ANNUAL SUSTAINABILITY REVIEW

2023

The intelligence that guides
our investment decisions

AVIVA INVESTORS

Contents

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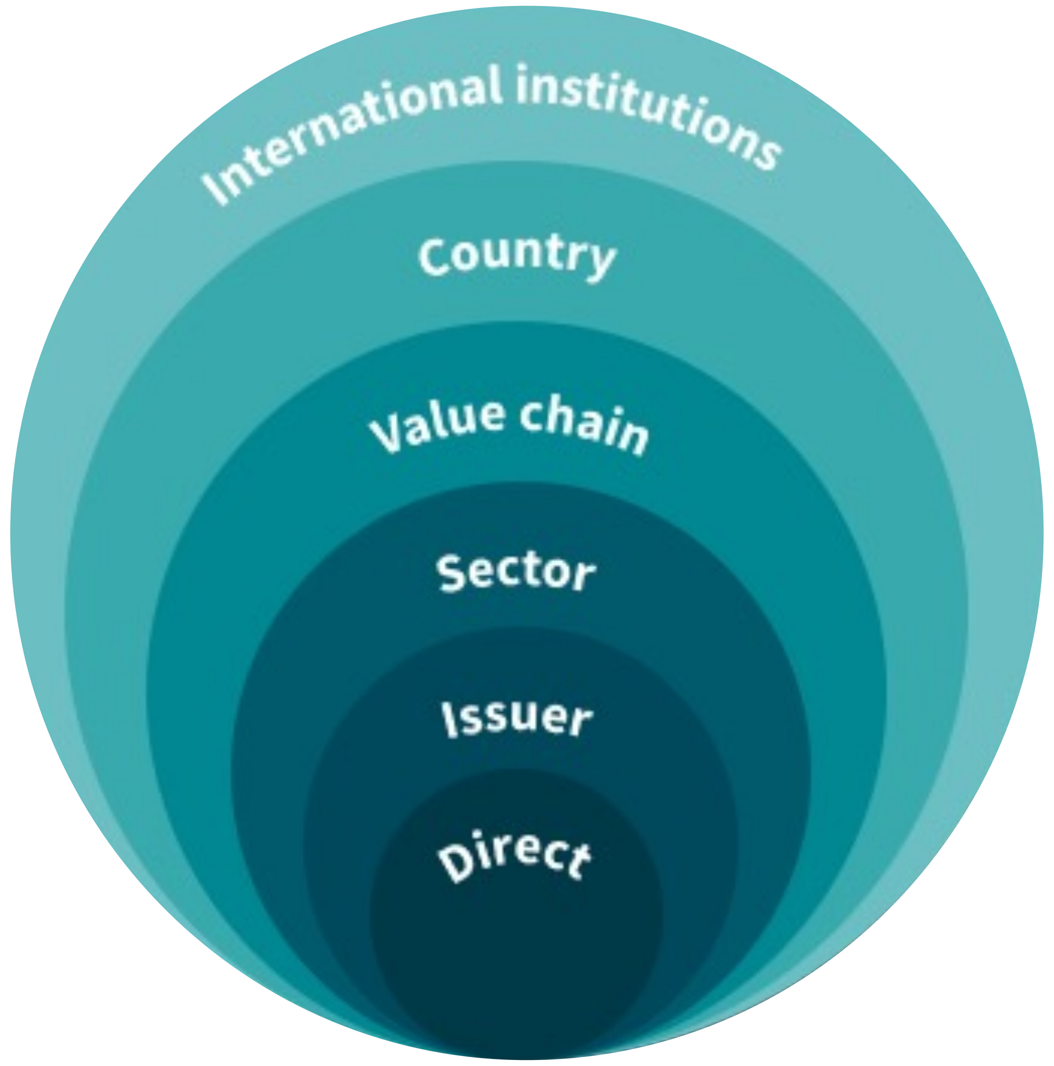


The purpose of this document is primarily to respond to the requirements of the Financial Reporting Council's UK Stewardship Code 2020
The content and examples in this document are not intended to be fully representative of Aviva Investors's sustainability-related products and services

Why sustainability investing requires a holistic approach (Principle 1)

"Only connect… Live in fragments no longer," wrote EM Forster in Howards End. The novel was published in 1910, but those words are full of relevance for our own time.

Climate change, biodiversity loss and societal issues such as inequality represent huge challenges. But the transition to a more sustainable and equitable world will also create vast opportunities.

In this context, it is important investors work collaboratively to understand the shifts sweeping economies, protect our clients' capital and drive long-term value creation. To do this we must connect with our colleagues and other stakeholders to share information and avoid fragmented thinking.

This is the guiding principle behind our engagement approach. At the micro level, we engage with the companies we invest in, and the tenants of the buildings we own, to support their efforts to operate more sustainably. At the macro level, we undertake collaborative engagements with sovereign issuers, policymakers and regulators to help address market failures and other obstacles to sustainable action.

We think this approach allows us to deliver better outcomes for our clients. Engaging with companies gives us "bottom-up" insights into market failures that need to be fixed. Our macro engagement, meanwhile, gives us a "top-down" sense of how policy and regulation are progressing, informing our corporate engagement and supporting our investment teams to position portfolios helping to deliver long-term risk-adjusted returns for our clients We call it holistic stewardship.

This year's Annual Sustainability Review is full of examples of our holistic approach in action. Take our flagship Climate Engagement Escalation Programme, which focuses on so-called "hard-to-abate" sectors. As part of this programme, in 2023 we brought together airlines, engine manufacturers and biofuel producers in a productive roundtable event to explore how decarbonisation of the aviation industry might be achieved.

Or consider the progress we are making in our Private Markets business. During 2023 we took further steps towards our net-zero ambitions by originating new green and sustainable assets.

We continued to develop sustainable and affordable homes in the UK. And our Climate Transition Real Assets Fund acquired Glen Forsa, a site on the Isle of Mull in Scotland, where we plan to capture carbon through biodiverse landscape design and tree planting.

In November, I was proud to attend the 28th annual UN Conference of the Parties (COP28) in Dubai, where our team engaged with policymakers and negotiators at a series of events on climate finance.

I came away from the conference feeling energised and optimistic, despite the undeniable scale and complexity of the climate challenge. Having witnessed the public and private sectors come together in a spirit of true openness and collaboration at COP, I returned home confident solutions lie within our grasp. The key, as always, is to connect.

Mark Versey
CEO, Aviva Investors

"Climate change, biodiversity loss and societal issues such as inequality represent huge challenges. But the transition to a more sustainable and equitable world will also create vast opportunities."

Turning talk into action (Principle 1, 4, 7)

Experience and integrity of approach

We are proud to be a company of action, united by a firm-wide commitment to work with and for our clients to do what is right for them, society and the world around us.

At a firm level, sustainability considerations are integrated across all levels of our organisation, in our purpose, people and processes*. Understanding environmental, social and governance (ESG) factors, the risks and the opportunities, makes us better investors, delivering the investment outcomes our clients expect and helping us to make informed decisions on how we run our business.

Actions that unlock value

Integrated ESG

We consider material ESG factors in our investment decisions**, using insights that go beyond the conventional.

Our portfolio managers are empowered to make the right decisions for the best client outcomes, supported by an ESG capability that is integrated into our investment franchises via specialist teams.

Holistic stewardship

As an active owner with scale and global reach, we use engagement, voting and investment decisions to drive a transition to a sustainable future. We invest in, and stay engaged and partner with, a variety of stakeholders to improve the sustainability of our investments.

We work in partnership with clients, policymakers and regulators, sharing knowledge and collaborating as we share the challenge to build a more sustainable future for us all. We are committed to reforming capital markets and empowering our clients to make informed choices.

Solutions that start with investors' needs

It is our responsibility as asset managers to understand and seek to deliver on the specific and varied sustainability preferences of our clients.

Working in partnership with investors to identify and shape solutions to meet their needs is a fundamental part of our approach.

*This integration is in reference to the firm structure and approach and is separate from specific product objectives.
**This is not binding on the investment manager, beyond any specific ESG criteria which is in a Fund prospectus or Investment Management Agreement.

1

2023 Sustainability Investing highlights (Principle 1, 9, 10, 11)

Public Markets highlights

This covers the investments we make in companies (through equity and credit), sovereign debt and multi-asset strategies.

3,783[1]
company engagements with **2,275** issuers

281
engagement wins,[2] of which **154** were material[3]

1,694
substantive company engagements[4]

96
sovereign engagements with **56** issuers

45
substantive sovereign engagements

25 per cent
of votes against management resolutions (including **43** per cent of pay proposals)

67 per cent
votes in favour of climate and social shareholder proposals

#3 Ranking
being one of only four asset managers to achieve an "A" or "AA" rating out of 77 worldwide

68,177
votes on resolutions at **6,441** shareholder meetings

1. Please note we have omitted the number of CDP letters which we signed this year. Including CDP, we engaged 11,784 times this year.
2. Defined as changes in entity behaviours in line with a prior engagement ask.
3. Refers to changes deemed particularly meaningful in terms of financial materiality and social and environmental impact and outcomes.
4. Substantive engagement constitutes targeted and tailored engagement.

Private Markets highlights

This covers the investments we make in infrastructure, real estate, private corporate debt and structured finance. We invest with sustainable considerations a central pillar of our investment process because we believe it can minimise risk and allows us to spot opportunities for our customers.

Putting in place low-carbon infrastructure and solutions to reach net-zero is a major investment opportunity that could also deliver significant returns in terms of economic growth and job creation. During the year we made further progress towards our net-zero ambitions, originating **£1.2 billion** in green and sustainable assets.

On a smaller scale we're investing in electric-vehicle (EV) charging, and growing our own network, investing **€30 million** in E-Rapid, which will finance the delivery of 3,000 EV chargers in the UK and Ireland. Within our own portfolio we grew the network to **42 chargers at 18 assets** around the UK.

As well as infrastructure projects we're delivering sustainable and affordable homes across the UK, signing a new deal with Packaged Living Homes to finance 174 more sustainable build-to-rent homes in Hampshire. This is our sixth investment with Packaged Living Homes and all homes delivered through the partnership are gas free, featuring air source heat pumps and EV charging as standard.

In real estate asset management we're making great progress against our net-zero pathway goals. In 2023, we delivered a four per cent energy use intensity and **27 per cent carbon intensity reduction** across the funds we manage under the Net-Zero Asset Owners Alliance (NZAOA) initiative, against a 2019 baseline.

This is the result of retrofit projects including LED lighting, heat pumps and double glazing. Also within the real estate portfolio we improved data coverage in the year, with the aim of maximising real metered data from our buildings. This helps us to plan our operating and capital expenditures for the years ahead. We also grew our coverage of real data to 60 per cent.

Additionally, we grew our coverage of net-zero due-diligence audits, which go into detail about how assets should be decarbonised, to **44 per cent** of assets by count or **70 per cent** by assets under management.

We delivered another significant investment in carbon removal, within one of our Private Markets strategies, by acquiring Glen Forsa, a **1,580-hectare site** located on the Isle of Mull in Scotland.

We also made progress on our social programme (see "Education and skills outreach at Curtain House" case study, page 97) and established a social value cluster in London.

ENGAGEMENT CASE STUDY

Plotting a flight path to mainstream sustainable aviation fuels (Levels 2, 3, 4 and 6)*

Governance People Earth **Climate**

Issue

In 2023, to contribute to real-world decarbonisation, we expanded our flagship Climate Engagement Escalation Programme (CEEP) 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 the supply-side alone will not be sufficient to accelerate the energy transition at the scale required.

We also embraced a more holistic "value chain" approach towards our engagement activity. This focused 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. Subjects covered included 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, we 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.

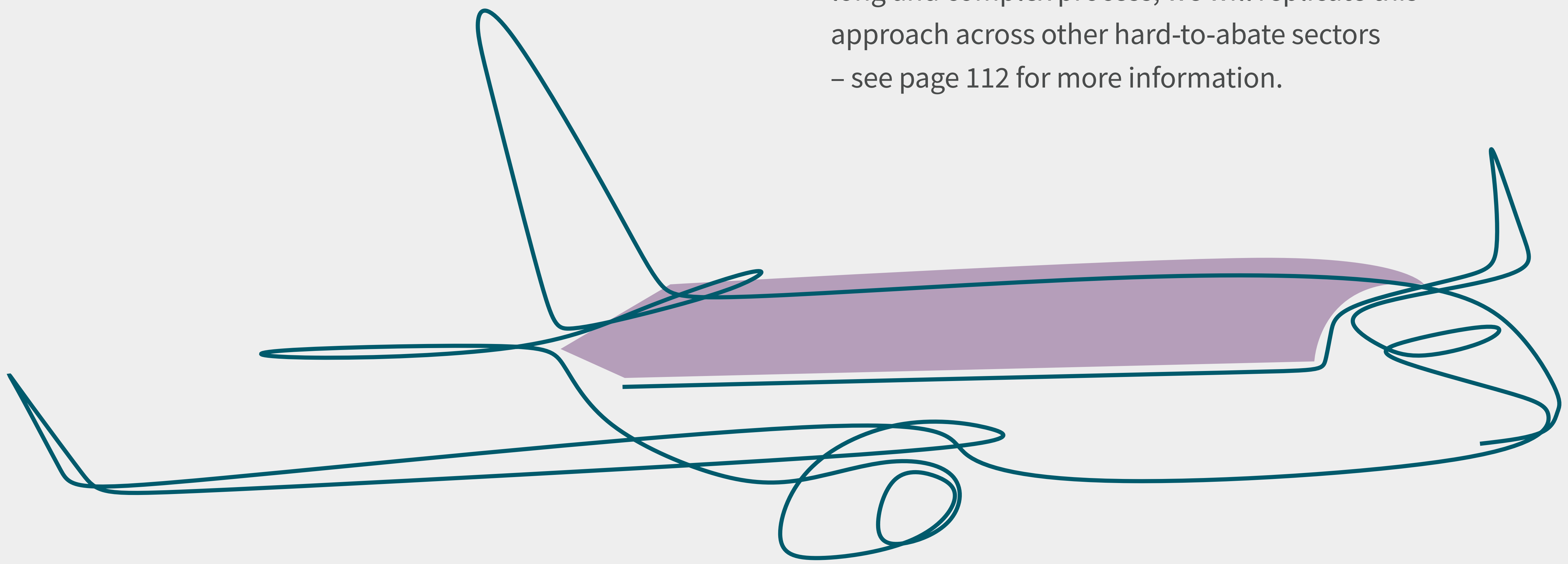
Action

Building upon our multi-year engagement on the transition strategies of global airlines, in June 2023 we 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. We 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 2.5 per cent of global CO_2 emissions, with demand for flights expected to double by 2050.

Outcome

The insights from this half-day event have helped inform our company-level, industry and macro views and tangibly shaped the direction of our Macro Stewardship team's policy development and engagement programme with government, regulators and standard setters for 2024 onwards. Our 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 our policy work here.

Recognising that the energy transition will be a long and complex process, we will replicate this approach across other hard-to-abate sectors – see page 112 for more information.



*Please refer to Page 108-112 to understand our approach to the levels of engagement

ENGAGEMENT CASE STUDY

Addressing deforestation risk in banking (Levels 2 and 3)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

14 LIFE BELOW WATER

Governance People **Earth** Climate

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.[5] 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, we have engaged at multiple levels including at both direct and sector levels. While individual company engagement can be effective, collaboration with like-minded investors can amplify our impact.

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 portfolios by 2025. We 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. Our asks have focused on encouraging them to provide further information on their approach to deforestation risk , their responsible lending requirements and how they are working to be deforestation free.

Our nature team also held two one-to-one engagement calls with Barclays. One focussed on strengthening the company's lending requirements under palm oil, soy and beef supply chains to consider stricter components under its deforestation policy, and the other 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 we 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 we found the company is undertaking nature rehabilitation in post-mining activities. Going forward, we will focus on the bank making an overarching commitment to deforestation.

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

5. WEF_New_Nature_Economy_Report_2020.pdf (weforum.org)

ENGAGEMENT CASE STUDY

Decent workplace conditions – living wage, collective bargaining and a just transition (Levels 4 and 6)

Governance People Earth Climate

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 1 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, we 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 $200m a week.

Regarding supply chain due diligence, companies have relied on social audits and disclosures and/or outcomes of voluntary initiatives. However, historically these have 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 towards 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 our Social Transition Engagement Programme (STEP), we have 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 our credit, equities and ESG teams, we also engaged with Ford to better understand its ambitions for its electrification strategy given the current economic context. Specifically, we 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, we revisited our asks on capital expenditure on a just transition of its workforce, such as through training, reskilling and early retirement packages if necessary.

We also jointly hosted a roundtable on supply chain labour rights with IndustriALL Global Union. In it, we 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.

ENGAGEMENT CASE STUDY

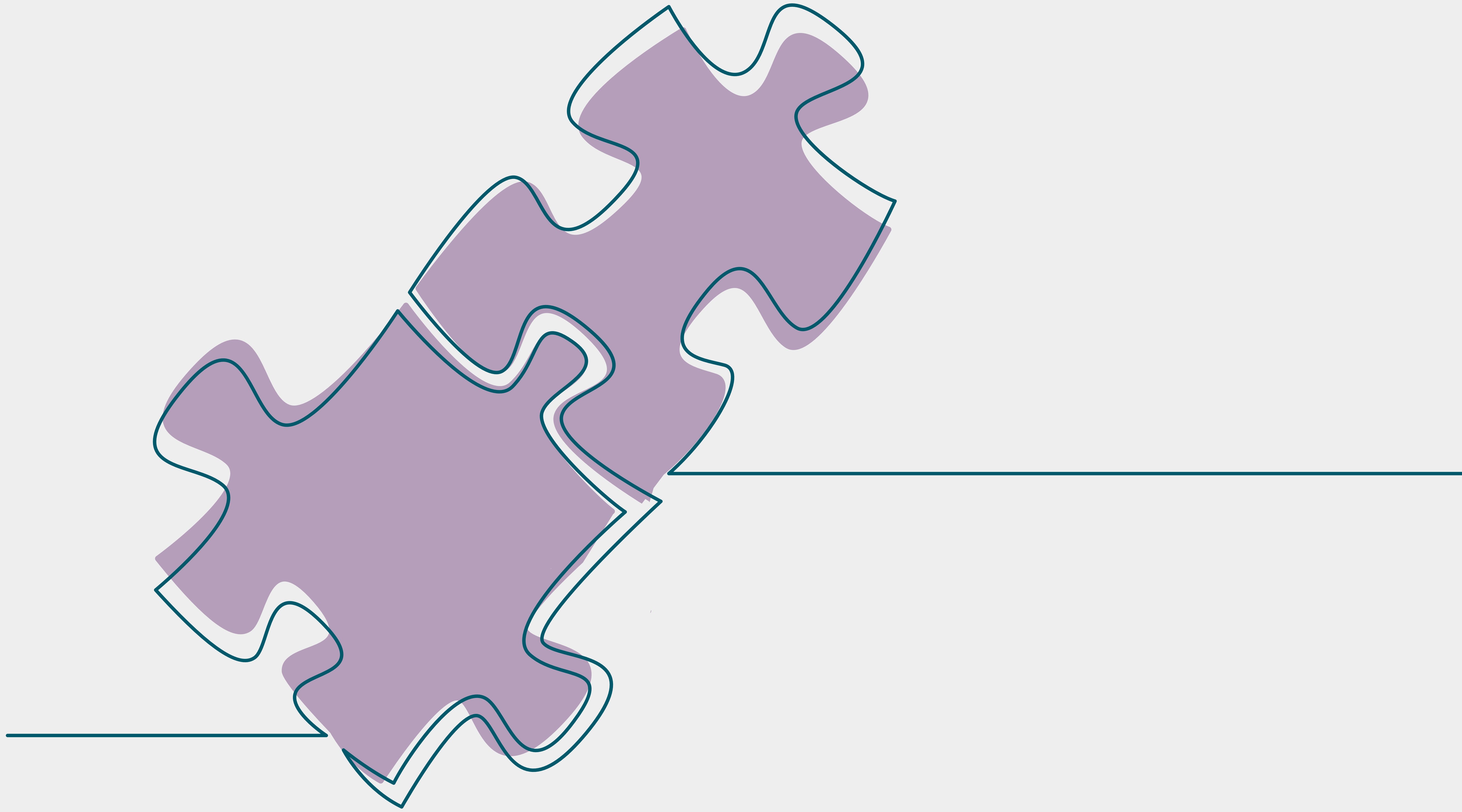
Decent workplace conditions – living wage, collective bargaining and a just transition (Levels 4 and 6) *(cont'd)*

Outcome

We escalated our 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, we met the company to discuss these issues and found the responses suggested a lack of confidence in meeting our engagement asks. While we did note a commitment to conduct a human rights due diligence process using an internal system and to provide additional disclosures, our 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. We divested our holding.

With Ford, we 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 we will discuss in further meetings.



ENGAGEMENT CASE STUDY

Collaborative sovereign climate engagement (Level 5)

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

Governance | People | Earth | **Climate**

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 our sovereign debt holdings, and complement our 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 we saw a role for collaboration and, in 2022, we 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, we played a leading role in the initiative as an Advisory Committee member, lead investor for the Department of Climate Change, Energy, the Environment and Water (DCCEEW) in Australia and by co-leading an investor field trip. Throughout the year, we 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, DCCEEW, 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 among many, we promoted actions that can help mitigate climate risk, including by supporting the case for industry-specific decarbonisation pathways. The DCCEEW announced plans to develop six sectoral decarbonisation plans in July.

The insight our investment team gained into Australia's improving climate risk management and our strengthened relationship with the debt management office contributed to the investment thesis for participating in a syndication of Australia's 30-year bond and entering an overweight position, in October 2023. The position contributed positively to the portfolio.[6]

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. We were also invited to PRI In Person 2023 to showcase our approach to policy engagement through the collaboration and our own sovereign engagement activity.

6. Correct as at 31 January, 2024

ENGAGEMENT CASE STUDY

Aviva Investors at COP28 (Level 6)

Governance | People | Earth | **Climate**

Issue

The 28th annual United Nations Conference of the Parties (COP28) was held in Dubai in November and December 2023. COP28 saw the 198 "parties" (countries) that signed the UN Framework Convention on Climate Change (UNFCCC) in 1992 come together to discuss progress made on climate action. The UNFCCC commits the countries to work together to stabilise emissions "at a level that would prevent dangerous anthropogenic (human-induced) interference with the climate system". Later COPs have added further agreements to the global climate action ecosystem, most notably the Paris Agreement, agreed at COP21 in 2015, in which 196 countries agreed to limit emissions to levels that would keep global temperature increases "well below" two degrees Celsius above the pre-Industrial Revolution average, and as close to 1.5 degrees Celsius as possible. The key outcome of 2022's COP27 for Aviva Investors was a recommendation for financial-system reform to deliver the investment necessary for the energy transition.

Going into COP28, it was clear that urgent and significant progress needed to be made on the crucial question of how the world finances the global transition, for which we need to harness $4-6 trillion of investment per year.[7]

Action

To set out our thinking about how this question might be effectively answered, we launched our new climate finance report, *The Tipping Point for Climate Finance*, in November 2023. At COP28 in Dubai we extensively engaged with key policymakers and negotiators during the conference to advocate for the consideration of meaningful financial system reform, including within the outcome text.

While at COP28, we attended the fourth Public-Private Sector Climate Finance Dialogue, at which negotiators and private finance actors explored how private finance can be maximised in support of the Paris Agreement goals. There, we introduced our report's proposals, including national transition plans for the implementation of Nationally Determined Contributions – pledges made by countries under the Paris Agreement to reduce their emissions and adapt to the impacts of climate change – and multilateral institution transition plans to set out how these organisations' mandates and practices will evolve. We were also invited to present our thinking to the finance negotiators at the Technical Expert Dialogue for the New Collective Quantified Goal on climate finance. We also took part in high-profile events covering private and public finance related to transition planning, including a Glasgow Financial Alliance for Net Zero (GFANZ) roundtable with the Financial Stability Board and global regulators, and a panel hosted by the Network for Greening the Financial System (NGFS). During these events, we highlighted the need for mandatory transition plans for companies globally and for alignment on metrics, which should then support transition plans at the level of countries and the international financial architecture. Finally, at a World Bank panel on nature finance, we emphasised the need to tackle nature loss and climate change together by transforming the financial system to ensure all financial flows support progress towards the goals in the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework – a historic multilateral agreement made in 2022 to halt and reverse nature loss and to align finance with biodiversity goals.

Outcome

We were pleased to see financial system reform reflected strongly in the COP28 outcome text, particularly in the call for countries to strengthen their regulatory, policy and incentive frameworks in order to unlock private finance in support of the transition and work together to reform the international financial architecture. We enjoyed witnessing the high levels of openness and collaboration between global policymakers, businesses and financial institutions that led to the outcome.

We look forward to continuing our contribution to the multilateral climate finance process, particularly through inputting to sustainable finance multilateral processes and continuing to advocate for national transition plans to shift economic fundamentals.

7. Emissions Gap Report 2022 (unep.org)

ENGAGEMENT CASE STUDY

Striking the right balance on executive remuneration (Levels 2 and 4)

1 NO POVERTY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES

Governance | People | Earth | Climate

2023 was a defining year for corporate governance, culminating with an open letter from the Capital Markets Industry Taskforce on resetting the UK's approach to corporate governance in November.[8] The open letter came at a time of the Financial Reporting Council's review of its Corporate Governance Code and emphasises the need for nuanced approaches that promote the competitiveness of the UK market. While this has been several years in the making, the 2023 proxy season reflects these challenges.

As cost-of-living challenges have continued, there have been an increasing number of questions around executive pay, fairness and inequality. In addition to fairness, investors have an interest in finding the right balance of executive pay to support long-term business performance. A company's performance today could be endangered by high employee turnover, potential lower productivity and, eventually, customer churn. Fairness is a complex and multi-faceted issue, encompassing how pay decisions are made, alignment between payouts and business performance, whether employers are paying real living wages (wages that are aligned with the cost of living), as well as the trend and size of the differential between CEO and employee pay.

Lack of accreditation with the Real Living Wage Foundation or failure to pay a real living wage were among the reasons we did not support 77 UK remuneration reports in 2023.

We welcome the positive trend in disclosure on the different measures taken to support employees through pay, benefits and well-being packages. Many companies have chosen to award higher salary increases in percentage terms to the lower paid and some have made one-off support payments linked to the cost-of-living crisis. However, in general, more can be done or disclosed especially when companies are looking to justify executive pay increases or outcomes. While we do support rewarding executives for exceptional business performance, large payouts should be strongly tied to this performance, and accompanied with adequate disclosures.

For example, in 2023 while we supported significant increases to the Long-Term Incentive Plan opportunity for executives of Safestore plc, given the low positioning of their fixed pay, we have been engaging with the company on what more it could do for other staff. While the company explained it is paying significantly above the UK National Living Wage, we asked it to consider committing to pay all staff and contractors the real living wage. For other companies including Capita plc, we have voted against pay arrangements due to concerns over the former CEO's pay, and the increasing CEO: employee pay ratio. Since its 2023 AGM the company has announced a significant cost reduction programme (including employee consultation programmes) and it has withdrawn from the real living wage scheme (although employees would still be paid more than the National Living Wage).

In addition, we have observed a steady rise in occasions where we are escalating ongoing and/or material concerns through votes against remuneration committee chairs (317 votes in 2021 compared to 521 in 2023). However, in 2023 we withheld support on fewer pay-related resolutions (43 per cent) than we did in 2022 (49 per cent). It is key that companies provide greater transparency around how broader stakeholder considerations are considered in deciding executive pay, particularly when it comes to the treatment of customers within consumer-facing energy and utility companies, supermarkets and banks.

