

Key issues that will need to be addressed over the next year for BP include: further aligning its energy-marketed carbon intensity metric to achieving net zero emissions by 2050; providing greater clarity over stewardship of its 20% investment in ROSN; outlining a more explicit approach towards responsible asset disposal to ensure consistency with its commitment to the Paris goal; giving further evidence for how its oil and gas pricing assumptions over the period to 2050 would be consistent with a net zero pathway; and to consider providing investors with an annual vote on its energy transition strategy.

Hon Hai has continued to improve its disclosure and governance of climate change. The company's latest corporate social responsibility report, while not fully aligned to TCFD yet, shows significant enhancements to the data and qualitative disclosure. Hon Hai's CDP score has improved significantly, which reflects its improved disclosure and commitments. Aviva Investors will continue to be an active participant of this engagement initiative and will also include Hon Hai's role in decarbonising key industries, for example through its electric vehicle activities.

Moving on from our climate-focused case studies, the remaining three case studies take a more in-depth look at what we believe to be successful examples of our actions taken in 2021 on three other themes to improve the overall functioning of markets and collaborating with others in the industry.

Recognising antimicrobial resistance as a market failure

Given our identification of the pandemic as a systemic risk and the link with mortality risk associated with our products, Aviva reinsures much of the mortality risk arising from our Aviva UK Life protection products and holds capital to cover the risks of a 1-in-200-year pandemic event. Aviva models a range of extreme pandemic scenarios, including repeats of the 1918 global influenza pandemic and COVID-19. Our engagement with companies through Aviva Investors aims to ensure the responsible use of antibiotics to reduce the risk that antimicrobial resistance negates the efficacy of medical treatment. Our case study below demonstrates our action on this in 2021.

Issue

The 'silent pandemic' of antimicrobial resistance is a health crisis with huge potential financial implications. A *Lancet* study estimates that 4.95 million deaths were associated with bacterial antimicrobial resistance in 2019, including 1.27 million deaths directly attributable[24]. The 2019 review on antimicrobial resistance estimated deaths could rise to 10 million per year by 2050[25]. The risks of antimicrobial resistance are not equally spread throughout society or the globe, with the poorest most at risk. Antimicrobial resistance exacerbates existing social crises, including a lack of clean water and sanitation and inadequate infection control, which promote the spread of microbes, some of which can be resistant to antibiotics. This is before access to medicines, increased hospitalisation with longer admissions and increasing treatment costs are considered. The financial impacts of antimicrobial resistance are catastrophic. The O'Neill review in 2014 estimated the continued rise of resistance to cost 2-3.5% of global GDP – a $100-trillion impact. The COVID-19 pandemic has brought into sharp reality the impact a global health crisis can have on economies and the impact on society when infections cannot be controlled.

Action

In 2020, Aviva Investors was proud to be a founder member of the coalition for Investor Action on antimicrobial resistance. Each member makes a pledge of the action they will take to help to tackle the threat of antimicrobial resistance. Aviva Investors pledged to raise awareness on antimicrobial resistance as a market failure and engage with policymakers on antimicrobial resistance funding and regulation to correct this, as well as continuing to highlight its materiality on investments. In 2021, with the UK chairing the G7, Aviva Investors was able to support the work of the UK Special Envoy on Antimicrobial Resistance, Dame Sally Davies, in highlighting the need to tackle antimicrobial resistance – not only in the meetings of the health ministers of the G7, but also by working with the finance ministers to tackle the financial impacts of antimicrobial resistance and seeking corrections of the market failures that exacerbate and perpetuate it. Aviva Investors led the response of the coalition Investor Action on Antimicrobial Resistance, along with convening partner FAIRR.

Outcome

In December 2021, after the last round of finance meetings, the ministers released a G7 statement[26] on actions to support antibiotic development. The statement acknowledged the role market failures play in contributing to the lack of development of new antibiotics and the need for appropriate stewardship of antibiotics to protect their effectiveness. The Investor Action on Antimicrobial Resistance response[27] warmly welcomed the G7's statement and called for ongoing work within the G7 to continue to address antimicrobial resistance and its impacts.

[24] https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(21)02724-0/fulltext
[25] https://amr-review.org/sites/default/files/160525_Final%20paper_with%20cover.pdf
[26] https://www.gov.uk/government/publications/g7-finance-ministers-statement-on-actions-to-support-antibiotic-development
[27] https://amrinvestoraction.org/article/g7-finance-track-investor-action-on-amr-coalition

Addressing systemic racism through corporate engagement and voting

Issue

Inclusion to us refers to the fair and equitable treatment of all – regardless of gender, age, race, disability or sexual orientation. Building on our 2020 work that followed the Black Lives Matter movement, which focused attention on the widespread inequality faced by the black community, in January 2021 our in-house asset manager announced that it would vote against company directors that failed to increase ethnic diversity at board level.

