The purpose of this document is to outline how Aviva Investors’ Sustainable Stewardship fund range aligns investments to the UN Sustainable Development Goals (SDGs).

1. Background

Introduction in 1984, the Sustainable Stewardship Funds have a proud heritage as the UK’s first ethical fund range. The investment philosophy and policies underpinning the franchise have always been to guide capital allocation responsibly and to exclude or include a company based on what it does and how it does it. This philosophy has been kept under review since launch, to ensure it remains relevant for the changing requirements of investors. Following a review at the beginning of 2023, it was decided that the UN SDGs should be used as a framework for positive selection of sustainable companies. Set in 2015, the UN’s 2030 Agenda for Sustainable Development now represents the framework guiding action toward global peace and prosperity, for people and the planet both now and into the future.

Source: UN Sustainable Development Goals.
2. **Philosophy – the UN (United Nations) SDG Investment Case**

The implementation of the UN 2030 Sustainable Development agenda has significant economic implications. With under 10 years to deliver the 2030 agenda, deteriorating progress to finance and delivering the global goals increases the risk of these economic losses being realised if urgent and concerted action is not taken. There is an estimated US$2.5 trillion annual financing gap, which could be further exacerbated by the Covid-19 pandemic to an increased gap of up to US$4.2 trillion, calling for greater alignment of all forms of financing to support the Sustainable Development Goals.

The economic cost of inaction can be framed using the concept of national wealth, failing to invest in human capital and natural capital related global goals being the depletion of a country’s “assets”, eroding total wealth and impacting its ability to sustain future GDP (Gross Domestic Product) growth in the long-term. Inaction on climate mitigation related global goals will result in physical impacts, further compounding and accelerating stress and depletion of human capital and natural capital assets.

The Sustainable Outcomes team develop sustainability related investment insights and research. The team is built on three pillars of People, Earth and Climate which feed into, as well as inform the team’s research into the SDGs and consequently the Sustainable Stewardship fund ranges.

**A firm committed to building a sustainable world**

<table>
<thead>
<tr>
<th>3 Pillars</th>
<th>People</th>
<th>Earth</th>
<th>Climate</th>
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</thead>
<tbody>
<tr>
<td>3 Challenges</td>
<td>Social inequality</td>
<td>Biodiversity loss</td>
<td>Climate change</td>
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<tr>
<td>3 Outcomes</td>
<td>Social justice</td>
<td>Nature positive</td>
<td>Net zero</td>
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Source: Aviva Investors, UN SDGs.
3. **Sustainable Stewardship Investment Philosophy**

The Sustainable Stewardship belief is that every sector will, either positively or negatively, have an impact on or align to different SDGs, and therefore the sustainable Stewardship funds do not target specific SDGs or sectors but take a broad view of companies with either (i) positive alignment to one or more SDGs or (ii) on balance, positive alignment to the SDGs overall.

The Sustainable Outcomes team assess alignment to the SDGs using a proprietary framework and third-party data, with two key methodological principles:

a. Sectors and companies will have both positive and negative alignment to the SDGs and therefore “net alignment” should be assessed, to identify the companies that positively align to the delivery of the UN SDGs (who should therefore be supported), and the companies that fundamentally undermine the delivery of the UN SDGs (who should therefore be avoided);

b. SDG alignment should consider the solutions, products and services a company delivers but also the operational effectiveness of a company, such that sustainable business practices can support the transition to a more sustainable economy and are therefore in line with the spirit of the SDGs.

“Positive SDG alignment” is therefore defined as companies demonstrating sustainable practices or delivering solution orientated products and services through the lens of the SDGs, rather than as a contribution to achieving SDGs (which would necessitate a view of impact and additionality).

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*Third-party data providers are selected based on the robustness and coverage of data.*

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4. **Investment Process**

The Sustainable Stewardship funds have a consistent three-layered investment process of capital allocation, stewardship and measurement:

a) **Layer 1: Capital Allocation (investment selection).** Allocate to companies where there is strong evidence that the company has an overall positive alignment to the UN SDGs.

b) **Layer 2: Stewardship.** Engage with investee companies on thematic issues to encourage sustainable behaviours.

c) **Layer 3: Measurement.** Monitor and reports on the Fund’s alignment to the SDGs in aggregate, to ensure positive sustainable outcomes for investors.