8. Resetting the UK's approach to corporate governance – an open letter from the Capital Markets Industry Taskforce

ENGAGEMENT CASE STUDY

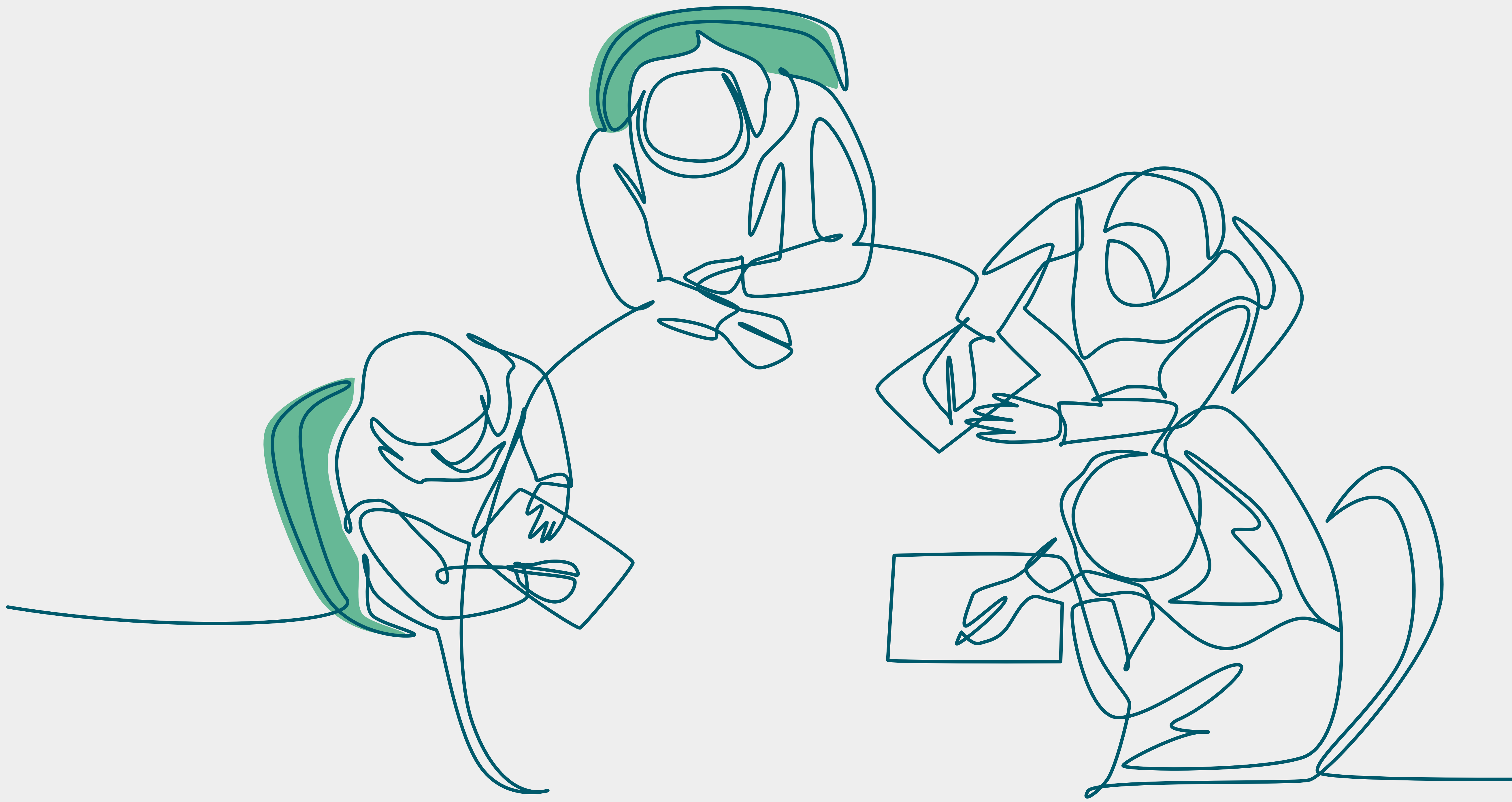
Striking the right balance on executive remuneration (Levels 2 and 4) *(cont'd)*

On the flip side, we understand that companies will pay those at the top of the organisation in order to be competitive with peers, or otherwise they will struggle to attract or retain the best talent. By way of example, the expectations of UK investors around executive pay have been cited as potentially hampering the competitiveness of the UK market.

Specifically, a number of UK companies have a significant amount, if not a majority, of their business in the US and, therefore, are competing for talent in a market where executive pay is materially higher than it is in the UK. If such companies make a case for increases but shareholders reject the proposals, then this could increase the retention risk for current management teams. The same companies will struggle to replace management personnel when they leave if they have to operate under the same constraints. That is not an optimal outcome for shareholders and could potentially be even worse if such companies decided to move their UK listing to markets where they would not face the same kind of challenge.

There have also been concerns expressed around the structure of executive pay in the UK. Features such as deferral of bonuses, long performance holding periods on share awards and shareholding requirements are seen by us and other UK investors as the leading standard for aligning the interests of management with shareholders. Unfortunately, few of these features have been accepted in other markets contributing to the uneven playing field for certain companies. Again, for some companies we would be willing to support pay arrangements that do not contain all the usual features if a strong case is made.

As such, in 2024 we expect to see material changes to executive pay arrangements for a few UK companies. However, we will continue to champion the needs of the wider workforce and hold remuneration committees to account for repeat concerns over executive pay outcomes.



2

Purpose and governance

2.1

PURPOSE AND GOVERNANCE

Purpose, strategy and culture

Our sustainability approach

Sustainability is fundamental to our business strategy, alongside a focus on enhanced customer outcomes and simplification. We are here to deliver the specific outcomes that matter most to our clients. This goes beyond short-term returns and necessitates an understanding that our actions today interact with and influence the world we and our clients will live in tomorrow.

At Aviva Investors, our Sustainable Investing function covers a broad set of activities, which includes:

- Net Zero-related investment activity
- Integrating ESG insights into investment to improve performance
- Targeted investment in thematic trends, for example, nature
- Sustainable products to suit clients' varied sustainability needs
- Stewardship (including macro-stewardship), engagement and voting

We believe the future economy will look fundamentally different to the present one, characterised by decarbonisation, the protection and restoration of nature, and the need to operate on a more 'just' and inclusive basis. We see it as our role to understand and identify positive investment opportunities on behalf of our clients that align to their specific sustainability needs, whilst using our influence and convening power to support an orderly transition, and one that supports the delivery of long-term risk-adjusted returns to our clients in our capacity as stewards.

We believe in the importance of understanding and delivering our clients' differentiated sustainability preferences and goals. This can be through the development of sustainable products with specific sustainable outcomes. It is also important we partner with clients to build the specific sustainability solutions they need to address evolving sustainability challenges, for example, stemming from net zero commitments, opportunities to finance the transition or decarbonisation goals."

Taking the learnings from our experience and approach to sustainability and applying them to our clients' sustainability challenges today is central to what we do. We have a long heritage of striving to deliver excellence for our clients in our approach to sustainability, having published our corporate governance voting policy since 1994. We included material environmental and social issues within that policy in 2001 and also became founding signatories of the UN PRI in 2006. We continue to refine and embed our approach to sustainability practices today, for example evidenced by the steps we have taken to structurally embed ESG analysts with the investment teams to improve the timeliness and value-adding nature of our ESG insights and our extensive participation in and, where we believe we can make a significant contribution, leadership of sustainable finance initiatives.[9]

By investing sustainably, including engaging with companies at the micro level and with governments and regulators at the macro level, we can help achieve more inclusive economic growth, environmental protection and social development. Businesses like ours have a key role to play to fund the UN Sustainable Development Goals (SDGs). We are particularly proud that the Corporate Sustainability Reporting Coalition, in which we played a founding role, helped create SDG 12.6 around corporate transparency and performance disclosure.

> Our approach to sustainability is is fundamental to our business strategy, alongside a focus on enhanced customer outcomes and simplification

9. Read our full Collaborative list

Our sustainability approach *(cont'd)*

Recognising certain clients want to target specific outcomes linked to the SDGs, we continue to develop our capabilities to deliver research, engagement and solutions as part of our approach to sustainability. This has included the launch of a global sustainable transition range.

In parallel, we advocate for transformational change to incentives and rules so that capital markets become more long term-focused and support delivery of the SDGs. To deliver the estimated $90 trillion of investment needed to enable sustainable development over the next 15 years and move from "billions in overseas development assistance to the trillions in investments of all kinds", as the World Bank notes,[10] the private sector and private finance need to play a greater role.

To that end, we convened the coalition for an International Platform for Climate Finance (IPCF) to produce recommendations to help marshal the financial resources needed to power a transition to a Paris-aligned global economy. These recommendations were reflected in the $140 trillion GFANZ COP26 Call to Action, and the IPCF continues to push for their implementation.

Finally, we recognise our own business plays an integral part in today's financial ecosystem and its capacity to deliver for society. As such, it is not only our actions as participants in capital markets but also our own culture and activities that must embody our values and live up to expectations. This report should therefore also be read in the context of Aviva's broader corporate sustainability[11] and Task Force on Climate-related Financial Disclosures (TCFD)[12] reporting.

10. From billions to trillions – Transforming development finance post-2015 Financing for Development: Multilateral Development Finance (imf.org)
11. Corporate responsibility – Aviva Investors
12. Climate-related financial disclosure – Aviva plc

Our sustainability approach (Principle 2)

Long-standing belief in the material impact of ESG factors on the delivery of long-term risk-adjusted returns.

We recognise and embrace our duty to act as sustainable long-term stewards of our clients' assets. We maintain a deep conviction that ESG factors can have a material impact on investment returns and client outcomes. Being a sustainable financial actor means our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society.

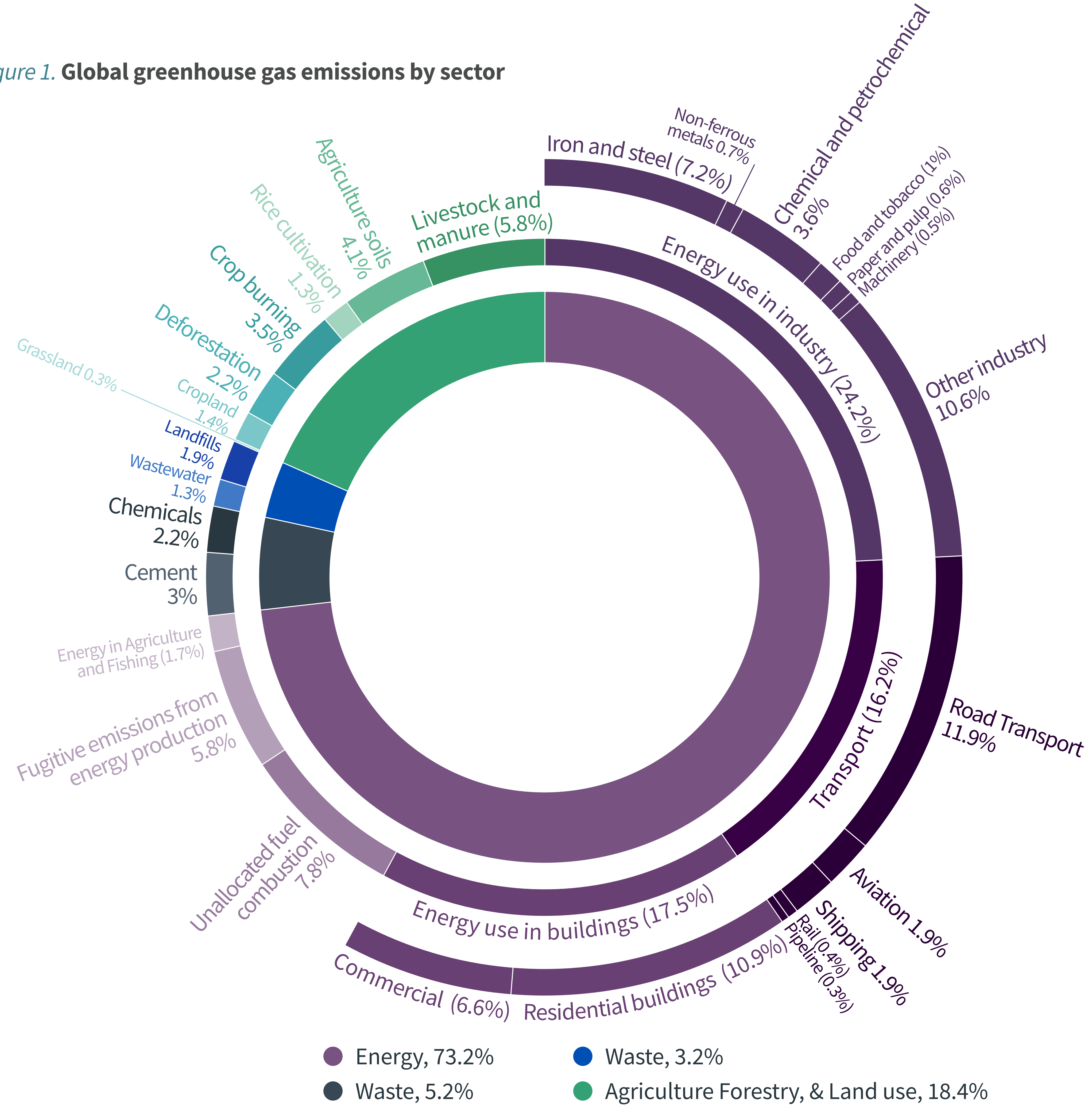
Identifying investment opportunities in the transition to the low-carbon economy

We seek positive investment opportunities for our clients in the context of the transition to a more sustainable future and, promote the relative merits of engagement over divestment. This involves being more discerning about where we see opportunities for alpha generation including in the following key sustainable thematics: climate solutions, circular economy, and nature-based solutions.

We believe a purely exclusions-based approach or simply investing in today's sustainability leaders would limit our ability to shape a sustainable future and would not help facilitate the transition to a low-carbon economy. Real change requires substantive change to an overhaul of the world's economy and industries. Investors have an integral role to play in supporting in the transition from "brown" to "green".

> Investors have an integral role to play in supporting in the transition from "brown" to "green"

Figure 1. **Global greenhouse gas emissions by sector**



Source: OurWorldinData.org, Climate Watch, the World Resources Institute (2020). Shown for 2016

Our sustainability approach *(cont'd)*

Supporting solutions providers in public and private markets

We believe solutions providers can present exciting investment opportunities, as well as being "green" today. Many solutions providers are found in the energy generation sector. However, as shown in Figure 2 below, the adoption of these solutions in areas such as industry and transportation will ultimately bring emissions down. Energy use in buildings is another area of huge potential emissions reductions. Within our Private Markets platform, we use ESG debt covenants to bring about positive change from sponsors over a loan's life. We also partner with industry-leading consultants to reduce energy use in the buildings we own.

The rise of ESG investing, with a narrow focus on "green today" companies, has in many cases resulted in inflated valuations, which may ultimately undermine sustainability objectives and generate suboptimal outcomes for clients. Of course we need innovative companies to push the technological envelope and develop new solutions to a wide range of different aspects of such pressing issues as climate change, biodiversity loss and social injustice. However, the adoption of such new technology and innovative approaches will be the key factor in ultimately changing the global economy and addressing these issues.

Taking a holistic approach to stewardship

Investors can help shape the transition to a sustainable future by using a variety of levers, including capital allocation, voting, engagement and macro stewardship. Insights gained from dialogue with issuers inform our investment decision making, and we evaluate use of our escalation levers on an ongoing basis where appropriate. Ultimately, we invest in, stay engaged and partner with a variety of stakeholders to improve the sustainability of our investments.

Making a difference does not stop with our investments. We work in partnership with clients, policymakers and regulators, sharing our expertise and knowledge and collaborating to build a sustainable future for our clients. We are committed to reforming capital markets and empowering our clients to make informed choices.

Our sustainability approach *(cont'd)*

Turning the spotlight inward

We look to hold ourselves to the same governance and ethical standards we expect of others. Performance against ESG objectives is embedded into investment teams' and senior management's annual evaluation and compensation frameworks. Responsibility for implementation of our approach to sustainability rests with the executive committee and heads of investment functions.

Our commitments in this area are embedded into our internal controls environment and subject to robust challenge from our control functions as well as assurance from external auditors.

Exclusions

There are specific and a limited number of sectors and economic activities where we consider the sustainability risks to the climate, planet and people to be so severe that providing equity and debt funding is fundamentally misaligned with our approach to sustainability. In these cases, we forgo the opportunity to engage, and actively exclude companies and industries from our investment universe. We also integrate the UN Global Compact into our baseline exclusion policy; this means companies that fail to act in line with the UN Global Compact Principles and do not take adequate remedial actions are excluded from our investment universe. This decision is informed by third-party data as well as internal analysis.

Over the last 12 months, we have amended our baseline exclusions policy's approach to nuclear energy. Moving away from a revenue threshold given the current global climate, our policy now excludes companies that supply state nuclear programmes where the state lacks credible commitments to effective arms control, disarmament and non-proliferation as outlined in the Treaty on the Non-Proliferation of Nuclear Weapons (NPT).[13 14] Aviva Investors will take guidance from the UK government on actors who have undermined the NPT (The UN Non-Proliferation Treaty).

The enhanced policy prohibits investment in controversial weapons, civilian firearms, coal and tobacco. The policy ensures we do not make investments associated with companies that derive prescribed levels of revenue from the manufacture of these products.

Figure 2. **Our enhanced baseline exclusions policy**

Exclusion	Threshold	Exception
Controversial weapons	As per current AI Baseline	–
Thermal coal	≥5%	SBTi or non-fossil fuel project finance bonds
Arctic oil, oil sands (unconventional fossil fuels)	≥10%	SBTi or non-fossil fuel project finance bonds
Tobacco	0% T producers ≥ 25% distribution or sale	–
UN Global Compact	UNGC fails as decided by AI, based on MSCI data	ESG analyst qual assessment

Source: Aviva Investors

Goals and exclusions may vary by jurisdiction, see 'Important information' section.

13. Nuclear Non-Proliferation Treaty (NPT) – Gov.UK
14. We 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, conventions and norms

Our sustainability approach *(cont'd)*

Investing to support the delivery of the UN Sustainable Development Goals

Within the Sustainable Investing function, we structure our research, engagement and sustainable product development around three key pillars. These represent what we consider to be the three key sustainability challenges globally where investors can have a meaningful influence, namely social justice, biodiversity and natural capital loss and climate change. The three pillars are aligned to the UN's Sustainable Development Goals.

Figure 3. **The three biggest sustainability challenges**

3 Pillars	People	Earth	Climate
3 Challenges	Social inequality	Biodiversity loss	Climate change

2.2

PURPOSE AND GOVERNANCE

Governance, resources and incentives

(Principle 2)

Governance of our investment processes

Governance of our investment processes

Our governance structure and processes ensure our approach to sustainability – including ESG integration, holistic stewardship and delivering on clients' sustainability preferences – is embedded throughout our business. This allows us to meet the requirements of the Shareholder Rights Directive II (SRD II) on how we monitor and engage with companies on strategy, financial and non-financial performance, risk, capital structure, social and environmental impact and corporate governance. This also includes how we work with other shareholders. There are examples of this in action throughout this document. These governance processes also ensure we are acting in a way that is consistent with other ESG-related regulation, for example, Sustainable Finance Disclosure Regulation (SFDR) and TCFD reporting obligations.

Aviva, our parent company and largest client, has set out its Sustainability Ambition which includes setting targets as part of the Science-Based Target initiative (SBTi) and the. Aviva Investors plays an integral role in supporting the delivery of Aviva's investment-related sustainability ambitions through the assets we manage on their behalf. Aviva Investors has also signed up to the Net Zero Asset Managers (NZAM) initiative. The Sustainable Investing Leadership Team is chaired by the Aviva Investors Chief Executive and is responsible for the investment aspects of the Aviva Sustainability Ambition.

Our Chief Sustainable Investing Officer has overall responsibility for Aviva Investors approach to sustainability and is a member of our executive committee. He oversees the business's firm-wide sustainable investing policies. His personal committee, the Sustainable Investing Business Oversight Committee, includes representation from across the business and seeks to ensure sustainable investing policies and procedures are aligned with firm-wide policies and procedures, and that the business is embedding client preferences into its approach to sustainability. Our executive committee directly oversees objectives, targets and performance related to sustainability. The Chief Sustainable Investing Officer's leadership team comprises individuals responsible for Public Markets ESG integration, Private Markets ESG integration, the Aviva Sustainability Ambition, ESG strategy and Macro Stewardship. Public and Private Markets ESG analysts work collaboratively with their counterparts on the investment desks throughout the investment process.

Our analysts as well as our regulatory development and client-facing teams monitor ongoing sustainability developments, with any revisions to policies subject to final approval by the Policy Approval Group.

ESG integration-related controls are embedded in support of the investment process to ensure ongoing oversight and compliance, which ultimately contributes to and supports the delivery of a strong first-line risk and controls governance framework. Examples of key controls embedded into the investment processes include ensuring that:

- strategies are being managed in accordance with our baseline exclusions policy
- investment processes are aligned to and in compliance with SFDR guidelines
- processes are being managed in accordance with our Responsible Investment and Sustainability Risk policies
- suitable protocols are in place so that each fund has applicable screens applied in accordance with IMA guidelines
- ESG scores and analytical tools are made available to portfolio managers (on the investment platform) and are referred to and considered as part of the investment process
- relevant ESG factors are considered in support of investment ideas and asset allocations
- a mandatory ESG-specific section is completed on all investment analysts' research documentation
- ESG investment-specific staff are members of key Public Markets strategy meetings

Our governance structure and processes ensure our approach to sustainability – including ESG integration, holistic stewardship and delivering on clients' sustainability preferences – is embedded throughout our business

Building an inclusive workplace

To be good stewards of our clients' assets, it is vital that we have a diverse workforce representative of the clients whose money we are entrusted with.

This kind of inclusive and productive working environment is created when everyone feels stronger together – with no barrier to their ability to contribute, collaborate and succeed.

Governance of our investment processes *(cont'd)*

To foster this environment, we strive to create a culture where everyone feels part of a unified team. We motivate and support people to pool their expertise as "one team" every day – through smarter ways of working and the technology and physical environments that enable true collaboration.

We have implemented a hybrid working model, encouraging employees to work from home and in the office to benefit from collaboration and encourage a work-life balance. As part of our inclusive recruitment approach, we have introduced an opportunity for candidates to discuss flexible working arrangements for all roles and we are rolling out Licence to Hire training for hiring managers, incorporating a focus on inclusive hiring principles.

Below are a number of initiatives that are helping to build an inclusive culture at Aviva Investors.

- Our CEO and People Director sponsor our Inclusion Committee, which was established in 2020. While it is important to ensure our diversity, equity and inclusion (DE&I) focus covers the full spectrum of diversity, we decided on three strategic priorities of gender, ethnicity and social mobility as our key pillars to drive and accelerate progress.
- In 2023, while we focused on these three strategic pillars as primary focal areas, we extended our inclusion education strategy to cover disability, neurodiversity, LGBTQ+, mental health and working families.
- In 2021, we launched a reverse mentoring programme which has continued to expand annually. The 2022 cohort concluded in the second half of 2023, and we will look to run this again in 2024 with a Q3 launch.
- We take part in both the Mission Gender Equity, and Mission INCLUDE cross-industry mentoring programmes, which are an important method of development and education for the mentees and mentors who participate. The programmes aim to improve the inclusivity of organisations and diversity of senior leadership teams globally. In 2023, eight employees took part in these programmes.
- We launched our Return to Work initiative in 2018, with the fifth programme launched in January 2023. This is a six-month programme for investment industry professionals returning to work after an extended career break, with the goal of securing a permanent position.

There is a particular focus on underrepresented gender equality within investment/client-facing roles; this programme builds a future candidate pipeline to develop into senior roles to support the gender pay gap. The current retention rate is 63 per cent, and we will continue efforts to increase this.

In 2022 one of our returners was nominated in the Investment Week Women in Investment Awards 2022 for the most inspiring returner. Due to the success of the programme, Aviva plc has launched the programme across its technology and finance functions.

- As part of our attraction and retention strategy, we piloted a term-time working programme that allows individuals to work 75 per cent of the time (13 weeks off), paid on a pro-rata basis, with time taken off during school holidays. The pilot was conducted with two employees in the front office, with a positive response from both employees and leaders. This illustrates our flexible working approach to retain gender balance and a work-life balance.
- As part of our early careers outreach, we partner with a number of charity organisations (upReach, Career ready, 10000 Black Interns, GAIN) and social enterprises (Investment 2020), which act as feeders onto our internship, trainee and graduate programmes.
- We also rolled out training on best hiring practices, education on strengths-based assessments and awareness of bias to improve diverse hiring.

These partnerships help us reach and attract a more diverse pipeline of early careers talent, with a key focus of improving socioeconomic diversity. Our 12-month trainee programme is offered in conjunction with Investment 20/20, which is focused on creating a more diverse and inclusive investment industry and increasing the available routes to entry. It champions investment management firms hiring for potential rather than on academic background or experience alone. We share that approach, demonstrated by the use of strengths-based interview methodology across all our early-careers programmes.

To progress the existing early-career offerings, additional interventions to support graduates and school leavers in planning for post education took place in 2023. In partnership with Greenhouse Sports, a charity which partners with schools where over two-thirds of children are living below the poverty line, we launched a "Career, Industry and Skills" pilot programme for year 10 students, ending in a week-long work experience exercise for older students.

Governance of our investment processes *(cont'd)*

Incentives

As part of the annual goal-setting process, all members of the Executive Committee, including chief investment officers, have a sustainability goal that contributes to the annual appraisal process and remuneration plans. Sustainability goal requirements are also cascaded and embedded across the respective investment teams' goals.

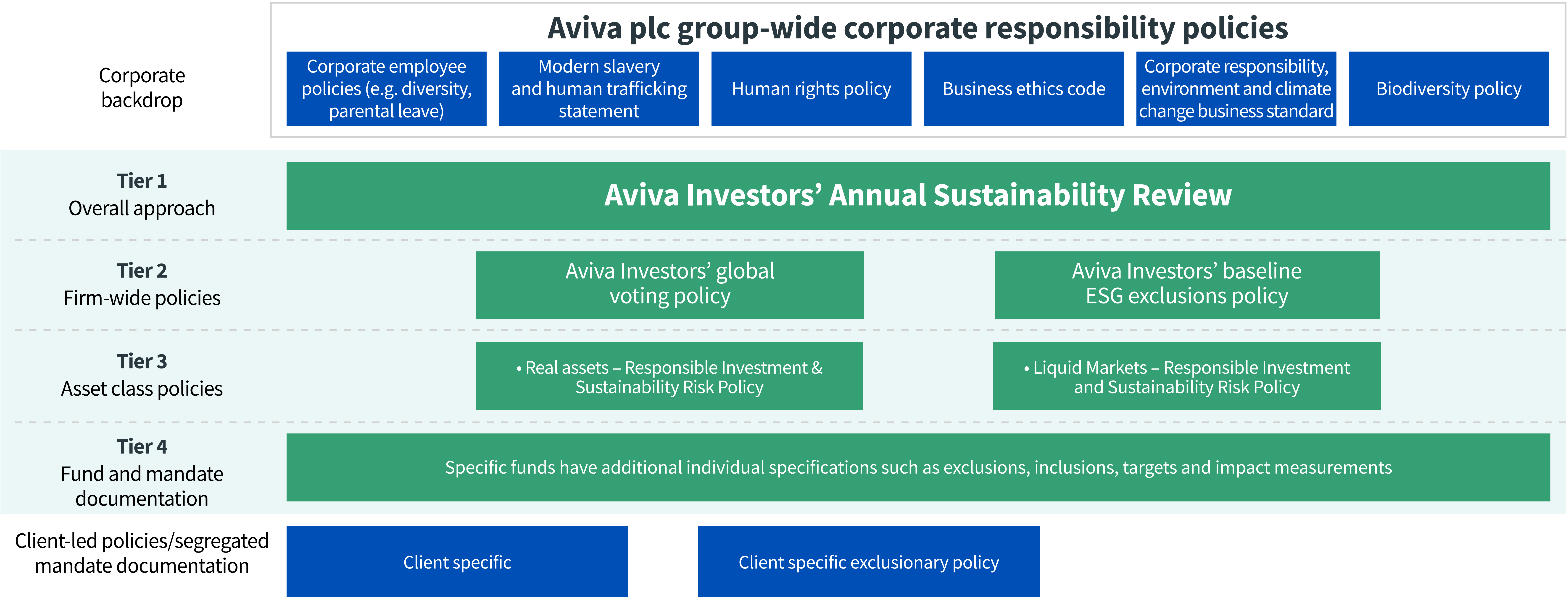
Sustainability policies

We have developed a suite of sustainable investing policies to clearly articulate our approach to sustainability at a company, asset class and product level. Our overall approach to sustainability is articulated through this document (Tier 1). Below this, we have policies setting out specific aspects of our approach in more detail that apply at firm level, asset-class level or fund level. Finally, there is documentation to capture client specific details, for example, client-specific exclusions.