In addition, our expectations for companies with regard to diversity and inclusion includes setting a strategy to increase the number of ethnically and socially diverse employees in senior management, to report against targets and to publish gender and diversity data. An example in 2021 is a shareholder resolution which requested that Union Pacific's board of directors adopt a policy requiring the company disclose on its website its consolidated EEO-1 Report, a comprehensive breakdown of its workforce by race, ethnicity and gender that the company is required to submit annually to the US Equal Employment Opportunity Commission.

Action

This shareholder resolution was deemed sufficiently material to the investment case so Aviva Investors chose to support it, given its consistency with our own views. Union Pacific, in which we have an equity and bond holding, already disclosed some workforce diversity data and has made commitments with regard to improving diversity, but Aviva Investors believed additional disclosure would allow shareholders to better assess the effectiveness of the company's diversity initiatives.

Outcome

The shareholder resolution was approved with 86% of the votes. The company has now disclosed its EEO-1 Reports from the past three years (2018-20), which has enabled better assessment of the effectiveness of the company's diversity initiatives and its management of related risks. This has supported our overall view of the company as having an improving momentum.

Investor collaboration to improve digital rights

Issue
A company's impact on human rights includes digital rights. These are often explained as human rights in online environments. We believe telecommunications companies and digital platforms should have robust and systematic human rights processes in place throughout their operations and value chains. We are strong supporters of the Ranking Digital Rights index, a benchmark that evaluates and ranks digital platforms and telecommunications companies on their disclosed policies and practices affecting users' rights to freedom of expression, information and privacy.

Action
In 2021, Aviva Investors joined forces with 77 other investors on our behalf, representing USD 5.9 trillion in assets under management. The initiative was co-ordinated by the Investor Alliance for Human Rights. The investor group called for telecommunications companies to respect digital rights in an investor statement sent to all 26 companies ranked by the index. In addition to signing the statement, Aviva Investors was an active member of the initiative's engagement programme. In 2021, Aviva Investors led three company engagements and acted as a supporting investor for another 12 companies.

Outcome
Engagement dialogue encouraged the companies to improve on the index ranking. Aviva Investors specifically requested setting up human rights due diligence; aligning reporting to the UN Guiding Principles on Business and Human Rights; enhancing disclosure around government demands and censorship requests; and improving transparency with regard to the handling of user data. The companies were receptive to the requests, with a willingness to demonstrate they are responsible stewards of digital rights. Aviva Investors will be monitoring progress on these issues on our behalf and will continue to raise the Ranking Digital Rights methodology and reporting guidelines with companies that are not currently ranked by the index, but that have salient digital rights.

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 during 2021 and the active role we have played in delivering 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 drive the stewardship maturity outcomes we want to see.

We summarise the key areas we have identified in the order that they appear in our report, where we have ambitions to accelerate activities over 2022 and will hold ourselves to account to demonstrate progress as our stewardship maturity continues to grow.

Team structure and resources
Building on the creation of dedicated roles in Aviva UK Life responsible for stewardship integration in co-ordination with the wider Group, we will further integrate ESG into our existing governance framework, aligned to our philosophy of considering ESG as an integral part of overall investment decision considerations.

Evaluating our training requirements
Having reviewed the effectiveness of our climate modules discussed earlier under firm-wide training, Aviva has plans to reimagine the modules for the year ahead into a Sustainability Academy, covering generic content for all, as well as more role-specific and specialist learning that keeps our customers and ultimate beneficiaries in mind. We will review what additional training specific to Aviva UK Life is needed to supplement this, with consideration of 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.

Improving our climate-related stewardship position in the market
To lift our ranking to 'pioneering', following our 'leading' ranking in a climate change market practice assessment by an external consultancy, we will work closely with the Group to improve our processes to support effective stewardship. This includes developing a bespoke range of proprietary climate scenarios used to identify tail risks and explore potential impacts; all governance decisions to incorporate climate risk as appropriate; and developing market-leading proprietary tools and methodologies which support and shape industry thinking in climate risk identification and measurement, on both risk and alignment.

Communication and client preferences
We will continue to evaluate the range of methods we use to communicate with our customers, including our reporting suite, surveys, and tools such as Tumelo and ESG Profiler. In particular we are looking forward to considering the full set of results from our commitments to carry out targeted research, and a series of webinars in relation to Tumelo to fully evaluate its effectiveness.