4.1 **Layer 1 – Capital Allocation: Identifying companies for investment**

The Sustainable Stewardship funds are actively managed. The Investment Manager will identify suitable companies for investment by applying the exclusions policy and then assessing if the investment demonstrates (i). positive alignment to one or more SDGs or (ii). on balance, positive alignment to the SDGs overall.

In summary, the investment process both negatively screens and positively assesses all potential investments across the Sustainable Stewardship funds to: i) avoid strongly misaligned names- through exclusion criteria, and ii) identify areas of positive alignment through a set of operational and product/service key performance indicators, applying enhanced due diligence where necessary. This process is set out in more detail below.

An approval for investment will therefore be based on whether, in the Investment Manager’s view, a company is considered to have a net positive alignment to the UN SDGs – a net negative alignment would not be acceptable for investment.

(i) **SDG Alignment Framework**

The Sustainable Stewardship’s proprietary SDG Alignment framework seeks to categorise a company’s level of alignment to SDG themes, through two key lenses, and consequently the company’s suitability for assessment:

a) **Operational Effectiveness:** considers a company’s policies, practices and performance (3Ps). It assesses the quality of sustainability practices within a company’s operations and the degree of alignment to the UN Sustainable Development Goals.

b) **Products and Service Provision:** considers the revenues that companies generate through products and services in business segments and the degree of alignment it has to the UN Sustainable Development Goals.

The framework is built off AI (Aviva Investors) internal research and leverages insights from third party data providers, predominantly MSCI’s Impact and SDG Alignment data* and other third-party research (including broker and NGO research).

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*The framework also utilises MSCI ESG Ratings, ESG Controversies and Global Norms, Business Involvement Screening data modules. As of July 22, 2020, MSCI SDG Alignment covered approximately 8,600 listed and unlisted companies.
### Investment Objective

<table>
<thead>
<tr>
<th>Activity Assessment</th>
<th>INVEST</th>
<th>AVOID</th>
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<tbody>
<tr>
<td>Positive and “Net” Positive Alignment - support the delivery of the UN SDGs.</td>
<td>Neutral - neither support nor undermine the UN SDGs</td>
<td>Negative Alignment - undermine the delivery of the UN SDGs.</td>
</tr>
<tr>
<td>“Positive”</td>
<td>“Net Positive”</td>
<td>“Net Negative”</td>
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<tr>
<td>“Negative”</td>
<td></td>
<td>“Negative”</td>
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### Operational Effectiveness

<table>
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<tr>
<th>Industry Leaders</th>
<th>Operational Harm</th>
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<tr>
<td>Issuers with leading sustainability practices and no high-risk exposures.</td>
<td>Subject to moderate or severe controversies, with no evidence of remedial action or; Demonstrates high exposure to intensive operations (&gt;20%), with no evidence of mitigation action.</td>
</tr>
<tr>
<td>Issuers with leading sustainability practices, with evidence of adequate mitigation and management of high-risk exposures and controversies.</td>
<td>Captured by Stewardship Exclusionary Policy, through being subject to very severe controversies, where there has been adverse social or environmental impact.</td>
</tr>
</tbody>
</table>

### Product and Services Provision

<table>
<thead>
<tr>
<th>Solution Providers</th>
<th>Harmful Products and Services</th>
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<tbody>
<tr>
<td>&gt;10 and no high-risk exposures.</td>
<td>&gt;10 from high-risk products/services or; industry ties to negative screening themes, with no evidence of mitigation action.</td>
</tr>
<tr>
<td>&gt;10 with evidence of adequate mitigation and management of high-risk exposures and controversies.</td>
<td>Captured by Stewardship Exclusionary Policy, by being exposed to sector-based exclusions.</td>
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</table>

**Source:** Aviva Investors.

**Exceptions**

The Sustainable Stewardship funds will focus on the importance of allocating capital based on positive alignment, defined as clearly evidenced best and good practice through key performance indicators covered by the SDG alignment framework. There may be occasions where an issuer may not easily be categorised and therefore an exception may be required:
1. **Data Quality and Coverage**: where data on an issuer/issue is considered to be low-quality or incorrect, the Sustainable Outcomes team will conduct an internal qualitative assessment within the pre-investment deep dive to justify inclusion based positive alignment, where there is credible and sufficient evidence to support the view.