The sustainability policies sit within a tiered framework that ensures all policies maintain consistent principles and any positions agreed cascade down throughout the business in an efficient manner. Policies refer to the UK and may differ across geographical jurisdictions for other Aviva entities.

15. Policies and documents – Aviva Investors
16. Policies and documents – Aviva Investors
17. EU Sustainable Finance Disclosure Regulation (SFDR) – Aviva Investors

Figure 4. **Aviva plc group-wide corporate responsibility policies**



Policy framework

Tier 1 – Policies: Overarching approach to sustainability, beliefs, governance and commitments.[15]

Tier 2 – Policies: Key sustainability firm-wide policies that are applied across all sustainability and related supporting activities.[16]

Tier 3 – Policies: Asset class investment policies underpin our investment processes by governing the approaches taken by the portfolio management teams. Dedicated policies cover:

- Real assets – Responsible Investment & Sustainability Risk Policy
- Liquid Markets – Responsible Investment and Sustainability Risk Policy
  Each asset class policy is published on our website.[17]

Tier 4 – Fund and mandate documentation: Building on these policies is investment process procedure documentation. This documentation refers to and evidences the implementation and application of the sustainable investing policy principles.

2.3

PURPOSE AND GOVERNANCE

Conflicts of interest

(Principle 3)

Conflicts of interest

We take our fiduciary duties to clients and beneficiaries very seriously. We apply a consistent and transparent approach to the management of conflicts of interest in accordance with our regulatory obligations. The Aviva Investors Global Conflicts of Interest Policy sets out the principles and standards to identify, manage and record conflicts of interest across all our offices.[18]

In addressing any circumstances in which an actual or potential conflict of interest may arise, Aviva Investors shall ensure that in providing any service or managing a product for a client it:

- always acts in the best interest of its clients and put clients' interests ahead of its own or those of employees
- treats all its clients fairly

Aviva Investors recognises that in the course of carrying out its day-to-day activities, the firm and its employees may encounter conflicts of interest (whether perceived or actual) between the interests of itself and its clients or between one client (or group of clients) and another.

For the purpose of identifying actual or potential conflicts of interest, appropriate consideration must be given to all relevant circumstances, including the following (non-exhaustive) matters:

- whether the circumstances may result in an unfair advantage, a financial gain, or avoid a financial loss, at the expense of a client
- whether there is a financial or other interest in the outcome of a service provided or offered to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome
- whether there is an incentive to favour the interest of a client or group of clients over the interests of another client or group of clients
- whether a person connected with the circumstances carries on, or is connected with, the same business as the client
- whether an Aviva Investors entity acting as a management company of a collective investment scheme carries out the same activities for another client or group of clients
- whether any person will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services, other than the standard commission or fee for that service

All employees are required to identify and report any personal or corporate conflicts of interest to management and Compliance in accordance with approved conflicts of interest procedures and to attest periodically, as required, that they have disclosed all applicable conflicts of interest. These conflicts are recorded in the Global Conflicts of Interest Register, together with any mitigants designed to manage the conflict. Each conflict is categorised, so that Aviva Investors has a view as to the types of conflicts most prevalent in its business.

The executive accountable for each Aviva Investors business unit is responsible for ensuring the Policy is embedded in their business area, and for maintaining appropriate measures to ensure compliance with its requirements. At least annually, they review the conflicts in respect of their business and formally attest as to the accuracy and completeness of their review. Compliance conducts second line monitoring of conflicts of interest in accordance with an annual compliance monitoring plan and provides advice to the relevant executive as requested. Violation of the Policy must be escalated to the Compliance department and will be reported to senior management. Operation of the Policy is overseen by the Aviva Investors Executive Risk Management Committee.

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.

Conflicts of Interest can arise when Aviva Investors engages with companies and exercises its right to vote in relation to interests held; to the extent this activity may be inconsistent with the interests of a particular client or company. Aviva Investors manages conflicts of interest when voting through the following processes:

- making companies aware of our areas of focus on governance matters, by publishing our Global Voting Policy and any updates to the policy on our website; this enables boards to take our expectations into account without a conflict coming into play, and also demonstrates our commitment to a transparent process on behalf of all client funds
- being transparent with companies and clients on our voting decisions and the rationale for such decisions

18. Regulatory Aviva Investors

Conflicts of interest *(cont'd)*

- making our voting decisions public on a company-by-company basis so our voting record is transparent and available for external scrutiny
- when agreed with clients, we will act on their specific voting direction (for their holdings), including the use of independent third-party instructions
- voting process and decisions, including incidents of potential conflicts, are subject to review by Aviva Investors' internal audit function; and Aviva Investors' operational risk framework facilitates ongoing compliance, incorporating documented processes and controls

Voting shares at Aviva plc meetings

We fully recognise there are or may be conflicts of interest arising from the exercise of voting rights over holdings of shares in our parent company Aviva plc. Our policy in regard to these is as follows:

(i) where Aviva Investors is responsible for voting rights over Aviva plc shares within funds managed for Aviva Group clients (for example, Aviva life funds), both as a matter of policy and, as appropriate, pursuant to the provisions of the Companies Act 1985, those voting rights must not be exercised

(ii) subject to (iii) below, 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

(iii) where external clients choose to, they may instruct Aviva Investors in writing to arrange for the voting rights over their holdings of Aviva plc shares to be exercised in accordance with independent recommendations by external proxy advisers in line with applicable corporate governance and proxy voting guidelines; where a client wishes to put in place these or any other alternative arrangements, Aviva Investors will seek to accommodate those arrangements

Voting shares that are also segregated clients

We recognise that a conflict of interest potentially arises when we are voting at shareholder meetings of issuers which are also segregated clients. In such scenarios, we will exercise no discretion. Instead, voting will be in line with our Global Voting Policy,[19] which will be provided through custom policy research generated by our external proxy advisory provider. If there are any resolutions which our voting provider has "referred" to us to make a vote decision (note that this will only occur if no specific criteria has been agreed/there are particular circumstances relating to the relevant resolution that warrants review), then the default position will be to vote in line with our proxy adviser's benchmark recommendations (for the referred items only).

If a segregated client holds shares in its parent company, for which there is a shareholder meeting, we will endeavour to ask the client to provide us with voting instructions. Our default position if no instructions have been requested or provided is to take no voting action (for that segregated client only).

19. Policies and documents – Aviva Investors

2.4

PURPOSE AND GOVERNANCE

Promoting well-functioning markets

(Principle 4)

Promoting well-functioning markets

As an investment manager, and steward of our clients' capital, we have a duty to act in the best interests of clients and the integrity of the market.

The financial system contains market failures that result in market-wide and systemic risks. There are several types of market failure, but all undermine the ability of financial markets to price assets in a manner that reflects their "true" cost or fundamental value, as the information necessary to find the "true" price of assets is distorted.

One example of a market failure is information asymmetry, where an issuer has information that could be material to its share price if publicly disclosed, but due to a lack of comprehensive and reliable disclosure, is not required to. If prices do not reflect fundamental value and the true extent of risk, then the ability of markets to function efficiently and with integrity is eroded, which can lead to the build-up of systemic risk.

Systemic risks to the financial system are those that arise from an impairment of all or part of the financial system and have the potential to have serious negative consequences for the real economy.[20] They are non-diversifiable and therefore have an important impact on client returns.[21] Systemic risks undermine the proper functioning of the market, and therefore pose a material threat to the best interests of our clients.

Market-wide and systemic risks include not only climate change, but also biodiversity loss, antimicrobial resistance (AMR), aspects of the just transition, and a number of other sustainability-related issues. To truly act in the best long-term interests of our customers, we need to ensure – to the extent we have tools at our disposal – the financial system, and the real-world systems upon which it relies, have integrity and are not undermined by market failures and systemic risks.

To some extent, we can seek to mitigate such risks through engagement with our holdings and corporate action – what we refer to as micro stewardship. But in the face of market failures, where unsustainable practices are rewarded, and sustainable ones are insufficiently incentivised, such activity reaches its limits when acting more sustainably impacts an issuer's bottom line or puts it at a competitive disadvantage due to the market failure(s). Consequently, through our macro stewardship, we work to identify potential market-wide and systemic risks, and support those who are empowered to make the changes necessary to rectify market failures, such as policymakers and regulators, to help identify and encourage corrective regulatory and policy interventions. We believe that doing so is a key part of promoting well-functioning markets and therefore serves our clients' long-term best interests.

Even though market participants are ultimately dependent on policymakers and regulators to make these changes, that does not absolve them of the responsibility to highlight issues where they arise and engage with policymakers and regulators to promote well-informed and effective policy corrections.

Our Sustainable Finance Centre for Excellence acts as the nerve centre for this work and is one of the key mechanisms through which we seek to promote well-functioning markets, and act in the long-term best interests of our clients.

> We define macro stewardship as financial market participants taking action to accelerate systemic change on sustainability issues with the intention of seeking correction of market failures and mitigation of systemic risks consistent with the long-term best interests of clients and market integrity

20. Guidance to assess the systemic importance of financial institutions, markets and instruments: Initial considerations – FSB, IMF, BIS
21. Finance for positive sustainable change: governance, incentives and competence in regulated firms – FCA

Promoting well-functioning markets *(cont'd)*

Our climate commitments (Principle 1)

The climate crisis represents the greatest long-term threat to the planet, economies and societies due to its impact on the stability of ecosystems and life on Earth. It poses a significant long-term threat to financial stability and economic growth. Financial services firms have a major role to play. However, we do not underestimate the scale of the challenge: many pieces of the puzzle are missing, data and methodologies needed are incomplete, new technologies are required and we need governments and international institutions to enable the global transition.

While we can do more if these challenges are addressed, there are still many areas of opportunity to build on at present: funding is there for more investable projects, consumers are increasingly expecting sustainable options and there is increased focus on the crucial role biodiversity must play in the transition. And this brings investment opportunities.

Taking action on climate aligns with our fiduciary responsibilities to consider all material risks and opportunities that could impact investment performance. The transition to a net-zero economy presents both:

- **Risks** – including the potential for stranded assets such as coal, regulatory changes, and the physical impacts of climate change.
- **Opportunities** – such as investment in renewable energy, green technologies, and companies leading in sustainable practices.

The Aviva Sustainability Ambition forms the foundation of our climate ambitions, including targets Aviva has set as part of the SBTi. As we are part of the Aviva Group, these impact Aviva Investors and the assets we manage on behalf of Aviva (Internal Assets). As such, Aviva Investors plays a pivotal role in Aviva's overall ambition to be net-zero by 2040. Aviva Investors has also signed up to the Net Zero Asset Managers (NZAM) initiative.

Our climate ambitions primarily apply to internal assets, building on the basis of Aviva's Sustainability Ambition. We strongly believe in giving our clients an informed choice as to how we manage their money and do not force sustainability preferences or objectives upon clients. We will work together with third-party clients to understand their sustainability preferences, including any related to net-zero, to ascertain how best to deliver them.

Climate levers

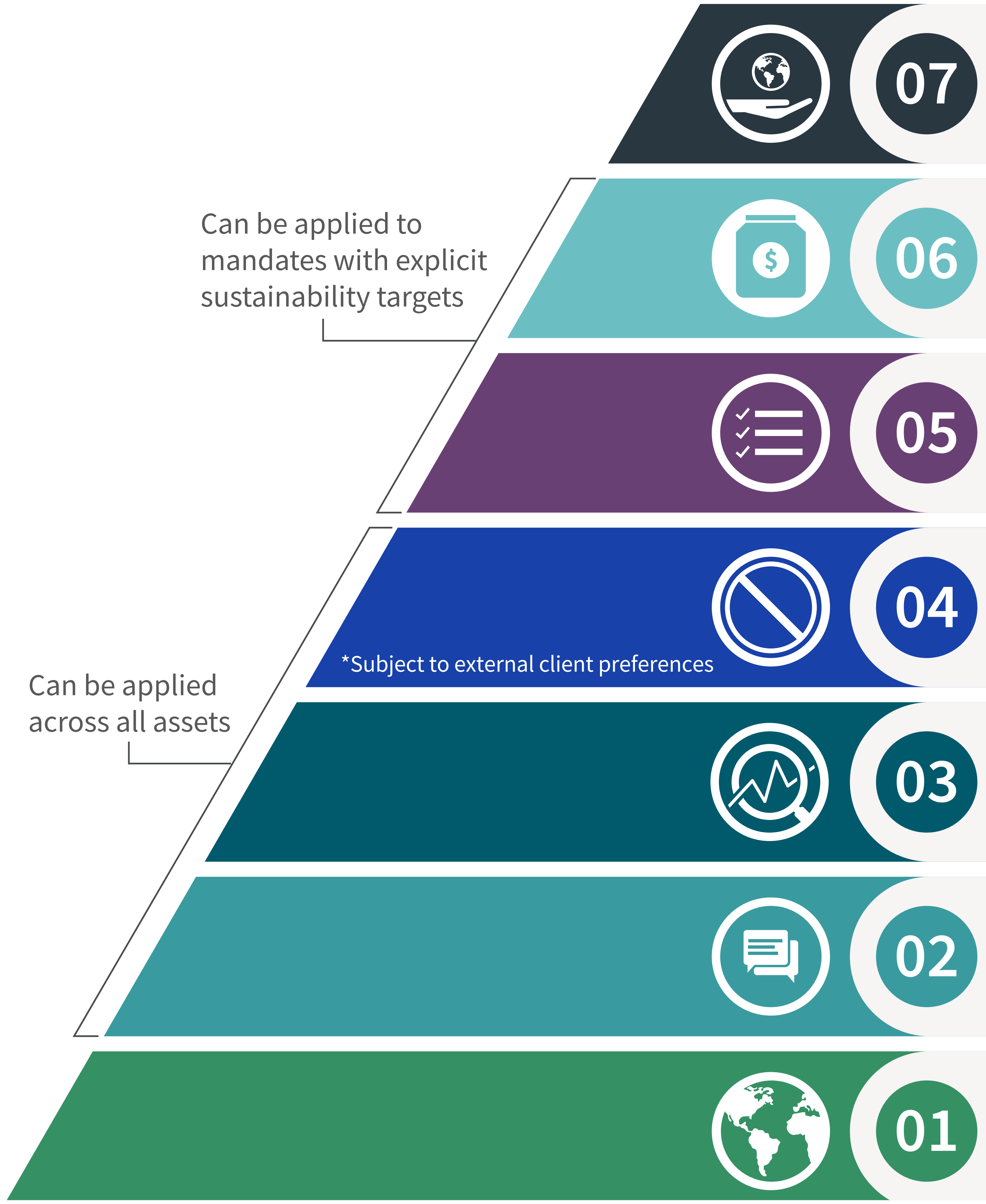
As an asset manager Aviva Investors can utilise a range of levers (i.e. the actions we can take) to evolve our assets and portfolios with a net-zero pathway where possible and support the transition to a sustainable future. These levers are illustrated in Figure 5.

We do not, however, apply all levers homogenously across all products and strategies. As noted above, clients have a choice as to how we manage their money and in the absence of explicit additional client instruction on decarbonisation targets, the existing investment objective(s) within mandates and funds are the basis on which we are held to account. We may seek to decarbonise portfolios using certain of the levers where they may align with the investment objectives of the fund, however we will never impose such actions if they conflict with delivering the existing investment objectives.

Where we do take action it is on a reasonable-efforts basis and we cannot guarantee that our climate ambitions or any decarbonisation targets or net-zero outcome will be achieved. The actions we are taking do not mean all assets in our portfolios will be aligned with net-zero today. Nor do they mean that we will cease to invest in assets that are currently associated with significant emissions.

Promoting well-functioning markets *(cont'd)*

Figure 5. **Climate levers**



07 Sustainable Propositions
- Increasing investors' sustainability options by offering sustainable funds and product choices

06 Financing the Transition
- Investing into renewable energy, nature, green and transition assets as well as supporting solutions to drive the transition
- Supporting the global transition will result in the natural decarbonisation or net-zero investment outcome

05 Investment Framework
- Setting dual investment objectives and utilising an investment framework to target a decarbonisation or net-zero investment outcome

04 Exclusions
- Excluding high-carbon intensive sectors to reduce the carbon intensity of portfolios (e.g. companies extracting/generating from thermal coal at the 5% revenue threshold, and oil sand and artic drilling, at the 10% revenue threshold unless they have SBTs)

03 Climate Risk Management
- Considering climate factors as part of the investment process to understand investment risks and identify opportunities with the aim of enhancing investment returns
- This, in turn, is expected to contribute to portfolio decarbonisation over the long term by divesting stranded assets and/or favouring companies and countries that proactively manage their climate risks and invest in sustainable practices which can be translated as improvements to operational efficiency, cost savings (i.e. energy savings) and a stronger competitive position

02 Active Ownership
- Using ownership and influence to drive positive environmental outcomes within holdings which in turn contributes to our investments' decarbonisation
- Across listed investments this includes using engagement and voting to drive companies and sovereigns to take steps to decarbonise their own operations and countries to align emission trajectories with a net-zero-by-2050 pathway
- Within Private Markets this includes refurbishments as well as engaging with stakeholders such as occupiers and borrowers to decarbonise their assets and operations

01 Macro Stewardship
- Engaging with regulators, governments and other entities to create a policy environment in favour of businesses supporting the transition to net-zero
- A policy environment that enables the transition of the global economy to net-zero will result in the natural decarbonisation of investment portfolios over time

Promoting well-functioning markets *(cont'd)*

No financial services firm has full control to deliver on net zero as it is dependent on a whole-economy and a whole society approach. Achieving net zero globally by or before 2050 will require accelerated action from governments, companies and society.

As a financial services firm, we have a major role to play in supporting governments in achieving the global goals they have signed up to, including the Paris Agreement, CBD Kunming-Montreal Framework and the Sustainable Development Goals and encouraging further ambition from governments on their own commitments to decarbonise. Financial institutions using their insight and influence to encourage realignment of the financial system with sustainability goals is fundamental to our chances of success in the global net-zero endeavour.

We believe we have a responsibility as part of our duty to act in our customers' best interests to influence systemic change, including the importance of a just and nature-positive transition towards net-zero. We are doing this in many ways, from the innovative financial products we offer in the market, through using our voice in alliances including GFANZ, NZIA, Institutional Investors Group on Climate Change (IIGCC), Transition Pathway Initiative and Climate Action 100+.

Our macro-stewardship programme involves engagement with policymakers and regulators around the world to advocate for the policy interventions needed to internalise externalities (for example the true cost of carbon) and facilitate the transition to a low-carbon economy. For the last three years, we have also written to finance ministries and central banks at the start of each year setting out our expectations on climate change, biodiversity loss and other material sustainability concerns.

Refer to page 30 [Promoting well-functioning markets (principle 4)] above for further detail on our macro stewardship activity.

2.5

PURPOSE AND GOVERNANCE

Review and assurance

(Principle 5)

Review and assurance

Aviva Investors and the Aviva Group have a market-leading risk and controls framework, encompassing first-, second- and third-line functions as well as external assurance. We rely upon this framework to provide assurance and oversight of the robustness of our stewardship activities. We describe our risk and controls framework in further detail in this section. We also set out some of the highlights of relevance to our stewardship activities.

The Aviva Investors Operational Risk and Controls (ORCM) framework

The ORCM framework encompasses a combination of strategies, policies, culture, governance arrangements, tools and reporting procedures.

All employees are responsible for the identification, measuring, managing, monitoring and reporting on the risks to which Aviva Investors is, or could be, exposed while achieving its strategic objectives.

Appropriate first-line controls are developed and embedded to adequately meet business strategic goals and to minimise current and future risk to an acceptable risk exposure level.

The ORCM recognises the importance of oversight, monitoring, training, and supporting the first line in risk and control responsibilities. This is achieved by employing Governance and Control (G&C) representatives to deliver upon and provide ongoing oversight of a strong first-line risk and controls framework. The G&C representatives:

- Are independent from the risk-taking activities in the first line that could compromise the ability to challenge.
- Support the first line to identify and deploy control requirements, which are primarily driven by policies, standards, regulation, procedures and market best practice.
- Ensure that all first-line-specific controls are complete/accurate and centrally maintained. There are ESG specific controls which are driven by and aligned to the pillars of ESG integration, namely, Research, Connectivity, Portfolio Construction and Evaluate & Monitor. Asset class policy changes, regulatory changes or changes to investment processes are assessed for ESG specific themes, and where applicable additional controls are deployed to ensure that the ESG controls inventory remains a complete and accurate representation of how ESG is integrated in support of the investment process.
- Ensure that the first-line controls are tested frequently to ensure that they are operating effectively, and as designed.

There is an active two-way engagement between G&C representatives and the first line, while providing a critical challenge/appraisal of the current and future state environment.

The Chief Sustainable Investing Officer reports to the CEO. The Global Heads of Equity, Credit and Multi-Assets in Public Markets and the Head of Cashflow Matching, Head of Active Equity, Head of Multi-Assets and Head of Asset Management in Private Markets report directly to the Chief Investment Officer. The Head of ESG Public Markets and Head of ESG Private Markets both report into the Chief Sustainable Investing Officer. These heads are ultimately responsible, while working alongside the G&C representatives, for ensuring that ESG policies and procedures are embedded within their teams and the ESG factors are integrated into their respective decision making processes.

The second line consists of risk and compliance functions (directly reporting to the CRO), which act as a partner to the business and whose core purpose is to independently challenge, advise and guide the business in the delivery of its strategy and plans, while safeguarding its customers and shareholders.

The CRO function promotes and monitors the embedding of a strong risk and control culture, fully supported by robust frameworks and supporting policies.

A key part of our risk and control framework is the completion of independent second-line reviews. Such reviews are conducted by assessing the design and completeness of key controls that are in place and will also cover thematic areas informed by the risk-based compliance monitoring programme.

Review and assurance *(cont'd)*

Model risk management framework

There is increasing emphasis on model risk management by the Prudential Regulation Authority and Financial Conduct Authority, which has led to the deployment of a firm-wide model risk management framework for managing model risks. This framework defines what a model is and is supported by documented evidence outlining where model risk exists across the business. There is an inventory of models in place, with each model being supported by additional documentation outlining principles such as purpose, scope, calculations, methodologies, responsibilities, and the output generated from each model. The model inventory is owned by the first line and is subjected to an annual review and challenge process by the second line as part of their annual due diligence review process.

Aviva Investors uses models to price assets (that do not have a readily available market price), calculate capital required for ICARA, assess the investment risk inherent in assets, and assist in processes such as asset allocation, portfolio construction and performance attribution.

Within Aviva Investors there are specific ESG models which are integral to the investment process.

Sustainability is a concept that has developed exponentially as it receives increased focus across the world, and this means the data available to investment managers is also rapidly evolving. Our ESG models are dynamic and continually evolving as the supporting data, skills and technical capabilities develop. The models aim to provide ESG insights from a top-down broad market perspective, and ultimately to support portfolio managers in investment performance.

The outputs of the models are used by the investment team for ESG security analysis, ESG risk indicators, ESG benchmark optimisation (for specific fund ranges) and client reporting.

Voting and engagement activities

There is a dedicated team responsible for conducting stewardship activities for our clients' investments; exercising proxy voting rights and engaging with investee assets, borrowers, and companies to protect long-term shareholder value, as well as excluding investments depending on client ethical and ESG preferences.

The team reviews the Aviva Investors global voting policy annually to ensure the policy and supporting statements are complete and accurate and that they have been formally reviewed and approved. Any changes to policies and related statements are assessed to ensure that the supporting set of controls remain complete and accurate.

The following controls are formally documented as part of Aviva Investors' risk and controls framework and support our ongoing adherence to the stewardship principles.

These controls ensure that prior to AGMs/EGMs, proxy voting instructions are generated, recorded, and carried out accurately and in a timely manner, including:

- Maintaining a record of all resolutions from company meetings, together with a record of how Aviva Investors voted at each company meeting.
- The identification and logging of any potential and upcoming contentious company meetings. These are scrutinised to ensure, where deemed applicable, that Aviva Investors' views are expressed via using our full voting rights. This may mean shares that have been out on loan are recalled ensuring full voting rights are exercised.

External assurance

This year we were satisfied with the validation of the controls environment provided by internal audit and did not seek external assurance.

3

Investment approach

3.1

INVESTMENT APPROACH

Client and beneficiary needs

(Principle 6)

AVIVA INVESTORS

Responding to our clients' needs

We manage £227.2 billion of assets for clients around the world, including Aviva plc entities. The tables below give an overview of our client base, as at year-end 2023.

