Aviva UK Life Responsible Investment Report 2023

Effective Stewardship

Contents

Introduction

This report was produced in accordance with the principles of the UK Stewardship Code 2020, published by the Financial Reporting Council (FRC). We have set out how we have complied with each principle in the Appendix.

During 2023, Aviva UK Life (UKL) became known as Aviva UK Insurance, Wealth and Retirement (UK IWR).

This report was produced outlining UK IWR's view as an asset owner and is complementary to the asset manager view captured in the report prepared by Aviva Investors. It mostly covers our activities from 1 January 2023 to 31 December 2023.

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 Chief Investment Office 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 Insurance, Wealth and Retirement' and 'UK IWR' 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 (UKLAP). Where deemed necessary, we will make the distinction between Aviva UK IWR, Aviva Investors (the Aviva asset manager) and Aviva Group, but in other instances we will simply use 'Aviva'. References to IWR mean the UK including Ireland business.

This report should be read in conjunction with the Cautionary statements.

CEO and CIO Forewords

As a company of scale offering a range of products and services, Aviva UK Insurance, Wealth & Retirement (IWR) plays a crucial role in the various stages of our customers' lives. Our size and unique market position also means we occupy an important role in the UK's wider economic system. We recognise the importance of our decisions and take our responsibility seriously by focusing on stewardship and sustainability.

Doug Brown
CEO of Insurance, Wealth & Retirement

We want to continue to help our customers protect themselves and their families by delivering good outcomes that provide them with greater financial resilience.

As part of our commitment to being a customer-centric, long-term, responsible provider, we offer customers access to sustainability tools and resources. And we provide access to platforms that allow them to invest their pensions and wealth flexibly into products that align with their values. Our efforts to innovate and provide the best solutions for our customers, partners and clients across Insurance, Wealth and Retirement have been recognised via a number of awards we have won over the past year.

We are proud of the progress we have achieved and endeavour to continue innovating. This report outlines the activities we have taken throughout 2023 as responsible asset owners.

Our customers, and the stability of the wider economy, depend on us, and we are determined to live up to our commitments.

Stewardship lies at the heart of who we are as an organisation. We take pride in acting in the best interests of our customers, clients, and shareholders and we hold ourselves accountable for offering them the best products and services.

Ashish Dafria
Chief Investment Officer

We welcome the FRC's definition of stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries. This should lead to sustainable benefits for the economy, the environment and society. In 2023, we made progress on each of these tenets as well as our ambitions.

On capital allocation, we enhanced our workplace default fund, allocating to a more sustainable cash fund. During the year, we managed our capital by reviewing the Strategic Asset Allocation (SAA) for our multi-asset funds, taking our sustainability and decarbonisation ambitions into consideration. We reframed the oversight processes to better ensure our asset managers integrate sustainability. An example of this in practice is the enhancement of sustainability considerations in deal approval and decision-making processes of our shareholder investments. Additionally, we continue our macro-stewardship efforts by working with other financial institutions in various tracks in the Net Zero Asset Owners Alliance (NZAOA).

We work closely with our colleagues across Aviva, to make progress towards our sustainability ambitions. We are also supported by our affiliates, external managers and other strategic partners, working towards a common vision for the future and the investment best practices required to get there.

Although we are proud of our heritage and strong current practices in the sustainability area, we still believe that we, as well as the asset-owner community, need to make further progress to integrate sustainability into more of our investments, in preparation for a low-carbon world.

This report shares an update on the progress we have made on stewardship over 2023 and the direction of travel for our future aims.

Highlights

Responsible investment is at the heart of what we do, with the consideration and management of sustainability risks and opportunities embedded in our investment beliefs, decision-making and outcomes

Low carbon solutions

Increased our allocation to carbon optimised solutions[1] so that most of the index strategies managed in-house now utilise the solution.

See page 34 for more information

Sustainable assets

As at the end of 2023, we had invested £9.3 billion in sustainable assets, of which £4.7 billion are green assets, £3.2 billion are sustainability and social assets and £1.4 billion are climate transition funds.

See page 7 for more information

Carbon intensity reduction

Achieved a 57% reduction in Scope 1 and Scope 2 weighted carbon intensity by revenue across listed equity and corporate bonds in shareholder and with profit funds, from a 2019 baseline

See page 9 for more information

Climate engagement escalation programme (CEEP)

As of the end of 2023, over 300 engagements have been undertaken across the CEEP focus group, spanning one-on-one meetings, conference calls, and participation in external initiatives, industry events and workshops.

See page 60 for more information

Baseline Exclusion Policy

Expanded the scope of our exclusion policy to apply to our core passive offerings. This was achieved through the development of customised benchmarks

See page 14 for more information

My Future default enhancements

Switched to a more sustainable cash fund and increased our allocation to funds integrating sustainability metrics and carbon optimisation within My Future

See page 34 for more information

1. ESG optimised solutions are those that are optimised for a stronger ESG score and a lower carbon intensity than the underlying markets they are tracking.

Chapter 1: Aviva IWR on a page

Aviva IWR is a significant part of the Aviva Group delivering products across Insurance, Wealth and Retirement, with over 11 million customers in the UK and Ireland.

Our purpose is to be with you today for a better tomorrow

For IWR this means we're there to protect the things that matter most to our customers: their health and wealth, their future and their families. UK Insurance, Wealth and Retirement (IWR) is a significant part of the Aviva group.

To live up to that purpose, we have an ambition to be:

The leading UK provider and go-to customer brand for all insurance, wealth and retirement solutions, with a major business in Ireland

We have a clear strategy to achieve this vision based on four pillars:

Growth
Accelerating growth in capital-light businesses

Customer
Digitally-led customer experience and serving more needs

Efficiency
Top quartile efficiency, synergies from our model and technology at the core

Sustainability
Committed to social action, climate action and being a sustainable business

Read more on our strategy

We are guided by our values:

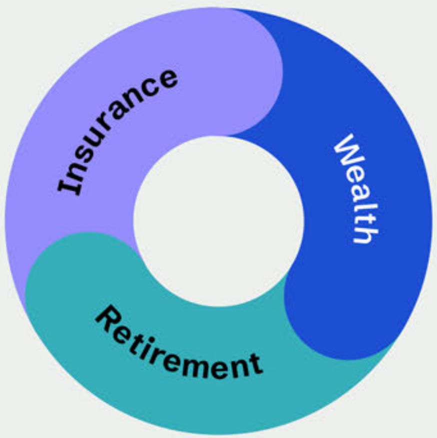
Commitment
We understand the impact we have on the world and take the responsibility that comes with it seriously

Care
We care deeply about the positive difference we can make in our customers' lives

Community
We recognise the strength that comes from working as one team, built on trust and respect

Confidence
We believe the best is yet to come for our customers, our people, and society

Offering customers a range of products and services across:



UK IWR

Our purpose is to support our 11 million customers with a long-term income, protecting themselves, their families and building their communities. We are with you today, for a better tomorrow.

Aviva is the largest life insurer in the UK, holding a 23% share[1] of the UK market. We are in a unique position to meet our customers' needs through various stages of their lives, with products spanning insurance (protection and health), wealth and retirement (annuities and equity release).

We have strengthened our capabilities to provide customers with advice, supporting them to save for their future and connecting our propositions to better coordinate our offerings to clients. The trust our customers have in us is important and in 2023, c. 42%[2] of IWR sales were made to existing customers.

We are also focused on innovating to meet the changing needs of our customers, partners, intermediaries and corporate clients, whilst developing our digital journeys and automating our processes to drive efficiencies.

We have demonstrated resilience and financial strength during challenging market conditions and economic volatility. We are well capitalised and the diversified nature of the IWR business and wider Aviva Group gives us a significant advantage.

1. Association of British Insurers (ABI) - 9 months to 30 September 2023 based on share of new business
2. Calculated by dividing the number of policies sold to existing customers by the total number of policies sold. The measure includes sales in Direct, Corporate Partner and Intermediary sales channels.

Our values and culture

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 clearly defined 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, from having the confidence to shape Aviva for today and tomorrow, to showing the commitment to deliver on our promises, to 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.

UK IWR's culture is aligned with Aviva Group's culture. 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.

The Culture Diagnostic

The six dimensions used to assess Aviva's culture reflect regulatory expectations and frame discussion with the Group Executive Committee and Board on how we measure and monitor our culture.

Data sources

The data used to inform the analysis against the six dimensions is based on three key sources:

- Colleague perspectives on, and experiences of, our culture captured in Voice of Aviva.
- Colleague behaviours across the employee lifecycle captured via HR data (such as senior leadership diversity, absence rates etc.).
- Colleague and customer metrics and feedback on their experiences of Aviva's service.

Leadership & direction

Leadership and tone from the top has the greatest influence on the culture of an organisation.

Accountability

Accountability is a critical driver of colleague performance metrics – higher accountability tends to drive better productivity and lower absence.

Safe to speak up

A culture where it is safe to speak up enables colleagues to feel they can ask questions and raise issues without worrying about the consequences.

Values

Values are drivers of habitual behaviours and mindsets that characterise an organisation, and impact customer and colleague experience.

Diversity of thinking

Where a culture of diverse thinking exists, customers feel we are better able to meet their needs and there are higher levels of innovation and organisational agility.

Customer focus

A culture where the customer is front of mind and colleagues feel able to challenge decisions and quickly resolve customer issues.

Our sustainability ambition

Social Action

For over 300 years Aviva has played a part in the lives of our customers, forming long-standing connections with communities.

Whether it's helping people prepare for retirement, protect their belongings or look after their health, we help customers look forward with financial confidence. We want to play a part in making more people financially secure.

Investing for the future benefits our customers, and the communities we operate in. The scale of our investments gives us ability to invest in community infrastructure – everything from the regeneration of towns and cities and social housing through to investment in green energy.

Sustainable Business

We are embedding sustainability into our leadership decisions and day-to-day business activities. We have clear policies and a robust governance structure in place to ensure high standards across fundamental issues of diversity, equity and inclusion, wellbeing, upholding human rights, business ethics, responsible use of data and we ask the same of our supply chain.

Climate Action

Climate change represents one of our planet's biggest risks. The ways in which the insurance sector could be affected by the climate crisis are diverse and are interconnected with other sustainability issues. So we're taking an active role in tackling it.

As a major investor and underwriter we can help to enable the transition to a low-carbon future.

As we move towards our ambition to become Net Zero by 2040 we continue to reduce the impact of Aviva's operations. We're also helping communities start to become more climate-ready by offering our customers some choices in terms of climate-friendly products, influencing our suppliers and the companies we invest in, helping the broader transition to a more climate resilient economy, and being part of shaping a response to the twin crises of climate breakdown and biodiversity.

We set out our ambition in March 2021. At the time, and indeed today, the pathways to Net Zero were not well understood. Furthermore, government action on policy and development of new technologies were and still remain of fundamental importance to create the conditions for success.

Without good progress on these issues, achieving our climate ambitions will become increasingly challenging. We recognise that while we have control over Aviva's operations and influence on its supply chain, when it comes to decarbonising the economy in which we operate and invest, Aviva is one part of a far larger global ecosystem.

We have learnt a lot, and the complexities and challenges are coming into sharper focus. There remain difficulties over measurement and data reliability, in particular the emissions from Aviva's investments and underwriting captured as part of Scope 3 reporting which is not an area where we can achieve our goals in isolation.

There are also limits to our ability to influence other organisations and governments. Nevertheless we remain focused on the task and are committed to playing our part in the collective effort to enable the global transition.

Progress across our ambition

Aviva's highlights in 2023 include developing a new focused approach to help to deliver social action in the communities where we live and work across the UK. We became the Founding Place Partner with Business In The Community (BITC) and will support BITC's ambition to help transform 50 places in the UK over the next ten years, working collaboratively with other businesses towards a shared aim.

We contribute annually to community investment across a variety of programmes aimed at helping people in the communities where we live and work. In 2023 the amount we contributed to this work was £32.5 million.

From investments in offshore windfarms to sustainability linked loans for real estate, we are investing in projects that provide benefits to society and helping the UK to get ready for the future. As at the end of 2023, UK IWR had invested £9.3 billion in sustainable assets, of which £4.7 billion are green assets, £3.2 billion are sustainability and social assets and £1.4 billion are climate transition funds.

Aviva has pledged £87 million to nature based solutions projects. These projects will run for between 17 and 60 years, working to capture carbon, contributing towards flood resilience and helping to restore natural habitats.

During 2023 we achieved 100% renewable electricity for Aviva's operations.

Social action

We aim to help build stronger communities

Helping customers and communities

We are focused on helping people get ready for climate, financial and health shocks. This is not only through the 14% of the UK adult population who save or retire with Aviva but also in other ways such as the support we give to customers who may be struggling to pay their premiums.

Our customers and communities faced significant challenges in 2023, such as the cost of living crisis, so we have focused community investment on helping households build their financial resilience. In addition, we continue to offer customers the flexibility to reduce their cover and monthly payments through our payment-deferral.

Community Investment

As part of our focus upon building stronger communities we contribute an average of 2% of our Group adjusted operating profit to community investment. In 2023 the amount we contributed to communities was £32.5 million which represented 2.2% of Aviva's adjusted operating profit.

In 2023 over 800,000 people have benefitted from our community investment programmes across the UK, Ireland and Canada.

Our Aviva Community Fund has formed a key part of our approach since it was launched in 2015. In 2023 the Fund helped 531 inspirational community projects across the UK raise £7 million. This was made up of match-funding donations of £2.7 million from Aviva in addition to partner donations and crowdfunding.

Citizens Advice

In 2022, during the UK cost of living crisis, Aviva partnered with Citizens Advice. We've contributed £7 million to help deliver vital front line services that are seeing unprecedented levels of demand.

During 2023 our partnership has:

- Delivered support to 31 offices, funded 50 telephone based advisors and digital services
- Identified £1.2 million of additional income for individuals - including over £800,000 in new benefit claims
- Supported 14,000 people with 26,000 complex issues

Aviva Foundation

Aviva's independent charity provided £1.1 million of funding focused on building financial resilience for underserved groups.

In 2023 the Foundation:

- Supported neurodiverse people and their families via a hub giving resources and tools to help develop financial skills
- Helped Moneyline deliver financial services to some of the lowest income households in the UK
- Worked with the Living Wage Foundation to tackle in-work poverty

We learn from this work to help us consider how we can serve our customers better, particularly our vulnerable customers.

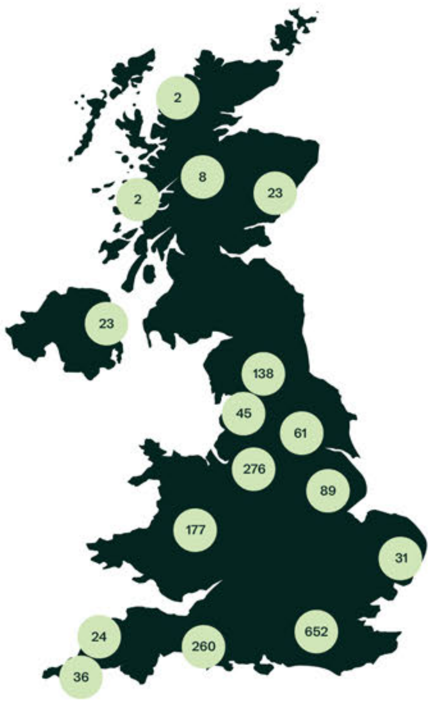
Social action through volunteering

All Aviva colleagues can take three days volunteering leave every year - helping to engage our people with our purpose to be 'with you today for a better tomorrow'.

In 2023 our Aviva-wide colleagues volunteered for 87,599 hours, more than double the hours in 2022. A total of 159,863 hours between 2020 and 2023, moving us closer to our goal of delivering 300,000 hours of volunteering between 2020 and 2025.

Discover thousands of the amazing causes we've supported on the interactive Aviva Community Fund map

Aviva Community Fund Map
An **interactive map** enabling exploration of some of the projects supported by Aviva Community Fund across the UK.



Climate action

The ways the insurance industry will be affected by the climate crisis are diverse and are interconnected with other sustainability issues

Our strategic response focuses on the transition, physical and litigation risks and opportunities as they relate to our work as an asset manager, asset owner, savings and pensions provider, and for our insurance business. We seek to minimise our exposure to the downside risks arising from the transition to a low-carbon future (e.g. new climate policies) and physical effects of climate change (e.g. flood, windstorms and heavy precipitation).

We also consider the impact of global geopolitical environment on both current and emerging risks for the potential second and third order impacts, for example the impact of climate policies on the global supply chain.

We assess and manage climate risks and opportunities over short, medium and long-term time horizons. Climate change and the risks associated with it are core to a business like Aviva.

We aim to protect and restore nature and understand the climate change and nature impacts on our investments and underwriting.

In 2022, Aviva became the first international composite insurer to have carbon-reduction goals validated by the Science Based Targets initiative (SBTi).

Towards this journey, we have near term ambitions to reduce emissions:

- We have five validated SBTi targets: to reduce Aviva's Scope 1 and Scope 2 operational emissions by 90% from a 2019 baseline by end of 2030; to have 70% of our suppliers by spend covering purchased goods and services setting SBTi validated targets by 2025; to have 33% of our corporate equity, bonds and loans portfolio by invested value setting SBTi validated targets by the end of 2025; to reduce our real estate investment portfolio GHG emissions 57% per share metre within our real estate by 2030 from a 2019 baseline; and to continue providing electricity generation project finance for only renewable electricity until the end of 2030.
- Aside from our SBTi targets, we have an ambition to reduce carbon intensity by 25% for listed credit and equities in shareholder and with profit funds by 2025 from a 2019 baseline. We are also aiming to reduce the carbon intensity of Aviva's Scope 3, category 15 investments (across a range of funds and asset classes for shareholder and customer assets) by 60% by 2030 from a 2019 baseline.

We recognise that while we have control over Aviva's operations and influence on its supply chain, when it comes to decarbonising the economy in which we operate and invest and the risks we underwrite, Aviva is one part of a far larger global ecosystem.

As the wider society make choices towards their own Net Zero journey, this could impact business models and decarbonisation cos t.

As such we depend on governments and regulators working together to create the right conditions for success. That's why we aim to use our influence to advocate for systemic changes to the international financial architecture, collaborating across industry through partnership and alliances.

We are also grappling with the challenge of understanding and measuring Scope 3 emissions, in other words the emissions arising from the value chain of our customers, investees and suppliers.

There are continued challenges towards measurement of Scope 3 emissions and associated complexity, due to limited and unsophisticated data and methodologies. This includes the risk of significant double counting if multiple organisations are reporting on the same emissions. We want to target emissions which we can reliably measure.

Sustainable business

We act to embed sustainability into the way we run our business

Sustainability governance

We have a clear and robust governance structure in place. Aviva's Sustainability Ambition Steering Committee drives and monitors the delivery of our plan - with delegated authority from the Group Executive Committee. A Sustainability function reports to Stephen Doherty, Chief Brand and Corporate Affairs Officer who chairs the steering committee and is the Aviva senior executive responsible for sustainability. The team provides expertise to enable delivery and coordination of local activity across Aviva's businesses. Crucially, there is clear individual executive accountability for all sustainability KPIs. Sustainability factors are included in senior executive long-term incentive plans.

Our progress and key performance metrics are reviewed regularly and overseen by the Customer & Sustainability Committee.

Please see Chapter 2 for more information.

Our support for human rights

We are committed to respecting human rights and we continue to pursue our anti-modern slavery agenda both within our operations and supply chain, and through our partnerships.

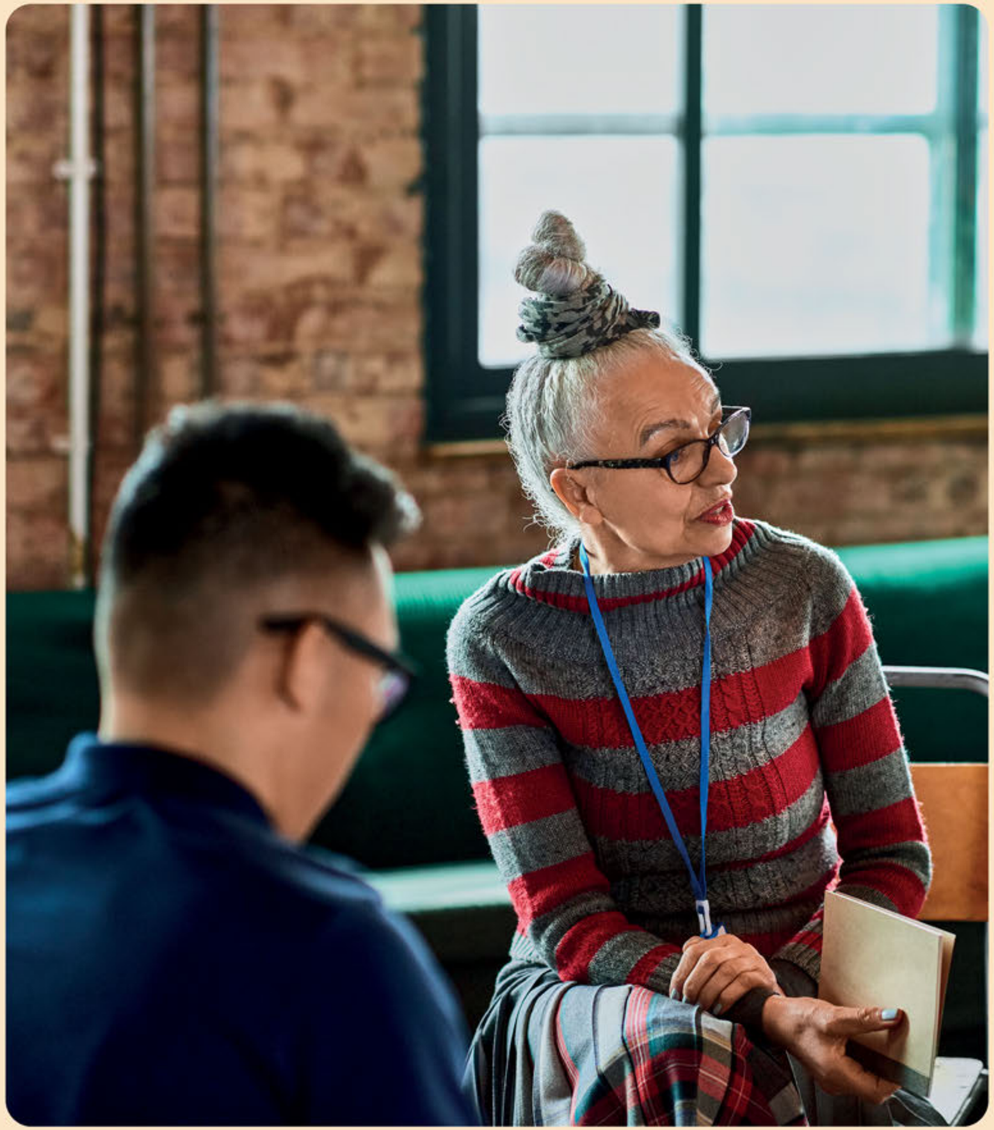
We continue to work across sectors to encourage business action and disclosure on Human Rights and Modern Slavery.

Our modern slavery statement, as well as our Human Rights Policy and the Aviva Business Ethics Code 2021, can all be found on **www.aviva.com**.

Diversity, Equity and Inclusion in UK IWR

We are determined to keep challenging ourselves to build a workforce that can deliver the best outcomes for our diverse customer base, and to attract and keep the best talent to help us deliver our strategy.

We have internal diversity, equity and inclusion targets which are included in our Executive Long Term Incentive plan.



Our strategy

Our ambition is to be the leading UK provider and go-to customer brand for all insurance, wealth and retirement solutions

Our diversified model means we are well placed to capitalise on the structural growth opportunities in our markets. For example one in four people who reach 65+ in the UK are expected to live to at least 90 years old. Our businesses are of high quality, with strong positions across all our segments. Our diversified model drives our competitive advantage. It allows us to serve customers across the full range of their needs, building lifetime relationships. On top of this, we can deploy our leading brand across multiple segments. This model provides us with synergies between our business lines and a common approach to stewardship activities, with centres of excellence across the Group joined by a shared ambition.

We focus on climate action, building stronger communities and running ourselves as a sustainable business

We have an ambition to be Net Zero by 2040. Our current approach is:

Reducing carbon emissions
Aviva is seeking to reduce the carbon emissions in its operations, across supply chain, and through investments and insurance underwriting propositions

Protecting and restoring biodiversity
Seeking to protect and enhance biodiversity through nature-based solutions

Understanding the impact of investments
Aviva continues to develop and enhance a range of materials to help people understand environmental issues and opportunities in respect of investments

We provide diversity across markets, products and services, which gives us strong and lasting relationships with customers, as well as material capital benefits and cost efficiency. This common approach enables us to collaborate on research, innovation and broader sustainability ambitions.

How we are addressing the climate challenges in the short term based on our current understanding:

Reducing operational emissions
We are moving at pace to reduce Aviva's operational emissions that we directly control

Influencing supply chain
We are working with our suppliers to promote Science-Based Targets (SBTs) and our target is to achieve this with 70% of Aviva's supplier by spend by end of 2025

Providing financing for renewables
Where possible, we aim to provide electricity generation project finance for renewable electricity

Working with investee companies
We are aiming for 33% of our corporate equity, bonds and loan portfolio to have SBTs by end of 2025

Reducing the carbon intensity of investments
We are aiming for a 25% reduction in the intensity of real estate and equity and corporate bonds portfolio emissions for Scope 1 and Scope 2 by 2025 (31 December 2024) from a 2019 baseline

Our strategy

We believe our approach allows us to integrate sustainability and stewardship seamlessly, while not inhibiting constructive challenge between asset owner and asset manager, holding each other to account where needed to further our stewardship priorities. We practice active ownership across the asset classes in which we invest, including exercising our shareholder right to vote, collaborating with our corporate counterparties. We explore this further in the description of our governance structure in Chapter 2, as well as how we apply this same approach to our other asset managers in Chapter 3.

2024 Priorities

2023 was a strong year for the UK IWR business. We have continued to deliver for our customers, resulting in a strong performance in the face of market turbulence. We are transforming to become more customer-centric and to future-proof our operating model. We remain committed to deliver on our ambitions across climate, social action and business sustainability.