(ii) **Defining the Investment Universe and Security Selection**

The investment decision-making process utilises both data-driven and qualitative elements to categorise issuers into the SDG Alignment Framework outlined above and leverages on 3 key inputs:

1. **Exclusion criteria** – identifies issuers that have products, services and behaviour considered to cause significant harm and undermine the UN SDGs.

2. **Enhanced due diligence criteria** – identifies issuers that have products, services and behaviour considered to have the potential to cause harm and undermine the UN SDGs, if not appropriately managed.

3. **Positive alignment criteria** – identifies issuers that demonstrate operational effectiveness and solution provision that are aligned to the UN SDGs.

The Portfolio Manager is ultimately responsible for security selection, however, will work closely with sustainable investing analysts to maintain the integrity of the fund’s sustainable objective, drawing on research from the wider ESG team.

1. **Exclusion policy – Avoid companies Strongly Misaligned to the UN SDGs**

The Sustainable Stewardship funds maintains an exclusionary policy, which guides how the funds avoid financing certain business lines/corporate behaviours. The Funds seek to avoid issuers on certain environmental, social and ethical grounds, ensuring that the Funds do not invest in companies that the Investment Manager regards as strongly misaligned to the spirit of the UN Sustainable Development Goals. Investments that do not pass the negative screens are thus ineligible for investment.

The investment universe is defined by sectoral and behaviour-based exclusions to negatively screen out companies that are considered harmful and provide a minimum sustainability baseline to the portfolio.

Exclusion criteria focuses on issuers that either:

a) **Manufacture products** that cause social or environmental harm and are misaligned with the UN Sustainable Development Goals or other widely accepted treaties, conventions and norms; and/or

b) **Demonstrate poor behaviour** that has allegedly caused very severe environmental or social harm as a result of company operations and practices and is deemed to be in inconsistent with the UN Sustainable Development Goals or other widely accepted treaties, conventions and norms.

**Override mechanism**

The Funds aim to adopt a practical and pragmatic approach. Aviva Investors retains the discretion to override an exclusion on rare occasions if, at the issuer and issue level, the following exception criteria are met:

- At issuer level, its exposure to the excluded activity is minor, inconsequential or immaterial; or the data is deemed inaccurate

- (Relevant to the AI Sustainable Stewardship Fixed Interest Fund) at the level of issuance, use of proceeds bonds (green, social, etc) mitigate or are not exposed to the activity which sees the issuer excluded.

Nevertheless, an override will only be invested in if the issuer satisfies the Funds’ positive selection criteria, as further described below.
2. Due Diligence – Invest in companies that align to the SDGs

Following the exclusion of companies by the negative screens, the Investment Manager then performs further analysis on all proposed investments to ensure that they are eligible for investment by determining that the company is, in the Investment Manager’s view: (i) positively aligned to one or more SDGs; and (ii) on balance, positively aligned to the SDGs overall (i.e. any areas of positive alignment to the SDGs are not outweighed by areas of potential misalignment to the SDGs).

The Investment Manager maintains a set of operational and product alignment criteria within the SDG Alignment framework to identify issuers with positive alignment to the UN SDGs examining industry leadership in operational effectiveness and solutions in product and service provision. These positive selection criteria identify companies that are considered to be “positively aligned”, which can be broadly categorised into two activities, *industry leadership in operational effectiveness and/or solution provision through its products/services*:

1. **Operational Alignment:** invest in companies with high quality sustainability practices within its operations (relative to peers), which are positively aligned to the UN Sustainable Development Goals.

2. **Product and Service Alignment-Solution Providers:** invest in companies who generate revenue from product and services which are aligned to the delivery of the UN Sustainable Development Goals.

The assessment process incorporates both quantitative and qualitative elements, with additional due diligence criteria applied where the data analysis has identified potential controversies, high-risk exposures or behaviours that are considered at risk of causing environmental or social harm and therefore being fundamentally misaligned to and undermine the delivery of the UN Sustainable Development Goals. These issuers will be subject to a custom, qualitative review to further assess its mitigation and remediation measures.

Enhanced Due Diligence criteria focuses on issuers that:

a) manufacture products or have exposures to intensive operations or industry ties to product/services that have the potential to cause social or environmental;

b) demonstrate behaviour that has allegedly caused environmental or social harm as a result of company operations and practices.