Internal vs external

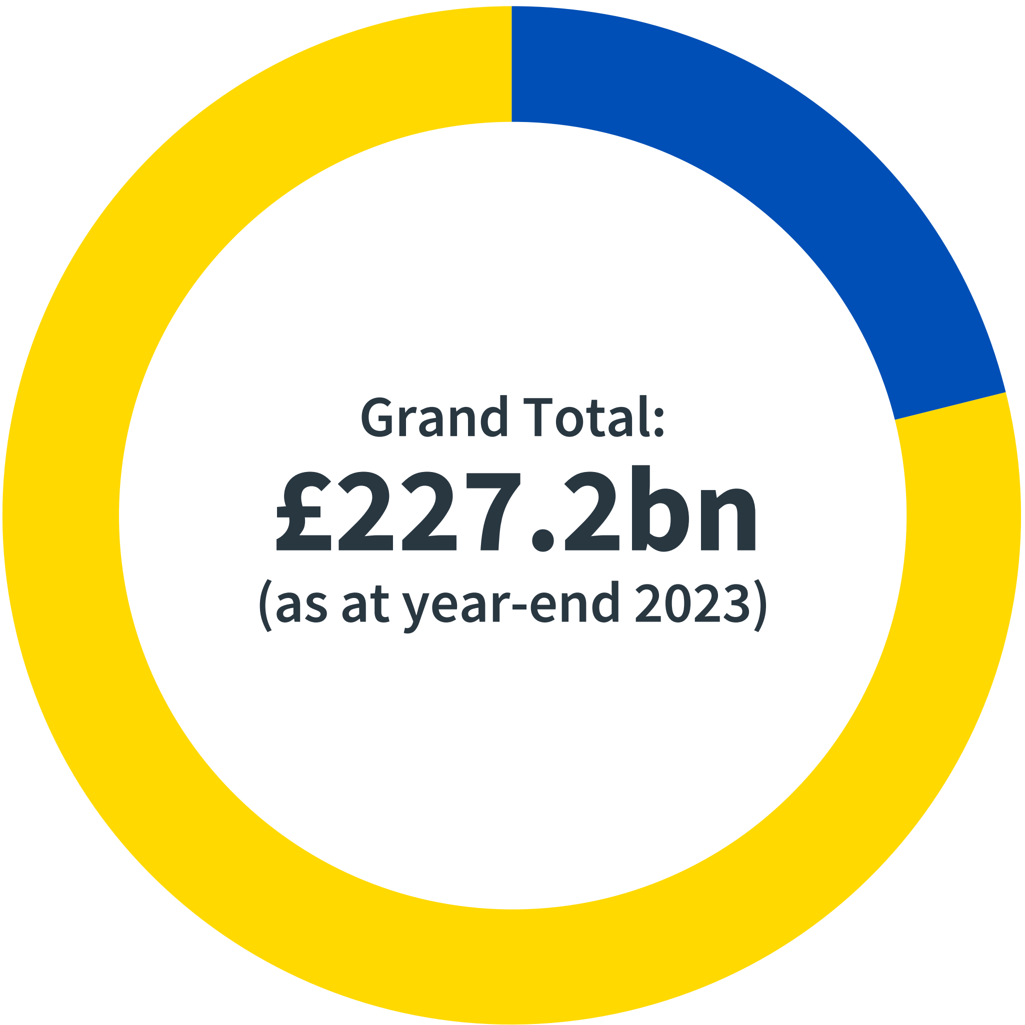
External	£41.3 billion
Internal	£185.9 billion
Total	**£227.2 billion**

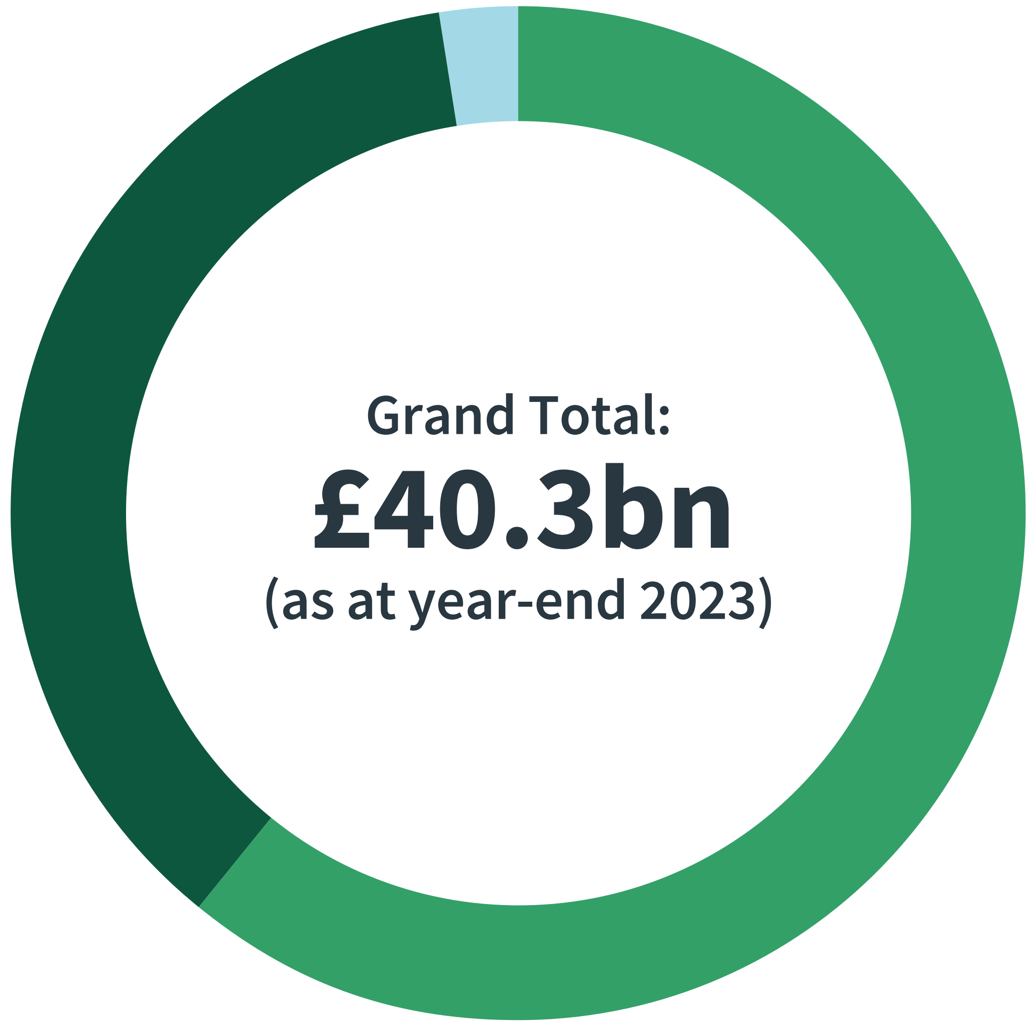
Source: Aviva Investors

Institutional vs retail

Institutional	£25.2 billion
Retail	£15.1 billion
Financial Institution	£1.0 billion
Total	**£41.3 billion**

Source: Aviva Investors





Gathering client preferences

Communication plays a critical role in effective stewardship, both in terms of consulting with clients on their preferences and outcomes sought and reporting on how their investments are contributing to achieving these. Professional clients' views are sought through ongoing communication; this has been enhanced with a systematic capture of ESG preferences through a questionnaire built into our client relationship system, which feeds into the development of products and client reporting. ESG client preferences and client requests relating to ESG are recorded through our relationship management tool, with the latter being summarised into dashboard reporting capabilities. These preferences feed through into product development and reviews to ensure we can deliver sustainability consistent with client preferences. We have also integrated ESG metrics into much of our client reporting, supported by external inputs and client consultation. We will continue to roll this out across all reporting.

> We manage £227.2 billion of assets for clients around the world, including Aviva plc entities

Responding to our clients' needs *(cont'd)*

Our professional clients' views are obtained on the following:

- whether or not they wish to address specific sustainability themes or issues through their investments
- which sustainability themes are most important to them, linked to the UN SDGs
- whether and how they wish to obtain higher ESG credentials than the relevant benchmark (for example, by increasing exposure to high-ESG performers)
- whether our baseline exclusions policy meets their expectations and if there are other screens/ exclusions they want to implement
- their preferences around labels for products, such as the LuxFLAG

As well as understanding their objectives and needs, obtaining clients' views on ESG is embedded within all client engagement and relationship management activities. Understanding our clients' preferences helps us provide them with suitable solutions to meet their ethical and sustainability needs.

Our processes are updated in-line with regulations, including MiFID II. However, to ensure we deliver the outcomes our clients desire, it is paramount they and our partners understand what is being asked. We are committed to helping them navigate the plethora of ESG terms and approaches to sustainability.

This includes:

- production of monthly video series "Powering Change", in which we update clients on the actions of our ESG team on research and engagement[22]
- short videos for advisors on investment stories and work by our Sustainable Finance Centre for Excellent on shaping a sustainable financial system
- published guides for clients to understand regulation such as the TCFD[23] and SFDR[24]
- thought leadership on key ESG topics[25]

We understand communication on effective stewardship goes beyond individual clients and their assets and extends to wider education on ESG matters to inform their thinking. As an example of this, we ran adviser-targeted training sessions, initially targeting UK advisers. We hope to extend this in 2024 through producing education videos and webcasts to help ESG thinking.

22. Powering Change: ESG video series – Aviva Investors
23. Task Force on Climate-related Financial Disclosures (TCFD) – Aviva Investors
24. EU Sustainable Finance Disclosure Regulation (SFDR) – Aviva Investors
25. Responsible Investment | AIQ Investment Thinking – Aviva Investors

Responding to our clients' needs *(cont'd)*

Communicating with clients

As an asset manager, we are conscious that although there may be a chain of intermediates involved, we ultimately manage money for individuals. It is an essential part of our role to communicate to all our clients – institutional, wholesale or retail – what we are doing on issues important to them and help them understand the complexities involved.

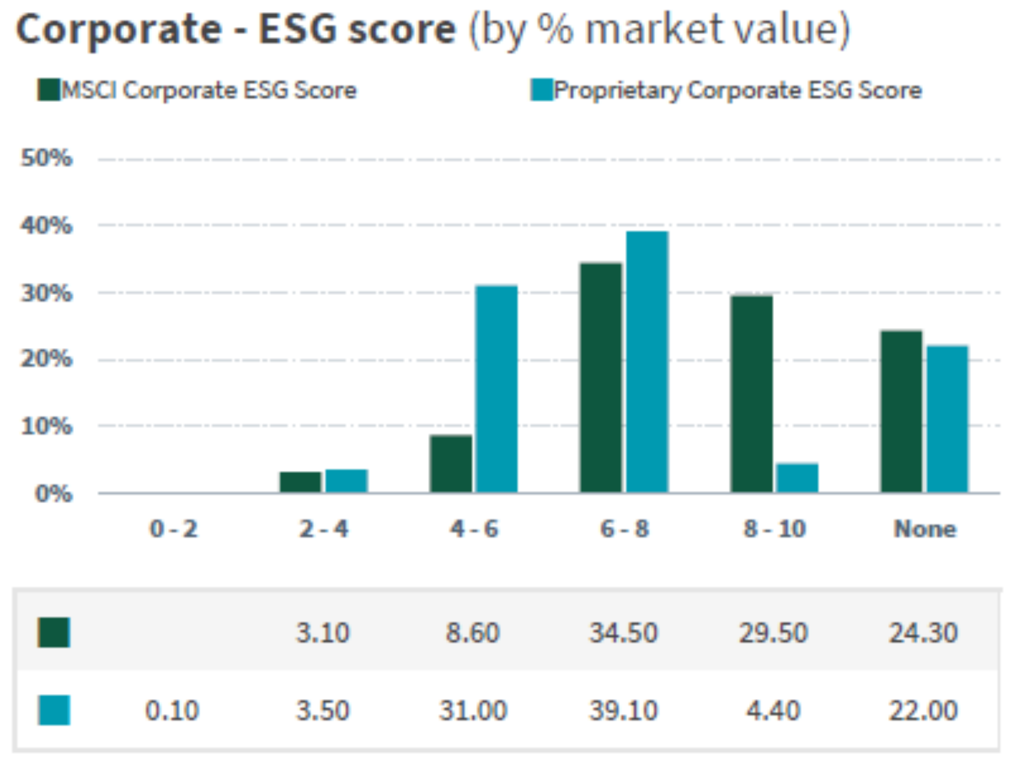
Ahead of COP28, attended by Aviva Investors' CEO Mark Versey, Chief Responsible Investment Officer Steve Waygood and Head of Climate Finance Tom Tayler, we published T*he Tipping Point for Climate Finance*.[26] This report proposed national transition plans for the implementation of Nationally Determined Contributions.

26. The tipping point for climate finance – Aviva Investors

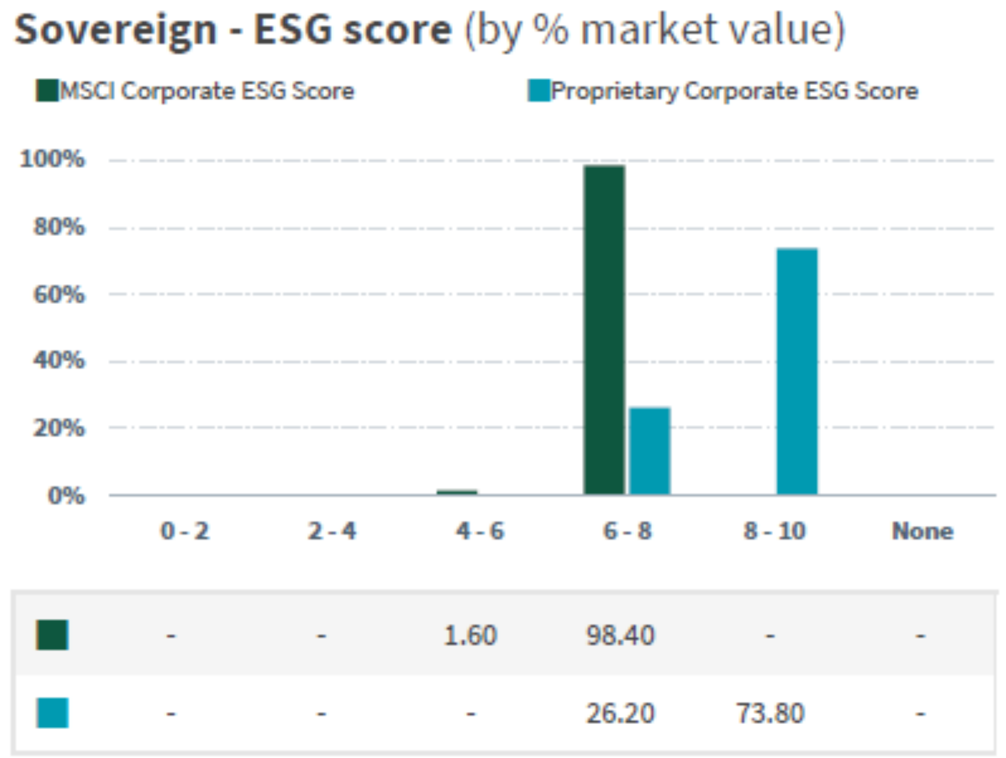
Client reporting

2023 saw us continue to evidence ESG integration into the investment process, by continuing to embed ESG reporting as standard within quarterly reports. ESG client reports may differ across strategies and may not be available for all products and strategies. The ESG section of the report is divided as follows:

- Overall ESG assessment – proprietary and MSCI portfolio and benchmark scores. New charts illustrating controversy scores by market value have been produced. We have also produced a corporate and sovereign ESG score against the benchmark.



Source: Aviva Investors and MSCI, as at 30 June 2022



Source: Aviva Investors and MSCI, as at 30 June 2022

- Environmental assessment – this focuses on ESG metrics relating to the mandate, including carbon intensity, portfolio warming potential and water intensity.
- Carbon contribution – for multi-portfolio Aviva clients, new tables have been produced for corporates and sovereigns within a portfolio that show the 10 highest carbon emitters.

10 highest carbon emitters by contribution (Corporates only)*

Corporate issuers are ranked from 1 to 10 based on their carbon emissions contribution, 1 being the highest contributor and 10 being the 10th lowest contributor.

Company	Carbon intensity contribution % (t/USD million sales	Carbon intensity (t/USD million sales)	AuM (£)	Total weight (%)
SCOTTISH HYDRO ELECTRIC TRANSMISSI MTN RegS	8.90%	811.20	13,405,897	0.24%
ENEL FINANCE INTERNATIONAL NV MTN RegS	5.88%	655.80	10,950,281	0.20%
ENEL FINANCE INTERNATIONAL NV MTN RegS	5.02%	655.80	9,350,193	0.17%
KOREAN AIR LINES CO LTD RegS	4.45%	1,096.20	4,962,664	0.09%
NATL GRID ELECTRICITY TRA	4.22%	568.60	9,073,393	0.16%
ENGIE SA MTN	3.62%	599.90	7,376,635	0.13%
DIGITAL STOUT HOLDING LLC RegS	3.10%	767.90	4,933,915	0.09%
SOUTHERN GAS NETWORKS PLC MTN	3.09%	447.10	8,436,400	0.15%
TRANSPORT FOR LONDON MTN RegS	2.72%	260.50	12,748,928	0.23%
RYANAIR HOLDINGS PLC	2.51%	2,623.30	1,169,205	0.02%

Aviva Investors and MSCI 30/06/2022. * Please refer to Methodologies and Calculations: ESG scores.

10 highest carbon emitters by contribution (Sovereigns only)*

Sovereign issuers are ranked from 1 to 10 based on their GHG intensity contribution, 1 being the highest contributor and 10 being the 10th lowest contributor.

Country	Carbon intensity contribution % (t/USD million GDP nominal)	Carbon intensity (t/USD million GDP nominal)	AuM (£)	Total weight (%)
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND (GOVERNMENT)	57.60%	148.19	1,452,049,808	25.95%
UNITED STATES OF AMERICA	35.40%	270.99	488,056,936	8.72%
QATAR (STATE OF)	4.21%	1,208.16	13,027,050	0.23%
JAPAN (GOVERNMENT OF)	0.85%	232.55	13,607,057	0.24%
ISRAEL (STATE OF)	0.02%	131.41	562,612	0.01%

Aviva Investors and MSCI 30/06/2022. * Please refer to Methodologies and Calculations: ESG scores.

Client reporting *(cont'd)*

- Multi-asset portfolio template – on some of our multi-asset templates – we have added in Scope 3 emissions intensity, carbon footprint for Scope 1 and 2 emissions and percentage of corporates owning fossil- fuel reserves.

	Description	Portfolio score	Benchmark (SAA)	Portfolio vs. benchmark (SAA)
Corporate - Carbon intensity scope 3 (t/USD million sales)	This figure represents the company's most recently estimated Scope 3 total emissions normalized by sales in million USD, which allows for comparison between companies of different sizes. The lower the number the better.	778.23	843.12	-7.70%
% Market Value coverage		96%	95%	

Source: Aviva Investors and MSCI, as at 30 September 2022.

	Description	Portfolio score	Benchmark (SAA)	Portfolio vs. benchmark (SAA)
Corporate - Carbon footprint scope 1 & 2 (t/USD million EVIC)	This figure represents the company's most recently reported or estimated Scope 1 and 2 emissions normalized by the most recently available enterprise value including cash (EVIC) in million USD. This ratio facilitates portfolio analysis by allocating emissions across equity and debt. The lower the number the better.	52.68	60.84	-13.41%
% Market Value coverage		98%	97%	

Source: Aviva Investors and MSCI, as at 30 September 2022.

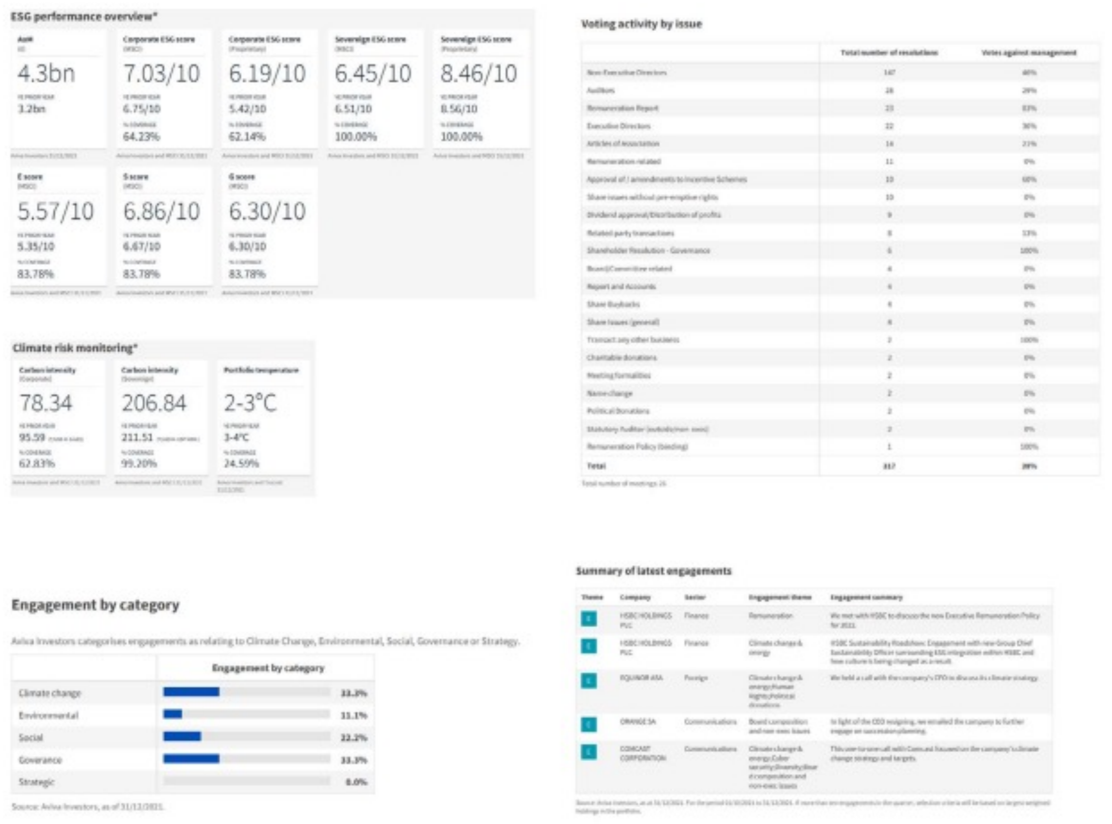
	Description	Portfolio score	Benchmark (SAA)	Portfolio vs. benchmark (SAA)
Corporate - Fossil fuel reserves (% market value)	This field identifies companies with evidence of owning fossil fuel reserves regardless of their industries, including companies that own less than 50% of a reserves field. Fossil reserves are defined as proved and probable reserves (i.e. 1P and 2P) for coal and proved reserves (i.e. 1P) for oil and natural gas. Evidence of owning reserves includes companies providing the exact volume of reserves, and companies making a statement about their ownership of reserves. The lower the number the better.	5.51%	7.81%	-2.29%

Source: Aviva Investors and MSCI, as at 30 September 2022.

Fund-specific reporting – for some of our multi-asset capabilities, we now produce quarterly reports. These include comparisons of ESG scores against the index and portfolio voting and engagement activity. We have also produced similar reports for our Sustainable Investing suite.

- Active engagement and case studies – voting (if relevant) and active engagement to the portfolio. Case studies provide examples on how we engage and the resulting outcomes.

Each section provides a high-level overview, with more information available if required, including timeseries data and granular breakdowns. Focusing on active engagement and case studies, we detail portfolio-specific voting along with a breakdown of where we did not vote with management. Finally, engagement activity on behalf of the strategy is captured. This gives clients insight and holds the manager to account, ensuring engagement is in areas that have the greatest impact. A short summary of each engagement is provided, which will be expanded in the case studies if appropriate.



Meeting the changing needs of our clients

Investors increasingly seek investment products that help address their sustainability preferences or ambitions. From climate change to social inequality, this can be seen across all channels, from institutional clients to retail investors. Exemplifying this change, recent research found nearly three quarters of the UK public (73 per cent) believe we need to collectively invest in long-term solutions to the issues the world is facing.[27]

We are committed to delivering solutions to meet client needs. We believe there are three sustainable megatrends, which are also captured by the UN SDGs: climate change; resource scarcity and biodiversity loss; and social and demographic change. We consider these megatrends through our three sustainable pillars of People, Earth and Climate, which are in turn reflected through our suite of sustainable funds.

These megatrends and pillars are interlinked and at an economy level. They are systemic, cross-border and cross-sector issues that will not be solved in the short term. To tackle these, we need transformational change. We cannot simply invest by excluding bad companies or investing only in firms that are perfect.

To deliver sustainable investing, we need to address the problems in a holistic manner and clearly identify the desired outcomes, barriers to getting there and actions we can take to overcome these and deliver tangible outcomes.

27. UK consumers urge banks to invest in sustainable change (triodos.co.uk)

Meeting the changing needs of our clients *(cont'd)*

Our investment approach across our Sustainable Investing suite consists of three elements

1. We exclude companies causing significant harm to our sustainable outcomes through three levels:
   a. Level 1 – our firm-wide baseline exclusions policy[28]
   b. Level 2 – a set of specific exclusions applying across equity and credit products within the Sustainable Transition range focussing on social, nature and climate issues
   c. Level 3 – exclusions specific to each pillar relevant to equity strategies
2. We invest in solutions providers – innovative firms with products and services that directly tackle sustainability challenges.
3. It is our belief all firms in all sectors and geographies are impacted by, and have an impact on, the sustainable investments we want to deliver. We aim to support companies improve the way they operate. Therefore, we use an approach that helps drive the transition through changing existing companies' and sectors' behaviour over time; investing in solutions providers alone does not go far enough. Using our proprietary transition risk (T-Risk) frameworks, we identify firms actively transitioning their business models to manage sustainability impacts and, therefore, setting best practice in their sectors as well as best managing transition risks. Ultimately, this increases the breadth of companies we research and, with it, the opportunity to not only maximise sustainable investing but also generate alpha.

In applying our approach consistently across People, Earth and Climate, as well as Public Markets' asset classes, we seek to offer clients products to meet their needs. Our Sustainable Investing range stretches across all Public Markets' asset classes.

Underpinning the development of this suite is the fundamental belief we can have positive outcomes on the planet and society while delivering returns. The two are not mutually exclusive. This belief extends not only to allocating capital to firms demonstrating strong transition management and those providing solutions, but also to our active ownership and market reform activity. Engagement and policy reform are vital components in driving change at the micro and macro levels. In this way, we can demonstrate to clients the outcomes their investments can help achieve.

28. Aviva Investors Responsible Investment Policies and Documents

3.2

INVESTMENT APPROACH

Stewardship, investment and ESG integration

(Principle 7, 11)

Stewardship, investment and ESG integration

ESG integration across all asset classes

Our approach to sustainability is a driving force across our £227.2 billion of assets under management (AUM).

We take seriously our duty to act as a trusted agent of our clients' assets, and endeavour to protect, maintain and grow the long-term value of their investments. Consistent with those obligations, we maintain a deep conviction that ESG factors can have a material impact on returns and client outcomes. This is why we integrate ESG considerations into investment analysis and decision making*.

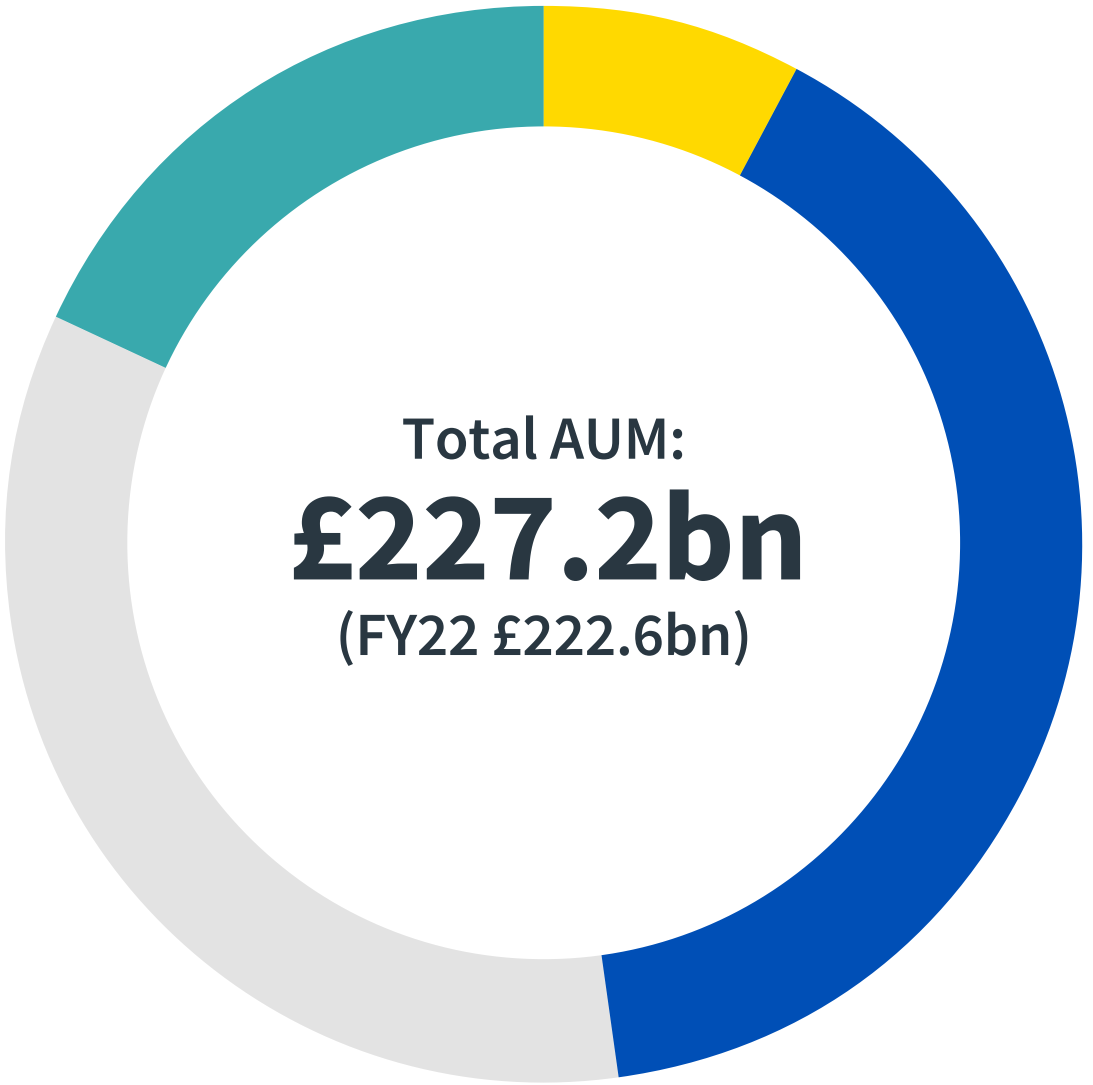
This approach is set out in our firm-wide responsible investment philosophy and responsible investment and sustainability risk policies for our credit and equities, multi-asset and macro and liability-driven investment and Private Markets teams.