Delivering good outcomes and experience for our customers is a priority and a thread through all of our strategic ambitions. With a complimentary portfolio, we continue to make further progress towards making our business capital-light and our key priorities for 2024 are as follows:

- We are leveraging the unique breadth of the Aviva Group to best meet the needs of our customers and clients in a compelling, cohesive way.
- Continuing to develop customer-centric propositions and innovation for our customers, partners and clients across Insurance, Wealth and Retirement.
- Drive further efficiency through automation and digitisation, and simplifying our business to better serve and engage our customers.
- Strengthen our propositions by modernising our IT infrastructure with a focus on Health and Individual Annuities to fully leverage market opportunities.
- Establish Aviva's leadership in the Wealth market, with a focus on our Direct Wealth proposition and advice capabilities. In the UK, the wealth market has a unique set of structural growth drivers, in particular the shift from defined-benefit into defined-contribution (DB to DC) and the introduction of auto-enrolment. Customers' need for support and guidance is also evolving, with advances in technology enabling new digital guidance & advice solutions to start closing some of the "advice gap".
- Continue to optimise capital and pricing within our BPA business and assess value-adding opportunities. As the nature of retirement changes, the need to develop non-traditional and flexible retirement products and services and guide customers through their options will grow.
- Continue to integrate AIG's UK protection business into our Individual and Group Protection business lines (following the acquisition, continuing to demonstrate our commitment to the market and customers
- Deliver good outcomes and experience for our customers is a priority and a thread through all of our strategic ambitions.

Our principles and investment beliefs

We are primarily long-term investors. Taking a long-term approach is one of our core investment beliefs

We also believe that sustainability factors are material sources of both investment risk and out-performance opportunities for customers and shareholders. Therefore, integration and alignment of sustainability throughout the investment process is essential.

Our Responsible Investment Policy governs our approach to investing. We classify responsible investment according to the United Nations Principles for Responsible Investment (UN PRI) definition as "investing that incorporates environmental, social and governance factors into investment decisions, to better manage risk and generate sustainability long-term returns." We believe that our 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. 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 considerations 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 considerations, and to identify default investment solutions for our customers which reflect our stewardship beliefs.

For examples of how our investment beliefs have guided our stewardship, investment strategy and decision-making, please refer to the Highlights on page 3 and to Chapter 3.

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

Sustainability 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.

Focused engagement is more effective in seeking to initiate change than divesting; however, it is appropriate to exclude companies from investment mandates who are engaged in activities that inherently contradict sustainability considerations and are not actively progressing business change to remedy this.

We (through our asset managers) should actively exert influence over the companies we invest in to improve their sustainability performance.

We should apply a minimum level of responsible investment criteria on all managed investment products we offer, primarily through our exclusion policy.

We believe it is appropriate, where viable, to support customer choice by providing a range of funds with different degrees of responsible investment criteria.

It is important investors receive full and clear disclosure of the responsible investment positioning and performance of the funds they invest in.

Our Baseline Exclusion Policy

We believe it is generally more effective to use our influence to drive change rather than divest and walk away. However, there are specific sectors and economic activities where we consider the sustainability risks to the climate, planet and people are so severe that providing equity and debt funding is fundamentally misaligned with our responsible investment philosophy and corporate values. In these cases, we actively exclude companies and industries from our investment universe. As such, we published the Aviva-wide Baseline Exclusion Policy in 2022 that provides a consistent approach across our investments. In 2023 we expanded the scope of our exclusion policy to apply to our core passive offerings. This was achieved through the development of customised benchmarks with the index provider FTSE Russell, with the transition to the new benchmarks completed towards the end of 2023. Aviva is committed to investing in the UK defence sector. This exclusion policy has not impacted our investments in major UK defence companies which are involved in the legitimate defence of the nation. The policy prohibits investment in companies with activity exceeding the thresholds below

1. Maximum estimated percentage of issuer's derived revenue.
2. Retain discretion to additionally exclude companies supplying nuclear weapons state programmes within the NPT, if Aviva Investors considers the state to have undermined non-proliferation arms control treaties.

Activity	Description	Revenue Threshold[1]
Arctic oil	Companies that derive revenue from the production of Arctic Oil.	≥ 10%
Civilian firearms	Companies that manufacture firearms and small arms ammunitions for civilian markets. Excludes products exclusively sold for the military, government, and law enforcement markets.	≥ 5%
Cluster munitions and landmines	Companies involved in, among others, development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of Cluster Munitions and Landmines.	0%
Nuclear weapons	Companies involved in, among others, development, production, use, maintenance, offering for sale, distribution, import or export, storage or transportation of nuclear weapons, where this supplies nuclear states outside of the UN Treaty on Non-Proliferation of Nuclear Weapons[2].	0%
Biological and chemical weapons	Companies that manufacture chemical or biological weapons and related systems and components.	0%
Depleted uranium	Companies involved in the production of depleted uranium (DU) weapons, ammunition and armour, including companies that manufacture armour piercing, fin stabilised, discarding sabot tracing rounds (APFSDS-T); Kinetic Energy Missiles made with DU penetrators; and DU-enhanced armour, including composite tank armour	0%
Incendiary (white phosphorous)	Companies that manufacture incendiary weapons using white phosphorus.	0%
Laser blinding weapons	Companies that manufacture weapons utilising laser technology that causes permanent blindness to the target.	0%
Non-detectable fragments	Companies that manufacture weapons that use non-detectable fragments to inflict injury to targets.	0%
Oil sands	Companies that derive revenue from oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include revenue from non-extraction activities (e.g. exploration, surveying, processing, refining), ownership of oil sands reserves with no associated extraction revenues, or revenue from intra-company sales.	≥ 10%
Thermal coal	Companies that derive revenue from mining or extraction of Thermal Coal and/or its sale to external parties or Thermal Coal-based power generation.	≥ 5%
Tobacco producer	Companies that manufacture Tobacco Products.	0%
Tobacco retailer or distributor	Companies that distribute and retail Tobacco Products. This exclusion does not include a manufacturer that distributes its own Tobacco products unless it also provides logistics or distribution services to other tobacco companies.	≥ 25%
UN Global Compact	Companies that are not considered by Aviva Investors to meet the standards of the UN Global Compact based on MSCI data. The overall analysis will be informed by MSCI data, but such exclusions are determined by the Investment Manager in its discretion rather than by reliance on third-party analysis.	

Our stakeholders

Aviva recognises that stakeholders have diverse interests and that these interests need to be heard

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 investing responsibly to build a sustainable society they want to retire into.

We believe that by using the three pillars of our Sustainability Ambition – Social Action, Climate Action 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.

In Chapter 3, we outline how we communicate with our clients to ensure that the outcomes we aspire to are aligned with their ambitions. We have included a range of case studies and examples, alongside reflections on the challenges we face and our plans to try to address them.

Chapter 2: Governance and organisation of stewardship

Facilitating effective stewardship governance

The delivery of effective stewardship requires the advocacy and sponsorship of senior leadership, sufficient resourcing and oversight to make sure we deliver on our ambitions. The following section focuses on the approach we take to govern stewardship and highlights the enhancements we have made to build on our in-house capabilities. We are committed to continually improving our oversight and assurance across all our stewardship activities.

The Group's governance structure

Sustainability is one of Aviva's four key strategic priorities. As part of both our strategic decisions and day-to-day business activities, issues or opportunities relating to sustainability remain a core consideration. We continue to have a strong system of sustainability governance, with effective and robust controls in place which recognise the nature, scale and complexity of operations across Aviva Group.

We work to embed stewardship activities across the business, collaborating with our colleagues at Aviva Investors in their capacity as asset managers, and with the wider Group more broadly. Figure 1 outlines our Group corporate governance structure, which facilitates this collaboration and enables all parts of the Group to work towards a common stewardship ambition.

Aviva's governance framework is based on the 2018 UK Corporate Governance Code, given that Aviva is a UK Premium Listed Company.

We believe that by applying these principles we set the same standards for ourselves as we expect from others. Our Group Sustainability Team, which reports to the Aviva Executive Committee, is key in delivering against these principles. The team ensures the business focuses on material issues such as climate change, human rights and modern slavery, and financial and community resilience. It also co-ordinates local action across the markets in which Aviva operates. As such, it actions strategies and programmes on the identified issues with the support of senior leadership.

Figure 1: Sustainability-specific governance

Aviva plc Board
Collectively responsible for promoting the long-term sustainable success of the Company. This includes setting the Group's strategic priorities, one of which being sustainability, and setting the Group's risk appetite, which includes climate-related risk.

Audit Committee
Assists the Board to review the principle climate-related disclosures made in Annual Report and Accounts and Climate-related Financial Disclosure report, consider the significant inherent challenges in the measurement of climate emissions and ensure the disclosures of these challenges are addressed and given appropriate priority.

Risk Committee
Assists the Board in its oversight of risks, including climate-related risks by assessing the effectiveness of our risk management framework, risk strategy, risk appetite and profile.

Customer and Sustainability Committee
Assists the Board in its oversight of Aviva's Sustainability Ambition by evaluating progress on the priorities and objectives across Aviva's Sustainability Ambition, including our nature and biodiversity policy, climate transition plan and our overall contribution to, impact on, and role in society in the countries we operate.

Remuneration Committee
Assists the Board in its oversight of Board and executive succession; talent development; and diversity and inclusion initiatives.

Drives and monitors performance through the Aviva Sustainability Ambition scorecard and metrics.

Governance and organisation of stewardship

In 2023, the Aviva plc Board reviewed and approved the 2024-2026 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 change risk appetite.

The Customer and Sustainability Committee reports directly to the Board. There is a clear mapping of responsibilities related to sustainability and climate change between the Customer and Sustainability Committee, the Audit Committee and the Risk Committee.

In 2023, the Aviva Sustainability Ambition Steering Committee continued to operate as the executive-level forum for sustainability challenges and opportunities, with representation from leadership across the business units and Group.

The Aviva ESG Investment Leadership Team

The Aviva ESG Investment Leadership Team (ESG ILT), which is chaired by the Aviva Investors Chief Executive Officer (CEO), with the UK IWR Chief Investment Officer (CIO) and other senior management as members, was established to co-ordinate Aviva's approach to sustainable investing. This includes how sustainability considerations are integrated into investment processes across Aviva, the approval of sustainable investment policies, and the monitoring of stewardship activities. The ESG ILT is also tasked with monitoring sustainability developments in the market to ensure Aviva's sustainable investment practices remain appropriate and associated risks and opportunities for the brand are robustly managed. The ESG ILT members present recommendations to the Group Executive Committee and Aviva plc Board, plus business unit boards, on sustainable investment policies and practices.

Alongside this, various working groups and steering committees are dedicated to actioning our climate transition plan and the wider sustainable investment agenda. Many of these are joint groups across different parts of Aviva.

Governance and organisation of stewardship

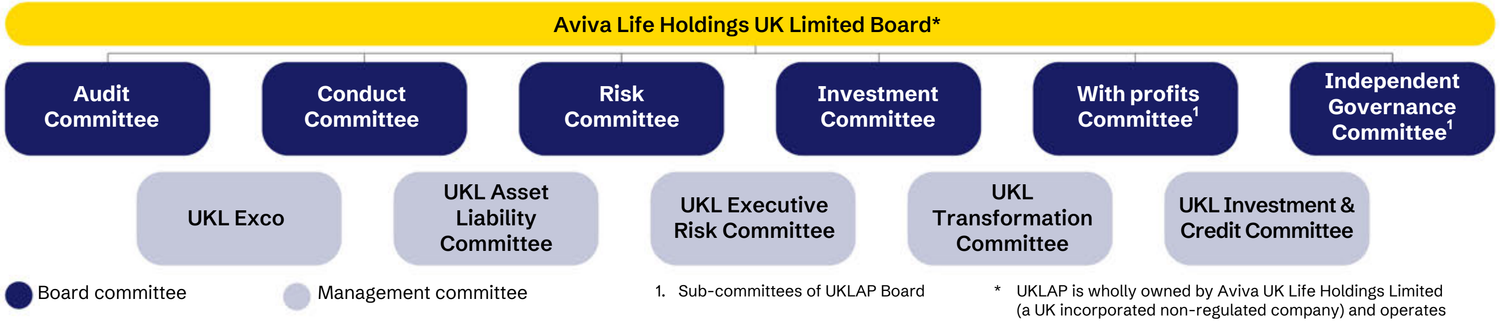
UK IWR governance structure

In addition to the overarching structure at the Group level, UK IWR has its own complementary governance structure which enables sustainability matters to be integrated into our day-to-day business activities. Oversight of the relationship between UK IWR and its investment managers (including Aviva Investors) is covered by our governance structure, so that matters such as responsible investment, voting rights and management of climate risks are closely monitored. The UK Life Holdings (UKLH) Board reports to the Aviva plc Board described in Figure 1. The UKLH governance structure consists of board, executive and senior management responsibilities as described in Figure 2.

Sustainability considerations are a standing agenda item on the UKLH Board Investment Committee, as part of the CIO's regular update to the committee to ensure they are kept up to date with current actions and future plans. We conduct strategic reviews of our management of climate risk across our portfolios and the integration of sustainability within our investment strategies, alongside regular 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 including sustainability, we have established a governance structure which ensures effective and efficient decision-making. We explore a selection of these committees in further detail in Figure 3 and the role they play in embedding sustainability into the way we operate as a business.

Figure 2: Aviva UKLH governance structure



1. Sub-committees of UKLAP Board

* UKLAP is wholly owned by Aviva UK Life Holdings Limited (a UK incorporated non-regulated company) and operates jointly as a Board and Board Committees

Figure 3: Insights into a selection of Aviva UKLH and UK IWR committees

	Committee	Chair	Key sustainability function
Board	Investment Committee	Non Exec	Responsible for assessing and approving sustainable investment strategy and policy consistent with UKLH board-approved investment beliefs and risk appetite; considering investment matters that require Aviva plc Board, Group management or UKLH Board approval; overseeing the relationship between UK IWR and its investment managers and custodians, monitoring investment performance; and monitoring our investment management functions. **Sustainable investment strategy, including 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 sustainability-related activity and broader investment matters, escalating any concerns to the UKLH 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 sustainable 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	CFO	In addition to monitoring the balance sheet and financial risk, the committee makes decisions to support the CFO in exercising their delegated authority. This ensures optimisation of opportunities and makes best use of capital across the UK IWR 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 sustainability-related risks and opportunities. It also makes recommendations to the Board or Board sub-committees.
Executive	Investment & Credit Committee	CIO	A committee to support the CIO in managing and overseeing UK IWR'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	CIO	A senior management committee was created to review and approve off-market investment transactions impacting on the shareholder funds where investment discretion is not passed to our asset managers. The committee reviews individual investment recommendations from our investment managers, including sustainability considerations as a mandatory part of the investment analysis and recommendation.

Governance and organisation of stewardship

A number of sustainability-related papers go through the UK IWR governance forums for noting, approval or discussion. The papers vary from standing management information and updates (for example on our progress against our sustainability ambition) to specific requests for approval.

Decisions are taken in line with the delegated authority framework, and the committees that they are presented at are driven by the decision-making authority of individuals. In most cases, these proposals are submitted to the UKL Investment & Credit Committee in the first instance and then, subject to the UK IWR delegated authority framework, may be taken right up to the Board Investment Committee for final approval. Many of the proposals that are strategic or technical in nature will also be considered with the ESG ILT.

The UK IWR 2024-2026 Business Plan continues to incorporate sustainability metrics to allow management to effectively oversee the delivery of UK IWR's Sustainability Ambitions. The climate risk appetite, its metrics and associated thresholds are set by the UKLH Board and are included in the regular management information dashboard produced as part of the Chief Risk Officer report to the UKLH Board and Board Risk Committee around five times a year. If the overall appetite is breached this will be reported to the Board's Risk Committee, via the UKL Asset Liability Committee or the UKL Executive Risk Committee, identifying drivers of the position and proposed mitigation actions to return to 'green'.

Below we set out some specific examples of sustainability or climate-related papers in 2023

UK IWR Investment Decarbonisation Strategy

An update was taken to IWR Board Investment Committee on progress made to date against the decarbonisation ambitions and the roadmap for 2030 for our investments.

Financial Risks from Climate Change

An update on how UK IWR is managing the financial risks from climate-related change is shared with the Board Risk Committee half yearly. The update also provides an assessment against regulatory changes including Product Reporting and, Sustainability Disclosure Requirements (SDR) and investment labels.

Emerging Markets Debt - Franchise Risk

The Franchise Risk framework was updated for 2023 using the latest country-level data; supplemented with a qualitative assessment on broader sustainability and climate risk considerations. The outcome was approved at ICC and shared with IWR Board Investment Committee

These forums consider stewardship issues including voting activity, updates on engagement and any conflicts of interest relating to engagement, sustainability integration and mandate breaches. Sustainability issues and recommendations are escalated to Executive and Board Committees where appropriate.

Our CEO attends the Aviva Sustainability Ambition (ASA) Steering Committee, which drives and monitors the performance of each of the business entities in relation to their contributions to the overall performance of Aviva Group's Sustainability Ambitions.

The UK IWR ExCo meeting is chaired by our CEO and attended by all business unit Managing Directors along with supporting function representatives, with a focused sustainability agenda allowing for these topics to be incorporated within day-to-day business-as-usual activities and decision-making.

The IWR ASA Working Group feeds in the UK IWR ExCo and members represent all business units and supporting functions across IWR. The Working Group supports and co-ordinates the delivery of IWR's sustainability strategy and management of associated risks, further supporting the UK IWR ExCo in discharging their oversight and accountability obligations.

The UK IWR Sustainable Investment Management Group, which supports the ESG ILT, oversees and tracks the delivery of the ASA investment ambitions. Members represent various functions within the Investments team.

Review of policies to enable effective stewardship

Our governance processes, outlined earlier in this section, allow us to provide input to the review of Aviva's stewardship policies and processes.

Stewardship policies that are specific to UK IWR, are reviewed and signed off by the policy owner on an annual basis to ensure they remain relevant and up-to-date.

In 2023, work began to review the UK IWR Responsible Investment Policy and Voting and Engagement Policy to assess their alignment with our long-term focus on sustainability.

Resourcing stewardship

In recognition of our belief that effective integration and management of sustainability risks and opportunities goes hand-in-hand with long-standing investment management best practice, we have structured our team so that our sustainability management is driven by and centred around our investment teams. Led by the CIO Ashish Dafria, sustainability considerations are integrated into investment processes across UK IWR.

As CIO, Ashish is responsible for defining the investment strategy, delivering Aviva's investment sustainability ambitions, sustainable investment policies, and the monitoring of stewardship activities. With representatives from both UK IWR 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.

Our Sustainable Investments team

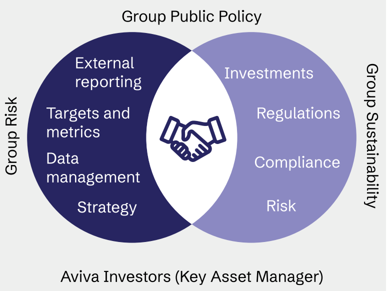
During early 2023, we progressed our recruitment strategy further, enhancing the expertise across our investments teams. The Sustainable Investments team is established and works collaboratively with subject matter experts across the Group. The team has a variety of specialist skills including climate and nature investment risk management and modelling roles, and sustainable investment management and analyst roles. The expansion of the team is in recognition of the need for additional subject matter experts to focus on driving forward our sustainability ambition in UK IWR.

As mentioned in Chapter 1, we promote a culture of diversity, equity and inclusion and we believe the stewardship team benefits from this diversity, exceeding Aviva's DE&I targets.

This team complements the skills and expertise within Aviva Investors and our external asset managers.

The Sustainable Investments team, also collaborate extensively on an ongoing basis with other business areas to drive our sustainability ambition forward. This includes experts across our wider UK IWR Investments team, Group Sustainability, Group Risk, Public Policy experts and ESG teams within Aviva Investors and our external managers. These experienced professionals draw upon a diverse range of skill sets to deliver stewardship outcomes for our customers.

Figure 4: One Aviva in practice in sustainability



These experienced professionals are from, but not limited to, the following backgrounds, qualifications and professional associations:

Area	Qualification/professional associations	Awarding
Sustainability and climate	Sustainability and Climate Risk (SCR) Certificate	GARP
	Certificate in ESG Investing	CFA Institute
	Certificate in Impact Investing	CFA UK
	Bachelor Environmental Engineering	Various awarding bodies
	Bachelor Natural Science	
	Masters Climate Finance	
	Masters Environmental Engineering	
	Masters Physics	
	Masters Sustainable Resources	
	Doctorate in Atmospheric Science	
	Doctorate in Climate & Scenario Modelling	
Investments	Chartered Financial Analyst (CFA)	CFA Institute
	Investment Management Certificate (IMC)	CFA UK
	Associates of the Society of Investment Professionals (ASIP)	
Banking, accountancy and finance	Master of Business Administration	Various awarding bodies
	Fellow of the Institute and Faculty of Actuaries	
	Masters International Finance	
	Masters Applied Statistics	
	PhD Mathematics	
	Qualified Cost Management Accountant (CMA)	
Public policy and law	Masters Political Economy	

Resourcing stewardship

External Resourcing

External providers serve as valuable resources in the oversight and decision-making processes within UK IWR. Where appropriate, we outsource to specialist consultants. Two such consultants we worked with to develop the methodology for carbon accounting and data models for tracking private assets, including infrastructure debt, commercial debt, commercial real estate mortgages and private debt to companies, and direct real estate investments.

The consultants supported the calculation of financed emissions metrics for infrastructure debt and commercial real estate mortgages and presented the final data in Aviva's proprietary data model developed prior to the consultant's engagement. The calculation of financed emissions is based on Partnership of Carbon Accounting Financial (PCAF) methodologies and dependent on the data available.

In addition, UK IWR worked with an external provider and Aviva Investors to develop a tool to help us assess private asset origination, covering Greenhouse Gas (GHG) emissions, alignment to the SBTi 1.5°C pathway and EU Taxonomy eligibility.

Please see page 41 for more details.

Assessment of effectiveness

As mentioned within the Committee section above, the IWR ASA Working Group has been in place throughout 2023 and is held bi-monthly focusing on the three ASA Pillars on a rotational basis, namely; Climate Action, Social Action and Sustainable Business.

We prioritise the delivery of success by continuously reviewing and refining our structure. We assess how we integrate sustainability into our existing governance framework on an ongoing basis, ensuring that our philosophy considers sustainability as an integral part of overall investment decision considerations and aligns with wider governance structures.

This consideration facilitates the most effective and efficient delivery of stewardship activities, streamlined across the UK IWR business along with the broader organisation.

Incentives and training

As signalled in the commitments of our last report, during 2023 we carried out a range of training for our existing employees, which are detailed below, to support our stewardship activities and ambition as it continues to grow and evolve.

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 committed to linking a range of their work and personal objectives to sustainability outcomes as part of the annual performance process.

Our main asset managers are also incentivised to incorporate sustainability outcomes in their long-term plans. Aviva Investors was one of the first asset managers to integrate sustainability factors into pay criteria across the firm. Through its Global Reward Framework, sustainability metrics and research are embedded in the investment processes by forming part of the investment scorecard and annual risk attestation. The Aviva Investors CIO's and investment desk heads consider how colleagues demonstrate their commitment to sustainable processes as part of the determination of performance and pay outcomes. We also invest for the long-term (even upwards of 50 years), which makes sustainability an essential consideration for our investment decisions.

In Schroders, our second largest asset manager, sustainable leadership is key to their business and flows from their long-term outlook. Performance against sustainability goals is considered in the annual compensation review for individuals who have the ability to influence their investment and business operations, ensuring alignment with their commitment to responsible practices.

Aviva's senior management Long-Term Incentive Plan (LTIP) includes an incentive for reducing the carbon intensity of our credit and equity investments (shareholder and with-profits portfolio only). As mentioned in Chapter 1, there are also incentive plans related to diversity and inclusion.

Delivering the training our people require to achieve our stewardship ambition

Throughout 2023, Aviva continued to develop the skills of our boards and of our people with respect to stewardship considerations; see below some grouped examples of this.

Board and Committee-specific training

- During 2023, the Board, and the Group's principal UK subsidiary boards, took part in training sessions focused on Consumer Duty, sustainability and inclusive behaviours.
  - Further training sessions have been incorporated into the Board and Committee plans for 2024.
- Our Board, Group Executive and top 1,200 leaders have completed 'anti racism' training to embed the practice of challenging racial bias whenever they see it.

External Training Qualifications

- In conjunction with Aviva's Learning and Development team, an external training programme has been developed for UK IWR Investments team members to enhance their skills and knowledge across the team by participating in a variety of CFA UK, CFA Institute, certified qualifications, which further complements the internal training programmes being delivered each year.

Firm-wide

- Throughout 2023, we created an internal sustainable investments training programme for the UK IWR Investments teams and wider UK IWR stakeholders, which delivered eight modules over the period,covering a breadth of topics.
- Our new employees complete mandatory climate training to learn about its implications for our planet and our business.
- Training is regularly delivered to the investment teams to update them on climate themes and developments, internal projects and regulatory updates. This enables investment teams to better understand material risks and opportunities for sectors and countries, which they can price into valuations.

Incentives and training

- In 2023, a session was delivered discussing climate reporting and the implications of the upcoming climate regulatory requirements on Anti-Greenwashing. The session included discussion on the steps we can take to identify and avoid the risk of perceived Greenwashing.

Assessment of effectiveness and looking ahead

We believe our chosen governance structures and processes remain effective in supporting stewardship, but we continually review them to ensure the effective delivery of our sustainability ambition.

We are reviewing the firm-wide climate training and we have plans to enhance the modules, advancing them into a Sustainability Academy, covering a range of needs, from generic content for all to more role-specific and specialist learning that keeps our customers and ultimate beneficiaries in mind.

We believe that investing in continuous learning equips our employees with the necessary knowledge and tools to deliver against our Sustainability Ambitions. As mentioned above, the Sustainable Investments team have developed a formal training programme which will incorporate externally recognised professional qualifications for key colleagues.

We are also creating a bespoke sustainability focused internal training and development programme for wider stakeholders and business units across Aviva.

These programmes are designed to offer training that evolves in line with market requirements. The training sessions also facilitate the cohesion of Group and UK IWR approaches to work on our Sustainability Ambitions.

Assurance and managing conflicts

We recognise that obtaining review and assurance of our policies and processes ensures our reporting is fair, balanced, understandable and continues to improve.

It also facilitates the continuous improvement of stewardship policies and processes. In the first instance, Aviva applies a three-lines-of-defence model to managing risk; see the 'Internal Assurance' section. We are committed to obtaining internal and external assurance over our market-facing reporting where applicable, and seeking support from third-party advisors to ensure our outputs are robust and reliable.

External assurance

We understand that the provision of external assurance on stewardship reporting is an evolving area. We commissioned an independent external consultant review of our 2023 report and incorporated feedback into our submission.

Aviva's Audit Committee and management have a regular and open dialogue with PwC and our audit partner regularly attends Committee meetings. The Committee also receives reports from the External Auditor on the progress of its audit activities.