In addition, we have committed to enhancing customer- and adviser-facing tools to make ESG choices simpler and easier, aligned with the needs and preferences highlighted in our customer research.

Management, selection and oversight of service providers
Over the next year, we have committed to reviewing our due diligence framework to see if there is anything further we could incorporate in respect of ESG and stewardship considerations as part of our selection, management and oversight of service providers in addition to the 5 P process used for our asset managers.

Enhancing our engagement and voting oversight
In Chapter 4, we signalled that our next voting season review is likely to result in further changes to our voting policy and engagement priorities, anticipating more work to be done on human rights and labour standards. In terms of diversity and inclusion we acknowledge that our work will need to go beyond tackling board diversity, as we need to see meaningful change across organisations. To facilitate this and build on how our engagement and voting focus theme areas are acted upon by our asset managers, we will look at how we increase collaboration on theme-setting.

Appendix

The report should be read in its entirety to obtain the fullest picture of our stewardship activities during 2021. To facilitate navigation, the table below provides links to the sections within the report that demonstrate how Aviva UK Life complies with the 12 Principles of the UK Stewardship Code.

Stewardship Code Principles	Location in the report	Relevant pages
Principle 1: 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 Doug Brown | About our report Chapter 1: Understanding Aviva, our purpose and investment beliefs | A common approach | Our values and culture | Commitment to effective stewardship is at the heart of what we do | The effectiveness of serving our customers and other stakeholders	Pages 2-3 Chapter 1: Pages 5-12
Principle 2: Signatories' governance, resources and incentives support stewardship.	About our report Chapter 2: The group's governance structure | The Aviva ESG Leadership Team | Resourcing stewardship | Incentives and training | Looking ahead | Assessment of effectiveness and looking ahead | Facilitating stewardship through our governance structure Chapter 3: Monitoring asset managers and service providers	Page 3 Chapter 2: Pages 13-28 Chapter 3: Pages 46-52
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	Chapter 2: Managing conflicts	Chapter 2: Pages 25-28
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.	Chapter 5: Collaboration and systemic risks | Identification and actions in 2021 | Assessment of effectiveness | Case studies	Chapter 5: Pages 70-82
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Chapter 2: Review of policies to enable effective stewardship | Updates to our policy in 2021	Chapter 2: Pages 25-28
Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	Chapter 3: How are we invested? | Who are our customers? | Customer reporting | Customer communication and feedback | Our assessment and direction of travel | Monitoring asset managers and service providers	Chapter 3: Pages 29-37 Pages 46-52
Principle 7: Signatories systematically integrate stewardship and investment, including material, environmental, social and governance issues, and climate change, to fulfil their responsibilities.	Chapter 3: An integrated approach to stewardship | How ESG integration can differ for different investment decisions | Sovereign case study | Monitoring asset managers and service providers: case studies Chapter 4: Engagement in 2021	Chapter 3: Pages 38-52 Chapter 4: Pages 53-61

Appendix

Stewardship Code Principles	Location in the report	Relevant pages
Principle 8: Signatories monitor and hold to account managers and/or service providers.	Chapter 3: Monitoring asset managers and service providers | Monitoring asset managers and service providers: case studies	Chapter 3: Pages 46-52
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	Chapter 4: Engagement approach and activity | Engagement in 2021	Chapter 4: Pages 53-61
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	Chapter 5: Collaboration and systemic risks | Identification and actions in 2021 | Case studies	Chapter 5: Pages 70-82
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	Chapter 3: Monitoring asset managers and service providers: case studies Chapter 4: Escalations | Exercising rights and responsibilities: case studies	Chapter 3: Pages 51-52 Chapter 4: Pages 62-69
Principle 12: Signatories actively exercise their rights and responsibilities.	Chapter 3: An integrated approach to stewardship | Tumelo case study | Increasing our sustainability-linked financing agreement with Big Yellow: case study Chapter 4: Exercising rights and responsibilities | Exercising rights and responsibilities: case studies | Decarbonising real estate with sustainability-linked leasing: case study	Chapter 3: Pages 35; 38-45 Chapter 4: Pages 65-69

In addition to the table above, please refer to pages 83 and 84 – Direction of Travel for our forward-looking strategy and a summary of our recognition of our strengths and areas of improvement.

Aviva Life & Pensions UK Limited, Registered in England & Wales No. 3253947. Registered Office: Wellington Row, York, YO90 1WR.