Our commitments are also embedded into our internal controls environment and are subject to robust challenge from the firm's control functions.

Our sustainability investing research, ESG integration and stewardship teams are embedded within the investment function, which ensures close collaboration with our investment professionals, sharing of ideas and relevance of ESG insights to corporate and sovereign universes.

Assets under management

The chart below shows breakdown of AUM by asset class, as at year-end 2023. This is intended to provide context to the more detailed description of our responsible investment approach across asset classes in the pages that follow.



Managed assets across asset classes

Equity	**£17.4bn**	**8%**
Credit	**£90.4bn**	**40%**
Multi Asset Funds	**£77.7bn**	**34%**
Private Markets	**£41.6bn**	**18%**
Grand Total	**£227.2bn**	

Source: Aviva Investors

*This is not binding on the investment manager, beyond any specific ESG criteria which is in a Fund prospectus or Investment Management Agreement.

Integration pillars

The consideration of ESG in our investment processes, as outlined above, is underpinned by a four-pillar framework. This is fully embedded into our processes and tailored to reflect the nuances of asset classes and strategies.

1 Research

Investment teams use quantitative and qualitative research to ensure a systematic approach to investment decisions. Data is a critical starting point, providing the broadest possible base-level coverage of ESG issues and we draw on a variety of best-in-class scores and analytical tools (please see page 71). However, data is static, backward-looking and can be subject to quality and coverage issues.

We combine this with qualitative insights to overcome these challenges. Our large investment and ESG research teams collaborate to generate targeted, relevant and timely analysis into themes, sectors, companies and countries. This holistic approach enables fully-informed investment decisions.

2 Connectivity

For ESG integration to be effective, there needs to be extensive collaboration between ESG-focused and investment teams. Our ESG analysts work closely with investment desks and actively participate in a variety of forums. Additionally, each investment desk has a dedicated “partner” from the ESG team, who ensures ESG insights are available and tailored to their needs. The aim is to help portfolio managers exploit ESG market inefficiencies relevant to their strategy, enhancing returns.

This collaboration supports our ambition to be active and responsible stewards of capital across all asset classes and funds, ensuring we use our voting and engagement influence effectively. Insights from tailored engagements with issuers on sustainability are fed into our investment views.

3 Portfolio construction

Research and connectivity flow into our third pillar, focused on portfolio managers translating ESG insights into stock selection, idea generation and portfolio construction. To ensure timely insights, the ESG team delivers training regularly to the investment teams to update them on market themes and developments, internal projects and regulatory updates. This enables investment teams to better understand material ESG risks and opportunities for sectors and countries, which they can price into valuations. The ESG team is also a key component in determining our House View and ensures material ESG factors are considered when determining the firm-wide macro outlook.

These fit alongside our baseline exclusions policy,[29] which generates an investable universe.

4 Evaluate and monitor

Portfolios, trade ideas and holdings are subject to ongoing review, including via agreed ESG watchpoints. In addition, ESG partners hold quarterly reviews with portfolio managers and analysts for each strategy. The reviews highlight the ESG characteristics of the funds, ensure ESG views are reflected in positions, and provide the basis for challenge. ESG characteristics include portfolio ESG scores, emissions profiles as well as stewardship insights. Portfolio case studies are developed periodically to demonstrate how ESG integration has affected investment decisions, with asset class investment directors providing quality assurance.

Respective asset class investment processes and controls underpin the delivery of this framework, providing first-line integration controls, with investment risk a second-line review process. The review process ensures we apply our ESG integration framework in a tailored fashion.

29. Please see policies and documents – Aviva Investors for our baseline exclusion policy

ESG integration in equities and credit

ESG integration in equities

Within our equities investment strategies, ESG considerations form a foundational building block, informing investment decisions.

Research

Within our equity investment functions, we leverage a suite of sophisticated ESG data and analytics tools. These include our in-house corporate ESG score, "Elements 2.0", and the Principle Adverse Impact (PAI) indicators, supported by our PAI Notation Tool (PAINT). These tools are integral in embedding an ESG perspective across all our portfolios.

This comprehensive data approach is augmented by qualitative insights, allowing for a nuanced understanding of ESG impacts and opportunities. Our equity research notes are a testament to this approach, blending quantitative metrics with qualitative judgements to assess material ESG issues that influence our fundamental views.

To supplement the qualitative ESG input into the investment process, our Sustainable Investing team produces top-down thematic insight on the three sustainable outcomes we seek to deliver – People (social justice), Earth (nature positive) and Climate (net-zero).

The insights derived from this research are not static; they continuously evolve and adapt, reflecting changes in the ESG landscape, regulatory environments, and market trends.

Collaboration

Our framework emphasises the importance of connectivity through collaboration forums, shared research, and joint engagement efforts. This collaborative ethos ensures ESG insights are deeply integrated within our team and across all sector hubs. The ESG team's close collaboration with equity analysts fosters bottom-up research, sector-specific ESG trend analysis, and informed corporate engagement strategies.

This collaboration results in shared investment conclusions, which feed back into our research processes, refining our ESG analysis and ensuring that our engagement with companies is informed, targeted and effective.

Portfolio construction

Portfolio construction under our framework integrates SFDR screens, leveraging PAI data within research to align with regulatory standards and ESG goals. We also incorporate forward-looking expectations and sector-relative thematic exposures to ensure our portfolios are not just compliant, but also positioned for future ESG trends and challenges, which is why the research as well as collaboration components are such vital building blocks to this approach. The continuous assessment of ESG factors leads to an iterative process in which portfolio construction decisions influence and are influenced by our ongoing research and connectivity insights.

Evaluate and monitor

Our process includes rigorous quarterly portfolio reviews, case studies, and a strong focus on risk oversight. This ensures ongoing evaluation and refinement of our ESG integration.

These reviews include an in-depth analysis of the emissions profile of our portfolios, alongside scrutiny of company-level ESG scores and commitments to carbon reduction and social performance. This aids us in understanding and directing the overall environmental and social impact of our investments, thereby helping us to prioritise engagement opportunities. These quarterly evaluations feed critical information back into the research and portfolio construction processes, helping us identify risk exposures as well as areas where our ESG integration can be enhanced. This framework creates a continuous, self-reinforcing loop. Insights from one pillar feed into the others, leading to a dynamic, responsive approach to ESG integration in equities.

INTEGRATION CASE STUDY

The role of insurance providers in mitigating climate risks

ESG investment thesis

Climate change is increasing the frequency and magnitude of natural disasters. For instance, the number of weather-related disasters has increased fivefold over the last 50 years.[30] Reinsurance providers can help mitigate the impact of this additional risk, while remaining proactive in managing exposures that could become unviable. However, there is currently a significant protection gap. For example, only 56 per cent of damage caused by meteorological events in Europe is insured. This figure falls to 28 per cent for hydrological events and further decreases to seven per cent for climatological events such as wildfires and droughts. Reducing this gap would provide substantial welfare benefits by decreasing the social and economic impact of catastrophes.

Impact on portfolio positioning

We believe the clear protection gap and increased likelihood of climate events creates significant growth opportunities which would be positive for valuations and support the sustainability of cash flows and dividends among reinsurance providers. Furthering this, Munich Re has an excellent track record in understanding the risks presented by climate change and integrating them into its business model and processes. Based on research conducted in the financials sector hub collaboratively with the ESG team, the team highlighted a positive investment case. We added a sizeable position across several equity portfolios.

INTEGRATION CASE STUDY

Mining: Engaging to reaffirm a positive view

ESG investment thesis

Zijin Mining's existing and planned growth exposure in copper and lithium are attractive features from an investment perspective, as well as with respect to supporting the global energy transition. However, over the last five years, the company has expanded aggressively through acquiring many assets, some of which have ongoing or legacy ESG issues associated with them. Our Global Emerging Market Core portfolio manager and ESG analyst attended a group engagement with the company at its inaugural investor roadshow dedicated to ESG, following significant resource additions by the company to its ESG team over the last 18 months. Given recent controversies, health and safety and human rights were some of the focal points of the discussion.

Impact on portfolio positioning

The engagement was constructive given the company's various high-profile ESG controversies. It was evident that is moving in a positive direction, having increased the level of resource allocation to bring its mining operations in line with international best practice standards (including those from the Organisation for Economic Cooperation and Development, International Council on Mining and Metals and the UN Human Rights Council), backed up by third-party audits, and to strengthen its disclosures on a range of ESG topics: climate, water, waste, health and safety, supply chain monitoring, human rights, workforce and community. We retain existing holdings and could upsize the position following an engagement call to gain more specific details on targets.

30. Climate change: Big increase in weather disasters over the past five decades – BBC News

ESG integration in credit

Our credit teams (investment grade, high yield, emerging-market debt, buy-and-maintain, liquidity, LDI) incorporate ESG considerations throughout their processes. These teams primarily invest in corporate bonds, cash instruments and securitised instruments. While we apply ESG integration at a functional level, and within research available throughout credit, we recognise each desk may consider and apply ESG factors differently based on credit quality, country and time horizon.

Research

Our credit analysts consider ESG factors in their research and analysis. Where relevant, published analysis needs to clearly capture instances where ESG considerations, in and of themselves, are leading to a better or worse recommendation than non-ESG factors alone (financial, management quality etc.) alone. This process is driven by a financial materiality approach which led in 2023 to our initial rollout of an ESG Materiality Score. The score, which follows a scale of 1 to 5 illustrating positive or negative ESG impacts on issuer performance, is assigned by credit analysts to issuers, and included in credit research notes. The Score's rollout is set to continue in 2024. Credit analysts also evaluate issuers' governance practices as part of their credit research. Credit research is supported by qualitative insights from our ESG analysts in the Sustainable Investing function which takes place in collaborative form through key credit investment forums. This is supported by proprietary and external ESG data which serve as a quantitative baseline from which to build a comprehensive view. Analysis is also supported by third-party research and, crucially, by insights from issuer engagements undertaken.

Collaboration

Collaboration between portfolio managers, credit research analysts and ESG analysts is key to our investment process. Sector-level meetings are conducted bi-weekly within our key strategies, with attendance by all relevant parties. This provides opportunities for open discussion, challenge and debate on sector, thematic and company views. ESG factors and related developments are also discussed within daily meetings conducted across our global teams. Where ESG integration is concerned, portfolio managers do not view ESG as a binary "yes or no" consideration. Portfolio managers will consider these factors when determining portfolio positioning and risk exposure. In terms of governing the integration of ESG within our credit business, a member of the Sustainable Investing team sits on the credit leadership team.

Engagement

Teams engage with issuers throughout the fixed-income issuance cycle. Speaking with management at new-issue roadshows, earnings calls and company meetings provide opportunities to highlight any concerns on new bonds, sustainability bond frameworks or execution of broader company strategy. We may also proactively engage with companies as part of our broader engagement initiatives or in response to major ESG issues. Where relevant, the credit team will leverage the influence of our equity teams and their ability to vote at company AGMs.

Fund reviews

We conduct desk-level ESG reviews on a quarterly basis to assess funds' ESG performance and positioning, examine holdings of concern, and discuss areas for improvement. The reviews are led by an "ESG partner". This partnership enables targeted insights to be shared across our Sustainable Investing and credit teams. It also provides a key contact for ESG integration support. Where ESG risks are identified, we may conduct further analysis or engage with issuers to better understand exposures.

INTEGRATION CASE STUDY

Climate engagement with a financial institution

13 CLIMATE ACTION

G P E C

ESG investment thesis

In one of our Climate Transition strategies, the desk invested in the bonds of a large financial institution in 2021 as it scored above peers across a range of metrics. As part of the Climate Transition Engagement Programme (CTEP), our sustainable investing analysts have attempted to engage with the Bank on numerous occasions since early 2022, with the aim for the company to set science-based emission targets and to disclose to the Carbon Disclosure Project's (CDP) climate change questionnaire. The company previously disclosed to CDP in 2020 when it scored B-. We further contacted the company in December 2022 and January 2023 for an engagement meeting.

After not receiving a response, we decided to escalate at the company's AGM in May 2023 by voting against the Lead Director. Here, we outlined that the company was targeted due to the lack of progress against the asks of CTEP.

Impact on portfolio positioning

We were disappointed by the company's lack of engagement with investors on climate related issues, as well as its limited progress against climate targets and disclosure, in line with our escalation programme. Climate concerns continue to remain a significant overhang on our view of the company, and hence we will closely monitor its progress.

INTEGRATION CASE STUDY

Cruise lines: Charting a course to decarbonisation

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

G P E C

ESG investment thesis

While cruise lines are recognised as an important part of the travel and tourism industry, there were concerns within the global high yield (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 lines industry will be heavily dependent on technological advances and policy intervention to scale them. Given these concerns, our 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 our PAI flags on emissions intensity. Our 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.

Impact on portfolio positioning

The engagements helped reinforce the progress being made within the cruise lines industry, given the various levers available to decarbonise. We 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 our investment views given the industry's decarbonisation will be an important driver in the future.

We will continue our engagement, given the hard-to-abate nature of the industry, emerging technologies and policy challenges.

INTEGRATION CASE STUDY

Assessing environmental impact in the telecoms industry

G P E C

ESG investment thesis

At the end of 2021 AT&T, the fourth-largest telecommunications holding company, was one of the largest issuers in global capital markets with over $200bn of debt. It announced a deleveraging plan to enable the company to reduce levels of debt to $158bn at the end of 2023, with a further reduction of $15bn by 2025. Given the announcement, the credit investment desk had a positive view and therefore an overweight to the name.

However, its deleveraging path faced uncertainty as allegations came to light following a Wall Street Journal investigation regarding lead contamination from legacy cables.[31] The desk therefore wanted reassurance over the company's ability to deleverage while also absorbing potential remediation expenses of up to $35bn.

Through a joint engagement between the ESG team and the credit team, we engaged with AT&T to better understand its potential exposure to copper cables that were lead sheathed, as well as the actions it was taking to independently assess the alleged contamination.

Impact on portfolio positioning

Following the engagement, we became more comfortable that the environmental impact would be manageable. In addition, our credit team's assessment concluded that even by taking the higher remediation costs assumptions, this would be absorbable into its current deleveraging plan, as the potential fine would be spread over a significant period of time. Therefore, the financial impact would be small in the grand scheme of AT&T's balance sheet adjustment. While the spreads movements were detractors to the portfolio's performance initially, we decided to continue to hold the name, and were able to benefit from the recovery of the spreads due to our risk sizing methods.

31. https://www.wsj.com/articles/lead-cables-telecoms-att-toxic-5b34408b

ESG integration in multi-asset

We recognise our duty as a trusted agent of our clients' assets to endeavour to protect, maintain and grow the long-term value of their investments. Consistent with those obligations, we maintain a deep conviction that ESG factors and sustainability risks can have a material impact on investment returns. There are four key elements in terms of integrating ESG in multi-asset mandates:

1. Firm-wide baseline exclusions policy

Certain companies and sectors are excluded or limited from investment as per our baseline exclusion policy. For example, companies operating in coal, tobacco and controversial weapons sectors.

2. ESG approach of underlying investments (passive strategies)

Some of our passive strategies seek to invest in companies and countries with a stronger ESG score than the underlying markets. The allocation to global equities also favours companies with a lower carbon intensity than the underlying market that it is tracking.

3. ESG approach of underlying investments (active strategies)

Aviva Investors' active single-strategy funds take ESG considerations into account when selecting securities (these considerations are non-binding). In some multi-asset mandates, there are also allocations to strategies with specific sustainable transition themes.
For example, the Climate Transition Global Equities, Climate Transition Global Credit, Natural Capital Transition Global Equities and Social Transition Global Equities funds.

4. Voting and engagement

We are committed to the responsible stewardship of our clients' investment through our engagement, voting and public policy activities. We believe that by encouraging the companies we own to manage sustainability risk better, we can contribute to a more resilient global economy, which will ultimately enhance our clients' long-term prosperity and security.

ESG integration in multi-strategy

ESG integration in multi-strategy

ESG is integrated throughout our multi-strategy investment process*. Within the idea generation process, considerations include not only traditional fundamental and technical drivers, but also ESG risks and opportunities. This process includes a forward-looking assessment of positive and negative ESG factors that may determine the success of an idea. In many respects, this has been done historically (for instance regarding poor corporate governance practices or corruption risk in a country), but having it formalised within the investment process ensures consistency and discipline in the evaluation of investment ideas. It is a standard and essential part of our strategic and risk management process, aligned with our four-pillar ESG integration framework.

In addition to risk management, ESG is also an important driver of investment ideas. In particular, multi-strategy portfolios' flexible and unconstrained approach enables the implementation of specific views via a bottom-up, relative-value long/short strategy for a more targeted expression of an ESG theme.

This is achieved with the input of the Sustainable Investing team on the impact of overarching themes on the real economy, as well as the translation of themes onto individual companies by the ESG Public Markets team.

Such ideas can provide another source of alpha and enhanced diversification, as in the case of our long copper and long global defence equities relative-value strategies, facilitated through collaboration between ESG analysts and portfolio managers. In addition to applying our baseline exclusions policy, the approach applies a minimum ESG threshold by which instruments are flagged for review before potential inclusion into portfolios.

The industry standard around ESG integration and reporting has been the capital allocation approach. While this is suitable for long-only portfolios, it misses a significant portion of risk for strategies that utilise derivatives. We are in the process of establishing a framework to integrate ESG across derivative holdings for another perspective on the ESG profile of those strategies.

*This is not binding on the investment manager, beyond any specific ESG criteria which is in a Fund prospectus or Investment Management Agreement.

INTEGRATION CASE STUDY

Electrification: Rising demand for copper as an investment theme

G P E C

ESG investment thesis

Our ESG analysts worked closely with our multi-strategy portfolio managers on the long-term theme of electrification, and the importance of copper in this. Copper is a critical component for renewable energy technologies such as wind and solar energy, energy storage and electric vehicles, hence demand for the commodity continues to grow.

However, in the short-term, prices are likely to come under pressure in the sector due to economic challenges weighing on commodities demand. This is coupled with a structural lack of metal mining capacity, in a world where renewable technologies require approximately five times more copper than non-renewables.[32]

Impact on portfolio positioning

Through strong collaboration between the investment desk and ESG analysts, the portfolio managers developed a strong conviction on the medium-term outlook for copper and its use in electrification. Therefore, despite the short-term risks, we initiated a position in copper in January 2023.

32. Conducting change: Why copper is key to a renewable future – CSIRO

INTEGRATION CASE STUDY

Sustainability and Strategic Asset Allocation

G P E C

ESG investment thesis

The Strategic Asset Allocation (SAA) for the certain multi-asset strategies has been designed in-house by our Solutions and Multi-Asset & Macro teams and sets out our long-term asset allocation for each of the strategies. The SAA is reviewed at least once a year.

The SAA process initially determines our investable universe. For a particular multi-asset strategy, we have chosen to select assets from around the globe to give us as much flexibility and choice as possible. We believe that a global approach should achieve a better risk-adjusted return over the longer term than one that is too concentrated in any region.

As part of the 2023 annual SAA, we incorporated an allocation to global equities within the strategy.

Impact on portfolio positioning

This SAA provided the multi-asset portfolio managers the opportunity to invest into some of Aviva Investors Sustainable Investing Equities strategies on a long-term strategic basis, to improve its sustainable characteristics.

This also provided positive security selection versus global equities over the long term and addresses the sustainable transition risks while protecting the portfolio from market-related disruptions.

The portfolio managers changed the global equity allocation mix to be 60 per cent Climate, 20 per cent Natural Capital and 20 per cent Social.

INTEGRATION CASE STUDY

Supporting improving corporate governance in Japan

G P E C

ESG investment thesis

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, the 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 longstanding 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 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.[33]

Impact on portfolio positioning

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 while 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.

We 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.

We 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, the multi-asset desk initiated a long position in Japanese equities in September 2023, informed by research from our ESG analyst.

33. See our article "What's behind Japan's stock-market sugar rush?" for more information

ESG integration in sovereign debt

ESG is integrated throughout our sovereign investment process*, in line with the four-pillar approach. ESG data, research and engagement are crucial to our fundamental assessment of issuers. Specialist ESG analysts are active contributors within key investment forums, like the emerging-market debt (EMD) morning meeting. Investment decision-makers are receptive and well equipped to embed ESG insight within portfolios and material ESG risks are systematically evaluated and monitored, including at quarterly ESG portfolio reviews and via focus lists.

Quantitative foundation

Our proprietary sovereign ESG model assigns scores to more than 170 countries, drawing on 11 composite indicators and over 400 individual data points. The score (0-10) provides an overview of the ESG profile of issuers and is available to portfolio managers and analysts via our portfolio management software and an interactive dashboard, enabling peer comparisons, trend analysis and more. Our score is complemented by other data points, including GDP-adjusted ESG scores, PAI indicators and engagement data.

Quantitative metrics are used to highlight potential risks and opportunities as well as a basis for further qualitative investigation.

Qualitative insight

Our qualitative overlay enables more holistic and timely assessments of issuers, culminating in judgements that contextualise ESG scores as well as forward-looking momentum assessments.

Specific areas of focus vary by country based on materiality to the investment case and guided by close collaboration between ESG analysts and the investment teams. ESG analysts cover core emerging and developed markets, providing high-frequency updates on evolving ESG views as well as detailed reports and horizon scanning. Research is developed and presented alongside wider fundamental and investment views, for example, within EMD country deep-dive sessions. Country-related ESG views on macro trends are shared at weekly meetings and quarterly AI House View forums.

Qualitative insights also help inform tailored engagement topics for key issuers, complementing our annual thematic sovereign engagement priorities. Discussions with sovereign issuers can provide valuable investment insight and enable us to voice support for action on sustainability commitments, for mutual benefit.

Portfolio relevance

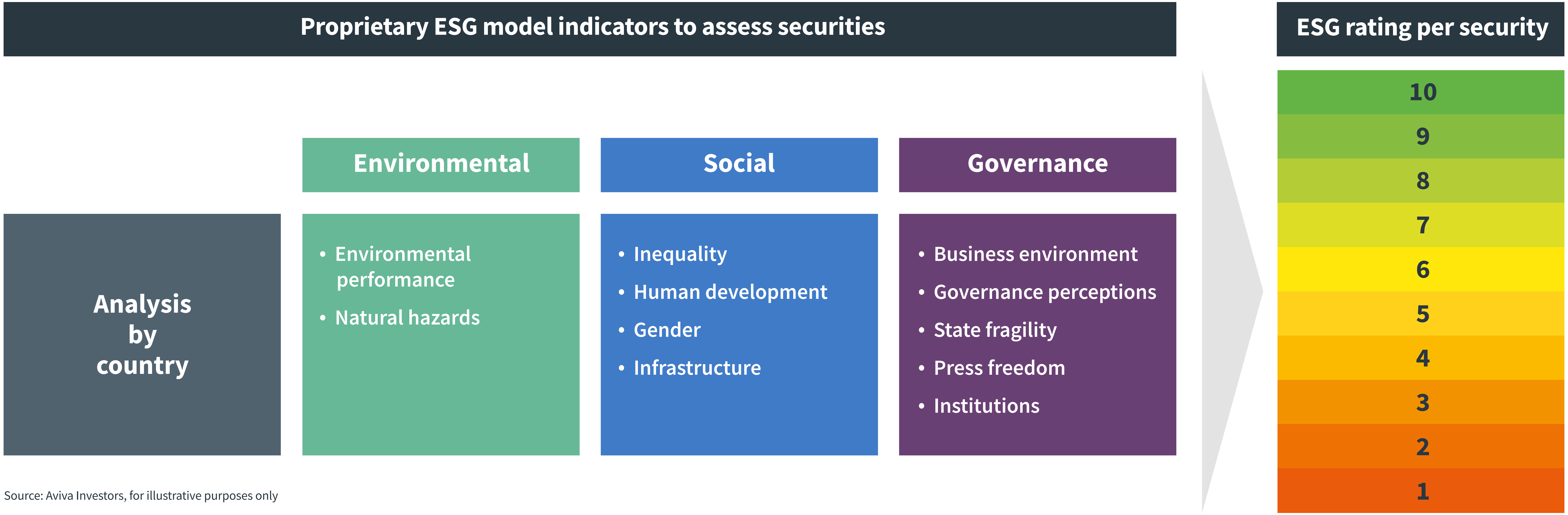
Close collaboration across the investment function ensures ESG insight and its delivery is tailored to investment teams and strategies, accounting for different time horizons, forums and processes. That insight extends to security-level considerations for ESG-labelled issuance, where relevant.

Our ESG partnership model means investment teams have consistent points of contact while benefitting from relevant thematic insight. Partners track the use of ESG insights in investment decisions, including at the idea-generation stage, and lead quarterly ESG portfolio reviews to ensure each fund's ESG characteristics are well understood, material risks are tracked, and that there is an opportunity for challenge.

*This is not binding on the investment manager, beyond any specific ESG criteria which is in a Fund prospectus or Investment Management Agreement.

ESG integration in sovereign debt *(cont'd)*

ESG proprietary scoring system framework for sovereigns



Source: Aviva Investors, for illustrative purposes only

INTEGRATION CASE STUDY

Nigeria – A reform story in the making?

G P E C

ESG investment thesis

Nigeria is among the lowest-scoring countries on our 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, our 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.

Impact on portfolio positioning

Supported by the positive ESG and fundamental outlook, the EMD team added long-end bonds to an overweight position, ahead of the inauguration. 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. We 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.

INTEGRATION CASE STUDY

Assessing the impact of Poland's elections

G P E C

ESG investment thesis

Poland's ESG metrics have pointed to challenges in its climate transition policies, wealth inequality and aspects of the country's governance framework, with Poland's governance being identified as a particular area for improvement. These challenges have been linked to a continued decline of institutional quality under the Law and Justice party government since 2015 and, more recently, the tightening of political control over the judicial system alongside certain policy stances. Collectively, these issues prevented Poland from accessing approximately €35bn in grants and loans from the EU's Recovery and Resilience Funding mechanism.

The October parliamentary elections, however, brought change, with the liberal opposition winning a majority under Donald Tusk, former Prime Minister and European Council President. The three political groups forming the government have agreed a governing plan that aims to reform key institutions including the judiciary, reducing political influence and thereby potentially unlocking EU funds. In addition, the new government is set to accelerate Poland's climate transition, including through increased renewable generation, transmission connections and funding for energy efficiency.