The Committee reviews the contents of these reports and the level of professional scepticism and challenge of management assumptions demonstrated by the External Auditor, and, where appropriate, requests that management respond to that challenge and tracks management response to ensure a satisfactory outcome to the challenges raised.

The 2023 External Audit Effectiveness review was undertaken to assist the Committee in assessing the quality of audit services provided to the Group through completion of a questionnaire by the Committee, subsidiary company audit committees, senior management, and members of the Group's finance teams. The review focused on the effectiveness of the audit team, expertise and resources, and interaction with audit committee meetings. Overall feedback was positive, and where opportunities for improvement were identified, PwC were asked to take account of that feedback.

PwC have been Aviva's external auditor since 2012 and continued in this role until completion of the full-year 2023 audit. In line with the outcomes of 2022's competitive tender process, EY will be appointed as the External Auditor for 2024. The Company has complied with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year ended 31 December 2022.

As part of our commitment to transparent reporting on our performance, PwC has provided reasonable assurance over selected sustainability KPIs shared in Aviva's annual Sustainability reporting suite. This includes reasonable assurance on our financed emissions metric, which included the addition of a number of asset classes owned almost entirely by IWR.

Internal assurance

As part of our three-lines of defence model, during the first line of defence, the UK IWR investment team use our research, selection and oversight process for our asset managers, covered in detail in Chapter 3. This also allows us to monitor the reporting information that the asset managers provide us with. The process results in a level of internal assurance that our asset managers are servicing our stewardship needs effectively.

Our Internal Audit team together with first and second-line control functions provide independent assurance over our control environment related to sustainability including, on a risk-prioritised basis, the robustness of our stewardship reporting.

In 2023 our Internal Audit team performed a review of controls to mitigate greenwashing risks relating to certain key activities within the group.

This provided assurance over existing controls while highlighting minor actions to support further strengthening and embedding.

The UKLH Risk Committee also conducts an annual review of the Internal Audit function to assess its independence, effectiveness and to satisfy itself that the quality, experience and expertise of the Internal Audit function is appropriate for the business. This is carried out by reviewing reports issued by Internal Audit and the output of an annual stakeholder effectiveness survey. This formal process is supplemented by regular private discussions with executive management, the Internal Auditor and the External Auditor.

1st Line
Management

Accountable for the implementation and practice of risk management. Primary responsibility for risk identification, measurement, management, monitoring and reporting lies with management.

2nd Line
Risk function

Accountable for providing quantitative and qualitative oversight and challenge of risk identification, measurement, management, monitoring and reporting, as well as advisory support to the business on risk innovation.

3rd Line
Internal audit

Responsibility for assessing and reporting on the effectiveness of the design and operation of the framework of internal controls which enable risk to be assessed and managed.

Assurance and managing conflicts

Managing conflicts

Aviva takes its fiduciary duties to customers and beneficiaries seriously. Our Group Conflicts of Interest Policy 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 managed effectively. 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;
- use the policy with other applicable policies and procedures; and
- update the status of the conflict if and when it changes.

The Policy includes specific wording and guidance on voting and engagement. 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.

The Conflict of Interest Policy is reviewed annually by the Aviva plc Board and is published internally to all employees on our intranet. Presently, the Policy and its availability remain unchanged. The organisation intends to review this in due course.

All conflicts of interest are registered using an internal standard online Conflicts of Interest register. Additionally, conflicts that result from an employee's role as a statutory board director on one of Aviva's subsidiary companies or an external company must be added to the company's statutory Conflicts of Interest register.

We endeavour to robustly manage potential conflicts in our stewardship activities and therefore exercise formalised segregation of duties within UK IWR, such that proposition or underwriting teams are not directly involved in investment stewardship processes and activities, and in turn those executing stewardship responsibilities have a limited view of Aviva's business clients. We also maintain an arm's-length relationship with Aviva Investors, who engage on our behalf. Being another step removed from Aviva's business relationships, the asset manager can engage from an non-conflicted position.

This arm's length relationship is also important in managing the conflict that could arise from having an in-house asset manager. Our '5 P' process, as well as our sustainability manager oversight assessment, both detailed in Chapter 3 are applied equally to our internal and external managers and ensures a level of independent assessment; as do the segregation of functions and governance structures described in earlier in the chapter.

In accordance with the Companies Act 2006, the Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as are deemed necessary. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of its shareholders as a whole. The Board continues to monitor and note any potential conflicts of interest that each Director may have and recommends to the Board whether these should be authorised and whether conditions should be attached to any such authorisation.

The directors are regularly reminded of their continuing obligations in relation to potential or actual conflicts of interest and are required to bi-annually review and confirm their external interests, which helps to determine whether they can continue to be considered independent.

Case studies of managing conflicts

Conflicts of interest are addressed as a standing agenda item during quarterly business review meetings with our asset managers. They are presented and discussed to agree an appropriate course of action, if deemed necessary. Some of the possible actions could be to continue monitoring the conflict, to withhold a vote, vote against a resolution, support a resolution. Below is a selection of some of the actual or potential conflicts that were logged in 2023.

- Also in April 2023, 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 May 2023, a conflict arose in relation to an Emergency General Meeting (EGM) vote. We identified that the parent company of a client had a conflict in this case. We decided that only one external fund was voted on following a voting instruction from the external client.

Chapter 3: How are we invested?

As of 31 December 2023, we are responsible for overseeing approximately £270 billion of assets held across customer and shareholder portfolios. Our shareholder funds are managed almost entirely by Aviva Investors, along with c.80% of customer funds. 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 37.

We invest our customers' assets 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 5, 6, 7, 8 and 9 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 5: Split of investment assets (as at 31 December 2023)

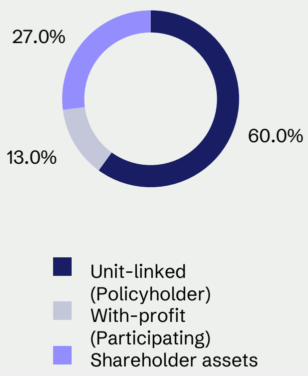


Figure 7: Shareholder assets by asset class (as at 31 December 2023)

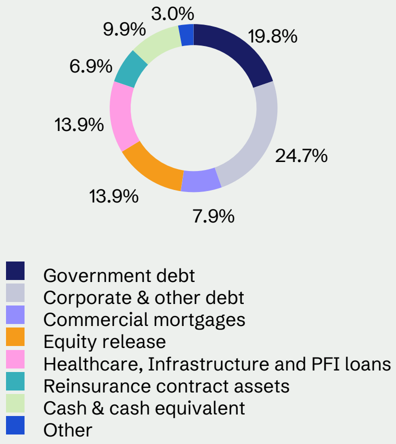


Figure 9: Unit-linked customer assets by asset class (as at 31 December 2023)

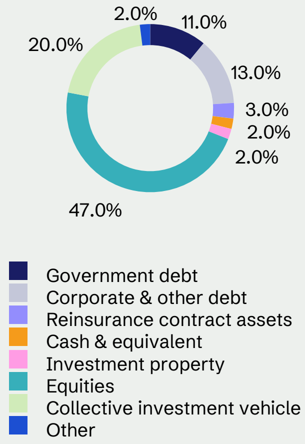


Figure 6: Shareholder assets by geography (as at 31 December 2023)

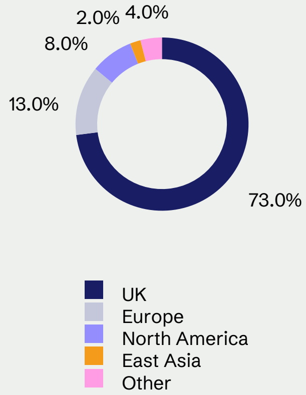
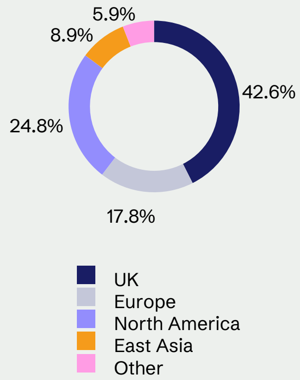


Figure 8: Unit-linked customer assets by geography (as at 31 December 2023)



Who are our customers?

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

We offer our clients solutions with varying risk profiles and asset mixes to reflect their appetite to risk and their own time horizons. This will vary from growth orientated strategies that mainly invest in equities to consolidation and drawdown strategies that have a more balanced asset mix, more heavily weighted to sovereign and cash-like investments. Long-term considerations are important for both the growth and consolidation phases.

Extending our key strategic partnerships with Diligenta and FNZ will improve how we serve our customers, further simplifying our operations and support our growth ambitions. It will allow us to rationalise our systems and improve efficiency, bringing benefits for our customers and the business.

Products and customers

Insurance

We are the UK's only provider of scale, offering protection and health for both individuals and corporate clients.

Through individual protection, we support customers and their families in the event of loss of income, critical illness or bereavement. Group protection helps employers keep their workforce healthy and supports them in adverse circumstances.

Our digitally led wellness proposition, DigiCare+, provides both individual and group protection customers with a holistic wellbeing solution, including health checks, access to digital General Practitioners (GPs), second medical opinions, mental health support and bereavement support.

In Health, we provide access to private medical services and treatment to 1.2 million people in the UK. This is an increase of more than 100k customers compared to 2022.

In June, we won Corporate Adviser's 'Best Healthcare Provider' award for product development in areas like cancer assistance and diversity, equity and inclusion.

We also demonstrated our customer commitment by completing our final COVID-19 Customer Value Pledge Rebate payment of £47 million. This brings the total COVID-19 rebate payment to £128 million.

Wealth

Aviva is the largest workplace provider in the market[1], with over 26,000 corporate clients and over five million members, and recently reaching over £100 billion of assets under management.

The shift to defined contribution (DC) pensions means that individuals are increasingly having to take responsibility for their financial futures. Many of those individuals, individually or through their workplace schemes, place their trust in us to manage their money in a way that supports their financial wellbeing in retirement, with over 90% of contributions to a workplace pension now invested in the default investment solution following the introduction of auto-enrolment.

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 is 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 and needs of the workplace pension members in how they can access their pension savings.

Both solutions have a default strategy that can be considered 'universal', reflecting this flexibility available to members, while offering strategies that specifically target the different retirement options available (purchasing 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 and direct real estate 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 the different retirement options, aligning the investments to these strategies.

1. Corporate Adviser (Master Trust & GPP Defaults report, April 2023)

Who are our customers?

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 to meet the different preferences and risk profiles of these members.

Alongside access to a broad range of fund options they need the information on these options to be clear and readily available to support their investment selection-making; page 30 provides further detail on how we have developed tools to facilitate this decision making.

Workplace propositions received numerous Corporate Adviser Awards including 'Best Group Pensions Provider', 'Best Provider: Decumulation Proposition' and 'Ultimate Default Fund'.

Our Adviser platform won awards for 'Leading Platform for Model Portfolio Services' (Schroders), Best ESG Provider' (Money Marketing) and 'Best Stocks & Share ISA provider' (Moneyfacts).

In Succession Wealth, we have added new advisers and additional assets from further acquisitions, seen new flows onto Aviva's platform to help customers secure their financial future and grown restricted advice proposition.

We have enhanced our customer journeys by launching the direct to customer Direct Wealth app in September 2023, helping our customers to keep track of their investments. Direct Wealth won 'Best Buy – Pension' at the Boring Money awards along with 'Best Pension Platform – Large Portfolio' and 'Best Investment Platform for Beginners' at the Your Money awards.

Retirement

Our retirement business consists of bulk purchase annuities, individual annuities and equity release.

We work hand-in-hand with Aviva Investors to leverage the investments to support the UK economy.

Bulk purchase annuities allow pension trustees to secure future obligations to defined benefit scheme members by de-risking their pension schemes. We are the third largest provider in one of the largest growth areas in the UK insurance market.

We manage exposure to longevity risk and maximise the capital efficiency of new business by partnering with reinsurance counterparties. Individual annuities give customers secure lifetime retirement income.

Equity release supplements retirement income in a tax-efficient way by unlocking housing equity. We have delivered a new well-received Equity Release platform, providing a market leading experience for customers and advisers and winning 'Best Equity Release Lender' and 'Best Equity Release Lender Customer Service' at the 2023 What Mortgage Awards.

Communication and feedback with customers and advisers

Understanding customer needs and preferences

The UK government's Department for Energy Security and Net Zero (DESNZ) publishes a quarterly Public Attitudes Tracker, which collects the statistics on the public awareness of Net Zero and concern about climate change1. Every quarter, concerns about climate change are high among the UK public. In Spring 2023 and Summer 2023, the majority of people (81% in Summer 2023 and 82% in Spring 2023) were at least fairly concerned about climate change2.

Communication with our customers is an essential part of our role in understanding their concerns, guiding them to tackle these concerns and letting them know what we are doing on issues that are important to them.

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 engagement on sustainability 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 engagement on ESG matters to support customers in understanding how our products align with their preferences.

Direct-to-customer research: Investments and ESG Workplace Pension Research

UK IWR conducted a research project during 2023, with the aim of gaining insight from Aviva Master Trust[3] members to help us enhance our ESG (environmental, social, and corporate governance) and investment propositions.

The research found that most members do not have the time, expertise, or inclination to choose their own investments and that some members do not know what their money is invested in, and they do not know how to find out.

The insights identified a challenge with how we communicate to members with different levels of engagement and understanding of ESG. Looking forward, we will use the research to shape the way we create and deliver tailored communications to give members useful information about ESG and investing. This will bolster the ESG Hub, a landing page for ESG resources, while boosting the ESG awareness of our diverse members.

We help many people save for retirement through products we make available in the workplace through employers. Aviva published the latest Working Lives Report: Fit for Future[4] in June 2023, gathering the views and attitudes of employers and employees across the UK on workplace, finances, wellbeing and planning for retirement. More than four in five (84%) employers and almost nine in ten (89%) employees think it is important that a workplace pension fund is invested responsibly. More than a third (34%) of employees do not know if their pension is invested responsibly, which is an improvement on last year (55%). This might suggest that more pension savers now have a better understanding of how their pension is invested and that it can be invested in responsible funds.

We took this feedback onboard and took steps to enhance our auto-enrolment default solutions in 2023. Changes to our My Future Focus investment solution resulted in us being recognised as the Best Default ESG Strategy 2023[5].

Further details on these changes can be found later in the chapter on P34.

Providing customers with sustainability focused investment options

Our adviser platform provides an ESG profiler tool supporting financial advisers reviewing customers' investments from an ESG perspective. It improves the transparency of funds, enabling customers to understand if a fund meets their investment appetite and ESG objectives. This supports advisers in their conversations with clients on ESG, allowing them to show the scale and quantifiable impact of investments - in terms they understand. Further details on this tool can and how we have enhanced it be found later in the chapter.

1. DESNZ. 2023. DESNZ Public Attitudes Tracker (Spring 2023, UK). DESNZ PAT Spring 2023 Net Zero and Climate Change (publishing.service.gov.uk)
2. DESNZ. 2023. DESNZ Public Attitudes Tracker (Summer 2023, UK). DESNZ PAT Summer 2023 New Zero and Climate change (publishing.service.gov.uk)
3. Aviva Master Trust is an occupational pension scheme governed by a fully independent Trustee Boar
4. Working lives report 2023 (aviva.io)
5. Corporate Advisor Awards [30 June 2023]

Communication and feedback with customers and advisers

Launching our Investment Preference Tool

Recognising that our customers all have different preferences, values and requirements, we successfully delivered the Direct Wealth Investment Preference Tool in December 2023. It is designed to assist our customers in their investment journeys on Stocks & Shares ISA's, General Investment Accounts (GIAs) and Self-Invested Personal Pensions (SIPP's).

This innovative tool allows users to search for funds which support their values while minimising exposure to industries that conflict with their ethical choices.

This delivery gives a clear and easy-to-understand user experience and provides invaluable support in their pursuit of responsible and tailored investment strategies.

The tool allows customers to filter funds using three categories: Environmental, Social & Governance.

Once the customer has entered the issues they wish to avoid investing in, the tool filters out funds that meet that criteria and funds are presented as a list to the customer. The customer can then choose from the selection of matching funds provided and invest into the products they want.

Consulting with advisers

Enhancing our ESG tooling on the adviser platform

We have continued to develop award winning Environmental, Social and Governance tooling on our adviser platform. New features have been shaped and developed based on adviser feedback and collaboration.

In our Profiler tool our 'Search and Compare' feature allows advisers to look for alternate funds that suit client preferences, including industries they may want to avoid.

Adviser feedback led us to introduce our ESG Sandbox tool, an isolated testing environment that lets advisers understand or research investment solutions independently from their clients. The ESG Sandbox allows advisers to experiment with different funds and see how each one could affect the ESG credentials of an existing portfolio or start a new portfolio from scratch, without needing to setup a client profile first. This enables advisers to gain insights into their central investment propositions' ESG metrics and deliver compelling client demonstrations.

Recognising the importance of ongoing education and support we became a sponsor of the Accord Initiative which provides free to access support, guidance on regulations, suitability framework information and templates to the financial adviser community.

In September 2023, Aviva won the Money Marketing Award for "Best ESG Provider" recognition of the continued work we are doing to deliver solutions that meet client needs and demonstrate adviser value.

Communication and feedback with customers and advisers

Figure 10: Examples from the Investment Preference Tool

Environmental issues

Which environmental credentials are important when you're picking investments?

By making a selection below, you'll be presented with funds that minimise their exposure to companies involved in those industries.

3,501 funds matching your choices

High impact fossil fuels
Minimise companies with reserves of the most environmentally damaging fossil fuels. These could include coal to produce electricity, types of oil and gas.

Nuclear power
Reduce companies that support or invest in nuclear power.

Environmental controversies
Reduce companies facing environmental controversies related to issues such as land, air and water pollution, as well as overuse of natural resources.

Water waste
Reduce companies that use excessive amounts of water, especially in areas where water supplies are low.

Palm oil
Reduce companies who produce, distribute or own palm oil.

Social issues

When you're choosing investments, which social issues are most important to you?

By making a selection below, you'll be presented with funds that minimise their exposure to companies involved in those industries.

2,675 funds matching your choices

Unfair employment practices
Reduce employers who don't have fair labour practices such as paying living wages and ensuring safe and hygenic working conditions.

Controversial military weapons
Reduce companies linked to controversial military weapons such as landmines, chemical weapons and cluster munitions (weapons that release lots of smaller explosives).

Gambling
Reduce companies that support or invest in gambling.

Alcohol
Reduce companies that support or invest in alcohol.

Tobacco
Reduce companies that support or invest in tobacco.

Animal testing
Reduce companies that test products on animals.

Adult entertainment
Reduce companies that support or invest in adult entertainment.

Governance issues

Which governance issues are important when you're selecting investments?

By making a selection below, you'll be presented with funds that minimise their exposure to companies involved in those industries.

2,198 funds matching your choices

Gender diverse leadership
Reduce companies with no female directors on their boards.

Major governance controversies
Reduce companies facing serious controversies related to issues such as financial crime, unethical investments, and unethical governance structures.

Major customer controversies
Reduce companies facing serious controversies in areas such as Competitive Practices, Privacy and Data, and Product Safety.

An integrated approach to stewardship

Overview of our approach

We believe the integration of responsible investing considerations into the investment process enables better understanding of the opportunities and challenges faced and can enhance returns on a risk-adjusted basis. We apply the mandate that our customers give us to invest in a way that meets their current and future needs, reflecting financial and non-financial considerations.

Each of our appointed managers are expected to demonstrate how they have identified, considered and integrated relevant sustainability factors and sustainability risks within the investment decision-making process. These expectations are explicitly referenced in our investment management agreement for investment mandates and adherence monitored through our management oversight process.

Different managers will have different processes for integration that will depend on the asset class and fund philosophy. Aviva Investors has individual **Responsible Investment and Sustainable Risk Policies** available on its website which set out how the sustainability integration process can differ according to the asset class.

Examples of integration we have seen and discussed with our active fund managers as part of our oversight process in 2023 are provided below:

Equity - Sale of holding

We held a Swiss multinational company that manufactures escalators, moving walkways, and elevators in an externally managed fund we invest into within our customer mandates. The Portfolio Managers sold the position in 2023 on growing concerns around the company's governance structure. The company dismissed its CEO and replaced him with the Chair creating a combined Chair/CEO. There were also concerns over the independence of the remaining board members including members with personal ties to the Chair/CEO.

Credit - Cruise lines: Charting a course to decarbonisation

UK IWR invest in Global High Yield (GHY) through a collective fund for several customer mandates, including our default fund.

Whilst cruise lines are recognised as an important part of the travel and tourism industry, there were concerns within Aviva Investors' GHY desk over how the industry must fundamentally change in order to fully decarbonise by 2050. Analysis found cruise ships make up a small part of the shipping industry's 2.5 per cent contribution to total annual greenhouse gases; however, the nature of cruising means that the vessel requires power most of the time, meaning that electricity is generated by engines when at sea. Cruise line issuers represent a significant part of the benchmark.

Decarbonisation of the cruise line industry will be heavily dependent on technological advances and policy intervention to scale them. Given these concerns, Aviva Investors' GHY and ESG teams met with the three largest global cruise lines as part of a broader engagement strategy with the industry. These companies are outliers when looking at Aviva Investors' Principle Adverse Impact (PAI) flags on emissions intensity. Their dialogue focused on discussing the challenges these companies face around fleet decarbonisation and how they are addressing them, particularly in light of the International Maritime Organisation's strengthened industry goal.

The engagements helped reinforce the progress being made within the cruise line industry, given the various levers available to decarbonise. Aviva Investors note the majority of companies favour engines fuelled by liquefied natural gas (LNG) - as a short- to medium-term measure to reduce emissions, while only one company seeks to chart a pathway towards (green) methanol. These engagements will continue to inform Aviva Investors' investment views going forward given that the industry's decarbonisation will be an important driver in the future.

Aviva Investors will continue their engagement, given the hard-to-abate nature of the industry, emerging technologies and policy challenges.

Multi-Asset - Allocation to Japan

Japan has long dealt with corporate governance challenges, including low gender diversity on boards, an over-representation of executive directors (versus non-executive directors), significant cross-shareholdings between companies and insufficient incentive structures tying pay to performance and shareholder return.

Following the Japanese market becoming more attractive due to structural reforms and long-awaited consumer price rises beginning to come through, Aviva Investors' multi-asset and ESG teams collaborated to better understand potential governance changes linked to the publishing of the Japanese Corporate Governance Code. The 2015 version was updated in 2021, emphasising improving board independence and diversity, workforce diversity, executive performance-linked remuneration practices and the consideration of sustainability challenges. Additional reforms have been enacted to enable shareholders to challenge companies. They include reducing barriers to takeovers and reviving an environment for investors to collaboratively engage with firms.

They also seek to reduce cross-shareholdings, a long-standing practice whereby companies hold shares in other firms with which they do business, which have traditionally insulated management teams from challenges on the part of activist shareholders and locked up

An integrated approach to stewardship

capital that might have been productively invested. The drive to reduce them is a key change brought by the corporate governance reforms.

All these measures combined could enable more growth and innovation, promote greater external investment and even encourage more M&A activity.1

Over the past few years, the Tokyo Stock Exchange (TSE), Ministry of Economy, Trade and Industry (METI) and Financial Services Agency (FSA) have jointly instigated a range of measures to improve the competitiveness and attractiveness of Japanese companies. The TSE's guidance to companies on implementing the Corporate Governance Code whilst being conscious of cost of capital and stock price has reflected the strength of the signal of governance reforms. The "Prime" index launched by the TSE in 2023, which favours higher returns on equity and shareholder engagement, has also contributed to greater momentum. Over the long term, this and other reforms should help close Japanese stocks' valuation gap with the rest of the world.

Aviva Investors have observed a positive trend of improved practices. For example. the number of outside directors in Japanese companies has grown, and there is a clear shift toward performance-based executive pay, with more companies linking compensation to financial metrics like return on equity and profit figures.

Aviva Investors expect to see continued progress over 2024, with Japan set to issue the next version of its Corporate Governance Code. These measures, combined with the underlying innovative and technological abilities of Japanese companies, could provide new investment opportunities for sustainability-minded investors.

Japan's return to inflation after decades of deflation has sparked nominal revenue growth – the first since the mid-1990s – improving returns on Japanese equities and significantly raising earnings expectations, hinting at further gains as companies continue structural reforms.

Based on this analysis and the strong growth potential, a long position in Japanese equities was initiated in

September 2023 by the multi-asset desk, informed by research from Aviva Investors' ESG analyst.

Sovereign – Nigeria: a reform story in the making?

Nigeria is amongst the lowest scoring countries on Aviva Investors' proprietary sovereign ESG score, presenting various avenues for qualitative research into potentially material ESG risks, including corruption, human rights abuses and security concerns.

However, through qualitative review, Aviva Investors' emerging market debt (EMD) and ESG analysts together identified potential catalysts for outperformance ahead of President Tinubu's inauguration in May 2023, including removal of a petrol subsidy, addressing oil theft and currency devaluation.

The team developed a strong conviction the incoming president would be able to improve fiscal governance, tackle food security and promote investment in key sectors, resulting in a stronger ESG profile over time.

Supported by the positive ESG and fundamental outlook, the EMD team added long-end bonds to an overweight position, ahead of the inauguration, using funds within multiple IWR customer mandates. From President Tinubu's first day in office, he announced the much-awaited petrol subsidy removal which was followed by currency reforms and commitments to raise revenue and streamline expenditure. This led to strong spread compression, resulting in a positive contribution.

The team retained a small overweight position due to the potential for further outperformance from revenue collection improvements and a build-up of foreign exchange reserves. Aviva Investors expect President Tinubu's willingness to address security concerns, while boosting investment in infrastructure and key sectors, to lead to improved ESG and economic metrics over the long run.

1. See Aviva Investors' article "What's behind Japan's stock-market sugar rush?" for more information.

An integrated approach to stewardship

Integrating Sustainability into our Customer Mandates

UK IWR design and build solutions for our customers using a variety of strategies and approaches from different managers. These solutions consider customer objectives, risk appetite and time horizon. When designing and overseeing investment strategies, UK IWR Investments look to ensure sustainability risks and opportunities are considered wherever possible.

As mentioned earlier in this chapter, most of our customers are invested through default funds which are multi-asset solutions that invest in a range of asset classes depending on the risk appetite of the customer. As the designer of these solutions UK IWR Investments have control over the appointment and oversight of the investment manager, the use of underlying funds within the solution and the strategic asset allocation.

We have made steps to integrate sustainability into our strategies in several ways. Below are some examples of where sustainability integration has been enhanced over 2023:

Baseline exclusions

We discussed our baseline exclusion policy in Chapter 1. These exclusions now apply across all our customer mandates, including passive funds held within our default solutions.