Once the custom review has been completed, there are two outcomes from the assessment:

1. An issuer is considered to have adequately remediated controversies and mitigate high-risk business segments, through the implementation of robust transition and management strategies. Its classification is upgraded to a neutral position for these areas and reverts to its areas of positive alignment. Thus, considered “net positively aligned”.

2. An issuer does not appear to consider these areas as salient or material and has failed to adequately remediate controversies or manage high-risk segments, its classification is downgraded to misaligned which overrides any areas positive alignment. Thus, considered “net negatively aligned” and not suitable for investment.
4.2 Layer 2 – Stewardship

The Investment Manager will use its shareholder influence to encourage companies to encourage sustainable behaviours.

The Funds will benefit from Firm-wide and Sustainable Outcomes specific thematic engagement with investee companies- both proactive and reactive- seeking to improve how a company operates.

i. Firm-wide Stewardship Activities

On an annual basis, Aviva Investors outlines a set of sustainability priorities that we expect companies to take into consideration, articulated in an annual letter to company chairs. In addition, the Corporate Governance team within the wider ESG team proactively and reactively engage with companies on salient ESG issues as part of Aviva Investor’s broader engagement effort.

ii. Thematic SDG Engagement

The Sustainable Outcomes Team are committed to pursue specific thematic and collaborative engagement programmes to support SDG topic. These programmes have specific engagement asks of portfolio companies to progress against a number of topics, including but not limited to human rights disclosure and due diligence, climate ambition and disclosure and biodiversity disclosure and assessments.

Engagement will be prioritised and reviewed on a rolling basis based on targeting underserved UN SDGs and the Funds exposure (sector and size or value of holdings).
4.3 **Layer 3 – Outcomes and Measurement**

Layer 3 focuses on measuring investor outcomes, primarily the portfolio’s degree of SDG alignment and the outcomes of active ownership.

Aviva Investors are committed to measuring and being transparent on a comprehensive set of metrics to assess the portfolio’s alignment to each of the UN SDGs.

The sustainability performance of the franchise will be monitored internally on an ongoing basis using an internal framework of operational and product alignment KPIs and SDG Alignment KPIs integrated investment systems. Regular franchise meetings and reviews of the Funds will monitor performance against the sustainable objective and provide a feedback mechanism for engagement to ensure these insights are being considered and integrated into investment decisions.

An annual transparency report will be published externally on the progress to meet the stated sustainability objective of the Funds.

To ensure investors have a third-party view with which to measure performance the Sustainable Stewardship franchise will report fund level SDG metrics, including against the **MSCI SDG Alignment Methodology**. MSCI were chosen as their approach to SDG alignment, in terms of both a net contribution and considering operational alignment, is the closest to the Stewardship philosophy, and therefore the fairest reflection of the funds approach to meeting their Sustainable objective.

**Definitions:**

- The **SDG Operational Alignment Score** is calculated based on the sum of the underlying performance, positive operational impact and negative operational impact scores. The score has a range of -10 to 10 and corresponds to a degree of alignment between Strongly Aligned to Strongly Misaligned.

- The **SDG Product Alignment Score** assesses the net impact of a company’s products and services on achieving targets associated with each of the 17 SDGs. Net impact implies that some of a company’s products and services may be well aligned with the sustainable development objectives, while other products may have an adverse impact and show misalignment with the goals. The score has a range of -10 to 10 and corresponds to a degree of alignment between Strongly Aligned to Strongly Misaligned.

The annual transparency report will seek to report the portfolio weight (by MV%) allocated to companies with positive and negative alignment to the UN Sustainable Development Goals, as well as the fund performance vs the benchmark.

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5 **Coverage:** As of July 22, 2020, MSCI SDG Alignment covered approximately 8,600 listed and unlisted companies, including those that were constituents of the MSCI ACWI Investable Market Index. The assessments are refreshed weekly to incorporate any changes in the underlying data.

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Key Risks

Investment risk & currency risk

The value of an investment and any income from it can go down as well as up and can fluctuate in response to changes in currency and exchange rates. Investors may not get back the original amount invested.

Credit and interest rate risk

Bond values are affected by changes in interest rates and the bond issuer’s creditworthiness. Bonds that offer the potential for a higher income typically have a greater risk of default.

Ethical risk

Where a fund chooses to invest in companies based on ethical criteria, this will limit the choice of investments. The fund will not perform in line with funds that have a broader investment policy.

IMPORTANT INFORMATION

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