Impact on portfolio positioning

Our EMD team maintained a short Polish zloty against the Hungarian forint and a neutral rates position, due to these governance issues and their implications.

However, ahead of the election, we changed our currency positioning to neutral, reflecting the upside scenario of a liberal opposition victory for Poland's ESG profile and fundamentals, despite our base case being a hung parliament. Upon the upside scenario materialising, this change adjustment protected fund performance, relative to the short positioning.

After upgrading our ESG and fundamental outlook, we began monitoring valuations as well as risks around the reform agenda, including from the Law and Justice party's remaining influence over political apparatus, with a view to increasing our conviction and identifying an entry point to express this positive view within the portfolio.

INTEGRATION CASE STUDY

8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
13 CLIMATE ACTION

Environmental concerns in New Zealand

G P E C

ESG investment thesis

New Zealand scores highly on our proprietary ESG score and is a leader among relevant peers, particularly on governance metrics. Our ESG and investment teams also jointly engaged constructively with the debt management office in late 2022 on its green bond framework.

Against a backdrop of high inflation in 2023, initial ESG analysis identified favourable social factors in New Zealand, including the loosening of immigration settings.

However, further qualitative ESG analysis in August flagged potential risks, notably those related to the upcoming election, with measures like cost-of-living support – spending programmes and tax reductions – becoming increasingly prominent.

From an environmental perspective, even modest plans to decarbonise key sectors such as agriculture faced strong and vocal opposition. This was concerning given New Zealand's emissions are set to significantly overshoot 2030 targets, with potentially costly implications for international offset purchases, while exposure to cyclones and flooding is set to increase.

Impact on portfolio positioning

Our sovereign fixed income strategy was overweight New Zealand for much of 2023 as the market persistently priced fewer cuts despite relatively swift pass-through from rate hikes to mortgages, reliable central bank signalling of the end of the hiking cycle, and supportive social factors. The team added to the overweight in July by participating in the NZGB 2033 bond tap and entering an equivalent underweight in US rates.

However, the identification of cost-of-living-related fiscal and inflation risks identified ahead of the election, alongside longer-term environmental concerns, supported a reduction in the overweight in August. The desk exited the cross-market trade, which positively contributed to strategy performance.

ESG integration in Private Markets

ESG integration in Private Markets

Our duty as long-term stewards of our clients' assets involves the responsible allocation and management of capital. We do this to create stable income and capital growth for clients. To create and protect value, we must balance the needs of clients with other stakeholders: customers, partners, communities and wider society. We do this by understanding material ESG factors and sustainability risks that can impact investment returns and by assessing investments for their potential to adversely impact stakeholders.

During due diligence, we undertake detailed technical analysis of every asset, activity or company we look to invest in. This is guided by our in-house screening and due diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in potentially adverse impacts on sustainability factors. The integration of ESG factors into our processes ensures sustainability risks are considered as part of investment decision making and form part of our wider responsibilities as an asset manager.

We consider three principal types of risk we consider:

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

In our active Private Markets equity asset classes of infrastructure equity, real estate equity and real estate long income, we obtain data from suppliers, which 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, we obtain data from intermediaries and borrowers. Where data concerning sustainability risks or PAIs is not immediately available from the asset or counterparty, we 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.

Our origination process is guided by our in-house screening and due diligence tool, which allows the originator to assess the asset or company's ESG factors that may result in sustainability risks or potentially adverse impacts. In real estate equity, we perform additional analysis to assess the asset and planned asset management strategy against our net-zero pathway. Where a potential investment is deemed high risk by our screening tool, the originator refers the investment details to the Private Markets ESG team to provide a more detailed opinion.

INTEGRATION CASE STUDY

Kristiansand School: Improving Energy efficiency

G P E C

ESG investment thesis

Buildings currently use 30 per cent of global energy produced each year and generate significant volumes of greenhouse gases – therefore buildings need to be more energy efficient to help the transition to a more sustainable world.[34] Tackling fuel poverty also remains a critical aspect, underscoring the urgency of fostering energy-efficient buildings to reduce energy consumption, lower energy bills and combat emissions.

Impact on portfolio positioning

In Kristiansand, Norway, we undertook substantial energy-saving projects for two key assets within one of our European strategies across the summers of 2022 and 2023. These projects, encompassing roof improvements, insulation, ventilation enhancements and comprehensive refurbishments, are anticipated to yield significant annual energy savings. We expect the first building to save over 280,000kWh per year, and anticipate annual savings of 103,000kWh on the second building through ventilation upgrades and 13,800 kWh from a roof refurbishment. Both assets achieved a notable improvement in EPC rating, moving from EPC F to C. This transformation has increased the share of energy efficient within a real estate strategy to 96 per cent of the fund's capital value, aligning with Aviva's commitment to reducing energy consumption and greenhouse gas emissions. The upgrades not only align with net-zero commitments but also generate cost savings for occupiers in response to the ongoing rise in energy costs across in Europe.

34. globalabc.org/sites/default/files/inline-files/2022%20Global%20Status%20Report%20for%20Buildings%20and%20Construction_4

INTEGRATION CASE STUDY

Ensuring well-being and sustainability in acquisitions

G P E C

ESG investment thesis

In the industrial sector, there are growing concerns among occupiers about issues concerning well-being and sustainability. Occupiers are favouring industrial spaces that align with their own sustainability and well-being requirements. This is influencing tenant satisfaction and prompting considerations for lease renewals, with a specific focus on sustainability.

Impact on portfolio positioning

Aviva Investors has acquired Leicester Distribution Park (LEDP), a newly-developed warehouse space of flexible distribution units. The eight-unit site has strong ESG criteria with all units designed with sustainability in mind, achieving a BREEAM "Very Good" rating and an EPC rating of A. All units have high sustainability credentials such as rainwater harvesting systems, solar photovoltaic (PV) panels on the roof, low-water-flow taps and LED lighting throughout. The asset is 88 per cent degasified, relying solely on air source heat pumps for heating and cooling. Our investment will seek to ensure occupiers have access to sustainable products that meet today's demands.

INTEGRATION CASE STUDY

Supporting renewables delivery in Europe

7 AFFORDABLE AND CLEAN ENERGY | 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION

G P E C

ESG investment thesis

In line with the EU ambition to become climate-neutral by 2050, and reduce the block's reliance on Russian fossil fuels, in March 2023 EU co-legislators agreed to increase the renewable energy target for 2030 to 42.5 per cent, with the aim of achieving 45 per cent. The updated policy framework for renewable energies for the 2030 and post-2030 period is still under discussion.[35] As part of its new target, the EU aims to increase its production of electricity from offshore renewable energy sources from 12GW in 2020 to over 60GW by 2030, and 300GW by 2050. The REPowerEU plan also introduced a strategy to double solar PV capacity to 320GW by 2025 and install 600GW by 2030.[36] These ambitions will require a big scale-up and acceleration of renewables delivery across the EU.

Impact on portfolio positioning

In the summer, we announced an agreement to acquire an initial 35 per cent shareholding in Innovo Renewables, an Italy-based company which develops, constructs and manages renewable energy projects across Italy, the UK and Spain. The agreement, which can be raised to 50 per cent within 24 months, will help Innovo Renewables scale up its business and increase the development of renewable energy projects across its primary markets. Innovo Renewables currently has a five-year pipeline of more than 2.8 GW in solar PV, onshore wind and battery storage projects across its core markets, with ambitions to expand into additional markets across Europe. The Innovo Renewables investment supports the delivery and scaling-up of renewable energy capacity in Europe and the transition away from fossil fuels, aligning to both Aviva's and the EU's climate and emissions targets.

35. Renewable energy – European Parliament
36. REPowerEU Plan – European Commission

INTEGRATION CASE STUDY

Addressing deforestation: Woodland restoration, creation & carbon capture

12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 13 CLIMATE ACTION | 15 LIFE ON LAND

G P E C

ESG investment thesis

Tree planting is an important component of the UK government's strategy for achieving net-zero and advancing environmental objectives for biodiversity and nature recovery. The UK government has set a nationwide target of creating 30,000 hectares of new woodland annually,[37] and the Scottish government has also set a target of 18,000 hectares in Scotland by 2024-25.[38] Woodlands, beyond their contribution to carbon sequestration, are essential in fostering biodiversity. They serve as vital habitats for a diverse range of plants and animals. Current tree planting rates are well below the target rates for the UK and all nations individually, with rates in the UK totalling less than half of the required number of hectares per year.[39] A substantial scale-up and acceleration of tree planting is needed to meet UK targets, ensuring the preservation of biodiversity and the fulfilment of environmental goals.

Impact on portfolio positioning

In 2023, we acquired Glen Forsa as part of a private markets strategy. Glen Forsa is a 1,580-hectare site located on the Isle of Mull in Scotland and is the strategy's second investment into forestry. We will complete a biodiverse planting of trees across the site. To ensure transparency and effectiveness, the carbon credits we generate will be verified by the Woodland Carbon Code. These credits will be key to offsetting future carbon emissions within the portfolio and delivering on Aviva's net-zero 2040 ambition. The expansion of our forestry investments will support both Scottish and UK forestry targets while demonstrating our commitment to climate change mitigation and biodiversity preservation. We are projected to sequester 28,000 tonnes of carbon by 2040, with 226,000 tonnes sequestered in total over the next 100 years. Biodiverse tree planting not only contributes to carbon sequestration but also enhances the ecological diversity and resilience of the site.

37. England tree strategy consultation – Department for Environment, Food and Rural Affairs
38. Protecting Scotland, renewing Scotland – Scottish Government
39. Woodland Statistics – Forest Research UK

INTEGRATION CASE STUDY

Low-carbon public transport: Financing the transition to electric buses

G P E C

ESG investment thesis

Zero-emission buses play a pivotal role in the transition to sustainable transport, aligning with the UK government's net-zero ambitions and target of 100 per cent zero-emission bus procurement by 2040.[40] However, although the adoption of zero-emission buses is gathering pace, there is still much to do. As of March 2023, only four per cent of the British bus fleet was battery-electric, with most buses in Britain (76 per cent) still running on diesel.[41]

Impact on portfolio positioning

In 2023, our infrastructure debt team provided a loan of £85 million to Zenobē Energy Ltd, a market leader in the provision of turnkey solutions for EV fleets. Our investment is rooted in the direct decarbonisation benefits and enabling infrastructure that Zenobē and its products and services can provide. As on every transaction, ESG due diligence was integrated into the investment process. We actively engaged with the borrower to get oversight of its supply chain for battery components. Zenobē's business enables the take-up of electrified transport options and will help the transition away from commercial ICE vehicles. This will have both environmental and social benefits due to improving air quality. This transaction highlights the significant market opportunities in emissions reductions within the transport sector and the progression towards wider accessibility of net-zero technology. Our investment in Zenobē will help accelerate the adoption of zero-emission buses, aligning to both Aviva's and the UK's emissions targets.

40. Memorandum of understanding on zero-emission medium- and heavy-duty vehicles – Global Drive to Net Zero
41. Annual bus statistics – Gov.UK

INTEGRATION CASE STUDY

Transition opportunities at UK ports

G P E C

ESG investment thesis

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.

Impact on portfolio positioning

In 2023, our private corporate debt team provided a £35 million 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.[42] Rather than offsetting its emissions, the operator aims to add more capacity to generate renewable energy at its locations and to prioritise the electrification of vehicles and portside 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.

42. Associated British Ports – Ready for Tomorrow

INTEGRATION CASE STUDY

Last mile infrastructure connections

G P E C

ESG investment thesis

Over the summer of 2023, our 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.

Impact on portfolio positioning

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 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.

INTEGRATION CASE STUDY

Sustainable office development: 10 Station Road and 30 Golden Square

G P E C

ESG investment thesis

The increase in demand for offices aligning with corporates' low-carbon goals and which meet employees' rising expectations has prompted a shift towards addressing ESG ambitions and enhancing welfare within office buildings. However, the current landscape reveals a shortage of sustainable offices, with research across 20 major global office markets indicating only 34 per cent of future demand for low-carbon workspaces will be satisfied in the coming years.[43]

Impact on portfolio positioning

10 Station Road, currently in development in Cambridge, is strategically positioned to address these concerns. Targeting a BREEAM "Outstanding" rating, the development employs a rigorous sustainability strategy, aiming for an EPC rating through detailed energy modelling to reduce energy demand. With a focus on fossil-free operations and onsite renewable energy the development aims to reduce CO_2 emissions by 37 per cent, above minimum industry standards.

The building will also be WELL Gold certified, with incorporated features to support the health and well-being of the tenants, as well as WIRED certified, to enhance connectivity of the systems and people. Being situated in Cambridge, with its highly developed cycling infrastructure, the building will provide 193 cycle spaces and comprehensive amenities, promoting health and well-being while reducing transport-related carbon emissions. Additionally, a biodiverse green and brown roof will promote biodiversity by providing habitats for a range of bats, birds, butterflies, moths and bees.

Aviva Investors is now incorporating a "soft-landing" approach across all developments, including 10 Station Road. This approach facilitates systematic learning for us and our delivery partners, ensuring the achievement of our ESG requirements at the operational stage.

10 Station Road is on track to be Cambridge's first NABERS-rated building. It has been awarded a Design for Performance rating of 4.5 stars, putting it among the most energy-efficient office buildings in the country.

Completed in December 2023, 30 Golden Square is a new refurbishment and extension of a six-storey building in Soho, providing additional office and flexible office/retail/leisure space. The development will be pursuing NABERS certification. The engagement with a NABERS consultant during commissioning and initial occupancy, and Aviva Investors' commitment to provide post-occupancy evaluation after one year in operation, ensures tenants receive the best value, in terms of energy efficiency and environmental comfort. The refurbishment has incorporated energy-demand reduction features including improving the thermal insulation and efficient building services. The building achieved an EPC rating and its operational emissions have been reduced by 60 tonnes of CO_2 annually, representing a 47 per cent decrease compared to the existing building.

Additionally, the inclusion of a green roof terrace fosters biodiversity and provides occupants with vital outdoor green space to improve mental and physical well-being. 30 Golden Square has achieved a BREEAM "Excellent" rating for the refurbishment works, with higher Energy credits, in line with a BREEAM "Outstanding" rating. The refurbishment meets the increasing demand for sustainable offices, evident in all floors being pre-let six months before completion and the building securing the second highest rental price in Soho. This displays the value of embedding environmental and well-being considerations into design practices.

43. The commercial case for making buildings more sustainable – JLL

3.3

INVESTMENT APPROACH

Monitoring managers and service providers

(Principle 8)

Monitoring managers and service providers

Proxy advisers

Aviva Investors subscribes to research from a number of third-party providers, but our main provider of proxy voting and governance research is now Glass Lewis. See Section on "Voting Decisions" for more details on how their service meets our needs. We changed research and voting provider from Institutional Shareholder Services (ISS) to Glass Lewis in October 2023.

ISS had been our main provider for a number of years and while we had no material concerns with the service provided, having monitored other providers during this time, we felt 2023 was the appropriate time to undertake a formal RFP process for proxy voting and research services. Following RFPs and meetings, we selected Glass Lewis as on balance we saw a number of benefits in moving provider and building a new relationship to help progress our ESG strategy.

Switching voting providers is labour intensive especially in our case given we are a global asset manager voting at 6,000 meetings a year. However, we had allowed time for that and effectively spent Q4 of 2023 ensuring that the transition went as smoothly as possible from both an operational and research perspective.

We have also taken the opportunity to explore with Glass Lewis potential updates to our voting policy based on emerging trends and additional data that is available.

Through regular meetings with Glass Lewis, we identified areas where our own voting policy can be strengthened, understood what our advisers are expecting with respect to broader trends and set in motion an approval process for modifying our custom voting policy ahead of the next voting season.

Where Glass Lewis is not able to meet our expectations (i.e. it is not capturing or analysing the data we require), we will work with other providers through our extensive network who are able to deliver what we need. For example, we use the data from another external third party for assessing the most influential companies driving tropical deforestation and vote against the worst performing companies on this issue.

We monitor Glass Lewis research on a constant basis. We raise these directly with Glass Lewis and make a record of errors enabling us to (1) review whether and the extent to which the issues have been addressed and (2) reflect on this log when conducting more formal reviews and which will be taken into consideration for annual reviews and contract negotiations.

Finally, we receive regular updates and keep under review any material changes in people, services or operations which occasionally will lead us to seek assurances there will be no impact on the level of service we receive.

Overall, we are satisfied with the service provided by Glass Lewis to date, including how it responds to the issues we raise. All of the aforementioned is taken into account when reviewing our existing contracts and considering alternative providers.

Monitoring managers and service providers *(cont'd)*

ESG data providers

We hold regular reviews with our largest third-party data provider to discuss any shortcomings around data or research outputs to drive continuous improvement.

Additionally, we hold ad-hoc meetings to discuss broader trends in ESG that may inform our internal research.

Our market data team is an independent function that manages commercial relationships and renewals with our market data service providers. This function operates an hourglass model that sits between the business and suppliers. There are controls and triggers to ensure contracts do not automatically roll over and that the service quality and accuracy of data coverage continue to meet the needs of the business.

Aviva Investors' data providers

Data vendors

Large-scale data providers with multiple datasets and deep coverage

FTSE Russell Green Revenue

MSCI

Trucost ESG Analysis S&P Global

FTSE Russell Beyond Ratings standards for positive finance

Data specialists

Innovative and niche providers with specific scope and high quality

BoardEx

MOODY'S

NGOs

Specialist analysis, often not for profit; detailed datasets with issuer scope aligned to purpose

CDP

Non-government organisations

Monitoring managers and service providers *(cont'd)*

Since resourcing our ESG Quantitative development function in 2022, our roll-out of bespoke ESG analytics tools for internal and external reporting purposes has evolved. The function has been responsible for several models and analytical dashboards, using the latest data science techniques to derive greater value from vendors, NGOs and proprietary sourced datasets. Dashboards provide transparency into the construction of output and integration into our portfolio management tool, allowing analysts and fund managers to act accurately on insights. We continue to invest into new data sources with biodiversity a particular focus while we begin to define the art of the possible, with partners offering solutions based upon natural language processing (AI) and other non-traditional approaches.

During 2023, we implemented the latest version of our proprietary ESG Risk and Sustainability Scoring model. Named “Elements 2.0”, this has now completely replaced the decommissioned Elements 1.0. It uses the highest-quality externally-derived metrics with enhancement and overlay from internal data sources. This is a framework that brings together knowledge and expertise within Public Markets to provide a transparent score to inform investment decisions. Scores provide a high-level indicator of how a company performs across ESG issues.

We will continue this work in 2024, creating additional models leveraging our technical and domain expertise for investment integration. We also seek to further ratify the quality and accuracy of sourced data while engaging with innovative vendors to develop new and quality insights.

Monitoring service providers

Manager research

Our manager research team considers ESG factors in all aspects of its due diligence, investment analysis and decision-making. While ESG analysis at the fund selection stage is key, ongoing in-depth monitoring of ESG practices is essential to judge adherence.

Our established research framework looks at the following areas: parent, product, people, philosophy, process, positioning and performance. We examine ESG integration through the lens of each, as demonstrated in the table below. In judging ESG integration, we seek qualitative and quantitative evidence of ESG application and consider ESG approaches relative to the manager's promised approach, sector and peer best practice and industry trends.

We continue to build on our baseline ESG framework, designed to hold external managers accountable to an increasingly high standard of ESG integration. This still allows for flexibility while ensuring ESG materiality is well incorporated throughout the manager's processes. In 2023, our focus was ensuring ESG commitment given regulatory shifts, geopolitics and market challenges for the sustainable opportunity set. This has set the scene for our biennial ESG asset management survey as we assess any impact on longer-term industry practices.

We use active and regular dialogue with managers to provide robust challenge to approaches and assumptions and encourage enhancements and increased disclosure.

Should an external strategy fall short of our expectations around ESG integration, we would first look to engage. Should that fail, we would look to exit that position and replace it with a manager with an ESG approach that meets/exceeds our baseline ESG requirements.

Parent	We review and assess the firm-wide commitment to ESG and relevant cross-organisation policies and procedures.
Product	We identify and interpret specific ESG product objectives and/or constraints.
People	We assess the quality and structure of human capital devoted to ESG integration.
Philosophy	We gauge the manager's view as to the impact of ESG integration (e.g., to alpha generation and/or risk management).
Process	We seek to understand how ESG is integrated into investment decisions. This may include research, model development, portfolio construction and risk management.
Positioning	By analysing portfolio composition, we seek to ensure alignment with the expectations around ESG integration. If applicable, we may examine engagement activity and voting history.
Performance	We assess how ESG integration has contributed to fund performance.

4

Holistic stewardship

4.1

ENGAGEMENT

Approach to engagement

Approach to engagement

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. We are active owners and lenders, using our voice to drive change among the issuers in which we invest and to which we lend money.

While corporate engagement is crucial for driving value-enhancing change in companies, the scale of change can be limited due to the continuation of market failures rewarding unsustainable behaviours. Given that only governments can enact the policy interventions needed to correct market failures, we engage with policy makers and standard setters through our macro stewardship to advocate for the adoption of necessary policy interventions.

This is why our stewardship approach is coordinated across six different levels of influence (see Figure 6) – different parts of the system in which we have the agency, expertise and opportunity to engage and bring about change.

Working in this way gives us insights into the market failures that need to be addressed and the leverage points that can yield results. For example, our cross-sector engagement as part of CEEP, which focuses on large carbon emitters and industries that are the biggest consumers of energy, allows us to identify barriers to action, even for those companies trying to drive change. They might include challenges in the availability of renewable energy infrastructure; technological impediments; and competition from state-owned enterprises (which may have different incentives from private firms).

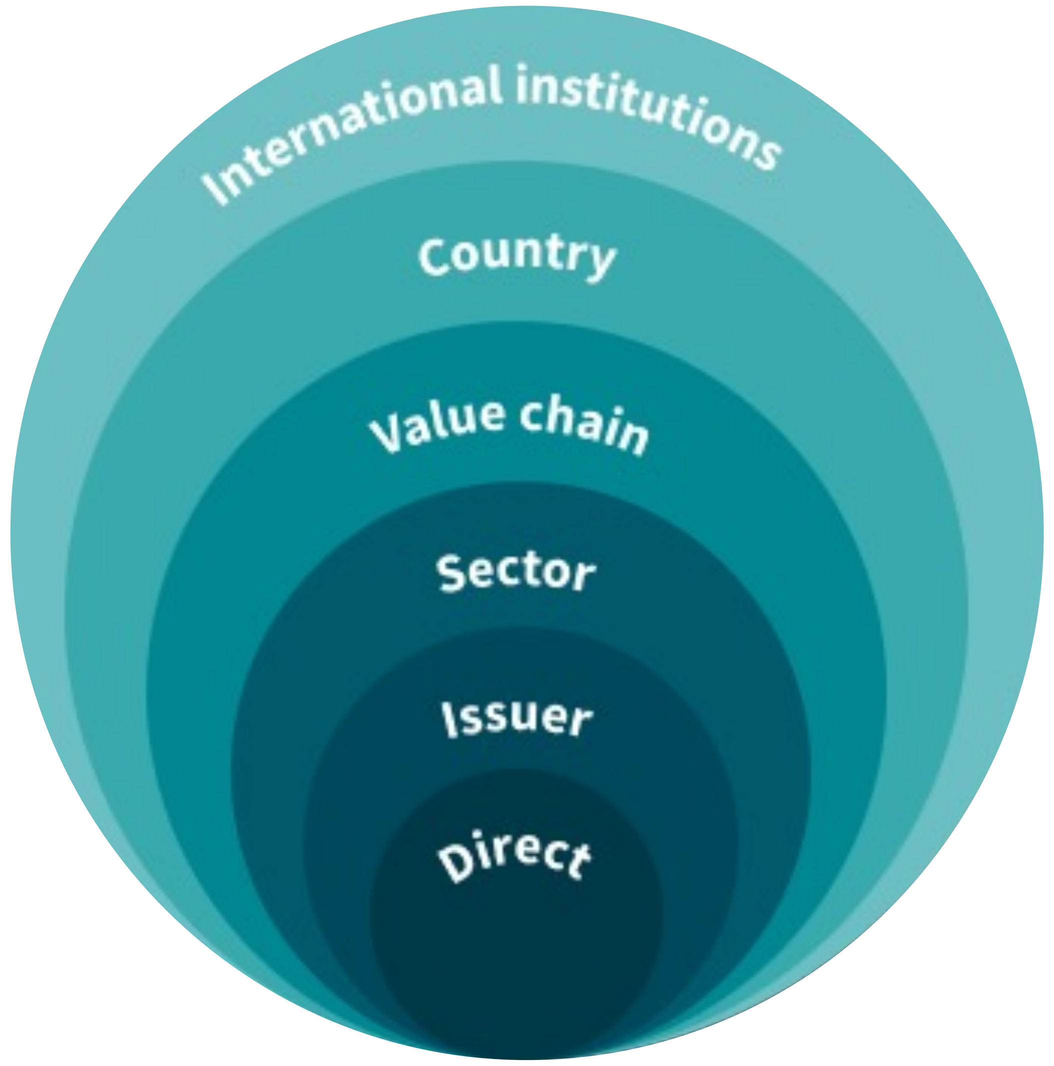
We feed this information up the chain to inform our advocacy with other investors, regulators and policymakers to help find solutions. At the same time, our macro stewardship work gives us a top-down sense of how policy and regulation are progressing across sectors, which enriches our engagement with companies and allows our investment teams to position portfolios to ensure they are on the right side of the changes transforming industries. This, in turn, helps us to protect clients' capital and ultimately drive the creation of long-term value. We call this holistic stewardship.

Direct – This is largely conducted through our Private Markets business, where we define engagement as structured interactions on environmental and social issues with customers, including borrowers and occupiers, suppliers and the communities we operate in. This can be carried out through the transaction process or ongoing asset management. In private debt asset classes, we actively engage in transactions by creating covenants and incentives that mandate or encourage positive environmental and social outcomes. In our equity investments, where we own assets directly, we focus asset management resources on engaging with occupiers and suppliers to reduce building energy use, and engaging with communities through funding programmes to create positive social outcomes.

Approach to engagement *(cont'd)*

Issuer – This refers to the ongoing management of our investments. Within our Private Markets business, we collaborate with the tenants in our buildings to help them conduct their business more sustainably. Within public asset classes, we engage in persistent and constructive dialogue with companies in line with our sustainability agenda and to help inform investment decisions. We also use our voting capabilities to aid with this.

Figure 6. **Levels of influence**



Sector – This refers to engagement with multiple companies within an industry to address structural problems that discrete engagements with companies will not remedy.

Value chain – Similar to sector-level engagement, this refers to collaboration across industries to address structural challenges. To help deliver maximum impact in reducing greenhouse gas emissions, collaboration across the system is required – across sectors, with other sectors and with governments to synchronise efforts, share insights and optimise the value chain.

Country – Through our investments in sovereign bonds, we are well positioned to engage with governments on our stewardship priorities as well as engage on ESG policies.

International institutions – Our macro stewardship work represents a natural progression from our direct and micro levels of stewardship. In the presence of market failures, such as unpriced externalities, investor engagement with individual issuers and even entire sectors and value chains, can only achieve so much. This is because the operation of the market, uncorrected by regulatory or policy intervention, rewards unsustainable practices while failing to sufficiently incentivise sustainable ones.