In 2023 we worked with our index provider, FTSE Russell, to develop customised benchmarks that apply our baseline exclusions across various regional index funds where we have decision making control.

In late 2023, we moved to these benchmarks within our passive funds which are held by multiple customer solutions including My Future. This ensures we now have a consistent application of exclusions across our investments.

Enhancing our workplace default funds with BlackRock

In addition to the the exclusions described above, we have taken additional steps to enhance the level of sustainable integration into one of our workplace default funds - My Future - by allocating to the BlackRock World ESG Insights Equity Fund that Aviva worked with BlackRock to launch. The fund aims to explicitly incorporate sustainability considerations and alignment with our customer needs.

In 2023 we increased our allocation to the ACS World ESG Insights Fund to reach the target allocation of 50% of the equity allocation within the My Future proposition (where equities are held).

The cash allocation with the funds was also replaced with the BlackRock ISC Liquid Environmentally Aware Fund (LEAF). The fund has enhanced sustainability characteristics and aims to ensure that at least 80% of fund assets have above-average environmental practices as determined by an external sustainability research provider (such as MSCI). The enhanced sustainability characteristics also screen out exposure to fossil fuels and nuclear energy.

Following a full due diligence process, that we mentioned in last year's report, we also began allocating to the BlackRock Global Corporate ESG Insights Fund and some ACS ESG Insights regional equity funds towards the end of 2023. We expect the allocation to these strategies to grow substantially over 2024 to further integrate sustainability considerations in the My Future default solution.

Carbon optimised solutions

For our internally managed workplace default fund, My Future Focus, sustainability continues to be a core pillar of the investment process for the actively managed credit and property allocations within the solution. The developed equity components are optimised for an improved ESG score and a lower carbon intensity than their respective benchmarks, with a year-on-year decarbonisation objective to support the evolution to Net Zero.

In 2023 we increased our allocation to these carbon optimised solutions across other customer mandates so that most of the index strategies managed in-house now utilise the solution.

Asset Allocation

The Strategic Asset Allocation ('SAA') for our multi-asset funds has been designed in conjunction with Aviva Investors' Solutions and Multi-Asset & Macro teams and sets out our long-term asset allocation for each of the funds.

When reviewing and setting the SAA objectives with our managers in 2023 we considered our sustainability and decarbonisation ambitions such that the optimisation process selects from a range of minimum variance portfolios to create a mix of assets that achieves our objectives. In this way, we can deliver on our sustainability goals, subject to the requirement that expected risk-adjusted returns are the same (or improved).

Manager Oversight

In 2023, we enhanced our sustainability manager oversight framework to consider four explicit categories in relation to sustainable integration, weighting each category differently based on how we would like our managers to integrate sustainability.

The categories below are now considered as part of any new or existing manager review:

1. Policy and Strategy
2. Engagement
3. Process Integration
4. Resource

These categories will be considered, assessed and aggregated into an overall sustainability rating and integrated into any wider review process. More details on this process can be found later in the chapter.

An integrated approach to stewardship

Integrating Sustainability into our Shareholder Investments

For our annuity investments that back our liabilities, Aviva Investors and our other managers undertake detailed technical analysis of every asset, activity or company we look to invest in. This is guided by their in-house screening and due-diligence tool, which allows the originator to assess the asset or company's sustainability factors that may result in potential positive and adverse impacts on sustainability factors. The integration of sustainability factors into the processes ensures sustainability opportunities and risks are considered as part of investment decision-making and form part of their wider responsibilities as an asset manager.

There are three principal types of risk they consider:

a. Climate transition risk: Policy, legal, technology, and market changes related to climate change that may pose varying levels of financial risk to organisations.
b. Climate physical risk: event-driven (acute) or longer-term shifts (chronic) in climate patterns with financial implications for organisations.
c. Stakeholder risk: The risk of a sustainability-related incident or event caused by our assets that causes harm to a stakeholder.

In our active real assets equity asset classes of infrastructure equity, real estate equity and real estate long income, Aviva Investors obtain data from suppliers, who engage with our broader supply chain of property managers, developers and contractors. In our cashflow-matching asset classes of infrastructure debt, real estate debt, structured finance and private corporate debt, they obtain data from intermediaries and borrowers. Where data concerning sustainability risks or Principle Adverse Impacts (PAIs) is not immediately available from the asset or counterparty, they will enter into dialogue with that party to secure the information needed. In cases where this is not available and the lack of information is insufficient to make an informed decision, we will not proceed with the investment.

A key focus in 2023 has been deepening the integration of sustainability considerations in the deal approval process and decision-making process within UK IWR, with a strong focus on climate considerations. For example, all new large asset deals are assessed by the UK IWR Sustainable Investments team to understand their carbon footprint and therefore impact on the overall portfolio in the short-, medium- and long-term. Climate change transition and physical risks are also considered as appropriate as part of the deal approval process.

The data, tools and methodologies are still maturing; however, this additional information allows us to identify opportunities and risks more readily to deliver our longer-term investment and sustainability outcomes.

We list some examples below of how sustainability issues have been considered for deals in 2023 and how carbon intensity metrics have been included as part of our assessment.

Last mile connections

Over the summer of 2023, our in-house infrastructure debt and ESG teams collaborated on a new opportunity involving a last-mile UK utility business. At the point of origination, gas connections comprised the bulk of the borrower's revenue stream which presented challenges from an emissions and energy transition perspective. The transition risk was compounded by the length of the loan tenor, which was up to 20 years. Were this a completely gas-focused company, it is unlikely that we would have been able to support it.

However, the borrower exhibited growth in its last-mile electricity and water divisions, showcasing adaptability to future changing demands for electric versus gas connections, driven by client demand and government regulation. The borrower is also exploring opportunities to facilitate connections for EV charging at new residential and commercial developments and has an order-book already for this. As such, the ESG team felt that, thanks to the diversification within the borrower's business, it was already well-placed to benefit from the increasing electrification of commercial and home heating, power and gas demand reduction. This positively positions the borrower to derive future value from opportunities emerging from the electrification of transport.

Habitat conservation, electrification and physical risk mitigation: Transition opportunities at UK ports

Maritime freight is an efficient and relatively clean mode of transport compared with aviation and land-based models, but it is not without its sustainability-related risks. These include, but are not limited to, air quality, habitat conservation and water pollution. Due to the nature and location of ports they are also vulnerable to physical climate change risks, such as rising sea levels, storm surges, flooding or droughts.

In 2023, we provided a loan to one of the UK's leading port operators. The strength of the operator's climate transition and adaptation plan was a significant factor in the decision to lend. The operator has already reduced its total emissions footprint by over 30 per cent and, as part of its net zero by 2040 ambitions, 81 per cent of its ports already produce renewable energy on site with more projects underway. Rather than offsetting its emissions, the operator aims to add more renewable energy generation capacity at its locations and to prioritise the electrification of vehicles and port-side equipment, using offsets only as a last resort.

The operator's transition plan also features a water management strategy, biodiversity net gain initiatives and habitat conservation programmes to maintain safe breeding grounds for sea birds across its ports. Additionally, programmes are already underway to improve the resilience of critical port infrastructure to mitigate the risks posed by floods and other weather-related events.

This deal serves as a good example of the way in which companies are planning for and mitigating against sustainability-related risks and adapting their infrastructure and operations accordingly.

An integrated approach to stewardship

Offshore transmission operator assets

Offshore wind is a valuable source of renewable energy and an important part of the government's plan to decarbonise our economy. The UK is aiming to generate 50GW of secure, home-grown offshore wind power by 2030[1]. This will only be possible with the set up of suitable transmission facilities. Aviva is proud to be part of the decarbonisation story as OFTOs (Offshore Transmission Owners).

In August 2023, Aviva Investors, on behalf of UK IWR's annuity business, agreed to provide financing for the acquisition of offshore transmission assets at Hornsea Two offshore wind farm by Diamond Transmission Partners, a joint venture comprising Diamond Transmission UK Limited and HICL Infrastructure PLC. Located 90km off the Yorkshire coast, the Hornsea Two windfarm consists of 165 Siemens Gamesa 8MW turbines with a total installed capacity of 1.3GW.

The investment was completed on behalf of UK IWR's annuity business, and cements Aviva Investors' position as the second-largest non-bank provider of infrastructure debt financing in Europe[2]. High impact from this renewable investment supported providing over a million homes with renewable electricity.

Prompt social actions to build a better community: investing in Social housing sector

Aviva has been funding social housing projects across the UK and other European countries since 2020. We started to apply our Sustainable Assets Definition[3] to our investments and conduct internal assessment on new investment opportunities. Meanwhile, we established a good understanding on the emissions throughout the lifespan of the project for both construction and operation phase. We successfully completed multiple investments with different Social Housing Associations which are also eligible as social assets for our Sustainable Assets Definition.

In January 2024, Aviva Investors completed a private funding placement to Hightown Housing Association ("Hightown") on behalf of the UK IWR annuity business.

This is one of the ways Aviva are showing their drive to ally their investment activity to support social value projects across the UK that can deliver long-term benefits for local communities.

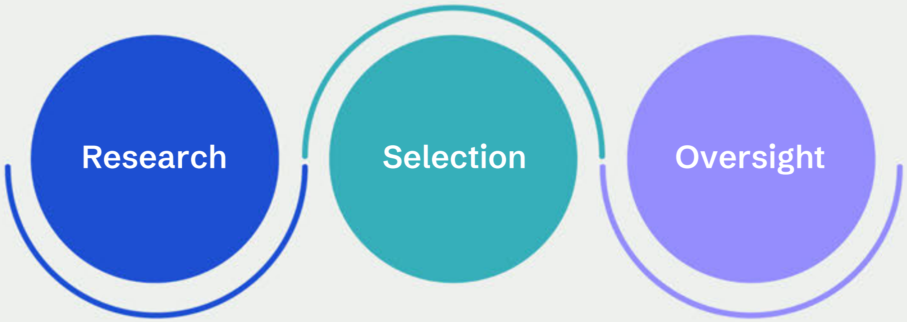
1. According to the UK government https://www.gov.uk/government/groups/offshore-transmission-network-review
2. Inframation Lenders League Table, July 2023
3. Our sustainable asset definition is based on the Climate Bonds Initiative (CBI) Taxonomy and Sector Criteria. Assets are defined as Green, Sustainability or Transition and climate-related funds, depending on their characteristics. More details about the definition can be found in Note 9 and Note 14 of Aviva's Climate Related Financial Disclosure 2023

Monitoring asset managers

As part of our manager research and selection process, we consider the extent to which the managers' stewardship policies and commitments align with our own. Maintaining oversight and ensuring our asset managers are investing in line with our long-term investment beliefs are crucial to our climate and stewardship ambitions.

As outlined in our manager research, selection and oversight process below, sustainability considerations are factored into each stage of our decisions. In 2023, there were no new manager tenders. However, throughout the year, we undertook regular ongoing oversight activities.

Figure 11: Manager research, selection and oversight



- Sustainability considerations are incorporated in the selection and oversight process for all managers
- The selection of managers includes an assessment of their approach to sustainability and alignment with UK IWR's Responsible Investment Policy
- In any manager tender process the UK IWR Investments team will include detailed sustainability considerations in requests for proposals

- We then perform thorough due diligence on shortlisted candidates using our '5 P' process (see right), including the review of sustainability considerations in investment decisions and ongoing monitoring of their commitment to sustainability
- There will be a minimum threshold of sustainability integration needed before any new mandate is awarded or for our work with that asset manager to continue.

Ongoing monitoring and oversight Reporting

We regularly receive and review ESG reporting in a variety of forums. At a high level, the total carbon intensity of with-profits and unit-linked portfolios are discussed at UK IWR's quarterly Customer Investment Forum (CIF), and the shareholder assets are reported at the Shareholder Investment Review Forum (SIRF).

We also hold regular discussions with our managers around portfolio metrics and engagement that has taken place with the companies held in portfolios. This includes regular meetings with the sustainability teams to discuss actions within our portfolios and sustainability trends within the industry.

Portfolio sustainability and climate metrics, including carbon intensity trends and aggregate ESG scores, are also provided by our managers at the annual desk reviews. This often highlights potential areas for discussion and further review but, for our actively managed mandates, does not provide the full picture on integration of sustainability factors. We place a large emphasis on the qualitative review of the strategy.

Qualitative Review

Annual desk reviews are held with our asset managers to monitor performance and adherence to our expectations.

Figure 12: Review

The '5 P' process (below) is used to support manager oversight:

1. Parent
2. Product
3. People
4. Process
5. Performance

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.

Monitoring asset managers

A qualitative sustainability review feeds into this process to provide a robust and rounded rating on a manager.

Previously, each element of the '5 P' framework considered sustainability factors as part of the rating methodology (as outlined in our previous reports).

However, in 2023, we introduced a standalone sustainability manager oversight framework to consider the level of integration within a strategy. The framework looks at four main categories of sustainable integration, weighting each category differently based on our view on the level of importance; which varies by asset class. Figure 13 summarises the framework.

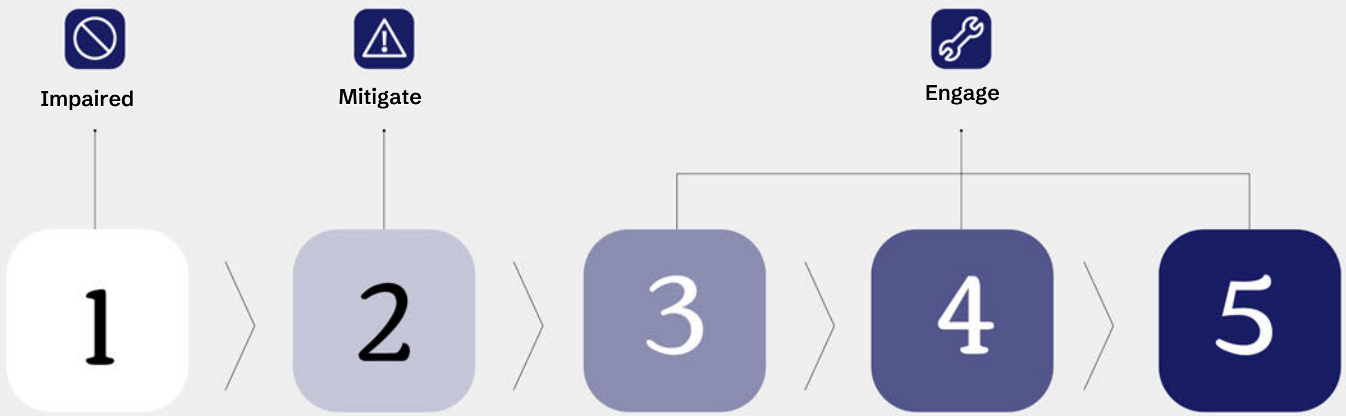
We give the managers a score from 1-5 for each category, which then aggregated, according to the weights, into a standalone sustainability rating between 1-5, which Figure 14 summarises.

This score is then integrated into the wider '5 P' process as a standalone score and reflected in the overall assessment of the strategy.

Where we identify areas for improvement, we will communicate this with our managers; clearly outlining our expectations. If our monitoring identifies significant concerns with our expectations of future long-term performance, we will look to make changes such as changing the underlying manager, closing funds or reducing our allocation to managers.

Figure 13: Sustainability manager oversight framework

Figure 14: Sustainability manager rating



Monitoring asset managers

Manager Oversight: Case Studies

Case Study 1

Context

As part of our regular oversight, we review both externally and internally managed mandates and collectives. One such fund was an externally managed European equity collective fund held in multiple unit-linked mandates.

Action

In preparation for an upcoming desk review with this fund, we researched the most material holdings in the fund, by size and carbon intensity contribution. We also conducted desk research on the policies and commitments the manager had in place related to stewardship and sustainability. During the desk review, we asked questions to gain clarity on the process of integration. However, we still had questions about the stewardship resources they employ and their policy engagement mechanism, so we set up a deep dive session to provide more insight.

Outcome

The meetings and research fed into our manager oversight assessment for the fund. We gained more understanding of the application of sustainability and stewardship policies in the fund and were reassured of their integration. We awarded the fund a score of 4 out 5 and will continue to monitor and engage with them.

Case Study 2

Context

Where an ongoing upward trend in carbon intensity is identified within a fund, portfolio managers are required to provide an explanation for the increase. A recent example of this would be with one of our UK Equity funds. Our managers regularly provide us with carbon intensity data, the format of which must be on an absolute and relative basis versus benchmark and include trends against a predetermined baseline. The carbon intensity within the fund had shown an upward trend over the previous year and was above the benchmark level.

Action

The manager was challenged on how climate risk was considered during investment decisions. We also undertook forward-looking analysis on the transition pathways of the ten biggest contributors to the fund's carbon intensity and challenged the manager on their engagements with these holdings. We applied the sustainability manager oversight framework to the fund, awarding them a score of 3 out of 5, signifying that we will continue to engage with them on improvements in climate risk integration and monitor any areas of concern. We noted that action would be taken if we considered the fund to not be sufficiently considering and managing climate transition risk.

Outcome

The manager has committed to ensure the carbon intensity trend of the portfolio is in line with our risk management expectations. As at year end 2023, the carbon intensity of the fund had reduced. Further actions that can be taken if we believe the manager is not actively implementing measures for change include placing the desk on watch, preventing further investments to the fund and, in extreme cases, moving the assets to a new manager.

Case Study 3

Context

Following previous desk reviews, our attention was drawn to two regional equity funds with the same manager where there were concerns about the integration of sustainability in the investment processes. These funds were managed by different portfolio managers and neither had provided sufficient comfort on how sustainability was integrated.

Action

We expressed our concerns to the manager, and they set up deep dive sessions with both portfolio management teams. Both teams were able to articulate their processes for integrating sustainability considerations quantitatively and qualitatively and were able to give good examples of how these considerations had influenced their decision-making. They also spoke on how they engaged with companies to ensure that climate risks were being managed.

Outcome

We awarded both funds 4 out of 5 on our manager oversight assessment, with the intent to monitor the funds to understand the implementation of the specific voting guidelines and escalation methods they stated they employ.

Monitoring and holding service providers to account

In addition to our asset managers, UK IWR adheres to the requirements set out by the Group in order to select, manage and oversee our suppliers, including service providers that may play a role in effective stewardship.

We have regular communication with our service providers, with an operational and controls focus to ensure alignment with our expectations.

We work hard to make sure our supply chain is responsible and sustainable. We do thorough checks of suppliers before we begin working with them and ask that they sign our Supplier Code of Behaviour.

We continue to engage them around sustainability issues over time. We also help influence our suppliers to act now around the big issues like climate change.

Influencing suppliers

We aim to have Net Zero operations by 2030. To support our Net Zero ambitions, we are working with our partners to help decarbonise our supply chain, supported by our science-based targets. Our near-term ambition is for 70% of our suppliers (by spend) to set science-based targets by 2025.

To deliver this we implemented a number of initiatives in 2023:

- We are supporting new and existing suppliers with clear sustainability guidance as part of the contracting process.
- Sustainability and carbon questions are included in all our Request For Proposal (RFP) and Request For Information (RFI) processes and form part of our consideration for purchasing decisions.
- Sustainability and carbon questions are a part of our supplier onboarding process.
- We introduced incentives for suppliers that meet our sustainability requirements.
- Sustainable sourcing training will be conducted annually to upskill all our buyers to equip them with the knowledge required to engage suppliers on sustainability.

By the end of 2023, 35% of suppliers by spend had already signed up to Science-based targets.

Supply Chain Engagement

Engaging with suppliers, including those suppliers supporting our claims management from our underwriting activities, on their emissions is key to achieving our ambitions. We hosted the second supplier summit in November 2023; an event attended by 250 attendees, and representation from over 100 of our supply chain partners to update on our Net Zero agenda, to drive action and to provide opportunities for education and collaboration.

We will continue to provide support to our supply partners through regular conversations via our supplier management community as well as a written guidance pack, outlining our expectations of suppliers and highlighting resources that will ensure suppliers are able to align to these. We will also continue to develop the content available on our Aviva external supplier site, geared towards both small and large businesses.

Operational oversight monitoring review

Context

UK IWR conducted an oversight monitoring review of one of our external managers who had recently been taken over, focusing on operational processes and controls, in addition to change management governance around the integration of the business into existing the new firm's standard operating model.

Activity

The governance team held review meetings with operational and change management subject matter experts (SMEs) to understand how the change in ownership has impacted operational processes, systems, policies and the overall control environment related to UK IWR investments.

The review included discussions with key personnel and analysis of documentation including the updated Risk & Governance structure, company policies, and project plans for key operational system changes.

Outcome

Our team are satisfied that the information provided during the review demonstrates that a strong risk and control environment exists, and that operational and major change processes are functioning in a manner that does not create undue risk for UK IWR.

There were no specific follow-up actions or changes to the existing oversight framework recommended as part of this review, and ongoing oversight activity will continue to monitor the operational changes resulting from this change in ownership.

Monitoring and holding service providers to account

Monitoring data providers: Case Studies

Case Study 1

Context

Aviva has been sourcing climate-related data from a data provider since 2021 to support ESG reporting and disclosures. Since 2022, UK IWR has worked with other business areas and functions in Aviva that include Aviva Group and Aviva Investors, to review our data requirements. This is due to the evolving nature of the topic and corresponding change in offerings from other climate data vendors.

Action

The review for alternative providers was composed of four phases, following Aviva's procurement guidelines. This focused on understanding the use-cases and testing the functionality of offerings by a range of subject matter experts (SMEs) across the business.

Outcomes

The RFP process was completed in early 2024 and two primary vendors were selected for extended evaluation based on the complexity and maturity of the offering. Climate financial risk modelling is a new and fast evolving area, and the decision of the RFP was based on the new models and methodologies provided by components of the vendors' offerings.

Case Study 2

Context

In 2021, Aviva Investors outsourced the pre-investment climate assessment for the private assets to specialist consultant. UK IWR has collaborated with them and Aviva Investors on the development of the assessment methodologies for origination assets Within this scope, the consultant created an excel-based tool that aims to provide an indication of climate metrics to support the decision-making process.

The tool enables the quantitative assessment of several sustainability metrics and supports Aviva Investors and UK IWR with quarterly carbon footprinting for the different asset classes based on PCAF methodologies.

Action

UK IWR's Sustainable Investments Team reviews the outputs for each private asset origination and quarterly reporting in terms of the methodology and non-climate data (financial data and FX rates) used in the tool and data model. This can include challenging the provider on reported emissions data (if available) and emission factors used for estimation of emissions, with a view to improving data quality.

For our Asset Origination business within the shareholder investments, any potential investment opportunities considers these carbon metrics. Our originators conduct due diligence on the dataset and present us with a broad level of considerations together with credit risk and pricing metrics.

Outcome

To become Net Zero by 2040, both pre-investment climate assessment and regular monitoring of the progress against ambitions will be critical for Aviva. The origination tool is particularly useful and important for the decision-making in investment and sustainability teams as emissions data is limited for private companies, infrastructure project finance and real estate financing.

With the continuous improvements made in the tool as per UK IWR's feedback, data quality scores and sectoral coverage have increased since 2021, particularly in 2023. Further, both Aviva Investors and the provider now have better quality control and documentation process in place.

UK IWR will be working with the data provider to improve the tool further in 2024 by closely following the developments in the PCAF Standard and methodologies as well as the sectoral initiatives' guidance (i.e. NZAOA) for carbon footprinting.

Chapter 4: Engagement

At Aviva, we seek to drive real world outcomes at multiple levels to drive long-term value for investors.

These levels extend from direct engagement in local communities, to corporate engagement, through to sector-level and value chain engagement, to the country level and with international institutions.

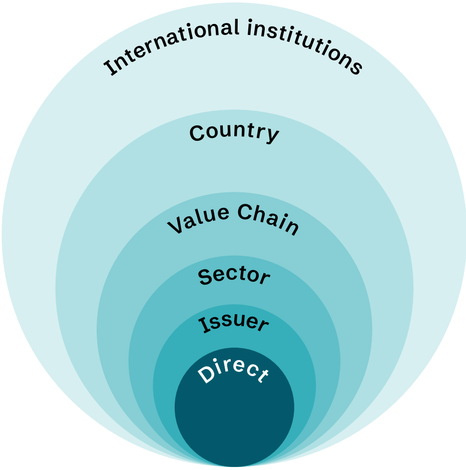
Whilst corporate engagement is crucial for driving value-enhancing change in companies, its impacts is limited in addressing systemic risks and market failures including the rewarding of unsustainable behaviours.

Given that only governments can enact the policy interventions needed to correct market failures, we engage in macro-stewardship to advocate for the adoption of necessary policy interventions.

We believe insights from corporate engagements and investment teams should be harnessed to ensure that macro-level engagement with those who shape markets is robust and well-informed. Conversely, the macro-level piece helps foster the policy and regulatory environment for direct engagements to be more effective. We call this holistic stewardship.

Please refer to Chapter 5 for more detail on how Aviva has collaborated and led on broader market initiatives to support the macro-level engagement for system change.

Figure 15: Engagement



Engagement

Our approach - corporates

For listed companies, Figure 16 displays how engagement targets are identified, and Figure 17 demonstrates how engagement activity is then delivered at Aviva. This defines our engagement approach for both equities and corporate debt, which captures most assets invested in our customer funds.

There are many forms of engagement, all of which are important. We define substantive corporate engagement as persistent and purposeful interaction and partnership with investee companies. These interactions are where the asset managers have identified and raised specific topics with investee companies. We expect our asset managers to set clear, well-defined, time-bound objectives for investee company action.

Expectations of managers

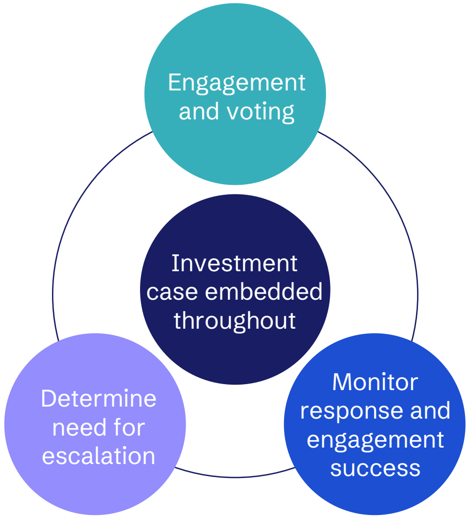
UK IWR delegates its engagement activity which applies equally to actively and passively managed holdings, to its asset managers under the provisions of the respective investment management agreements.

We expect engagement behaviour to be consistent with the Aviva Sustainability Ambition as well as the UK IWR Responsible Investment Policy and Voting and Engagement Policy.

Having robust processes in place to monitor our asset managers allows us to leverage their expertise and resources to deliver the desired engagement outcomes.