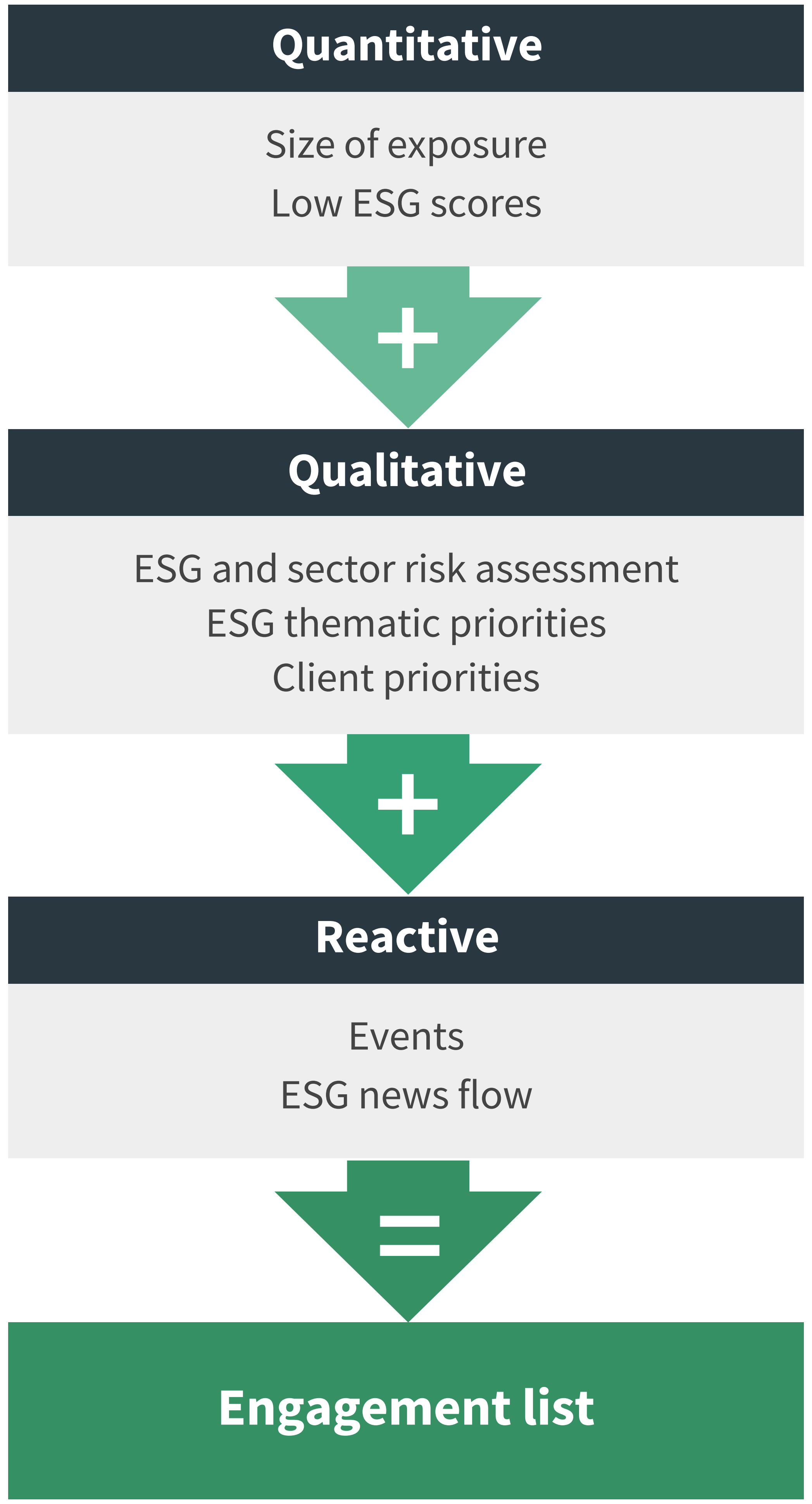
Therefore, as part of our macro stewardship engagement programmes, we work to identify potential market-wide and systemic risks and work with those who are empowered to make the changes necessary to rectify market failures, such as policymakers and regulators, to help identify and establish corrective regulatory and policy interventions.

Identifying opportunities

Effective engagement is resource intensive, so prioritisation is key.

We draw up annual engagement plans and review them quarterly. The plans bring together quantitative and qualitative data, including proprietary ESG scores and internal sector and thematic research, to highlight emerging issues that need to be captured and prioritised.

This exercise also evaluates exposure across asset classes to prioritise corporate issuers and sovereigns and overlay considerations such as the size or value of holdings, recent developments, existing relationships, and where it is most likely to benefit clients.



Monitoring progress

To ensure effective monitoring, we record our stewardship activities in an in-house database. We define expected timeframes for milestones and goals, track progress against these and revise goals if necessary.

Where we have made specific change requests, we review progress against all engagement asks a year after they have been made, and subsequently on an ongoing basis, recognising key strategic changes take time to be implemented into a company's business process.

These success factors may be subjective, and our influence may not have been the sole driver of change. Nonetheless, it is important to track companies' progress and measure the outcomes of our engagement.

Engagement outcomes

In 2023, we undertook 1,694 substantive engagements with 996 entities. The chart to the right demonstrates the global outreach of our engagement.

In **2023**, we achieved **281** engagement "wins", where we saw changes in entity behaviours in line with a prior engagement ask.

154 of these successful outcomes were "material"; changes deemed meaningful in terms of financial materiality and social and environmental impact and outcomes.

At the start of **2023**, our CEO set our annual stewardship priorities for the year to more than 1,600 companies across 29 countries with a concerted focus on climate change and nature-related disclosures, and encouraging a living wage being paid.

Engagements by region

Regional Breakdown	
Africa	1.4%
Asia	37.5%
Australasia	3.5%
Europe (ex UK)	16.5%
North America	24.8%
South America	4.2%
UK	12.0%

4.2

ENGAGEMENT

Earth

(Principles 4, 9, 10, 11)

Earth

In 2023, our Earth-related engagement priorities included seeking biodiversity strategies, risk assessments and disclosures from companies. We acknowledged the magnitude of these challenges and evaluated companies on the strength of their commitments and ability to demonstrate progress over time. We had a strong focus on improving water quality in the UK through engaging with the government and water-related companies, as well as other companies that use water in their value chains. The circular economy – and engaging with companies to improve circular practices – was also an important objective.

We also engaged on other crucial topics related to supporting and protecting nature, such as persistent chemicals, pollinators, and the role of public policy in growing the pipeline of natural capital projects.

Public policy is a key driver behind our work on nature and finance. Over half the world's GDP is dependent on nature[44] yet most financial activities, public and private, occur with little or no consideration of the impact they are having on the natural world. Not only is this causing significant harm to our biodiversity, it is also failing to consider the very real and significant risks to our assets that biodiversity loss poses. The private financial sector is the lynchpin in funding this activity and is in turn exposed to the risks, as are our customers. As a result, we have a critical role to play in halting and reversing biodiversity loss through changing our practices.

The need to bring nature into financial decision making is now more widely acknowledged. There is momentum building thanks to industry initiatives, alliances and some firms developing the practices and shifts in mindsets that will make this a reality across the sector. We need to build on this work together if we are going to stop the harm that is being done to biodiversity through the activities financed and supported by private financial activities and to increase the financing and financial service provision to those parts of the economy that are actively beneficial for biodiversity.

44. Half of world's GDP moderately or highly dependent on nature – World Economic Forum

EARTH CASE STUDY

Reducing the environmental impact of soy production (Level 2)

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 tenfold 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 has engaged with Cargill on multiple occasions throughout 2023 as part of the Finance Sector Deforestation Action (FSDA) Group. Following sharing our Investor Expectations with the company, we engaged at an ESG roadshow where we shared best practice on water and deforestation risks, as well as signalling we wanted further engagement under the FSDA. Consequently, we 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

We 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. We will continue to engage with the company on its new commitment and how this aligns with our Investor Expectations as part of FSDA.

EARTH CASE STUDY

Mitigating exposure to "forever chemicals" across industries (Level 4)

G P E C

Issue

From cooking equipment to fire repellents, from clothing to electronics, and from furniture to food packaging – PFAS chemicals are components of products that are part of our everyday lives. However, it is estimated that 17,000 sites in Europe are contaminated with PFAS and that 70 per cent of persistent chemicals or PFAS are hazardous to people and the environment, as they contaminate water sources and do not naturally break down, hence their nickname: "forever chemicals". ChemSec has estimated the global annual social cost of PFAS is €16 trillion.[45] As understandings of these problems become mainstream, companies that rely on PFAS heavily will likely face material regulatory and reputational risks.

Action

Aviva Investors played a leading role in a multi-year collaborative engagement - the Investor Initiative on Hazardous Chemicals (IIHC). In September 2022, we mobilised a group of 47 investors with combined AUM of $8 trillion to target 54 manufacturers of hazardous chemicals to ask for greater transparency and phase out. During 2023, we subsequently held engagement calls with five companies and fellow investors to discuss these asks.

For the third time, in November 2023, we chaired a group of 54 investors with combined AUM of $10 trillion to write to 50 chemical manufacturers asking them to:

- increase transparency by publishing the names and volumes of hazardous chemicals manufactured globally
- publish a time-bound phase-out plan of persistent chemicals from production
- develop safer alternatives for hazardous chemicals

We co-led engagements with BASF and Dow this year.

Outcome

IIHC members stepped up their engagement in 2023, holding meetings with 16 companies. There has been notable progress. In December 2022, 3M announced that it will exit its PFAS manufacturing and work to discontinue the use of PFAS across its product portfolio by the end of 2025. Also in 2023, we saw efforts by SABIC, Arkema, and Braskem to improve their disclosure on the hazardous chemicals they produce, mirroring steps taken last year by Eastman Chemical and Lanxess. Yara, AkzoNobel, Braskem and Indorama have made strides with their circular economy strategies or targets. Companies including SABIC, Shin-Etsu Chemical and Wanhua Chemical made significant improvements to their score in the ChemScore ranking. However, further progress is required.

45. https://chemsec.org/chemsec-identifies-the-top-12-pfas-producers-in-the-world-and-reveals-shocking-societal-costs/#:~:text=By%20combining%20a%20range%20of%20studies%20and%20expert,global%20societal%20costs%20are%20%E2%82%AC16%20trillion%20per%20year

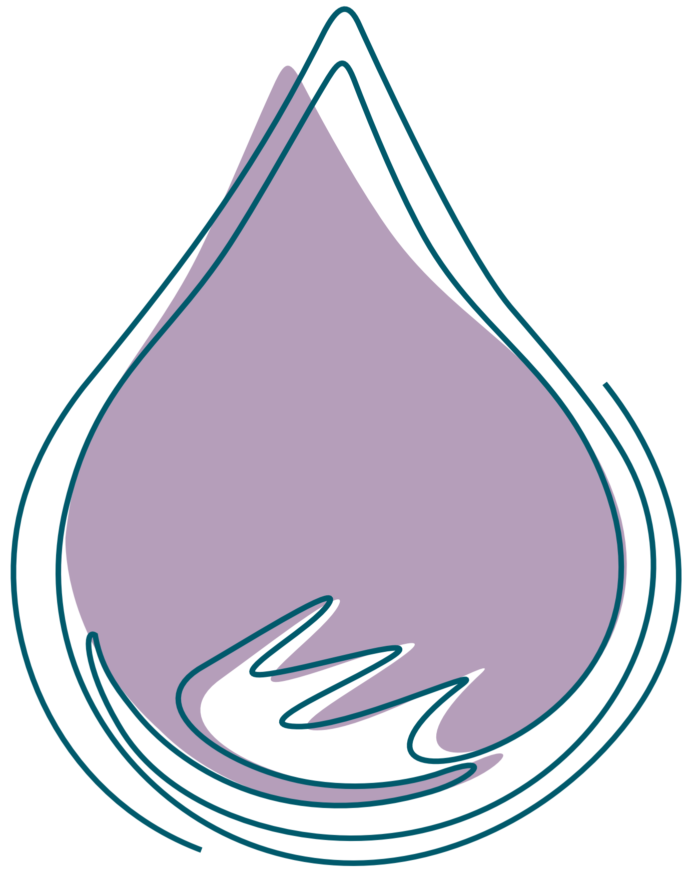
EARTH CASE STUDY

Engaging with water companies to improve the health of British rivers (Levels 2, 3 and 5)

G P E C

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 unpermitted 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, we 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' licence 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. We 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. We also flagged these concerns in our 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, we also raised the issue and our expectations with DEFRA, The Environment Agency and Ofwat.

Outcome

Pleasingly, Severn Trent launched its "Get River Positive" pledges, 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. We commend the fact Severn Trent now attributes eight per cent 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 per cent. Overall we are pleased with the progress Severn Trent are making relative to its peer group.

In addition, we were pleased to note that in DEFRA's response to the submission, it has modified the plan and incorporated one of our 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 CASE STUDY

Encouraging a more circular plastics economy (Levels 2, and 4)

G P E C

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 per cent 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 and progress to achieve high rates of recycled content.

Action

We 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 while implementing reuse systems for packaging, phasing out hazardous chemicals in plastics and advocating for policies supporting these actions.

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

Outcome

While there is further work to be done, we 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 per cent 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 us assess recycled content in its packaging. While more progress is needed on packaging performance and reporting, we 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 per cent or more. We will continue to call for a further breakdown of data on materials used and its sustainability attributions, as well as refillable packaging initiatives.

EARTH CASE STUDY

Advocating for greater biodiversity reform (Level 6)

Issue

Biodiversity supports all life systems and economies; over half of global GDP is moderately or highly dependent on nature. However, biodiversity is declining faster than at any time in human history, as global wildlife populations have plummeted 69 per cent on average since 1970. Urgent intervention is required from governments, as further delays to action will double the cost from around eight per cent to 17 per cent of global GDP. The Kunming-Montreal Global Biodiversity Framework, agreed in December 2022, went a long way to kickstart the action needed. It included targets to end the loss of areas of high biodiversity importance, to conserve and restore 30 per cent of land and marine areas by 2030, and to align financial flows with the goals and targets of the framework. With such commitments comes the opportunity and responsibility to engage with policymakers and regulators to ensure the implementation of the targets into national policy frameworks, which will create the enabling environment needed to align finance with the protection and restoration of nature.

Action

Throughout 2023, we engaged with international and domestic policymakers to strengthen the implementation of the Kunming-Montreal targets and goals and enhance corporate disclosures on biodiversity to improve the accessibility and quality of data available to investors, thereby helping to unlock finance for the achievement of global nature goals. Mark Versey, the CEO of Aviva Investors, wrote in February to the finance ministers and central banks of 49 countries to highlight our sustainability priorities, including the importance we put on actions to reverse nature loss. Of the three years we have sent the sovereign letters, 2023 saw the most responses. We also fed into specific policy processes, including the Environmental Audit Committee's call for evidence on the current and future role of natural capital in the green economy and on methods to attract private investment in nature recovery. In our response, we emphasised the importance of stopping existing financial flows from harming nature and exploring the role of sector-specific policy to reduce nature-harming finance, as well as the role of public funding and bodies to make natural capital projects easier to invest in, such as through the pooling of projects by the UK Infrastructure Bank.

Outcome

Our macro stewardship work and engagement on biodiversity, nature loss, water and natural capital during 2023 strengthened the investor voice on these important topics in international and national forums. We look forward to continuing our Earth-related advocacy in 2024, with a particular focus on the continued implementation of the Global Biodiversity Framework ahead of COP16 later in the year.

4.3

ENGAGEMENT

Climate

AVIVA INVESTORS

Climate

Aviva's climate ambitions[46] form the foundation of Aviva Investors' climate commitments, including targets Aviva has set as part of the SBTi and the Net Zero Asset Owners Alliance (NZAOA). To make progress on these ambitions, there needs to be progress both from the bottom up – from our investee and supply-chain companies to reduce their own emissions – and from the top down – through government policy interventions on a sector-by-sector basis – to ensure investment in the net-zero transition happens at the pace and scale required.

On a corporate level, our expectations focused on companies developing and publishing robust and financially viable climate transition plans that will support the decarbonisation of economies in a socially just and inclusive manner. We also expanded existing supply chain engagement to include the demand side, and therefore now have greater expectations on companies engaging with entire value chains.

Our macro stewardship work has focused on integrating investment insights into our policy recommendations and providing policy insights to our investment desks. We also extensively engaged at COP28 with key policymakers and negotiators during the conference to advocate for the consideration of meaningful financial system reform, including within the outcome text.

46. To achieve this Aviva aims to become a net zero company by 2040, achieve a 60 per cent reduction in carbon intensity of assets and have net zero operations and supply chain by 2030.

CLIMATE CASE STUDY

Supporting EV charging in Ireland and Northern Ireland (Level 1)

G P E C

Issue

EVs are core to the electrification of transport and the achievement of the UK's net-zero ambitions, and the government's commitment to banning the sale of new petrol and diesel cars from 2035. Yet although the use of EVs and the roll-out of public charging infrastructure is gathering pace, the number of public car chargers across the UK is just over 53,000 as at November 2023, versus over 680,000 chargers that are installed at private homes (on driveways) or at workplace locations.[47] Ireland, meanwhile, has one of the lowest public-charger-to-EV ratios in the EU.[48]

Action

In 2023, our infrastructure equity team made Aviva Investors' second significant investment into both the UK and Ireland's EV charging infrastructure when it completed a €30 million investment into Erapid Charger Company Limited (Erapid).

The Private Markets team worked with the origination team to build sustainability-related requirements into the 100-day plan for the company. This plan prioritised the appointment of a named individual to be responsible for the company's sustainability strategy and initiatives.

During the asset-onboarding process, a workshop was held to engage the Project Erapid team with the knowledge and understanding of Aviva Investors' ESG reporting requirements. Led by members of our ESG team and third-party emissions specialists, the workshop included a thorough walkthrough of reporting templates, metrics we report against annually, and discussions on improving performance against Aviva Investors' ESG emissions targets. The workshop not only enhanced skills but also fostered transparent communication, providing stakeholders with better insight into their contributions to Aviva Investors' net-zero journey and consideration for improving emissions performance and data management.

The investment was made by Aviva Investors as part of its Climate Transition Private Markets strategy and follows the team's investment in Connected Kerb in 2022.

Outcome

With the support of our third-party reporting team, Erapid will participate in annual data sharing with an informed understanding of how the data is used and how the company can benefit. This transaction demonstrates our commitment to contributing to emissions reductions in the transport sector and to making net-zero technology more accessible. Our investment in Erapid will support the rollout of over 3,000 fast chargers across Ireland and Northern Ireland.

47. EV charging statistics 2024 – Zap Map
48. EV charging infrastructure strategy – Ireland Department of Transport

CLIMATE CASE STUDY

Bringing multiple debt tranches together under a sustainability-linked loan (RED) (Level 1)

G P E C

Issue

Aviva Investors established its lending relationship with Urban Logistics REIT plc (Urban Logistics) in March 2021, and over this period until mid-2023 our real estate debt (RED) team provided four tranches of financing to the company. One of these tranches, agreed upon in 2022, was not sustainability linked. This limited our ability to influence the sustainability of these assets, as we did with the previous loans. In the summer of 2023, Urban Logistics once again approached our RED team for another financing tranche. The ongoing sustainable transition loans with Urban Logistics included improvements to EPC ratings, EPRA ratings and Global Real Estate Sustainability Benchmark (GRESB) assessments. However, if we applied the same KPIs to the new loans, they might not have been as ambitious in 2023 as they were when the other loans completed in 2021.

Action

The RED team engaged with Urban Logistics to offer it the option of a sustainable transition loan, (STL). Launched in 2020, our STL framework embeds measurable ESG commitments into loan terms for real estate borrowers to adhere to, in order to reduce carbon emissions from buildings loaned against. Following the RED team's engagement, Urban Logistics committed to undertake sustainability improvements across the 10 assets being loaned against under the new financing tranche. Additionally, the company extended this commitment to include improvements to 23 additional properties from previous tranches of financing that were not sustainability linked. New KPIs were established for both the new tranche and the entirety of Urban Logistics' portfolio outside of the current sustainable transition agreement.

Outcome

Integrating our STL framework into this deal supports our long-term objective to lower carbon emissions across our portfolio. The entire financing portfolio is now aligned with Aviva Investors' STL framework, as well as Urban Logistics' own ESG target. Our sustainable transition loans now stand at £1.21bn, surpassing the 2025 target by 21 per cent.

More detail on the STL framework is available on our website: Sustainable Transition Loans – Aviva Investors.

CLIMATE CASE STUDY

Bolstering borrower ESG reporting requirements (RELI) (Level 1)

G P E C

Issue

The 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 net-zero-by-2040 ambitions 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 to 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

Due to the identification of poor-quality environmental due diligence from the borrower during ESG analysis, 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.

CLIMATE CASE STUDY

Improving targets and disclosure in retail and chemicals (Level 2)

13 CLIMATE ACTION

G P E C

Issue

According to the World Meteorological Organisation, global temperatures have almost a two-in-three chance of reaching 1.5 degrees Celsius above pre-industrial levels at least once between 2023 and 2027,[49] and hence the fight against climate change is an urgent global issue. Setting climate-related targets helps flag companies that are willing and can therefore benefit from the transition. It also allows a benchmark against which to measure progress as well as identify areas where further action is required.

Action

Aviva Investors has a long history of engaging with Tesco that extends back decades. We met recently with the board chair and other senior stakeholders to encourage the company to articulate its transition strategy more clearly and set more ambitious emissions reduction targets. In particular, we encouraged the development and formal validation of SBTs in line with the SBTi on all three scopes – with an emphasis on the firm's agricultural value chain. This is crucial as more than 90 per cent of Tesco's emissions footprint originates in its value chain.

We have also been engaging with holdings in the chemicals sector for several years to invest in addressing their climate impact and mitigate transition risk – both bilaterally and through our support for the ShareAction Chemical Decarbonisation Working Group's engagement with 13 European chemical companies. To provide reassurance, we are looking for companies to set ambitious comprehensive, science-based Scope 3 targets and produce credible, detailed transition plans – setting out the technologies they will explore, how and where investment will happen, the short-term capex they will need, and the scope of their potential longer-term investment programmes.

Outcome

Tesco has made laudable progress in enhancing its climate strategy. As part of a recent series of climate-focused commitments, it has now become one of the first companies globally in the consumer sector to set validated SBTs on all categories of GHG emissions, including Scope 3 emissions which originate from forests, land and agriculture (FLAG). It also rolled out sustainable agriculture innovations such as low-carbon fertilisers among key vegetable suppliers, and a requirement for suppliers to commit to a net-zero ambition by the end of 2023.

With regards to engagement with chemical companies, some European firms have evidenced measurable improvements, particularly in the realm of Scope 3 target setting. For example, we view BASF's recent commitment to set a Scope 3 target covering category 1 emissions (from purchased goods and services), along with its progress measuring the product carbon footprints for its feedstocks, as important, sector-leading steps forward.

Other companies, however, have shown less movement on comprehensive Scope 3 target setting and we will focus on this in 2024 through continual review and engagement. We view the reduction of emissions from purchased goods and services as critical to aligning corporate operations with the Paris Agreement. Without agreed KPIs, companies lack structural incentives to reduce reliance on fossil fuels. We appreciate the challenges associated with adopting long-term SBTi that companies face, and hence we engage with regulators to reduce the number of dependencies on these targets.

49. New global temperature records on the horizon – Met Office

CLIMATE CASE STUDY

Climate and the banking sector (Level 2)

13 CLIMATE ACTION

G P E C

Issue

The climate crisis has become the defining challenge of the century. According to data from S&P Global Sustainable, 90 per cent of the world's largest companies have at least one asset exposed to climate risk. Within this, over a third of the companies exposed can expect the value of their assets to drop by at least 20 per cent. The banking sector is not immune to the risk and must take urgent action to protect itself and the planet.

Action

We engaged with Barclays on this issue throughout 2022 and into 2023. As a result, Barclays reached out to us following publication of its 2022 full-year results. Our ESG analysts spoke to the Barclays' Head of Sustainable Finance, Group Head of Sustainability and Head of ESG IR. Here, topics of discussion included progression made on climate, governance structures and sustainable finance.

Outcome

Overall, we believe Barclays is making progress with its wider ESG strategy. In terms of sustainable finance, we found the company is focused on sustainable M&A and is looking to focus equity raises in industries such as carbon capture, hydrogen and green ammonia. Compared to its European peers, it has strong climate reporting practices and has continued to develop disclosures and policies in alignment with our expectations. Most notably, it has committed to stop financing all oil tar sands companies as well as new oil sands pipelines which were commitments in line with key asks of ours. We therefore continue to have a positive view on the company and hold it in some strategies.

CLIMATE CASE STUDY

Assessing sovereign issuers sustainability bond frameworks (Level 5)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE · 11 SUSTAINABLE CITIES AND COMMUNITIES · 13 CLIMATE ACTION · 15 LIFE ON LAND · 17 PARTNERSHIPS FOR THE GOALS

G P E C

Issue

Throughout 2023, numerous sovereigns sought investor feedback on their ESG-themed bond frameworks, despite economic headwinds that deterred some from issuing. This presented a valuable opportunity for us to engage on sustainability topics, promote best practice and inform our investment decisions.

Action

We met representatives from emerging and developed market countries to discuss ESG-themed bonds, including Romania, Chile, Uruguay and Colombia. We used our internal checklist of best practice to evaluate the credibility and additionality of the proposed frameworks. A notable example was our discussions with the Brazilian government on its sustainable bond framework.

During a non-deal roadshow, our ESG analyst met with officials from the Finance Ministry, where we discussed how sustainable bond issuance could support the implementation of its sustainability agenda.

This engagement also provided an opportunity to discuss topics related to the government's overall sustainability profile and our annual sovereign engagement priorities. Here, we spoke on the Finance Ministry's strategies for dealing with issues such as illegal deforestation and incoming carbon tariffs. We also questioned whether it would be joining the Coalition of Finance Ministers for Climate Action (CFMCA).

Outcome

We were pleased that Brazil announced it would be joining the CFMCA by the end of 2023. Overall, by engaging constructively, we supported issuers in shaping best practice across framework design and prioritisation of bond proceeds.

Our engagements also gave us a better understanding of specific ESG-themed bonds and the material aspects of their issuers' sustainability profiles, adding conviction to investment decision making. Over the year, regarding sovereign bonds, we increased our exposure to ESG-themed bonds, and are in a strong position to assess issuance in 2024.

CLIMATE CASE STUDY

Provincial Engagement in Canada (sub-sovereigns) (Level 5)

G P E C

13 CLIMATE ACTION
17 PARTNERSHIPS FOR THE GOALS

Issue

Climate engagement with policymakers is a key tool for responsible investors seeking to gather information, manage risks and encourage decarbonisation. In some countries, like Canada, key policy levers are held at the sub-national level and climate risks and opportunities can differ markedly across municipalities, provinces and territories.

These climate-related factors can influence returns on our investments in sub-sovereign debt and companies operating within those jurisdictions, and affect systemic, portfolio-wide risk.

Action

In 2023, our ESG and Canadian fixed-income teams collaborated to develop priority provincial climate engagement topics that could enhance client outcomes, including provincial emissions reduction targets and pathways, climate disclosures, and adaptation policies.

Our ESG and investment teams then hosted introductory calls with policymakers in four key provinces where we discussed our priorities and made the case for ambitious action. Each call was constructive, enabling us to build relationships, form views on contrasting exposures, capabilities and trajectories, and highlight national and international best practice – for example, on the mutual benefits of whole-of-government climate disclosure.

Outcome

While this initial round of engagements was just the start of what we hope will be long-term relationships, our ESG and investment teams gained clear insight on the relative performance of provinces, adding conviction to our view on the relative climate leaders and laggards and associated portfolio positioning. We also used our voice to support measures that could help improve investor access to climate-related information, mitigate associated risks and meet client objectives where we are already invested.

These engagements also contributed to a better understanding of climate-related risks for the Canadian sovereign while complementing our 2023 engagements with the Department of Finance Canada and Bank of Canada.