As mentioned in Chapter 3, we have updated our manager oversight framework to more explicitly monitor

Figure 16: Identifying companies for engagement



and assess their engagement activity and consistency with our priorities and the holistic approach we describe above.

We continued to intensify our oversight of our asset managers' engagement activity through quarterly updates on key initiatives and deep-dive sessions on a bi-annual basis where our managers provide insights into engagement and voting activity related to our investment mandates.

Figure 17: Engagement execution

This includes details on engagement successes as well as updates on where engagement has failed, and some form of escalation has been required.

Our approach - real assets

We also have exposure to other asset classes across both customer and shareholder funds, including property and infrastructure, and will engage across other asset classes on an ad-hoc basis.

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 sustainability issues with our customers, including borrowers and occupiers, suppliers and the communities we operate in.

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 the borrowers in creating covenants and incentives that mandate or encourage environmental and social impacts.

In equity investments where we own assets directly, Aviva Investors will engage with occupiers and our suppliers to reduce building energy use and engage communities to create positive social impacts.

Our engagement themes

Our engagement priorities are aligned to our Sustainability Ambitions - Climate Action, Social Action and Sustainable Business.

Aviva Investors' annual letter was sent to more than 1,500 companies across 30 countries and outlines a concerted focus on:

- the cost of living crisis;
- transitioning to a low-carbon economy; and
- reversing nature loss.

Engagement with corporates

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

In-house engagement

In 2023, Aviva Investors, who manage the majority of our assets, carried out 2,993 engagements throughout the year. This included 1,276 substantive engagements and 1,345 collaborative letter-based engagements.

Additionally, Aviva Investors had 18 modest wins, where they saw changes in corporate behaviours in line with their prior engagement asks as well as 22 potentially material wins where changes have been meaningful for the business both in terms of financial materiality and in terms of social and environmental impact and outcomes.

Figure 18: Aviva Investors engagements by region

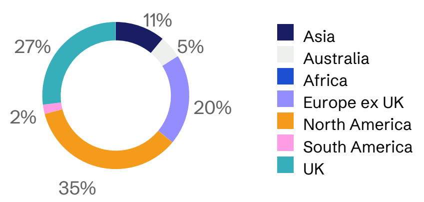
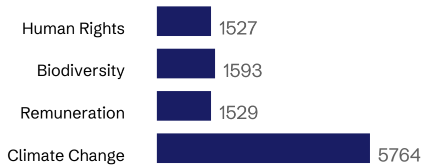


Figure 19: Aviva Investors engagements by themes



Schroders

In 2023, Schroders undertook 600 engagements on our behalf. Figure 21 below demonstrates these engagements by theme and Figure 22 demonstrates the number of engagements on Aviva's key engagement topics in 2023.

Figure 20: Schroders engagements by region

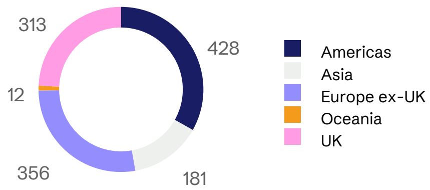


Figure 21: Schroders engagement on key engagement themes in 2023

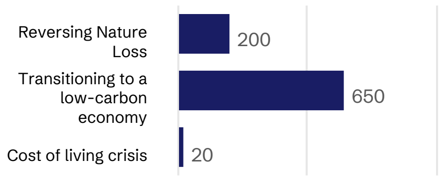
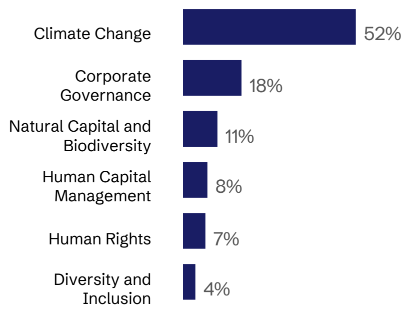


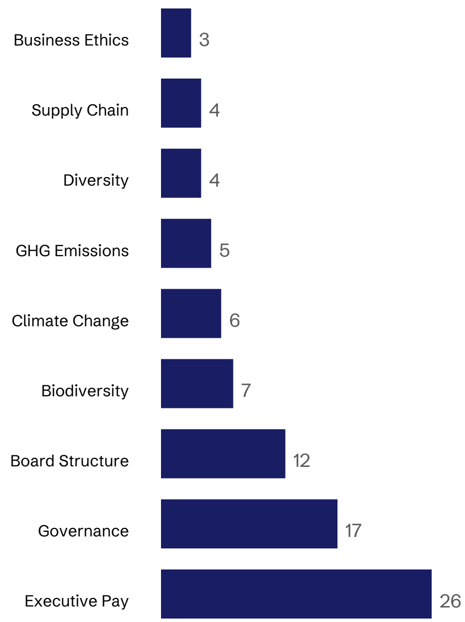
Figure 22: Schroders engagement by theme



Fidelity

In 2023, Fidelity undertook 46 engagements with 35 investee companies on our behalf for a European equity mandate. Given this mandate, all engagements occurred in Europe. Figure 23 below demonstrates these engagements by theme in 2023.

Figure 23: Fidelity engagements by engagement themes in 2023



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

Engagement with corporates: Case studies

Escalation

The cost-of-living crisis
Decent workplace conditions - living wage, collective bargaining and a just transition

Issue

In the automotive sector, a drawback of globalisation has been a rise in the exploitation of workers in regions where labour standards are weak, which perpetuates inequality and contributes to global poverty. From a climate point of view, the decarbonisation of the sector through electrification and EV uptake is critical to the transition to a net-zero economy. Since the sector directly employs close to one million workers in the US alone in the manufacturing of internal combustion engines (ICE), it is important to meaningfully consider a just transition in its decarbonisation and labour management plans. This can take the form of engaging with labour unions to co-develop workforce plans that include earmarking budgets for training, reskilling and redeployment of staff, as well as early retirement. In 2023, Aviva Investors observed the consequences of poor labour relations in this sector, with coordinated strike action by the United Auto Workers union targeting the Big Three automobile manufacturers, with union strikes costing one company approximately $200 million a week.

Regarding supply chain due diligence, companies have relied on social audits and disclosures and/or outcomes of voluntary initiatives. However, both have historically been limited with a lack of meaningful results. Considering regulatory developments in Europe and elsewhere, companies will need to move away from these and shift toward mechanisms which are worker-centric, involve collaboration and have strong accountability frameworks in place. One such mechanism is Global Company – Trade Union Agreements (GC-TUAs) put forward by IndustriALL Global Union, which argues that GC-TUAs "could provide a proxy for investors for quality of human rights due diligence and regulatory compliance for specific risks, notably on freedom of association and labour risks addressed by agreements".

Action

Aviva Investors has been engaging with two auto companies on these topics. Through their Social Transition Engagement Programme (STEP), they have also been engaging with an automotive technology supplier and discussed the company conducting a human impact assessment, taking action to mitigate and remediate human rights issues and committing to paying workers a living wage. Through joint engagement with their credit, equities and ESG teams, Aviva Investors also engaged with Ford to better understand its ambitions for its electrification strategy given the current economic context. Specifically, they also wanted to better understand Ford's labour management in relation to the EV transition and in light of negotiations with US and Canadian unions. As part of this, Aviva Investors revisited their asks on capital expenditure on a just transition of its workforce, such as through training, reskilling and early retirement packages if necessary.

Aviva Investors also jointly hosted a roundtable on supply chain labour rights with IndustriALL Global Union. In it, they explored the challenges associated with social auditing in global supply chains and emphasised the importance of endorsing worker-centric models grounded in binding agreements between global corporations and trade unions, and the role investors can play in this.

Outcome

Aviva Investors escalated their concerns over human rights risks management with the automotive technology supplier, through a vote against one of its directors at the company's 2023 AGM. This was due to slow progress on our asks, particularly with regards to human rights due diligence, and concerns over living wages. Following the AGM, Aviva Investors met the company to discuss these issues and found the responses suggested a lack of confidence in meeting Aviva Investors' engagement asks. Whilst they did note a commitment to conduct a human rights due diligence process using an internal system and to provide additional disclosures, Aviva Investors' investment teams decided to re-evaluate the company's suitability for their portfolios, especially in light of the company's exposure to human rights risks. They divested their holding.

With Ford, Aviva Investors are pleased with the outcome reached with the Canadian union regarding its workforce. The company has agreed to pay increases worth up to 25 per cent over the three years of the contract as well as bonuses, improved retirement benefits and, importantly, measures to protect employees as it retools factories for EVs. The company also has a dedicated budget for employee training and reskilling.

In the roundtable, investors showed interest in the need for a comparative analysis between social auditing, company-led initiatives and GC-TUAs, which Aviva Investors will discuss in further meetings.

During a meeting with the Investor Relations team in April, Schroders discussed the company's ongoing efforts around ensuring diversity of perspectives in decision-making and efforts to improve female talent in the industry through apprenticeships and workforce re-entry programs. Schroders took the opportunity to reiterate expectations on board gender diversity and encouraged the company to set a target for female representation on the board.

In September, discussions continued around board gender diversity with Investor Relations and the company's corporate governance experts. During the call, Schroders noted female representation stood at 15% and expressed intentions to vote against the re-election of the Chair of the Nominations Committee at the upcoming Annual General Meeting due to the lack of progress on gender diversity. Moreover, Schroders expressed concerns about the lengthy tenure of the Chair of the Nominations Committee, as well as potential over-boarding given their membership of five company boards, which is not aligned to corporate governance best practice.

Engagement with corporates: Case studies

Escalation

Transitioning to a low-carbon economy

Plotting the flight path to mainstream sustainable aviation fuels

Issue

In 2023, to contribute to real-world decarbonisation, Aviva Investors expanded their flagship Climate Engagement Escalation Programme (CEEP)[1] to focus on hard-to-abate sectors that directly depend on hydrocarbon products. This approach reflects the interlocking nature of supply and demand; engaging with supply-side alone will not be sufficient to accelerate the energy transition at the scale required.

Aviva Investors also embraced a more holistic "value chain" approach towards engagement activity – focusing on bringing together relevant sectors and their respective trade associations and regulatory bodies to discuss shared sector- and value chain-wide and systemic bottlenecks impeding decarbonisation. These discussions also encompassed subjects such as the need for shared infrastructure investment and technologically feasible, economical solutions to enable a net-zero energy transition; as well as greater economic incentives or stable, predictable and reliable policy frameworks to build a business case.

In order to deliver on the twin objectives of decarbonisation and energy security by 2030, and beyond that to 2050, Aviva Investors believe "systems wide" mobilisation is required – this involves working across sectors, with other sectors and with governments to synchronise efforts, share insights and optimise the value chain. Policy efforts also need to be intensified to level the playing field and de-risk emerging technologies.

Action

Building upon their multi-year engagement on the transition strategies of global airlines, in June 2023 Aviva Investors brought together companies from across the aviation value chain – including airlines, engine manufacturers and biofuel producers – in a roundtable to discuss key opportunities and challenges impeding decarbonisation. They sought to collectively identify key policy mechanisms that would help create a more enabling environment for these businesses and their respective sectors with respect to decarbonisation efforts, and to improve market conditions for low-carbon investment. Aviation currently represents two and a half percent of global CO2 emissions, with demand for flights expected to double by 2050.

Outcome

The insights from this half-day event have helped inform Aviva Investors' company-level, industry and macro views and tangibly shaped the direction of their Macro Stewardship team's policy development and engagement programme with government, regulators and standard setters for 2024 onwards. Aviva Investors' forthcoming report, Boosting Low Carbon Investment in the UK: A Policy Roadmap, recommends several concrete areas where policy could help facilitate a more viable sector-wide energy transition.

See more information on their policy work here (click here).

Please see page 60 for more information

Collaborative sovereign climate engagement in Australia

Issue

Climate engagement is a key tool for all responsible investors, including sovereign bondholders where the counterparties – government policymakers – set "the rules of the game" across entire economies. This creates an opportunity to gather information, encourage decarbonisation within the sovereign debt holdings, and complement Aviva Investors' corporate and macro stewardship activity.

However, navigating sovereign systems can be complex and resource intensive, and opportunities to engage with major issuers are scarce. This is where Aviva Investors saw a role for collaboration and, in 2022, they helped establish a pilot collaborative sovereign engagement initiative on climate, focussed on Australia and co-ordinated by the UN Principles for Responsible Investment (PRI).

Action

In 2023, Aviva Investors played a leading role in the initiative as an Advisory Committee member, lead investor for the Australia department for climate change and by co-leading an investor field trip. Throughout the year, Aviva Investors added the perspectives of international investors to the policy deliberation process through approximately 30 engagements with Australian sovereign entities and relevant stakeholders, including senior figures from the treasury, department of climate change, state governments, regulators and central bank.

Outcome

While recognising sovereign engagement outcomes can be indirect, slow moving and that the voice of international investors is one amongst many, Aviva Investors promoted actions that can help mitigate climate risk, including by supporting the case for industry-specific decarbonisation pathways. The department of climate change announced plans to develop six sectoral decarbonisation plans in July.

Aviva Investors' investment team gained insights into Australia's improving climate risk management and strengthened their relationship with the debt management office. This contributed to the investment thesis for participating in a syndication of Australia's 30-year bond and entering an overweight position within our Global Bond allocation, in October 2023. The position contributed positively to the portfolio[1].

1. Correct as of January 31, 2024.

By the end of the year, the pilot expanded to a further 18 investors, enabling the group to further specialise. Aviva Investors subsequently became a lead investor for the new federal government working group. They were also invited to PRI In Person 2023 to showcase their approach to policy engagement through the collaboration and their own sovereign engagement activity.

Engagement with corporates: Case studies

Escalation

Green transition at National Grid

Issue

Schroders have been engaging with National Grid, an energy network utility operating in both the UK and the USA, on climate issues since 2010 - focused on both their wider role as a facilitator in the energy transition (connecting low carbon generation, balancing the grid and supporting the decarbonisation of heat) and their company-specific decarbonisation initiatives.

Last year Schroders engaged with National Grid on concerns related to their executive remuneration structure and the company's role as a key energy provider to help reduce consumer energy costs against the backdrop of the cost-of-living crisis. This year engagements focused on decarbonisation targets.

In 2023, Schroders became a contributing investor to a working group convened by the Institutional Investors Group on Climate Change (IIGCC). They collaborated on planning for 2024 engagements with the company, covering the just transition, community benefits, grid connections, lobbying and the new transition plan.

Action

Over the course of the year, Schroders provided feedback on the Future Systems & Network Regulation proposed by the UK electricity regulator OFGEM. This was part of a proactive engagement with electricity transmission owners, government agencies, regulators and other stakeholders to ensure investment levels (and therefore returns) are sufficient to achieve 2035 power sector decarbonisation targets. They discussed future changes in the price control frameworks, the need for increased strategic planning, and the net zero obligation introduced with the Energy Bill.

Schroders held discussions with National Grid (and other utilities such as SSE) with regard to the Science Based Targets initiative (SBTi) and the SBTi's long-term Net Zero Standard. Specifically, for Electric Utilities such as National Grid who also have gas supply / distribution activities, the 2040 net zero target date is problematic given Scope 3 gas Sold Products emissions are likely to still remain at that date (and SBTi had yet to conclude its gas utility / distribution pathway). Schroders also discussed the Electric Power Research Institute (ERPI) SMARTargets research project - a new methodology for emission reduction targets, which National Grid is also participating in.

Further, Schroders engaged with the National Grid Chair to challenge the membership of and involvement with the American Gas Association. Additionally, Schroders collaborated with other Climate Action 100+ investors in requesting the company review its trade association memberships.

Outcome

The CEO of National Grid reiterated their commitment to achieving net zero emissions by 2050 and highlighted that detailed transition plans are released every five years, with the current plan extending to 2026.

However, while Schroders continues to engage with regard to SBTi validation, the issue with Scope 3 gas Sold Product emissions remaining post-2040 has meant that, for the time being, National Grid's SBTi Net Zero Target commitment has been removed (as with SSE).

The Chair of the company detailed how they are reviewing trade associations, which resulted in a Trade Association Review published in March 2024. This confirmed American Gas Association as one of four (out of a total of 35) trade associations being only partially aligned on climate policy engagement. Schroders continues to engage with National Grid regarding its AGA membership. Discussions with the Chair also covered the potential disposal of US gas grids.

Schroders will continue to monitor the company's progress towards their environmental commitments and look forward to additional dialogue on driving efficiencies and reducing emissions in the UK electricity network.

Escalation

Decarbonising the UK electricity market

Issue

Schroders have had a long history, dating back to 2005, of engaging with SSE, a British utilities company, on climate change. Engagements intensified in 2021 with Schroders sending SSE a formal letter asking the company to produce and publish a comprehensive, costed climate transition plan. Moreover, Schroders requested for the company to restate or more granularly disclose emissions and provide responses to the CDP Forestry questionnaire. Since then, engagements have evolved into more technical discussions regarding different approaches for lowering emissions and increasing efficiencies in the British power market.

During 2023, Schroders continued engaging with SSE on climate change. Some engagement took place in the context of an ongoing electricity market review in the UK. The review looks to address long-standing inefficiencies of the British energy market, focused on facilitating the balancing of supply and demand of electricity, and the policies that are meant to incentivise investments in the assets that generate or use electricity. Schroders spoke with company representatives to inform their response to the Review of Electricity Market Arrangements (REMA).

Schroders also had concerns about SF6 emissions - a potent greenhouse gas used in electric power industry for circuit breakers, switchgear, and other electrical equipment.

At the end of 2023, Schroders were invited to be the co-lead engager for the company, as part of their participation in the Institutional Investors Group on Climate Change and the CA100+.

Action

In 2023, Schroders held several technical and high-level meetings with the company's representatives, including the Board Chair. The technical discussions revolved around distribution and transmission related capacity constraints in the electricity market. Schroders sought clarity on the factors behind the constraints and how the company was engaging relevant commercial and government partners to resolve the issues

Engagement with corporates: Case studies

Schroders also held a proactive engagement about proposed regulations and the levels of investment (and returns) needed in the power sector to achieve the 2035 decarbonisation target. This was an opportunity to provide feedback on the potential large-scale changes in price control frameworks due to the ongoing transformation of the energy system. Schroders discussed the need for reform, increased strategic planning, and the importance of periodic reviews for investment transparency. The engagement also delved into the material benefits of change and possible implications of the net zero obligation introduced with the new Energy Bill.

Later in the year, Schroders held several technical discussions regarding the company's SF6 emissions. They asked the company to reduce its SF6 inventory build, particularly in the midst of rapid electricity network expansion in the UK. Speaking with a technical specialist, Schroders enquired regarding the company's SF6 targets and alternative gasses, including the risks and regulatory changes.

Schroders also had a broader conversation with company management including the Board Chair and Chief Sustainability Officer focused on board diversity, emission targets, and renewable energy strategies. Company representatives highlighted plans to increase Scope 1 and Scope 3 emissions disclosure and confidence in meeting their 2030 emissions reduction targets. The engagement covered renewable energy projects and acquisition strategies, including projects in the United States.

Schroders also made a site visit to one of the company's new power stations, which is expected to be the cleanest and most efficient gas-fired power station in Europe. During the engagement, Schroders reviewed the company's 2030 scope 1 carbon intensity target for electricity generation, which plans to reduce emissions by 80% against a 2018 baseline. The company highlighted the importance of low carbon flexible generation, such as gas carbon capture and storage and hydrogen-fired turbines, to ensure a reliable and cost-effective transition to a decarbonised power system.

Outcome

Over the course of their engagement, Schroders have welcomed the company's targets on reducing carbon intensity and have held several technical and high-level discussions regarding climate targets and technologies that could help accelerate decarbonisation. Schroders look forward to future engagement and progress on these topics.

Escalation

Reversing Nature Loss
Addressing deforestation risk in banking

Issue

Deforestation poses a significant threat to wildlife and contributes to the worsening of climate change. The destruction of natural forests to produce commodities including palm oil, soy and cattle harms ecosystems and reduces the number of carbon sinks and biodiverse ecosystems around the world. This could have major economic impacts as the three sectors with the biggest dependence on nature - construction, agriculture and food and beverages - generate around $8 trillion of gross value added, the value of goods and services produced by an industry minus the cost of inputs and raw materials attributed to that output.[1] Banks can have a transformative impact on reallocating capital for a forest restorative future and enhancing due diligence in supply chains. To continue forward movement on this issue, Aviva Investors have engaged through multiple levers including at both direct and sector levels. While individual company engagement can be effective, collaboration with like-minded investors can amplify the impact.

1. New_Nature_Economy_Report_2020 - WEF. (https://www3.weforum.org/docs/WEF_New_Nature_Economy_Report_2020.pdf)

Action

Aviva Investors is a part of the Finance Sector Deforestation Action (FSDA) Group, which acts to use its best efforts to eliminate commodity-driven deforestation from its portfolio by 2025. They led engagements with the Bank of Montreal and the Commonwealth Bank of Australia, and acted as a supporting investor with Bank Mandiri. These companies' lending activities were identified as having high risk exposure in research informed by Global Canopy's Forest 500 list, which tracks the most influential firms linked to deforestation in their supply chains and investments. Aviva Investors' dialogues have focused on encouraging these firms to provide further information on their approach to deforestation risk, their responsible lending requirements and how they are working to be deforestation-free.

Aviva Investors' nature team also held two one-to-one engagement calls with Barclays. One focused on strengthening the company's lending requirements under palm oil, soy and beef supply chains to consider stricter components under its deforestation policy, as well as another engagement which focussed on learning more about how it contributes towards reversing biodiversity loss.

Outcome

Engagement with financial institutions overall proved fruitful. Bank of Montreal is taking steps to collect information on its clients, and Aviva Investors look forward to seeing how the bank uses this data to reduce its exposure to deforestation risk. Similarly, the Commonwealth Bank of Australia also updated its Environmental and Social Framework, which now excludes project financing to companies that operate in Ramsar sites, which are wetlands designated as of international importance. Dialogue with Bank Mandiri was positive as Aviva Investors found the company is undertaking nature rehabilitation in post-mining activities. Going forward, they will focus on the bank making an overarching commitment to deforestation.

Aviva Investors' engagements with Barclays were also insightful. Not only is the company making steady progress on deforestation issues, but it is also developing a programme of work which will focus on sector-level deep dives and building on existing disclosures which will focus on dual materiality. Barclays has also been supportive of the Taskforce on Nature-related Financial Disclosures (TNFD) framework, which sets out recommendations for companies on

Engagement with corporates: Case studies

disclosure of nature-related dependencies, opportunities and risks, and was involved in the pilot.

Reducing the environmental impact of soy production

Issue

Soy is the main source of protein in our global food supply – over 75 per cent of soy produced is used for animal feedstock and consumed indirectly by humans through foods as meat and dairy. With meat production more than tripling over the past 50 years, global soy production has increased ten-fold over the same period, which has led to increased deforestation and degradation of vast areas of natural habitats (forests, savannah and grasslands) in South America.

Action

Aviva Investors have engaged with Cargill, the global food corporation, on multiple occasions throughout 2023 as part of the FSDA Group. Following the sharing of their Investor Expectations, Aviva Investors engaged with the company at an ESG road-show, where they shared best practice on water and deforestation risks, as well as signalling they wanted further engagement under the FSDA. Consequently, Aviva Investors co-led an FSDA engagement call focused on what a strong deforestation commitment looks like, traceability and monitoring mechanisms for soy, reporting expectations and how certification can be used to support delivery of deforestation free supply chains.

Outcome

Aviva Investors are extremely pleased that Cargill has announced a commitment to eliminate deforestation and land conversion from its direct and indirect supply chain of key row crops in Brazil, Argentina and Uruguay by 2025. This includes several commodities – soy, corn, wheat and cotton. This builds on the company's global commitment on deforestation-free commodities and conversion-free soy across South America by 2030. Going forward, Aviva Investors will continue to engage with the company on its new commitment and how this aligns with their Investor Expectations as part of FSDA.

Engaging with water companies to improve the health of British rivers

Issue

In the UK, water companies have faced public scrutiny relating to sewage being pumped into the country's waters. The Environmental Agency (EA) has set a target for 75 per cent of UK rivers to have "good" ecological status by 2027, but currently only 14 per cent of UK rivers have this status. The Environmental Audit Committee further stated sewer overflows are the driver for 36 per cent of water bodies that fail to reach "good" status. In 2021, the EA and Water Services Regulation Authority (Ofwat) launched an investigation into sewage treatment works after checks led to water companies admitting they could be releasing prohibited sewage discharges into rivers and streams. Given this, and the intense media and civil society scrutiny on sewage discharge, the Department for Environment, Food and Rural Affairs (DEFRA) released its Storm Overflows Discharge Reduction Plan. This sets new targets which require water companies to deliver more ambitious infrastructure.

Action

Aviva Investors engaged with Severn Trent throughout 2023, independently and as part of the Investor Forum Water Project. Most recently, they met with the company through the Investor Forum following a letter sent, to discuss material long-term challenges for the UK water sector, including redefining these companies' license to operate and ability to meet environmental and financial resilience targets.

In addition, Aviva Investors' Sustainable Finance Centre for Excellence provided feedback to DEFRA on its Storm Overflows Discharge Reduction Plan, stating that it was not considered ambitious enough. Aviva Investors further highlighted that the plan was too narrow in scope through only giving targets for water companies, that its timeline was out of touch with other environmental targets, and that under the plan, half of storm overflows would still be spilling untreated sewage in 2040 as they were not in scope. They also flagged these concerns in their submission to the Environmental Audit Committee's call for evidence on the role of natural capital in the green economy. Through the Investor Forum Water Project, Aviva Investors also raised the issue and their expectations with DEFRA, The Environment Agency and Ofwat.

Outcome

Pleasingly, Severn Trent launched its "Get River Positive" pledges after Aviva Investors' initial engagement on water quality issues, with new targets and commitments for investments. The company introduced a target that its operations will not be the reason for unhealthy rivers by 2030, based on EA measures (RNAGS), and that it will reduce spills from storm overflows to an average of 20 per year by 2025. Aviva Investors commend the fact Severn Trent now attributes eight percent of all employees' bonuses to progress made on river health - specifically, on its new pledge to ensure storm overflows and sewage treatment works do not harm rivers. This takes the total proportion of environmental performance as part of its bonus allocation up to 20 percent. Overall, Aviva Investors are pleased with the progress Severn Trent are making relative to its peer group.

In addition, Aviva Investors were pleased to note that in DEFRA's response to the submission, it has modified the plan and incorporated one of their key asks. Now, all storm overflows are included within the scope of the plan. Importantly, this includes storm overflows on coasts and estuaries, which were previously considered out of scope. It has also included a goal to limit sewage discharge for all high priority sites by 2040.

The plan frontloads action in particularly important and sensitive areas including designated bathing waters and high priority ecological sites such as Sites of Special Scientific Interest (SSSIs), Special Areas of Conservation (SAC) and chalk streams.

Engagement with corporates: Case studies

Encouraging a more circular plastics economy

Issue

The rapid growth in global plastic production from fossil fuel feedstock and mismanagement of post-consumer plastic waste disposal has resulted in a global plastic crisis. Plastic used for packaging is a key contributor to the crisis: around 40 per cent of the 40 million tonnes of plastic produced annually is used in packaging applications, contributing to nearly 50 percent of all plastic waste. Consumer-facing companies with a significant packaging footprint need to prioritise their transition to a more circular economy, in which the focus moves away from material recyclability as the goal and onto designing products with reusability as a core tenet, for instance through refillable models in addition to achieving high rates of recycled content.

Action

Aviva Investors co-signed the Investor Statement on reduction of plastic packaging and waste, coordinated by the Dutch Association of Investors for Sustainable Development (VBDO). This called for 20 intensive users of plastic packaging to reduce their consumption of single-use plastic packaging whilst implementing reuse systems for packaging, phasing out hazardous chemicals in plastics and advocating for policies supporting these actions.

Separately, Aviva Investors engaged beauty and fragrance company Estée Lauder. While the company has a target to make 75-100 percent of packaging recyclable, refillable, reusable, recycled or recoverable by 2025, Aviva Investors believe this target combines too many approaches with very different sustainability attributions. They therefore recommended the company separate these categories and report on them separately, and by packaging material. They also signalled the need to prioritise refillable packaging with high recycled content.

Outcome

Whilst there is further work to be done, Aviva Investors are pleased with the progress that is being made among companies targeted by the collaborative initiative. To name a few, Beiersdorf has launched an initiative to provide substantial funding to plastic waste recycling organisations that have a social business approach; Unilever has decreased its use of virgin plastics by 13 percent and dramatically increased the proportion of recycled plastic it uses; and Nestlé has invested in Impact Recycling.

Estée Lauder also made progress by reporting the amount of virgin petroleum content in its plastic packaging. This helps Aviva Investors assess recycled content in its packaging. While more progress is needed on packaging performance and reporting, Aviva Investors see it as positive that Estée Lauder is a member of several relevant initiatives, such as the Ellen MacArthur Foundation, and that it has made progress against its target to increase the amount of post-consumer recycled (PCR) material in packaging to 25 percent or more. Aviva Investors will continue to call for a further breakdown of data on materials used and its sustainability attributions, as well as refillable packaging initiatives.

Plastics and deforestation with Nestlé

Issue

In 2023, Fidelity engaged with Nestlé on a number of key themes including plastic and packaging and biodiversity.

In the past year, plastic and packaging has been a far more prominent engagement topic compared to before, partly enabled by innovations in barriers to protect the quality and safety of products while still enabling recyclability. There was also a notable emphasis on the need for standardised global regulations. The concern is that lack of influence over the global policy agenda could mean that policy limitations become the scapegoat for Fast-Moving Consumer Goods (FMCCs) not meeting their 2025 targets.

As an action item from a call held in 2021, the investor group asked Nestlé to share the results of an internal investigation regarding potential deforestation events in three mills – Serijaya Industri, Kapilit and Dumpas. Nestlé confirmed that the mill list on their website was out of date and that they no longer had relationships with any of the three of the identified mills. This was based on deforestation incident warnings that Nestlé had received via their own monitoring systems. In all three cases, Nestlé could not verify whether or not the incident of deforestation had occurred and so took the precautionary approach to end the relationship with these mills. As part of Nestlé’s Forest Positive Strategy, published in 2021, they committed to 100% deforestation-free meat, palm oil, pulp and paper, soy and sugar by 2022 and by 2025 for coffee and cocoa.

Action

Fidelity had a meeting with the company earlier in the year, where they were bullish on mechanical recycling solutions. Since then, however, the company has been more receptive to Fidelity’s engagements and the emphasis of engagements on this topic has shifted towards opportunities in ‘paperisation’ to reduce virgin plastic use.

Outcome

Nestlé has made reasonable progress towards their 2025 plastic targets and are confident that they are on track to meet them, with a pipeline of initiatives to help accelerate progress. Fidelity recommended that Nestlé continue to scale their reuse and refill solutions in the portfolio, and work towards a total plastic reduction target, acknowledging the need to decouple growth with plastic use.

It is encouraging to see that Nestlé's own systems flagged the issue of deforestation risk in their mills. However, Fidelity encouraged the company to update their supplier and mill list to enable effective external verification and monitoring.

Engagement with corporates: Case studies

Escalation

Other Themes

Corporate governance and diversity in Japan

Issue

Japan's corporate governance practices have historically been lagging compared to international peers. For example, this was reflected in challenges in board composition, particularly director independence and gender diversity. Corporate reforms were considered key to unlocking shareholder value in the Japanese market. More dynamic and diverse boards will be vital in driving that transformation.

Action

As part of Aviva Investors' long-standing collaboration with the Asian Corporate Governance Association (ACGA), they co-signed a letter to the Tokyo Stock Exchange (TSE) on enhancing gender diversity at board and management of TSE Prime companies in September 2022. Aviva Investors supported phased amendments to both the TSE listing rules and Japan Corporate Governance Code and made several recommendations for strengthening the role of women in senior management positions in Japan and on improving governance systems of companies to facilitate the nomination of more female directors.

In addition, Aviva Investors continue to take voting action to express support or dissent on key governance matters, including voting against senior directors if there are concerns over the lack of diversity on the board.

Outcomes

This year has seen a decline in Aviva Investors' votes against Japanese companies (234 compared to 261 in 2022) as a result of improved female representation on Japanese boards. Going back just a couple of years, in 2021, the average percentage of female directors on Japanese boards was 8.7 percent. The average is now over 12 percent.

It is a good example of how persistent and collaborative engagement can be a powerful means of change. Having a seat at the table can bring positive, real-world impact.

The issue is getting greater attention, and Aviva Investors welcome the fact the Japanese government has finalised the requirement for all companies listed on the Prime market to achieve at least 30 percent female representation by 2030.

Escalation

Digital rights and governance at Meta

Issue

The safety of users' online experience is a material risk at Meta. Schroders' engagement with Meta has been developing since 2018, when they engaged on General Data Protection Regulation (GDPR) issues facing the company. From then, their engagement has focused on Meta's content moderation policies and practices.

Action

Over the course of 2022, Schroders held several engagements including requests for disclosure, direct engagement, and dialogue as part of an investor group. At the company's Annual General Meeting (AGM) that year, Schroders publicly supported a shareholder resolution on digital rights. They had the opportunity to meet with the company's product policy lead to understand the efforts in mitigating harm and encouraged further research on the concentration of harm on the platform. Schroders urged Meta to disclose prevalence metrics by language or geography.

Additionally, Schroders collaborated with other investors on various occasions, to address AI considerations as well as corporate governance and board structure. They signed collaborative letters and held calls and meetings with the company's Directors and the Vice Presidents.

In 2023, Schroders' dialogue continued on human rights, ethical AI, and governance through individual and group engagements. Throughout the year, Schroders have joined group investor calls and asked questions at the AGM on how the company measures the concentration of harm amongst users and disclosure of key metrics split by geography. They did not receive a response at the time.

Schroders followed up their concerns on human rights by participating in another group call with the company's human rights experts, Company Secretary, and the Investor Relations team. They discussed conflicts between human rights policies and business objectives, crisis protocols in at-risk countries, links between compensation and human rights, targeted advertising, and responsible use of AI.

Schroders also expanded the focus of their engagement to governance issues in the context of shareholder rights and the risks faced by the business. They joined a group call led by the Illinois State Treasurer's Office regarding the role of the Lead Independent Director (LID) and the company's dual class share structure.

Outcome

Regarding the governance concerns, Schroders learned from company representatives that they understand shareholder concerns about the role of the LID and the combined Chair/CEO position. The company emphasised the founder's long-term vision for the company and the ability to make long-term investments without quarterly pressures.

Schroders appreciate the company's willingness to engage and look forward to further progress on content moderation, disclosure, board independence, and alignment to shareholder expectations.

Driving value for customers and shareholders at Siemens

Corporate Governance

Issue

In 2023, Schroders initiated several engagements with Siemens, a large European Industrials company on governance, corporate structure, and the impact of the company's products and services on driving positive environmental change.

Engagement with corporates: Case studies

Action
Schroders' European Large Cap desk wrote a letter to the CEO requesting improvements in shareholder value. The focus was on three key areas: the potential for individual divisions to operate as standalone businesses, R&D synergies between industrial divisions, and the valuation discount from the existing corporate structure. Schroders later met with the CEO to discuss these topics and followed up by email with detailed suggestions on how business operations could be streamlined, with a view to delivering improved shareholder returns.

In a follow up email exchange with Investors Relations, Schroders gleaned insights into the company's financial plans and shareholding structure. Company representatives shared details and timelines for a planned demerger. Schroders also discussed financial arrangements with an affiliate company, including fees for using the company's branding. They followed up again on the subject in November, gaining clarity on the demerger, expected shareholdings, and outstanding payments.

Outcome
Towards the end of 2023, investors in the Schroders listed equity impact teams developed a multi-year engagement strategy for the company as part of the impact investment framework. The objectives of the engagement covered:

- How the company's product range is driving impact for its customers through avoided emissions – including monitoring progress and understanding methodology.
- What key product areas across the company's three main divisions are driving the most efficiency and productivity.
- How the company approaches supply chain transparency and risk management.
- How the company compares to peers on key governance and sustainability metrics.

Schroders engaged one of the company's sustainability experts to discuss these areas in greater detail. The dialogue revealed that over 90% of the company's business contributes to positive sustainability impact, with key impact areas identified as: decarbonisation and energy efficiency; resource efficiency and circularity; people centricity and societal impact.

Over the course of this engagement, Schroders have provided substantive feedback on how the company can improve business value and positive impact for customers. The company's willingness to engage with investors is appreciated and the prospect of future engagement on these topics is encouraging.

Understanding Amazon's human capital management practices and improving disclosure
Human Capital Management

Issue
Health and safety issues are important to avoid employee injury, and other knock-on effects such as poor morale, high turn-over, and legal and reputational issues.

Schroders have been engaging Amazon, the major North American technology company, since 2015, as outlined in last year's report. In the past, engagements focused on pushing for greater disclosure on culture and turnover rates. However, Amazon has improved disclosure, and now reports on injury rates and lost time training. Nevertheless, Schroders are continuing to encourage the company to consider disclosing a more in-depth breakdown of health and safety turnover statistics, such as by employee type, as well as increase transparency around contractor health and safety data.

Action
In 2023, Schroders wrote to the company to reiterate their request for increased transparency on health and safety and turnover rates. Subsequently the company invited them for a tour of a fulfilment centre, which was followed up with a call to clarify the performance management systems in place and how the company ensures the implementation of safety policies in fulfilment centres.

Schroders reiterated their perspectives on health and safety in writing to the company and ahead of the May 2023 AGM. They met again in person in October to discuss a range of sustainability topics, delving into grievance mechanisms and the use of contractors in relation to human capital management. Schroders followed up the in-person meeting by sharing examples of other companies that disclose contractor safety data.

Outcome
Moving forward, Schroders will continue to engage with Amazon on human capital management issues and remain appreciative of the responsiveness of the company to their engagements.

Escalation

Respecting the land rights of Indigenous communities
Climate Change, Human Rights

Issue
Schroders had been engaging Rio Tinto, a major miner, for two decades on sustainability issues when the company damaged parts of the Juukan Gorge in Australia in 2020. The lands were of significant cultural importance to the Kurrama and Binigura Indigenous peoples, the traditional owners of this land. Leading up to the incident, Schroders' engagements spanned a wide range of issues, including the company's social license to operate, compliance with local legislation, and value to local communities beyond tax contributions. Schroders often discussed how to strengthen relationships with local communities and governments, working towards sustainable agreements for mining operations and enhanced operational standards.

Over the years, the company has undergone changes in their leadership. While they closely monitored the company's progress, Schroders escalated the engagement in 2022 by voting against the re-election of the People & Remuneration Committee Chair due to concerns about culture, diversity and inclusion, and climate progress.

Engagement with corporates: Case studies

Action

In 2023, Schroders held several direct and collaborative engagements covering corporate culture, community relations, and transition planning. In July 2023, they engaged as part of the UN Principles for Responsible Investment's collaborative investor group called the Advance initiative. The overall objective was to enhance respect for human rights and understand how human rights are factored into strategic planning.

Later that year, Schroders reconvened as part of the Advance initiative to understand the company's efforts to elevate human rights standards. Company representatives shared their focus on modernising agreements and deepening engagement with Indigenous communities, emphasizing the importance of understanding communication preferences and working towards longer-term agreements. Finally, Schroders discussed the conclusion of independent impact assessments across global sites and the remedies the company would provide if necessary.

Schroders followed up the group meeting by email, asking the company to elevate standards around human rights and community relations. Schroders sought clarification on numerous points, such as the company's willingness to develop and disclose a timeline for modernising agreements with Indigenous groups, replicating good operational practices across global sites and implementing recommendations from impact assessments. The engagement group outlined additional areas of interest for subsequent meetings, including an understanding of the key risks identified through human rights and community risk assessments, due diligence processes, and how internal teams collaborate on community engagement.

Outcome

Over the course of this engagement, the company has taken steps to strengthen Indigenous relations by improving internal governance, oversight, policies, and practices. They have committed to disclosing progress against the recommendations of the board review following the Juukan Gorge incident, with the information publicly available on the company's website.

Schroders plan to continue engaging individually and collaboratively in the future and look forward to additional progress around community relations and respect for the rights of traditional landowners.

Board gender diversity at IBM
Diversity and Inclusion

Issue

Schroders' engagement on board diversity accelerated with IBM, a large North American technology company in 2023, following initial outreach on improving female representation at the board level the previous year.

Action

In February 2023, Schroders sent a formal letter regarding corporate governance and diversity in senior positions. The letter commended the company's efforts to improve the representation of women and emphasised the importance of having gender equality at the top board level given the under-representation of women in technology. It encouraged the company to consider appointing more women to meet Schroder's minimum expectation of at least 33% female representation on the board.

During a meeting with the Investor Relations team in April, Schroders discussed the company's ongoing efforts around ensuring diversity of perspectives in decision-making and efforts to improve female talent in the industry through apprenticeships and workforce re-entry programmes. Schroders took the opportunity to reiterate expectations on board gender diversity and encouraged the company to set a target for female representation on the board.

In September, discussions continued around board gender diversity with Investor Relations and the company's corporate governance experts. During the call, Schroders noted female representation stood at 15% and expressed intentions to vote against the re-election of the Chair of the Nominations Committee at the upcoming Annual General Meeting (AGM) due to the lack of progress on gender diversity. Moreover, Schroders expressed concerns about the lengthy tenure of the Chair of the Nominations Committee, as well as potential over-boarding given their membership of five company boards, which is not aligned to corporate governance best practice.

Outcome

Over the course of this engagement, the company acknowledged the issues raised regarding corporate governance and diversity. Schroders were pleased to see the Board elect a new female member at the end of 2023, taking the percentage of female representation to 21%. Although this is a step in the right direction, Schroders will continue exercising their shareholder rights to encourage more progress in this area and look forward to further improvements in the company's female representation at the board level.

Remuneration in European equities
Human Capital Management, Corporate Governance

Issue

Fidelity International has long encouraged European investee companies to adopt long-term incentive plans (LTIPs) for senior management with a minimum share release period of five years. This is intended to focus management's attention beyond the quarterly reporting cycle by linking a substantial portion of their remuneration with shareholders over a five-year time horizon. Fidelity will generally vote against agenda items related to executive remuneration at European investee companies if their long-term incentive plan does not have a share exposure or sales restriction period of at least five years from grant, measured on a weighted-average basis.

Engagement with corporates: Case studies

In addition to this, Fidelity periodically engages with companies to influence their behaviour in setting remuneration levels for senior employees. Fidelity wrote to companies in November and asked them to be mindful of granting significant executive pay rises in the current environment. Fidelity have taken the view that, in order to support a large pay increase that is misaligned with the broader workforce, the rationale would need to be exceptionally convincing, and the Board would need to demonstrate that it had also considered how best to support lower paid workers during the cost-of-living crisis.

These policies informed their decision to vote against Puma's remuneration policy at the 2023 AGM because their long-term incentive awards do not have a five-year restriction period. Fidelity also decided to vote against EssilorLuxoticca's remuneration policies for the Chairman/CEO for the reasons outlined below.

Action

Fidelity wrote to the chairs of holdings in major European indices to highlight the importance of responsible corporate responses to the challenges posed by the cost-of-living crisis. This initiative formed part of Fidelity's ongoing engagement with boards and management teams ahead of annual general meetings in 2023.

The letter shared best practices learned from our engagements, including prioritising lower-paid employees in pay reviews, and providing one-off cost-of-living support payments or providing other forms of non-financial support to lower-paid staff. More broadly, Fidelity encouraged responsible corporate responses to the cost-of-living challenges faced by employees and broad alignment between workforce and executive pay outcomes.

On executive remuneration Fidelity encouraged boards to ensure pay decisions reflect the principles of fairness and equitable treatment. When setting executive pay, they asked remuneration committees to consider the broader workforce experience and generally avoid above-workforce base salary increases. Fidelity also asked boards to remain mindful of the theoretical potential for windfall LTIP awards.

Fidelity communicated their voting intentions with Puma to explain their position on LTIPs before casting the vote against the remuneration policy.

Fidelity also decided to vote against the remuneration policies for the Chairman/CEO of EssilorLuxoticca, Francesco Milleri. Fidelity carried out peer analysis and concluded that the 20% base salary increase for Milleri was not required to align his remuneration with peers. Fidleity believe his total compensation package is competitive compared to European luxury goods peers, especially when taking into account the large quantum of company shares awarded to him. Furthermore, Fidelity felt the performance hurdles on the long-term incentive plan and bonus were not best-in-class and were not sufficiently stretching. Fidelity engaged with the company ahead of the AGM and decided that they were unable to vote with management on this proposal.

Outcome

In the case of Puma, other shareholders were aligned with Fidelity's stance and the remuneration report was voted down at the AGM by a majority of 54% of votes cast. In contrast, the result did not go Fidelity's way in the EssilorLuxoticca vote. The proposal was passed with c. 30% of votes cast against the resolution. In both cases, Fidelity will continue to monitor the company's remuneration practices.

Engagement in real assets

Bolstering borrower ESG reporting requirements (RELI)

Climate

Issue

Aviva Investors' real estate long income (RELI) team were offered the opportunity to provide debt financing for a company within the UK consumer goods sector, secured against over 50 stores. The company has the ambition to be net-zero by 2040 and has committed to setting Science-based Targets covering Scopes 1, 2 and 3. At present, 95 per cent of its stores are EPC rated "A"–"C", and as part of the transaction the borrower will undertake to improve all stores to at least EPC "B", in line with Government Minimum Energy Efficiency Standards regulation.

Action

During their ESG analysis, Aviva Investors' ESG Team identified poor-quality environmental due diligence from the borrower. The ESG Team worked with the RELI team to integrate more expansive ESG annual reporting into the legal agreements for the loan. This ensures ongoing monitoring of the borrower's sustainability performance.

Outcome

The borrower is now obligated to report metrics annually to Aviva Investors, including but not limited to: greenhouse gas emissions breakdown; water management; waste management and recycling; accident and incident statistics; and grievances and complaints figures. Additionally, asset-level energy data reporting requirements, including gas consumption versus electricity, were also included in lease agreements.

Education and skills outreach at Curtain House

People

Issue

Aviva Investors are developing Curtain House, a Grade-II listed building located on Curtain Road in Hoxton, held within UK IWR's customer mandates. The area surrounding the asset has a younger-than-average professional demographic and there is an ethnically diverse local community. The area is also subject to pockets of deprivation. An assessment of local policy analysis prior to planning submission showed a need for organisations operating in the area to support local employment, and creative and cultural causes.

Action

In collaboration with the main contractor, RED Construction, Aviva Investors undertook efforts to align with their social value benchmarks. They partnered with The Land Collective (TLC), a London-based education charity looking for support for its careers programme "Black Girls in Property", to deliver a site visit for local students. Recognising the students' interest in architecture, the architect on this project (Anomaly), worked with us to organise an exhibition of the site's Computer-Generated Imagery (CGIs), career talks from project team members and a site tour. A half-day workshop education outreach activity was delivered, engaging 15 students with the support of eight volunteers.

Outcome

As a result of this success, RED Construction has committed to further support The Land Collective cohort in Q1 2024 by providing two work experience placements, offering careers skills support through mock interviews, and jointly hosting a three-day STEM programme about careers in the built environment in February 2024 with Aviva Investors. This initiative signifies Aviva Investors' commitment to delivering social value in communities where they invest and supporting social mobility.

Supply-chain engagement in the London Development Cluster

People

Issue

There is a lack of meaningful education and training opportunities for young individuals and those not in employment, education, or training (NEET) in inner London. The UK construction industry's underinvestment in skills has contributed to this. This is a market failure which can be corrected by encouraging our supply chain to maximise their provision of education and training opportunities locally on Aviva Investors' live projects.

Action

In line with the commitment to fostering positive outcomes for the communities where they invest, Aviva Investors have defined a comprehensive set of social value outcomes tailored to project construction contract value bands. Additionally, they introduced a social value supplement to their standard Employers Requirements. Aviva Investors' dedicated social value team is working with main contractors, including McLaren Group, the main contractor for Pegasus Mayfair, to implement and support the delivery of the targets set for it by Aviva Investors, by sharing opportunities within their social value steering group. This is demonstrated by the London Cluster which oversees five live projects as of September 2023. As the first contractor to be onboarded within the new social value programme, McLaren Group has agreed to deliver targets against several metrics such as number of work placement days, community investment activities, and education outreach activities. McLaren Group and subcontractors also engage with Aviva Investors' steering group partner, the Construction Industry Training Board (CITB), to identify and address the training needs of the existing workforce, contributing to the project's goal of delivering 1,250 training hours.

Engagement in real assets

Outcome
This initiative demonstrates Aviva Investors' focus on delivering social value in communities where they invest. The last quarter witnessed active reporting on social value impact for all five live development projects, showcasing the success of their efforts. As of the end of Q3 2023 the London Cluster delivered 25 educational outreach activities, engaging 470 students. Additionally, it facilitated ten community investment activities and provided 223 training hours for the existing workforce.

Assessing standards among UK housing associations

People

Issue
UK housing associations have come under increasing scrutiny over the last year, following a series of incidents and reports on the quality and safety of housing conditions. The government released a report which highlighted that 13 per cent of the social rented sector failed to meet decent home standards and the housing ombudsman also wrote to social housing with specific concerns. This is a concern, as these providers serve those in society with the highest level of need, who are most vulnerable during the cost-of-living crisis. It also raises questions on the UK's ability to meet UN SDG 11: Sustainable Cities and Communities, specifically ensuring access for all to adequate, safe and affordable housing.

Action
Aviva Investors' credit and ESG teams have been conducting engagements with ten housing associations where we have material exposure. The aim was to better understand and encourage improvements in housing quality and energy efficiency using the Sustainability Reporting Standard for Social Housing (SRS) themes as a framework. To provide a clear baseline of performance and a trajectory to meet sustainability ambitions, Aviva Investors encouraged providers to conduct a full stock audit, publish timebound and "smart" retrofit strategies and further disclosure against the SRS. Aviva Investors have also participated in the ongoing consultation of the SRS standards themselves ahead of the 2.0 iteration, providing investor feedback on the themes and specific metrics that Housing Associations would be required to disclose under the standard.

Outcome
Overall, further progress is required across the sector on key issues including damp and mould and energy efficiency. At present, all providers illustrate some awareness and integration of key issues within corporate strategies, which is predominantly driven by increased consumer regulation in the sector. However, responses to Aviva Investors' asks have varied, with smaller providers generally being less exposed to these risks and demonstrating better practices. Smaller providers were able to evidence comprehensive stock auditing and digital asset platforms to continuously monitor performance on decent homes and energy efficiency. Larger providers operating in London which are more exposed to these risks seem further behind, demonstrating less alignment to SDG 11. In many cases, larger providers were only able to demonstrate partial stock auditing on a rolling basis, with a lack of clarity on how intrusive these assessments were or the issues they covered.

Exercising rights and responsibilities

Another key method 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, managed by Aviva Investors. This policy is reviewed on an annual basis and updated subject to board approval, as mentioned in Chapter 2. It is in alignment with our UK IWR RI 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, at a high level, include: sustainable outcomes; board leadership and effectiveness; controls and audit; share capital authorities; shareholder rights; data security; remuneration; investment trusts; and our process and remuneration principles.

These feed back into driving progress on our engagement focus areas introduced earlier in this chapter.

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 sustainability commitments into our lending programme.

Quarterly reporting is required of Aviva Investors 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.

Where possible we will bring our voting rights in-house so that we are able to exercise our vote in a consistent manner; enhancing our overall influence on the companies in which we invest. We have done this for our core passive mandates that are currently managed by an external manager.

We have also applied our voting policy to shares held through the BlackRock World Insights pooled funds (see P34), reflecting our proportional ownership of each global and regional fund. This ensures that our Global Voting Policy is applied in a consistent way across a broader share of our overall portfolio allocation, using our proxy voting service provider and allowing us to exercise a high degree of control over the decision-making process and the voting implementation

Where we do not dictate the voting in-house, 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. Details on how we have monitored this in 2023 can be found on the next page.

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.

Due to the significant practical challenges it would create and the fact that we do not directly vote at company resolutions, we do not consult clients ahead of votes. Where possible, we engage with clients on a regular basis to better understand their preferences and outline our manager's views on specific vote-related issues.

The annual proxy voting reports for three of our largest asset managers include voting records for each vote and the rationale for the votes, where appropriate.

This can be found here:
Aviva Investors Voting History
Schroders Proxy Voting Dashboard
Fidelity Proxy Voting Dashboard

Voting oversight review

In 2023, we reviewed the voting activity of our largest asset managers during the 2023 AGM season. Our aim was to gain more insight into how our asset managers voted on key climate-related votes and to assess their alignment to each other, our in-house voting policy and their own voting policies.

Using climate-related resolutions, identified by Climate Action 100+ (CA100+), we recorded the votes and rationale of the managers. We used some of this analysis to challenge our managers during desk reviews, questioning how they had voted and how they use their votes to encourage company decarbonisation.

In 2024, we plan to further assess the effectiveness of climate stewardship activities, digging deeper into why the asset managers voted the way they did and analyse how consistent voting has been with their respective voting policies.

Voting activity in 2023

The following data and examples are reflective of UK IWR 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 53,354 resolutions at 4,838 meetings
- Voted in favour of 70% of climate shareholder proposals and 70% of social shareholder proposals

The annual voting proxy voting reports for Aviva Investors, detailing votes cast and the rationale, can be found here: Aviva Investors Voting History

Figure 24: 2023 voting activity by region

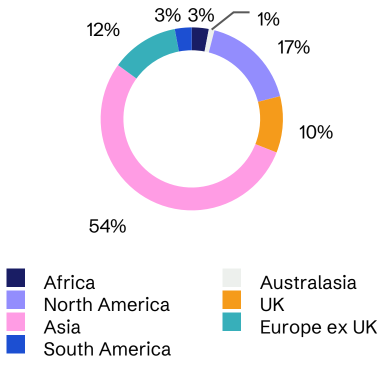


Figure 25: 2023 voting activity by issue

	Total number of resolutions	Percent non-support
Anti-takeover measures	56	16.1 %
Auditors	3,223	31.0 %
Climate-related	24	25.0 %
Directors	22,037	29.3 %
Other	7,442	16.7 %
Related party transactions	2,568	19.7 %
Remuneration	5,839	44.9 %
Report and accounts	4,255	6.5 %
Share issues/ capital-related	5,891	13.5 %
Shareholder resolutions (ESG issues)	718	65.0 %
Shareholder resolutions (supported by management)	636	20.4 %
Takeovers/ mergers/ reorganisation	665	23.2 %

Examples of how Aviva Investors voted in 2023 and the rationale behind the votes can be found in the preceding case studies, particularly regarding corporate governance in Japan and human rights risk management in an automotive technology supplier.

External manager voting Schroders

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

- Voted on 15,581 proposals at 1,131 shareholder meetings
- Voted against management on 12.16% of all proposals

The annual voting proxy voting reports for Schroders, detailing votes cast and the rationale, can be found here: Schroders Proxy Voting Disclosure

Figure 26: 2023 voting activity by region

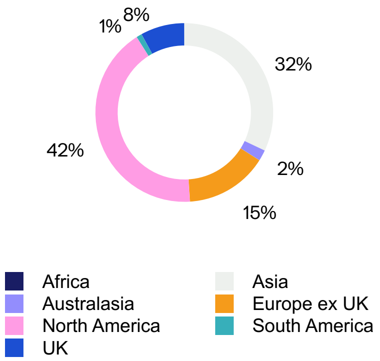


Figure 27: Schroders' 2023 voting activity by topic

	Total number of proposals	% votes against management
Audit-related	888	
Capitalisation	968	
Company articles	240	
Compensation	1,889	
Corporate governance	33	
Director election		
Director-related	9,724	
E&S blended	68	
Environmental	111	
Miscellaneous	55	
Non-routine business	83	
Other	10	
Routine business	1,055	
Social	255	

Examples of how Schroders voted in 2023 and the rationale behind the votes can be found in the preceding case studies, particularly regarding board gender diversity in a large North American technology company.

Voting activity in 2023

External manager voting

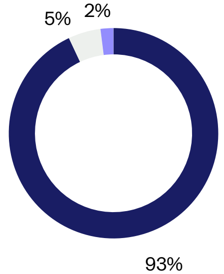
Fidelity

The following is a summary of votes undertaken by Fidelity, one of our largest asset managers.

- Voted on 833 resolutions at 47 shareholder meetings
- Voted against management on 11% of all proposals

The annual voting proxy voting reports for Fidelity, detailing votes cast and the rationale, can be found here: Fidelity Proxy Voting Dashboard

Figure 28: Fidelity's 2023 voting activity



Source: Fidelity International, 12 months to 31 December 2023.

Figure 29: Fidelity's 2023 voting activity by topic

	Total number of voted resolutions	% votes against management
Auditors	39	8.0 %
Board	296	7.0 %
Capital Structures	147	5.0 %
Charter Amendments	39	3.0 %
Remuneration	172	22.0 %
Routine business	115	13.0 %
Shareholder Proposals	7	14.0 %
Strategic/ Restructuring	14	14.0 %
Takeover-related	4	— %
Total	**833**	**11.0 %**

Examples of how Fidelity voted in 2023 and the rationale behind the votes can be found in the preceding case studies, particularly regarding the remuneration concerns in European equities.

Stock lending

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

Escalations

Earlier in this chapter we described how we our asset managers engage with investee companies on our behalf. All the engagement and voting activity is outcomes-focused and we set high standards for engagements our asset managers undertake. The sustainability manager oversight framework covered in Chapter 3, as well as the '5 P' process, detailed how this framework 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 try to drive behavioural change, rather than walk away and lose any influence to change things for the better. However, if engagement does not lead to positive change, we reserve the right to divest.

Where engagement with companies, whether on strategic, performance, general sustainability or specific voting issues, is undertaken, 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 on shareholder resolutions, engagement meeting and voting
- raising concerns with appropriate regulatory authorities
- considered public statements and press comment
- divestment of holdings.

In-house manager escalation

Case studies of these escalation tools in practice from our internal asset manager, Aviva Investors, are mentioned earlier in this chapter and include holding collaborative engagements with banks and with Cargill on deforestation risk.

Furthermore, Aviva Investors runs a Climate Engagement Escalation Programme, of which Chevron, TotalEnergies and entities in the aviation value chain (please see case studies above and below) are part.

Climate Engagement Escalation Programme (CEEP)

Climate, governance

Issue

The United Nations Environment Programme's (UNEP) recent report *The Emissions Gap*[1] showed the window of opportunity to address the climate crisis is closing. Urgent action is needed, particularly in high-emission sectors, yet company transition plans continue to fall short. Aviva Investors' three-year Climate Engagement Escalation Programme (CEEP) was established to make a difference in encouraging deeper, faster action.

Action

CEEP is focused on 30 of the most systemically important carbon emitters from the oil and gas, mining, steel and utilities sectors that contribute approximately a third of all global emissions, considering their Scope 3 footprint. UK IWR hold some of these firms within our portfolios.

Phase 1 launched in January 2021, when letters were sent to all board chairs on Aviva's expectations of what constitutes a robust climate strategy and approach.

Aviva are willing to use all the tools and power available to ensure their impact is on a scale commensurate with the climate crisis. Companies have been given notice that if certain expectations regarding the management of climate risk are not met within acceptable timeframes, Aviva will divest our holdings in those companies where Aviva Investors has discretion to take action.

Summary of key expectations:

a. Climate targets: 2050 net-zero Scope 3 targets for entire business operations, validated by SBTi
b. Transition plans: Integration of decarbonisation roadmaps into corporate strategies, including near-term targets
c. Climate disclosures: High-quality TCFD disclosures, including scenario analysis
d. Climate governance: Explicit and effective board oversight with climate targets meaningfully embedded in variable pay plans for senior leadership and wider business
e. Climate lobbying: Transparency over and alignment to Paris agreement for all lobbying activities

1. Emissions Gap report 2022 - UNEP

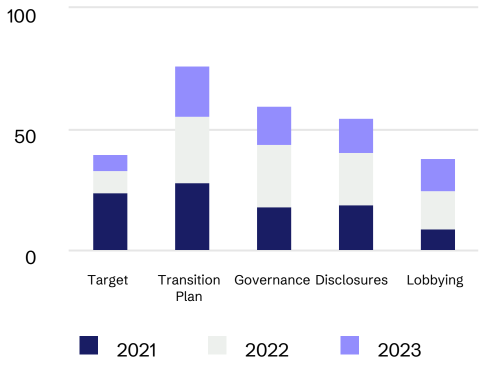
Escalations

Progress
As of the end of 2023, over 300 engagements have been undertaken across the CEEP focus group, spanning one-on-one meetings, conference calls, and participation in external initiatives, industry events and workshops.

While not yet convinced of any company's full alignment to the Paris agreement, Aviva Investors are pleased with the quality of conversations and progress observed across a challenging set of asks. Aviva Investors observe meaningful improvements as part of their assessment of companies on their robust scoring framework. Median scores have improved compared to 2021 with 277 engagements "wins" observed (i.e. where Aviva Investors have seen progress in behaviour in line with their requests for change). Figure 30 provides a breakdown of progress observed across the five key themes.

The vast majority of companies have taken steps to set out and provide transparency on the feasibility and implementation schedule of their transition plans.

Figure 30: Progress observed across five key requests for change



Despite seeing positive progress in climate efforts across geographies, gaps remain in companies' climate ambitions and risk management. This highlights the need for robust and persistent investor engagement to promote sustained progress on decarbonisation.

Specifically, there is a call for the following:

1. More credible and detailed transition plans, that clearly identify opportunities in low-carbon value chains and expected returns
2. A broader-scaled recognition of climate change's crosscutting impact across the different dimensions of climate change as it relates to broader environmental and social challenges. For sectors where the transition could have direct social implications, decarbonisation strategies should incorporate a "just transition" perspective. Likewise, for companies operating in sectors with a clear link between biodiversity and net zero strategies, the assessment of material impacts and dependencies with a view to managing risk, as well as mitigating and reversing negative impacts, is also essential.
3. Evidence of lobbying alignment, which is key to maintaining the legitimacy of their ambitions. Aviva Investors expect companies setting net-zero ambitions to demonstrate how they are supporting policy actions necessary to successfully decarbonise assets and value chains.

Escalation action
Aviva Investors are currently reviewing the findings of their engagement to establish next steps, including appropriate escalation action with some companies.

In their experience, working constructively with boards and management in private is the most effective way to achieve positive change; however, where they have been unable to achieve success, Aviva Investors will escalate their engagement, considering potential divestment action where Aviva Investors has discretion to take action.

Over the last three years, Aviva Investors have demonstrated a willingness to use the full range of rights they have at their disposal, including the tabling of resolutions at shareholder meetings or collaborating with others to co-file shareholder resolutions when necessary. For example, during the 2023 AGM season, Aviva Investors voted against management at 28 companies, articulating clear areas where they seek improvement to facilitate greater alignment to Paris agreement. The case studies below demonstrate how Aviva Investors have sought to constructively engage with focus group companies.

Chevron

As one of the world's largest oil and gas integrated companies, US-based Chevron is part of the CEEP focus group.

As Aviva Investors believe Chevron has the potential to go further in its commitments to net-zero for its downstream activities and its emissions-intensity reduction targets, Aviva Investors have used several escalation techniques since 2021.

Constructive discussions have taken place with the company's sustainability teams, and notable progress has occurred since 2021 to evolve and strengthen Chevron's climate change disclosure and action to align with Aviva Investors' own and wider shareholder feedback. For example, Aviva Investors welcome Chevron's published Methane Report and announcement of a Portfolio Carbon Intensity target to reduce carbon intensity, including Scope 3 emissions by over five per cent by 2028.

This progress aside, Aviva Investors believe the pace of evolution in Chevron's climate strategy can go further. This has prompted Aviva Investors to continue advocating for a more ambitious approach. They supported two climate-related shareholder proposals filed at Chevron's 2022 AGM and voted against the re-election of the company's Lead Independent Director in 2023. Aviva Investors will continue to constructively engage with the company, seeking improvements in the ambition of its existing targets and capital allocation plans to be aligned with Paris goals. Additionally, Aviva Investors see an opportunity for Chevron to enhance its transparency regarding its just transition plans.

TotalEnergies

Aviva Investors has engaged with major global energy company TotalEnergies (TTE) under CEEP on 13 occasions (six substantive) since 2021. TTE has demonstrated a unique approach to its transition through building a competitive portfolio of renewable energy. While Aviva Investors believe there is room for more robust disclosure of targets to fully

Escalations

align with the ambitious goal of limiting global warming to 1.5°C, Aviva Investors acknowledge TTE's commendable efforts in enhancing its climate strategy and transparency. Notable 2023 highlights include its setting of new emissions-reduction targets by 2025, its strengthening of its existing worldwide Scope 1 and 2 emissions-reduction targets, and the setting of Scope 3 oil and carbon-intensity targets by 2023. TTE's capital expenditure forecast is also promising, indicating a shift to low-carbon energies, which should exceed investments in fossil-fuel products by 2030. The company also leads its European peers for shifting towards low-carbon alternatives.

Acknowledging the positive direction of travel, Aviva Investors made the decision to exceptionally approve the company's Sustainable Development and Energy Transition Plan at the 2023 AGM, but communicated that continuing support for the company's climate strategy was conditional on seeing further progress in key areas.

Looking ahead

Over 2024, the next iteration of the climate stewardship programme will be launched. Aviva Investors are looking to amplify and accelerate their impact in this field in two main ways:

Firstly, they will scale engagement with systematically important carbon emitters to help transform low-carbon energy system supply and demand. Aviva Investors will focus on companies in key hard-to-abate sectors, such as chemicals or heavy-duty transport, and others where accelerated decarbonisation is needed, to reshape demand for fossil fuels.

Secondly, to help deliver maximum impact in reducing greenhouse gas emissions, Aviva Investors will expand beyond single bilateral company engagement to embrace a more holistic value chain approach. This is based on collaboration across the system: across sectors, with other sectors and with governments - to synchronise efforts, share insights and optimise the value chain.

To help mobilise this systems-wide approach, in 2024 Aviva Investors will organise a series of roundtables convening stakeholders from across the value chains of the largest sectors contributing to global GHG emissions. As per their roundtable on sustainable aviation fuels in 2023, the purpose of the roundtables is to discuss key bottlenecks impeding decarbonisation and potential solutions, including concrete areas where policy could step up efforts to help facilitate a more viable sector-wide energy transition.

Aviva Investors hope these forums will help industries improve their understanding of collective value chains, refine synergies that exist between them, identify how to best implement climate solutions and collaborate and/or bring new business models to scale. Secondly, these roundtables will help inform the direction of Aviva Investors' macro stewardship team's policy development and engagement programme with government, regulators and standard setters.

As an example, Aviva Investors' aviation roundtable from June 2023 has fed into the soon to be published *Boosting Low Carbon Investment in the UK: A Policy Roadmap*. The report sets out Aviva Investors' perspective on key solutions to unlock private investment in low-carbon infrastructure and businesses across eight major sectors of the UK economy. It was developed throughout 2023 with investment colleagues and sector experts from across Aviva Investors and is expected to be published in 2024.

External manager escalation

Each of our external managers also has their own framework for escalating engagements that fall within our expectations. Schroders' escalation toolkit is demonstrated below. Examples of the escalation methods are featured in the case studies above.

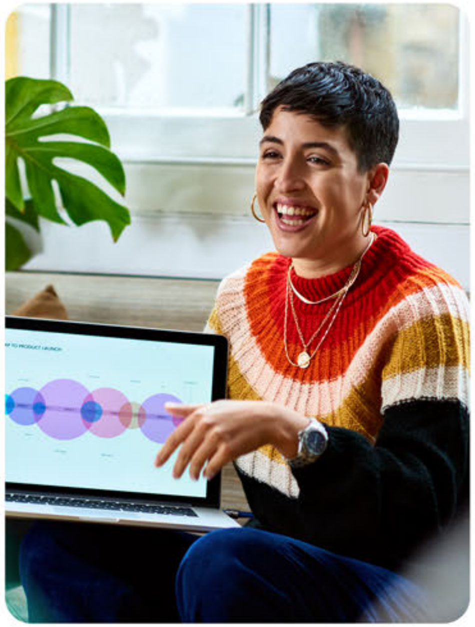


Figure 31: Schroders' methods of escalation

- Meeting or otherwise communicating with non-executive directors or chair of the board
- Expressing our concerns via company advisors or brokers
- Collaborative intervention with other institutional investors
- Withholding support or voting against management and directors
- Publicly stating our concerns
- Requisitioning extraordinary general meetings
- Submitting resolutions at general meetings
- Divesting, which may mean a full or partial exit

Chapter 5: Broader market initiatives - collaboration and systemic risks

Our principal risks are a subset of those found in our comprehensive Risk Taxonomy. They are not intended to be exhaustive but have been identified as those most likely to seriously affect the strategic objectives, future performance, solvency, liquidity, or reputation of the business over the next twelve months. The risks are assessed by their likelihood to impact the business and the potential severity of this impact (post-current mitigation).

We have updated our approach to the presentation of our principal risks for 2023 to align to our internal risk reporting processes. The top risk themes presented are broadly consistent with previous disclosures, with the addition of 'Geopolitical instability' and 'Strategic change' for 2023, and removal of 'Pandemic'.

The principal risks presented here are consistent with those reported to the Group Executive Risk Committee and Board Risk Committee on a quarterly basis for review and discussion. The view is dynamic and reflects ongoing prioritisation of risk management activity across the business.

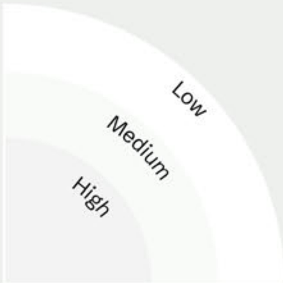
Current view

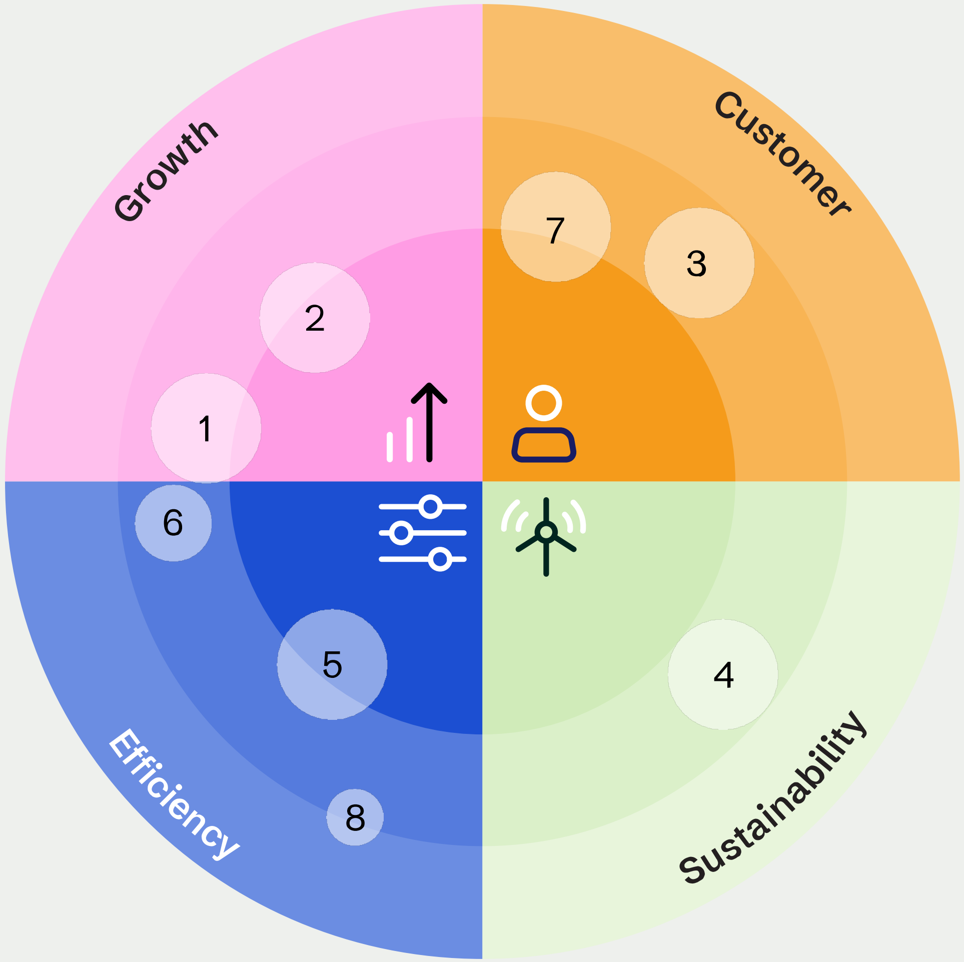
Risk
1. Geopolitical instability
2. Economic and credit
3. Regulatory change
4. Climate change
5. Strategic change
6. People risk
7. Third parties
8. Control environment

Impact

Low Medium High

Likelihood to impact business





Identifying and acting on risks in 2023

Geopolitical instability

Focus level Increasing

Description

Major regional conflicts, an uncertain political landscape and increased global economic fragmentation drive this risk, with potential for second and third order impacts on global trade and financial markets.

While direct risk exposure is very low, ongoing conflicts in the Middle East and Ukraine continue to destabilise and threaten the global geopolitical environment. This risk is both current and emerging, with further comment on the medium to long-term risk covered in the emerging risks section below.

Key mitigation actions

Increased stress and scenario testing to understand potential downside impacts.

Active monitoring of economic environment through our Financial Event Response Plan.

Perform exercises of plausible scenarios, including identification of triggers and early warning signs, developing potential actions in response.

Strategic pillar

Economic and credit

Focus level Increasing

Description

Macroeconomic growth prospects are uncertain and continue to be reflected in cost-of-living challenges. Entrenched high inflation, higher interest rates and Sterling weakness may impact our customers' savings behaviours, the returns we can offer to customers, and our ability to profitably meet our promises of the past.

Key mitigation actions

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 for market risks, and we protect our capital with a variety of hedging strategies to reduce our sensitivity to market shocks.

We regularly monitor our exposures and employ both structured and ad-hoc processes to evaluate changing market conditions.

Strategic pillar

Regulatory change

Focus level Increasing

Description

The Group is subject to extensive regulatory and disclosure requirements, with multiple regulators operating across different markets. Failure to comply with mandatory change could result in adverse customer outcomes, reputational damage, and financial sanctions.

There is an elevated risk, both now and in the future, driven by increasing complexity in regulatory expectations with regards to facilitating good customer outcomes.

Key mitigation actions

Ongoing local compliance monitoring and reporting against regulatory change requirements.

Group oversight of Consumer Duty embedding and monitoring against customer outcomes, including for phase two implementation on closed-book business (for more detail on Consumer Duty embedding see Our risk framework section).

Strategic pillar

Climate change

Focus level Maintaining

Description

We consider climate change to be a significant risk to our customers, strategy, business model and wider society.

We seek to minimise our exposure to the downside risks arising from the transition to a low carbon future (e.g. new climate policies), physical effects (e.g. flood, windstorms and heavy precipitation) and climate litigation (e.g. greenwashing risk).

Key mitigation actions

Our risk policies and business standards explicitly cover these risks and integrate them in our risk and control management activities.

We monitor our exposure using a variety of metrics and consider the rapidly evolving regulatory requirements along with changes to, and inter-dependencies with, the macroeconomic environment.

We have built the possibility of extreme weather events into our general insurance pricing, reinsurance programme design with monitoring of actual weather-related losses versus expected weather losses by business.

Strategic pillar

Identifying and acting on risks in 2023

Strategic change

Focus level Increasing

Description

The delivery of ambitious strategic change activity is essential to our financial plan, our ability to be Market leading, and to continue delivering great customer outcomes.

Multiple multi-year transformation programmes are underway or planned across major markets with management focus on maintaining capability and capacity to underpin our ability to deliver change safely and sustainably.

Key mitigation actions

Management are taking appropriate moderation activity through do-ability assessments and prioritisation as part of the Groupwide plan process.

Work continues to refresh the Aviva Change Framework, performance metrics and underlying data quality, with second-line support, review and challenge throughout.

Strategic pillar

People risk

Focus level Maintaining

Description

Our people are critical to the delivery of our strategy and business plan. A failure to recruit, retain and develop diverse, inclusive and engaged talent could mean we are not able to achieve our strategic goals.

Key mitigation actions

To attract and retain top talent we have various internal talent development programmes, a broad variety of graduate and apprentice schemes and a range of diversity, equity and inclusion initiatives, including gender and sponsorship programmes.

The Aviva Foundry was launched in January 2023 and is our flagship programme for accelerating our strategic priority of building the workforce of the future; strengthening the digital, data and technology skills needed for now and for tomorrow.

Our retention measures include innovative policies such as flexible working and equal parental leave, as well as providing great leadership and career progression for our people.

Strategic pillar

Third parties

Focus level Increasing

Description

Aviva has reliance on third parties for a number of essential services and for the successful delivery of strategic change projects. Lack of appropriate risk management oversight could pose a risk to business performance, operational resilience, customer outcomes and our reputation.

Key mitigation actions

We work closely with third and fourth party suppliers to ensure greater visibility and alignment of their risk management, particularly in relation to IT, cyber security, and customer and employee data protection and retention.

We continue to implement measures to improve and embed the Group's operational resilience regarding outsourcing and critical third-party risk management. This includes a programme of resilience and crisis response testing to ensure the continued financial safety and soundness of Aviva's business, while minimising customer harm.

Strategic pillar

Control environment

Focus level Maintaining

Description

New and rapidly advancing technologies such as generative AI threaten to out-pace regulations, and governance and control frameworks. Failure to understand and react to their impacts on customer behaviours, pricing and distribution models could pose a risk to our strategy, competitive advantage and reputation.

Key mitigation actions

Our operational risk and control management framework provides us with the tools and techniques to reduce future losses, protect good customer outcomes, and protect against adverse reputational and regulatory impact.

We carefully design, assess and regularly test our controls to ensure they are effectively mitigating the key causes and consequences of risks inherent to the business. We have specific controls in place to manage the increasingly volatile IT, Cyber, and Data threat landscape.

Strategic pillar

Broader market initiatives - collaboration and systemic risks

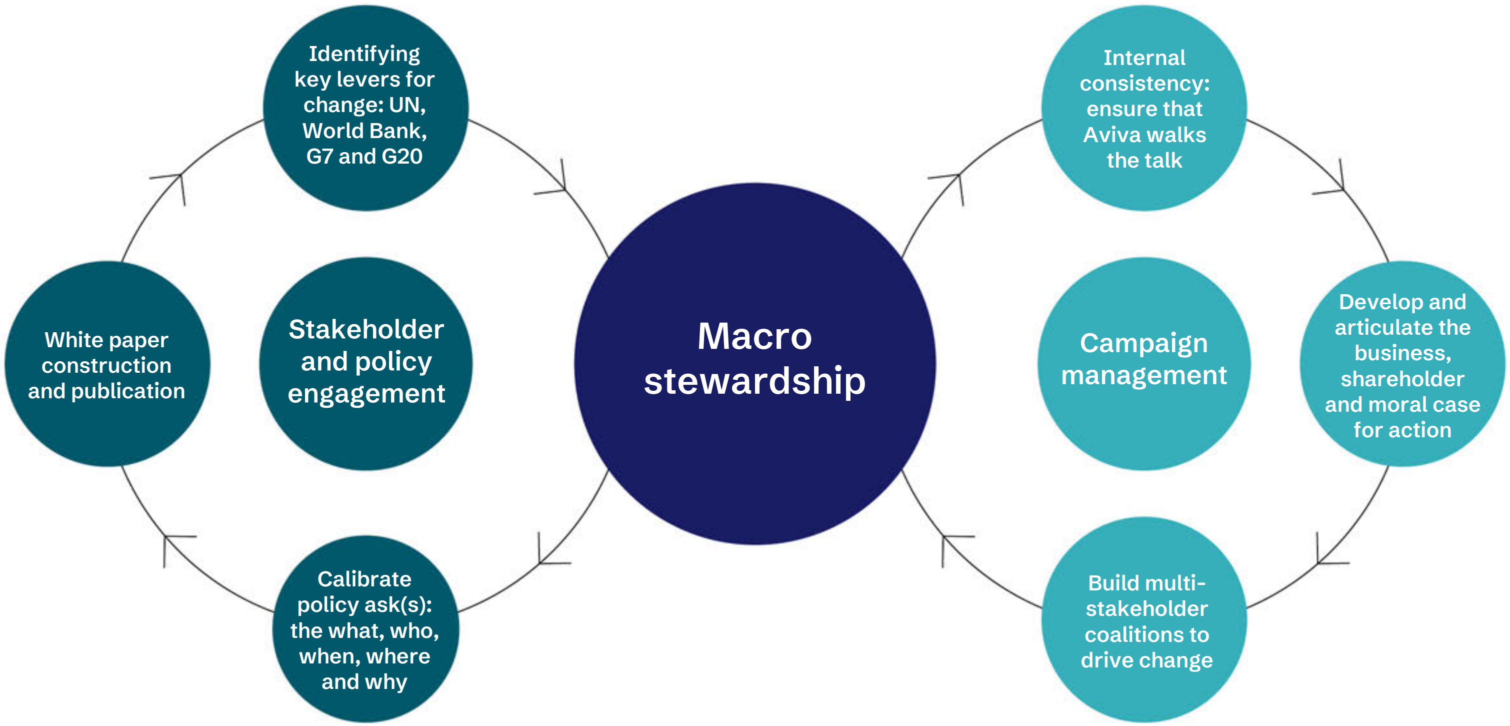
As mentioned in Chapter 4, we see the duties of financial market participants, and macro stewardship, as crucial to harnessing the power of markets to deliver the transition to a financial system that embeds sustainability and finances a sustainable real economy. It is the most important and influential tool to deliver on our Net Zero ambition as governments, companies, financial institutions and society more broadly work to pivot the world towards a just climate-resilient low-carbon economy, which respects nature.

Our work to promote well-functioning markets and bring about a sustainable financial system is embedded across Aviva.

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 yield influence in the market is robust and well-informed. This diagram demonstrates how we use macro stewardship to correct market failures.

Our responsible and proactive leadership brings together all of our capabilities and strengths to seek to correct the financial system. Aviva frequently participate in consultations to help shape and create smart policy and regulation to assist customers and support the business voice pushing governments to transition faster.

Figure 32: Macro stewardship



Broader market initiatives – collaboration and systemic risks

As a business we are a member of over 50 forums and initiatives with our industry peers, civil society, governments and regulators.

Aviva is active in a wide range of alliances to which we belong. Below are the most significant in terms of their influence, strategic fit and ability to shape the UK and international policy environment.

- **Glasgow Financial Alliance for Net Zero (GFANZ):** Brings private finance together to find solutions to key challenges and set industry standards for Net Zero. Work focuses on three core areas, each one critical to the net-zero transition: net zero transition planning for financial institutions and corporates, mobilising capital for emerging markets and developing economies (EMDEs) and net zero public policy.
- **Net Zero Asset Owners Alliance (NZAOA):** a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C.
- **Net Zero Asset Managers Initiative (NZAMi):** an initiative that aims to support the asset management industry to commit to a goal of net zero emissions in order to mitigate financial risk and to maximise long-term value assets.
- **Institutional Investors Group on Climate Change (IIGCC):** European membership body for investor collaboration on climate change.
- **Transition Plan Taskforce (TPT):** Launched by HM Treasury in April 2022 to develop the gold standard for private sector climate transition plans. Co-chaired by Amanda Blanc and the Treasury Lords Minister, Baroness Vere.
- **WWF:** Aviva's partnership with WWF runs to June 2024 and aims to make a difference in three areas: building climate resilient communities and restoring nature, encouraging action by engaging people, and transforming the finance sector by advocating for change.
- **Chief Financial Officers Forum (CFOF):** High-level discussion group formed and attended by the CFOs of major European listed, and some non-listed, insurance companies. Its aim is to influence the development of financial reporting, value based reporting, and related regulatory developments for insurance enterprises on behalf of its members.
- **Climate Financial Risk Forum (CFRF):** Regulator-industry forum convened by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) to build capacity and share best practice on climate risk management.
- **Forum for Insurance Transition to Net Zero (FIT)**: A structured dialogue and multi-stakeholder platform convened and led by the United Nations Environment Programme (UNEP), focused on the insurance industry, and including a diverse group of key stakeholders. It aims to speed up and scale up climate action by the insurance industry to support the transition to a net-zero economy. It is the successor to the NZIA, of which we are a founding member.
- **Finance for Biodiversity (FfB):** A group of financial institutions committed to calling on global leaders to protect and restore biodiversity through their finance activities and investments.
- **Transition Finance Market Review (TFMR):** The Transition Finance Market Review (launched in 2024) will consider what the UK financial and professional services ecosystem needs to do to become a leading hub for and provider of transition financial services by facilitating UK and international companies and investors to invest to align with credible net zero pathways.

Broader market initiatives – collaboration and systemic risks

Below are a few examples of our participation in some of these forums and initiatives in 2023 and how Aviva has responded to various consultations conducted in the course of the year, including but not limited to promoting well-functioning markets and bringing about a sustainable financial system.

FCA Consultation and Discussion papers

UK IWR responded to several FCA Consultation and Discussion papers in 2023. This included:

- the joint FCA, DWP and TPR consultation for Value for Money: A framework on metrics, standards and disclosures for pension dashboard services,
- the Expansion of the Dormant Assets scheme – second phase
- Broadening access to financial advice for mainstream investments.
- Sustainability Disclosure Requirements (SDR) - In the final regulation the FCA had reflected some key comments from the response, including the creation of a fourth label

At a Group level, Aviva also responded to the Finance for positive sustainable change Discussion Paper, Review of the Senior Managers and Certification Regime (SM & CR) (PRA and FCA), Diversity and Inclusion (PRA and FCA) and Operational resilience: Critical Third Parties to UK Financial Sector PRA, Bank of England and FCA).

Net Zero Asset Owner Alliance (NZAOA)

Over 2023 we actively contributed to all tracks within the NZAOA. This work supports financial services to better tackle the challenges of transitioning to a low carbon economy by collaborating on policies, engagement, financing and aligning methodologies.

Engagement Track

Active member of the asset manager engagement working group, attending regular calls with other alliance members and taking part in a range of collaborative initiatives, including engagement with asset managers, and supporting outputs on tools and guidelines for asset managers and other asset owners in their oversight and engagement with asset managers.

This included co-authoring “Elevating Asset Manager Net-Zero Engagement Strategies” – a foundation for best practice expectations on asset managers' engagement activity, to guide asset owner engagement with managers and support effective, high quality and well-resourced stewardship by asset managers.

The guidelines were designed to complement existing guidance from the engagement track on proxy voting and lobbying; and leverage the Future of Engagement paper.

Key focus areas of the paper were:

- Objective-based and prioritised climate engagement
- Ensuring appropriate resourcing
- Consistency of messaging

Monitoring, Reporting and Verification Track

Aviva held the role of the co-lead of the Monitoring, Reporting and Verification working group for part of the year, participated in Protocol development, Sovereign, Real Estate, Reporting, Scope 3 and Emissions Attribution working groups and contributed to the development of the 4th version of the target setting protocol.

Achievements include actively furthering the conversations and positioning of guidance on Sovereign bonds and real estate; emissions attribution; and scope 3.

Sector Track

We continue to contribute to the track's work and specifically the assessment of the One Earth Climate Model as a a science-based reference model for sector decarbonisation target-setting, in addition to the SBTi sector decarbonisation approach (SDA)

Deforestation

We lead the new Deforestation Working Group which focuses on the critical role of tackling deforestation in achieving net zero and aims to publish a position on deforestation in 2024.

Science based Targets Initiative (SBTi)

Response to SBTi consultation on (a) Financial Institutions Net Zero Standard and (b) Position Paper on Oil & Gas.

Glasgow Financial Alliance for Net Zero (GFANZ)

GFANZ is working as an alliance across finance to turn commitments into action and mobilise private capital by bringing together existing and new Net Zero finance initiatives.

The Group Policy team continued to co-lead the Public Policy workstream, which made good progress in making the case for Transition Planning with policymakers and regulators around the world.

We also helped establish a new work programme on nature and we will continue to co-chair this work in 2024.

Transition Plan Taskforce (TPT)

Launched by HM Treasury in April 2022 and Co-chaired by Group CEO, Amanda Blanc,and the Parliamentary Secretary to HM Treasury, Baroness Vere, the TPT was set up to develop transition plan frameworks and develop guidance for sector neutral and sector-specific disclosures.

Working groups were set up to draft sector-specific guidance for a number of sectors including “Asset Management” and “Asset Owners”. Aviva were active participants in the cross-sector working groups advising on:

- how to reflect nature and adaptation & resilience in the framework;
- the creation of the framework and general guidance,
- sector-specific guidance,

Broader market initiatives – collaboration and systemic risks

Work began in June 2023 where IWR participated in interviews and three dedicated workshops (July, August and September) to support the development of the "Asset Owner" guidance. The consultation was published in November and final guidance published in April 2024. We were also involved in refining the the guidance to take into account the consultation response

PCAF Climate Data Working Groups

We have been actively participating in PCAF's Climate Data Working Groups and its sub-groups work aiming to improve the quality, usability and coverage of climate data available for the financial institutions.

We recently joined in four newly established PCAF working groups which will be looking at new carbon footprinting methodologies in 2024. As co-lead on an asset class working group we are actively involved in developing the approach. The PCAF work is expected to result in the publication of new guidance, expanding the asset class coverage and robustness of emissions accounting for financial institutions

Looking ahead

We are campaigning for a just transition of the real economy and financial system to a sustainable future. Aviva will make a strong contribution to help shape the policy landscape on climate and sustainability issues in the UK and globally.

This will in turn help us to achieve our ambition of:

- Delivering a better future for our customers;
- Supporting delivery of our net zero commitments; and
- Enhancing our reputation and relationships with policymakers and other stakeholders.

Our customers

2024 is Aviva's year of 'Making It Click' for our employees, shareholders and importantly, customers. We will therefore continue streamlining how we coordinate advocacy, acting with one voice, for the benefit of all those involved and connect what we advocate for with our customers' needs.

Climate change and nature loss are already impacting the lives of our customers and their families. We are using all our levers within our business to help protect them from its worst impacts. But there are limits to what we can do alone. That's why we engage with those who make policy to encourage them to go further and faster on climate policy, to protect our planet's and our customers' futures.

Strong public policy on sustainability can influence systemic change by:

- Ensuring a smooth and affordable transition to net zero, avoiding high financial costs and disruption to people's lives.
- Preventing severe climate change which would increase premiums, leave certain communities uninsurable and widen the protection gap.
- Unlocking green financial products, increasing choice for our customers
- Protecting the natural spaces which support healthy lifestyles and good mental health.

We continue to work on supporting the transition to a just climate-resilient low carbon economy which respects nature and planetary boundaries. We will look for opportunities to invest in nature based solutions achieving real world outcomes.

Collaborations, awards and accreditations

Founders
Founding signatory of the Carbon Disclosure Project (CDP) and the first asset manager to formally integrate corporate responsibility to voting policy
Founding signatory of ClimateWise
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 signatory of the UN Principles of Sustainable Insurance (UN PSI)
Founding member of the World Benchmark Alliance (WBA)

Collaborations, awards and accreditations

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 Net-Zero Asset Owner Alliance (NZAOA)
Member of Aldersgate Group
Member of Asian Corporate Governance Association (ACGA)
Member of Association of British Insurers (ABI)
Member of Better Building Partnership (BBP)
Member of European Sustainable Investment Forum (Eurosif)
Member of Global Investors Collaboration Services (GIGN)
Member of Global Investors for Sustainable Development (GISD)
Member of the Green Finance Taskforce (a government initiative to push green finance in the UK and implement recommendations from the TCFD)
Member of Global Real Estate Sustainability Benchmark (GRESB)
Member of Institute of Chartered Accountants in England and Wales (on ICAEW's Financial Reporting Committee)
Member of the Institutional Investors Group on Climate Change (IIGCC)
Supporting member of the International Cooperative and Mutual Insurance Federation (ICMIF)
Member of the International Corporate Governance Network (ICGN)
Member of The Investment Association
Member of Investor Action on Antimicrobial Resistance, FAIRR
Member of the Investor Forum Investor Group on Climate Change
Member of Plastics Solutions Investor Alliance
Member of Pensions and Lifetime Savings Association (PLSA; previously: National Association of Pension Funds)
Member of the UK Sustainable Investment and Finance Association (UKSIF)
Member of UNFCCC Climate Neutral Now (Aviva was the first insurance company to join)
Member of the World Business Council for Sustainable Development
Member of the BlackNorth Initiative
Member of Flood Re Consultative Forum
Member of the Employers' Initiative on Domestic Abuse
Member of the Good Business Charter

Members
Member of the Slave-Free Alliance
Member of IFRS Sustainability Alliance
Member of Institute of Business Ethics
Member of UK Transition Plan Taskforce (Amanda Blanc Co-Chair, member of Delivery Group)
Member of the TNFD Supporters Forum
Member of UN Environment Programme Finance Initiative (UNEP FI)

Collaborations, awards and accreditations

Signatories
Signatory to Business for Nature Pledge
Signatory of Access to Nutrition Initiative
Signatory of ShareAction - Chemical decarbonisation initiative
Signatory to the Business in the Community Ireland, Low Carbon Pledge
Signatory to the Business in the Community Ireland, The Community Elevate Pledge
Signatory of the CCLA Investor letter on modern slavery
Signatory of CERES FAIRR initiative on fast food supply chains
Signatory of Cerrado Manifesto (deforestation), FAIRR
Signatory to the Change the Race Ratio campaign
Signatory to Climate Change Commitment (Launched by Better Building Partnership)
Signatory to 2012 FRC Stewardship Code
Signatory of Pensions and Lifetime Savings Association Marine plastics letters
Signatory to Race at Work Charter
Investor support for Seafood Business for Ocean Stewardship (SeaBOS)
Signatory to the Social Mobility Pledge
Signatory of Terra Carta
Signatory of the UK Social Impact Implementation Task Force signatory
Signatory of the UN Global Compact
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
Signatory to the Prompt Payment Code
Signatory of the Climate Pledge
Signatory of Finance Sector Deforestation Action Initiative (FSDA) Commitment on Eliminating Agricultural Commodity-Driven Deforestation
Signatory of the Sustainability Principles Charter for the Bulk Annuity Process

Commitments
UN Race to Zero
Business Ambition for 1.5 degrees / Science-Based Targets initiative
The Power of Communication
RE100 (A global corporate renewable energy initiative bringing together hundreds of large and ambitious businesses committed to 100% renewable electricity.)
EV100 (A global initiative that brings together companies committed to switching their fleets to electric vehicles and installing charging infrastructure by 2030.)
Armed Forces Covenant
Plain Numbers

Awards
PWC's Building Public Trust Awards 2021 and 2022
Third Sector Business Charity Awards 2021
The Corporate Engagement Awards 2021
Global Good Awards 2021 and 2022
Third Sector Business Charity Awards 2022
The Times Top 50 Employers for Women Awards 2021, 2022
Irish Pension Awards 2021
The FS Awards
Irish Pension Awards 2022
Business and Finance ESG Awards 2022
Awarded ethical accreditation by The Good Shopping Guide

Collaborations, awards and accreditations

Community partnerships
Partnership with the Canadian Association of Black Insurance Professionals
Climate-focused partnership with WWF
Partnership with Citizens Advice and Money Advice Trust to increase the financial resilience of people across the UK
Sponsor of 'Dive In Festival', a global diversity and inclusion insurance festival, covering all diversity characteristics
iCAN, a multicultural insurance network driving change across the industry
INvolve, experts on inclusion
The Social Mobility Foundation
The Diversity Practice
The Valuable 500
Living Wage Employer

Accreditations
Good Shopping Guide by The Ethical Company
The Good Business Charter

Further information on some of these initiatives can be found on the following pages of our website:

Our memberships, awards and accreditations – Aviva plc
Diversity, equity and inclusion – Aviva plc

Direction of travel: looking forward

Key areas of focus for 2024:

Governance
In the next year, we will continue our review of the UK IWR Responsible Investment Policy and the Voting and Engagement Policy, to assess their alignment with our long-term focus on sustainability.

Training
We will continue to enhance the skills of our colleagues across Aviva by:

- Reviewing firm-wide climate training and advancing relevant modules in a formal training programme, covering a range of needs.
- Creating a bespoke sustainability-focused internal training and development programme.

Proposition development
Over the coming year, we will continue to consider enhancements to our auto-enrolment default funds by allocating to strategies that further integrate sustainability considerations.

Manager Oversight
In 2024, we will continue to assess our managers and apply our sustainability manager oversight framework by incorporating sustainability considerations in the selection process of new managers.

Appendix

The report should be read in its entirety to obtain the fullest picture of our stewardship activities during 2023. To facilitate navigation, the table below provides links to the sections within the report that demonstrate how UK IWR 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 Doug Brown | Foreword by Ashish Dafria Chapter 1: Aviva on a page | Our values and culture | Our sustainability ambition | Our strategy | Our principles and investment beliefs | Our Baseline Exclusion Policy | Our stakeholders	Page 2 Chapter 1: Pages 4-15
Principle 2: Signatories' governance, resources and incentives support stewardship.	Chapter 2: Governance and organisation of stewardship | Resourcing stewardship | Incentives and training Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account	Chapter 2: Pages 16-23 Chapter 3: Pages 37-41
Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	Chapter 2: Assurance and managing conflicts | Managing conflicts	Chapter 2: Pages 24-25
Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Chapter 5: broader market initiatives – collaboration and systemic risks | Identifying and acting on risks | Collaboration, awards, and accreditations | Direction of travel: looking forward	Chapter 5: Pages 66-74
Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Foreword by Ashish Dafria Chapter 2: Governance and organisation of stewardship | Assurance and managing conflicts	Page 2 Chapter 2: Pages 16-25
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? | Communication and feedback with customers and advisers | An integrated approach to stewardship	Chapter 3: Pages 26-36
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 | Monitoring asset managers | Monitoring and holding service providers to account Chapter 4: Engagement with corporates	Chapter 3: Pages 32-41 Chapter 4: Pages 44-54
Principle 8: Signatories monitor and hold to account managers and/or service providers.	Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account	Chapter 3: Pages 37-41
Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.	Chapter 4: Engagement | Engagement with corporates | Engagements in real assets	Chapter 4: Pages 42-56
Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.	Chapter 4: Engagements with corporates | Escalations Chapter 5: Broader market initiatives – collaboration and systemic risks | Identifying and acting on risks | Collaboration, awards and accreditations	Chapter 4: Pages 44-62 Chapter 5: Pages 66-73

Appendix

Stewardship Code Principles	Location in the report	Relevant pages
Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.	Chapter 3: Monitoring asset managers | Monitoring and holding service providers to account	Chapter 3: Pages 37-41
	Chapter 4: Engagement with corporates | Engagements in real assets | Exercising rights and responsibilities | Voting activity | Escalations	Chapter 4: Pages 44-62
Principle 12: Signatories actively exercise their rights and responsibilities.	Chapter 3: An integrated approach to stewardship | Monitoring asset managers | Monitoring and holding service providers to account	Chapter 3: Pages 32-41
	Chapter 4: Engagement with corporates | Engagements in real assets | Exercising rights and responsibilities | Voting activity	Chapter 4: Pages 44-62

Cautionary Statements

Climate-related cautionary statement

Climate metrics

The climate metrics, projections, forecasts and other forward-looking statements used in this document should be treated with special caution, in particular as they are more uncertain than, for example, historical financial information, and given the wider uncertainty around the evolution and impact of climate change.

Climate metrics include:

- Estimates of historical emissions and historical climate change; and
- Forward-looking climate metrics, such as ambitions, targets, climate scenarios and climate projections and forecasts.

Our understanding of climate change effects, data, metrics and methodologies and its impact continue to evolve. Accordingly, both historical and forward-looking climate metrics are inherently uncertain and, therefore, could be less decision-useful than metrics based on historical financial statements. Below we provide a non-exhaustive list of some of the challenges associated with using climate metrics in more detail.

1. Methodologies for estimating and calculating GHG emissions or emissions intensities and other climate-metrics vary widely

There is a lack of standardisation and comparability with many diverging frameworks and methodologies for calculating climate metrics.

In particular:

- Some methodologies use company-specific historical emissions data while others result in estimation of emissions based on sectoral or geographical data or averages. Of those that incorporate emissions ambitions and targets, there are different criteria for the types of ambitions and targets that can and cannot be used.
- Methodologies vary in their use of Scope 1, Scope 2 and/or Scope 3 GHG emissions. Some use only Scope 1 data, while others use Scope 1 and Scope 2 and yet others take Scope 1, Scope 2, and Scope 3 GHG emissions into account.
- Certain methodologies take cumulative historical GHG emissions into account while others incorporate point-in-time assessments of emissions intensity.

There is a risk that climate metrics may result in over or under estimations

2. Climate metrics are complex and require making extensive judgements and assumptions

Climate metrics and data are based on underlying assumptions made about climate change policies, technologies and other matters that are uncertain or not yet known.

Any material change in these variables may cause the assumptions, and therefore, the climate metrics and data based on those assumptions, to be incorrect.

In particular:

- Temperature scenarios generally include a set of assumptions that incorporate existing or planned global or regional policies, or business-as-usual sociodemographic projection, and projections for technological progress (including negative emissions and sequestration technologies), none of which may happen as contemplated.
- Some assumptions attempt to compensate for existing data gaps, such as past emissions trends or comparable and reliable company specific ambitions and targets. These assumptions may prove to be incorrect and not accurately represent the actual data.

Design issues specific to financed emissions raise challenges, particularly around allocating emissions to the wide range of invested assets and financed activities.

Financed emissions from owning one percent of a company might include one percent of that company's emissions; a portfolio can rapidly double count if aggregate financed emissions include each underlying company's own Scope 3 upstream and downstream emissions.

The calculation becomes significantly more complex with other activities, such as when a financial institution serves as a counterparty or is one of multiple underwriters of a financing.

There is a risk that the judgement exercised, or the estimates or assumptions used, may subsequently turn out to be incorrect.

3. There is a lack of complete, standardised, accurate, verifiable, reliable, consistent and comparable climate-related data

Climate-related risks and opportunities and their potential impacts and related metrics depend on access to complete, standardised, accurate, verifiable, reliable, consistent and comparable climate-related data. The insurance industry, like other sectors, is grappling with data availability and quality.

Cautionary Statements

In particular:

- Climate-related data may not be generally available from counterparties or customers or, if available, it is generally variable in terms of quality and, therefore, may not be complete, standardised, accurate, verifiable, reliable, consistent or comparable.
- Companies may rely on aggregated information based on high-level sector data developed by third parties that may be prepared in an inconsistent way using different methodologies, interpretations or assumptions.
- Data is less readily available for some invested asset types and there may also be data gaps, particularly for private companies, that are filled using "proxy" or other data, such as sectoral average, again developed in different ways.
- There is no single, global, cross-sector data provider that adequately and consistently covers the needed scope for data to analyse emissions and assess physical and transactional risks across operations and investment portfolios.
- While regulators and standard-setters mandate additional disclosure of verified climate-related data by companies across sectors, there are potential gaps between needed and available data.
- The availability of climate, industrial classification, energy use and efficiency data, including information used as a proxy for that data (e.g. EPC rating) depends on a variety of public, private and civic sector sources. Historically, climate data was largely environmental and weather data was produced by government agencies, however, the challenge is finding the relevant sources, if they exist, and then validating, cleaning and standardising the data in an accessible form or format.

Further development of reporting standards, scientific understanding of climate change and global and regional laws could materially impact the metrics, ambitions and targets contained within this report and may mean that subsequent reports do not allow a reader to compare metrics, ambitions and targets on a like for like basis. Certain disclosures are likely to be amended, updated, recalculated and restated in future reports.

There are many uncertainties, assumptions, judgements, opinions, estimates, forecasts and non-historic data surrounding the climate metrics, data, models and scenarios used to create them; and the measurement technologies, analytical methodologies and services that support them remain in an early stage.

Accordingly, the quality and interoperability of these models, technologies and methodologies is also at a relatively early stage.

Significant data gaps in sectors, sub-sectors and across invested asset classes are impeding not only climate risk management, but also the development of mitigation and adoption of strategies, as well as aspects of operations and credit risk and investment analysis that depend on data-informed processes.

In summary, the information in this report is subject to significant uncertainties and risks which may result in the group being unable to achieve the current plans, expectations, estimates, ambitions, targets or projections.

Some of the information in this document has been or may have been obtained from public and other sources and Aviva has not independently verified it. Aviva makes no representation or warranty regarding its completeness, accuracy, fitness for a particular purpose or non-infringement of such information.

Other forward-looking statements

This document should be read in conjunction with the other documents distributed by Aviva through The Regulatory News Service (RNS). This document contains, and we may make, other verbal or written 'forward-looking statements' with respect to certain of Aviva's plans and current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives.

Forward-looking statements include, without limitation, projections, estimates, commitments, plans, approaches, ambitions and targets (including, without limitation, sustainability commitments, ambitions, goals and targets). Statements containing the words 'believes', 'intends', 'expects', 'projects', 'plans', 'will', 'seeks', 'aims', 'may', 'could', 'outlook', 'objective', 'predict', 'likely', 'target', 'goal', 'guidance', 'trends', 'future', 'estimates', 'potential' and 'anticipates', and words of similar meaning, are forward-looking.

By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements.

Factors that could cause actual results to differ materially from those described in these statements include (but are not limited to):

- Regulatory measures addressing climate change and broader sustainability-related issues; and
- The development of standards and interpretations, including evolving requirements and practices in sustainability reporting; and the ability of the Group, together with governments and other stakeholders to measure, manage, and mitigate the impacts of climate change and broader sustainability-related issues effectively.

A detailed description of other relevant factors is contained within Aviva's most recent annual report available on its website at **https://www.aviva.com/reports**.

Cautionary Statements

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements in this report are current only as of the date on which such statements are made and we do not undertake to update our forward-looking statements except as required by applicable law and do not provide any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements will actually occur.

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