CLIMATE CASE STUDY

Integration of net-zero policy into the investment process (Level 6)

G P E C

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

Issue

As part of our drive to support the UK's successful transition to net-zero, Aviva was one of the first major financial institutions to set itself an ambitious target to become net-zero across our operations, supply chains and investment portfolios by 2040. We already invest significantly in the transition to net-zero, including a £400 million investment in the world's largest offshore wind farm at Hornsea One in 2018. We also surpassed our target to invest £1 billion in climate-transition-focused real estate loans three years early in 2022. But we know private investment in the transition to net-zero needs to significantly grow in order to hit our own and the wider UK's net-zero targets. The UK government estimates that an extra £50-60 billion of capital investment will be required each year from the late 2020s,[50] which cannot be met by public finance alone.

Action

In 2023, we created a new Head of Climate Policy role in the Sustainable Finance Centre for Excellence to develop our public policy positions across key sectors of the economy to accelerate the transition to net-zero emissions and build capacity across our investment, ESG and distribution teams through policy insights.

Our external work in 2023 aimed to drive public policy change that will unlock low carbon investment across all sectors of the economy, thereby facilitating Aviva Investors' gathering of green assets as well as supporting the UK's and other countries' transitions to net-zero emissions. We attended the Conservative, Labour, and Liberal Democrat party conferences to emphasise the need for public policy interventions and targeted public funding to de-risk and attract private investment into low carbon projects, infrastructure, and businesses at scale across the UK economy.

Simultaneously, we have worked to ensure that our thinking informs investment decision-making by sharing regular net-zero-related insights in investment forums and that our public policy positions are informed by investment colleagues through our upcoming report, *Boosting Low Carbon Investment in the UK: A Policy Roadmap*.

Outcome

The forthcoming report, which sets out our perspective on key solutions to unlock private investment in low-carbon infrastructure and businesses across eight major sectors of the UK economy, was developed throughout 2023 with investment colleagues and sector experts from across the business and will be published in 2024.

This work has resulted in deeper integration between investment teams and the Sustainable Finance Centre for Excellence. The contribution of public policy insights into investment forums will continue to strengthen the quality of information taken into account when investment decisions are made.

50. Green Finance Strategy – HM Government, Match 2023

4.4

ENGAGEMENT

People

AVIVA INVESTORS

People

This year, given current macroeconomic conditions, a key priority for us was ensuring adequate measures were in place during the cost-of-living crisis. As a result, our expectations have focused on encouraging collective bargaining and living wages. Human rights due diligence has been a big focus, both within the Social Transition Engagement Programme and our macro stewardship engagement, to help make it easier for investors to fully understand the risks and procedures that exist in companies in which they want to invest.

We also wanted 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 with some of the largest housing providers. We have also engaged to put the use and production of antibiotics on a sustainable footing.

PEOPLE CASE STUDY

Education and skills outreach at Curtain House (Level 1)

G P E C

Issue

We are developing Curtain House, a Grade-II listed building located on Curtain Road in Hoxton. 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, we undertook efforts to align with our social value benchmarks. We 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

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 us. This initiative signifies our commitment to delivering social value in communities where we invest and supporting social mobility.

PEOPLE CASE STUDY

Supply-chain engagement in the London Development Cluster (Level 4)

G P E C

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 we can help correct by encouraging our supply chain to maximise its provision of education and training opportunities locally on Aviva Investors' live projects.

Action

In line with our commitment to fostering positive outcomes for the communities where we invest, we have defined a comprehensive set of social value outcomes tailored to project construction contract value bands. Additionally, we introduced a social value supplement to our standard Employers Requirements. Our 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 our 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 our 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.

Outcome

This initiative demonstrates our focus on delivering social value in communities where we invest. The last quarter witnessed active reporting on social value impact for all five live development projects, showcasing the success of our efforts. As of the end of Q3 2023, the London Cluster delivered 25 educational outreach activities, engaging 470 students. Additionally, it facilitated 10 community investment activities and provided 223 training hours for the existing workforce.

PEOPLE CASE STUDY

Assessing standards among UK housing associations (Levels 3 and 6)

G P E C

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 10 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, we encouraged providers to conduct a full stock audit, publish timebound and "smart" retrofit strategies and further disclosure against the SRS. We 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 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 our 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.

PEOPLE CASE STUDY

Engagement to tackle antibiotic microbial resistance (AMR) (Level 6)

G P E C

3 GOOD HEALTH AND WELL BEING
17 PARTNERSHIPS FOR THE GOALS

Issue

Antibiotics and other antimicrobials have been a global success story, underpinning industrial agriculture and revolutionising modern medicine for people and animals alike. However, the irresponsible overuse of these important compounds poses profound health, financial and environmental risks. Left unchecked, the levels of drug resistant infections are predicted to cost the world $100 trillion in lost output between now and 2050, by which time the world could face 10 million deaths every year as a result of antimicrobial resistance (AMR).

Action

As part of our macro stewardship work, we are advocating for an Intergovernmental Panel for AMR (equivalent to the IPCC on climate change) that considers intergenerational equity, a ban on antimicrobials in agricultural supply chains for prophylactic treatment and growth stimulation, and multilateral interventions to ensure better stewardship and drive commercial pull incentives for novel treatments, tighter standard setting for watercourses and public bathing areas, and a collaborative, whole-of-society approach to embed antimicrobial stewardship in regulatory and legislative architecture.

Throughout 2023, we engaged with international policymakers and investor peers to highlight the importance of the issue and our proposals. In February, we presented to the Global Leaders Group on AMR, chaired by the Prime Minister of Barbados, and made up of global health and finance ministers, and advocated for AMR bonds and collaboration on AMR finance. We were the only private financial services actor to address the Group. We also co-hosted an event with the FAIRR Initiative and the UK Government's Investor Action on AMR (IAAMR) in November, with Professor Dame Sally Davies, formerly the Chief Medical Officer for England and Chief Medical Advisor to the UK Government and the current Special Envoy on Antimicrobial Resistance for the United Kingdom. At the event, policymakers, civil society representatives and investors explored how investors can collaborate to take meaningful action on tackling the systemic risk of AMR.

Outcome

We are looking forward to building on our macro stewardship engagement on AMR in 2023 into this year, by strengthening our policy positions and targeting key decision makers, including at the second High-Level Meeting on AMR, which will be convened by the UN General Assembly in September 2024.

PEOPLE CASE STUDY

Engaging on human rights due diligence

1 NO POVERTY

G P E C

Issue

Some governments are exploring mandatory human rights due diligence (MHRDD), such as within the EU's Corporate Sustainability Due Diligence Directive (CSDDD). This major piece of legislation proposes to require EU and non-EU companies to undertake environmental and human rights due diligence across their value chains and to take action to prevent or resolve any potential or real impacts.

Action

We have undertaken macro stewardship engagement on sufficient due diligence and reporting on human rights for a number of years. Building on Aviva's involvement in establishing the Corporate Human Rights Benchmark in 2014, national policy on human rights due diligence would help to create a level playing field for all. Within the UK, we were invited to speak at a cross-party Westminster meeting on human rights with MPs in May, where we made the case for updating the UK's human rights policy to ensure companies uphold high standards of human rights and environmental due diligence and help investors fulfil our responsibilities and undertake our stewardship activities. In Europe, since 2020, we have been joining calls, submitting evidence and advocating for the inclusion of MHRDD in the EU CSDDD for financial services.

In 2023, we worked closely with the UNPRI team on advocacy for the practical and proportionate inclusion of the financial sector, against the backdrop of policymaker meetings in Europe. In the last quarter of the year, we worked with the UNPRI specifically on engagement with a few key European policymakers, encouraging them to support due diligence requirements for the financial sector, using a risk-based approach under the CSDDD, which would align with international standards and be grounded in the concepts of severity and leverage.

Outcome

In December, the European Council adopted its position on CSDDD, which excluded financial services from the MHRDD. However, it has been reported that the exclusion of financial services from the due diligence obligations is temporary and will be reviewed. Nevertheless, the financial sector will be required to adopt and put into effect a climate transition plan aligned to 1.5 degrees Celsius, once the CSDDD is formally adopted by the European Council and Parliament and applied in 2026.

4.5

ENGAGEMENT

Governance

Governance

Similar to our People expectations, executive pay, fairness and inequality have been large themes dictating our voting behaviour given the cost-of-living crisis. Fairness is a complex and multi-faceted issue, encompassing how pay decisions are made, whether employers are paying real living wages (where wages are properly aligned with the cost of living), and how large the differential is between CEO and employee pay.

In its Discussion Paper 23/1, published in early 2023, the FCA recognised the evolution of stewardship towards an increasing focus on market-wide and systemic risks which are non-diversifiable and therefore have an important impact on returns. Similarly, in its paper *The Future of Investor Engagement*, the Net-Zero Asset Owner's Alliance set out expectations for asset managers to take action on systemic risks as part of their duty to act in asset owners' best interests.

Recognising the importance of macro (or systemic) stewardship in promoting the best interests of clients and market integrity, this year we have focused on galvanising the industry to further develop the expectation for systematic and targeted macro stewardship so that market failures are identified and subsequently highlighted with those who are empowered to correct them, such as policymakers and regulators.

GOVERNANCE CASE STUDY

Corporate governance and diversity in Japan (Level 2)

G P E C

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 our longstanding collaboration with the Asian Corporate Governance Association (ACGA), we co-signed a letter to the Tokyo Stock Exchange (TSE) on enhancing gender diversity at board and management levels of TSE Prime companies in September 2022. We 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, we 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.

Outcome

This year has seen a decline in our votes against resolutions at Japanese companies (234 compared to 261 in 2022) as a result of improved female representation on Japanese boards. If we go back just a couple of years, in 2021, the average percentage of female directors on Japanese boards was 8.7 per cent. The average is now over 12 per cent.

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

Engagement is also a key pillar within our ESG integration framework. In this case, it has provided us with a better understanding of the historical limits of corporate governance practices within the Japanese equity market, alongside the positive trajectory from the past year. This provided meaningful insight for our multi-asset investment desk, for example, which initiated a long Japanese equity position, as referred to on page 58.

GOVERNANCE CASE STUDY

Board composition of US companies (Level 2)

8 DECENT WORK AND ECONOMIC GROWTH

G P E C

Issue

We believe the independence of non-executive directors can be compromised if they have served on a board for an extended period of time. From our perspective, independence starts to be challenged after more than 10 years on a board, particularly if there are other long-serving directors. This is more of a problem if they have served concurrently with executives and if the roles of CEO and Chair are held by the same person (as is often the case in the US). We have observed that long service tends to result in directors being in a more comfortable position and potentially less likely to challenge management strategy or performance. However, many US companies typically do not see tenure as a problem. The lack of gender diversity is often also an issue for US boards.

The average tenure for non-executive directors on US boards was approximately seven-to-eight years between 2021 and 2023 (for context, the average non-executive tenure in the UK is around four-to-five years). While this may not seem like a particularly long time, there are many companies where non-executive directors have served between 15 and 20 years, or even longer. The average would be higher but for a number of new directors joining boards in recent years; some of whom were appointed partly in order to meet shareholder expectations on diversity.

Our view is that boards need to be properly refreshed to ensure new perspectives are brought in to adapt to today's fast-changing strategic context. Long tenures are often an obstacle to forward-looking transformation, on climate or other material sustainability issues.

Action

We continued to vote against long-tenured non-executives (and other directors not deemed to be independent) on key committees or if there were concerns over the insufficient number of truly independent directors on the board.

For example, we have been engaging with Equifax for several years, with asks including increasing female representation. At the company's 2023 AGM we voted against a couple of long-serving directors due to the presence on key committees that we consider should be fully independent.

At Jack Henry & Associates, in addition to opposing the re-election of several long-serving non-executive directors, we voted against the re-election of the CEO (who was also Chair at the time) and communicated these decisions to the company to make it aware of our views and expectations.

Outcome

In 2023 we voted against more non-executive directors in the US (1,658) compared to 2022 (1,433).

In our engagement with US companies in 2023, we focused our discussions on the value of board refreshment rather than being at loggerheads on whether tenure compromises independence.

Equifax has made several developments in line with our asks; since 2019, it has refreshed its board with four new female directors, increasing diversity of thought.

Jack Henry & Associates responded to us regarding some of our concerns, outlining that certain issues are being addressed. In January 2024, we welcomed the company's announcement the CEO will be stepping down in July 2024 (but will remain Executive Chair). However, we would still like to see some refreshment of the non-executive directors.

GOVERNANCE CASE STUDY

Galvanising systems thinking in finance (Level 6)

G P E C

17 PARTNERSHIPS FOR THE GOALS

Issue

A well-functioning market, free from market failures and systemic risks, is in the interests of everyone. At present, however, the financial system contains a number of market failures which are perpetuating market-wide and systemic risks, such as climate change, AMR and biodiversity loss, among others. These risks threaten the stability of markets and therefore the long-term best interests of our clients.

Systemic challenges require systemic solutions. However, despite promising signs the frontiers of stewardship are evolving towards a greater focus on systems thinking, there remains insufficient engagement with those empowered to correct market failures and mitigate systemic risks, such as policymakers and regulators.

Action

Throughout 2023, we worked to encourage the uptake of macro stewardship throughout the market, and to galvanise systems thinking in finance.

Our conversations with peers, intermediaries and advisers indicated demand for macro (or systemic) stewardship is increasing, recognising the crucial role stewardship plays in the asset owner and asset manager relationship. With macro stewardship being a core part of Aviva Investors' approach to stewardship, we decided to embed it into our external Investment Manager Agreements (IMAs), adopting our own version of the related components of the Model Mandate issued by the International Corporate Governance Network (ICGN).[51]

We also continue to support Forum for the Future's School of Systems Change in Finance, which seeks to contribute to greater understanding of system dynamics and how they apply to finance, as well as helping changemakers identify where and how their organisations can harness their influence to foster change towards a resilient, just and sustainable economy.

Outcome

Supporting the School of Systems Change in Finance continues to represent an important part in developing investment professionals as macro stewards and systems thinkers.

Incorporating macro stewardship into our external IMAs has further embedded the practice into our governance processes, and we look forward to continuing our constructive dialogue with a broad range of stakeholders to continue driving forward the adoption of systematic and targeted macro stewardship.

51. ICGN GISD Model Mandate, Clauses 9 & 10

4.6

HOLISTIC STEWARDSHIP

Escalation

Escalation

Open communication between investors and issuers forms the cornerstone for effective stewardship, as it fosters transparency between all stakeholders involved.

Engagement first philosophy

Our ESG philosophy promotes the relative merits of engagement over divestment as a more effective mechanism of delivering positive change and outcomes for clients and society. Our preference for engagement is built upon two key factors.

First, there is a lack of critical mass in the market for divestment (in the first instance) to be a meaningful tool for change – there is a queue of other investors ready to take our place should we decide to sell holdings.

Secondly and more significantly, while divestment sends a signal of dissatisfaction to a company, it does not allow for a clear communication of a desired future state and expected roadmap for change. We prefer to stay invested and engaged, and partner with issuers, allowing us to continue to influence the direction of travel as well as the pace of progress.

There will be times, however, when stronger measures are necessary to encourage a company to engage on our concerns. Our escalation policy contains a number of considerations and different levers available to us. However, the application of the policy will vary meaningfully on a case-by-case basis, balancing the engagement history and the environment in which the issuer operates.

Considerations for escalation

In making decisions as to whether engagement will be escalated, several factors will be considered, including:

- the potential significance of the issue for our investments and clients
- the circumstances in which an issue has arisen
- relevant best-practice standards and investor guidelines
- the reasons and explanations provided by the company
- the pattern of issues, in combination or over time
- client mandates, preferences and portfolio strategies
- the traction the initiative and objectives will have with wider shareholders, and scope for collaboration with other stakeholders

Forms of escalation

When more robust action is required to protect our clients' interests and long-term value creation, we may make public statements, propose shareholder resolutions, call an extraordinary general meeting or intervene jointly with other institutions. We make these decisions on an independent basis, to ensure all considerations have been accounted for. A sample of the escalation levers and their practical application in 2023 included:

1. **Intensified dialogue – bilateral (private):** Intervention will generally begin with a "step up" in private dialogue with the company, through: a) holding additional meetings with company management to enhance our understanding of its stance and help the company to understand our position; and/or b) meetings being held with more senior representatives. This year, as part of our Climate Engagement Escalation Programme, we arranged meetings with more senior stakeholders prior to AGMs to enhance our understanding of company stances, as well as ensuring a better understanding of our expectations.

2. **Intensified dialogue – collaborative (private):** While we recognise the complexities of operating in different legislative environments, we believe collaborative actions can be a very powerful escalation tool and may take many forms, including self-organising investor-led collaborations, formal investor coalitions and/or collaborations between investors and NGOs. Collaboration amplifies key messages, gives more weight to individual asks and increases the incentive for the company to take action. It also reduces duplication and builds shared capacity between asset managers, as well as consolidating asks for companies. Over the course of 2023 we decided to join an Investor Forum-facilitated Engagement Working Group, to provide collective feedback from ISS clients at a senior level to the service provider. We shared examples of issues with ISS research during the 2023 AGM season and agreed a constructive engagement plan to address the areas of most concern in advance of the 2024 season.

   See also our roundtable work around supply chain labour rights with IndustriALL Global Union on page 9, our sovereign engagement work with the PRI on page 11, our work on deforestation with the FSDA on page 8 and 82 and with the ShareAction Chemical Decarbonisation Working Group on page 91.

   A full list of collaborative initiatives is available in the Appendix.

3. **Leverage shareholder rights:** The next step in escalation sees us using our shareholder rights.

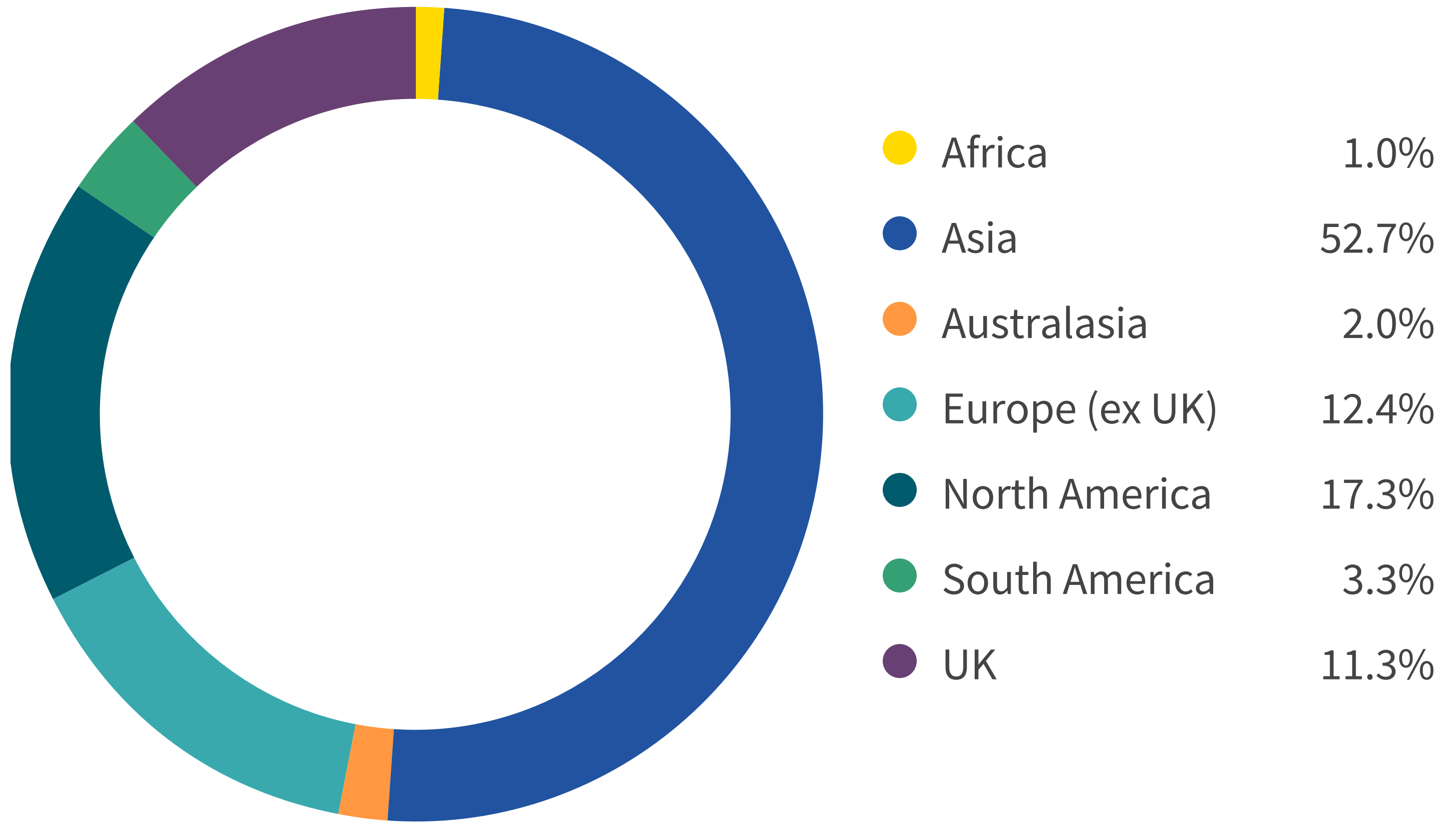
Holding management accountable through voting

Voting is a crucial part of the investment process and we have had a formal and considered voting policy since 1994. We have explicitly incorporated corporate responsibility disclosures and performance into our voting since 2001; we were one of the first asset managers to do so globally.

Our 2023 voting statistics – key numbers

- Voted on **68,177** resolutions at **6,441** shareholder meetings
- Voted against **25 per cent** of management resolutions, including **43 per cent** of pay proposals[52]

2023 voting activity by region



Source: Aviva Investors

2023 voting by issue

	Number of resolutions	Non-support (%)
Anti-takeover measures	68	17.6%
Auditors	5,179	25.6%
Climate-related (resolution proposed by management)	25	28.0%
Directors	28,599	28.8%
Other	9,149	16.4%
Related party transactions	2,966	19.5%
Remuneration	7,466	42.9%
Reports & accounts	5,043	6.7%
Share issues/capital related	7,313	13.2%
Shareholder resolutions (E, S and G issues)	890	59.3%
Shareholder resolution (supported by management)	710	18.7%
Takeover/merger/reorganisation	769	21.3%

Source: Aviva Investors

Pillar voting

	Number of companies not supported (management resolutions) having not met our expectations	Percentage of shareholder resolutions supported
People	1,592	63.2%
Earth	115	83.3%
Climate	144	58%

Source: Aviva Investors

Please see how we used our voting rights with an automotive company (page 10), against a US bank page 53, and within the Sustainable Investing range's engagement programmes (pages 116-124).

52. https://shareaction.org/proxy-voting-records-challenge-asset-managers-responsible-investment-claims/

Voting decisions

Votes are determined by the stewardship function in conjunction with portfolio managers, who inform decisions by bringing their knowledge and assessment of company strategy and any special circumstances. The starting point for vote decisions is our global voting policy, reviewed on an annual basis and updated subject to board approval. The policy covers: our approach to sustainability; board leadership and effectiveness; controls and audit; share capital authorities; shareholder rights; data security; remuneration; investment trusts; our process; and remuneration principles.[53]

To target our stewardship activities, we have distilled the UN Sustainable Development Goals into three key pillars: People, Earth and Climate. These are directly related to what we see as the three greatest sustainability challenges of our time: social inequality, biodiversity loss and climate change.

We have identified three sustainable outcomes we want to deliver to create a more sustainable future for people and the planet. These are a net-zero, nature-positive, and more socially just economy and society. Our voting policy aims to support these outcomes. For example, we will not support the chair of the board or chair of the sustainability committee of companies (particularly those that operate in high-impact sectors) that have not made sufficient progress in providing the market with relevant climate disclosures, including not having published or committed to publish science-based targets. A similar approach is taken for concerns over biodiversity and human rights. The governance of companies and boards is also a key part of our voting policy and investment considerations, such as board composition (both diversity and checks and balances), culture and executive pay.

To support us in making voting decisions on thousands of meetings a year, we subscribe to research from third-party providers. Our main provider for voting services since October 2023 is Glass Lewis. Before then we used Institutional Shareholder Services (ISS). We also subscribe to research provided by the Investment Association's IVIS service and MSCI. We use research for data analysis only and do not automatically follow research provider voting recommendations. We also receive recommendations from Glass Lewis (ISS pre-October 2023) based on our own policy, which we can override in consideration of other factors, including internal views, additional context provided in external research, and company explanations.

In 2023, we voted at 98 per cent of meetings at which we were eligible to vote. Unvoted meetings were primarily due to additional costs associated with legal and administrative processes in certain jurisdictions, which outweighed the benefits of casting a vote.

Given the number of companies we own in our portfolios (including index funds), we seek to prioritise engagement by size or value of holding and where it is most likely to benefit our clients. This allows us to consider additional context from the company, which occasionally results in us changing a vote. In addition, our voting policy and voting records are publicly available, containing our reasons for not supporting resolutions.

We have a strong record of opposing resolutions and holding boards to account. We maintain a database to record our voting and engagement with companies, which allows us to review the effectiveness of our work. We review priority holdings quarterly or half yearly.

There will be times when, despite voting against and/or engaging 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. As part of our escalation process, we may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise our voting rights against the board.

As a last resort, we may requisition a general meeting of a company or a resolution at an AGM, or support others who are doing so. We may also make public statements where appropriate.

53. Please see our Global Voting Policy here: Policies and documents – Aviva Investors

Voting decisions *(cont'd)*

Significant votes

In line with the vote reporting guidance from the Pensions and Lifetime Savings Association (PLSA), we provide clients with details of what we consider the most significant votes in relation to their portfolios.

The purpose is to help pension trustees meet their regulatory duties and demonstrate how they are acting as effective stewards of their assets. Over time, this should give clients a better understanding of how well asset managers are using their votes to hold management to account and improve the sustainability of companies.

Here are the key criteria we look at in determining significant votes:

- whether the vote is high profile or controversial, which may include a significant level of public, media or political interest
- the commercial impact of a vote, e.g., the approval of a large merger or acquisition
- the potential impact on stewardship outcomes from our key areas of focus, for example when our voting decisions seek/have achieved an improvement in the diversity of the board or more broadly across the organisation
- shareholder resolutions deemed material, e.g., even if they do not obtain majority support, they are still likely to encourage the board to address ESG issues creating risks for the company, such as climate change
- how significant the holdings are in relation to the fund and our aggregate holding – the larger the holding, the greater our ability to effect change

Other considerations

Clients – While we do not consult clients ahead of votes, given the significant practical challenges this would create, we engage with clients on a regular basis to better understand their preferences and outline our views on specific vote-related issues.

More broadly, we have been working with our client experience team to institutionalise a standard questionnaire asking clients about their stewardship preferences and priorities. This will be invaluable in shaping our voting policy and engagement plans to meet client aims and expectations.

There may also be occasions where voting exceptions have been specifically agreed with clients in segregated funds, but generally we retain responsibility for ensuring voting is carried out in a manner consistent with our own approach to stewardship.

If a pooled fund investor asked us to vote in a certain way, we would first check to see if this request matched the way we were initially planning to vote, and if not, we would look to accommodate that request in respect of only its proportion of the total number of shares. We are also working with our new voting service provider (Glass Lewis) so that if, in the future, we were routinely asked by pooled fund investors to vote in a certain way, then we could do this more efficiently through automation rather than manually and on a case-by-case basis.

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.

Voting disclosure – In line with best practice, we make all our voting history publicly available on our website.

For voting disclosure, meetings are updated one month in arrears (for example, a meeting held on 1 December 2023 will be displayed on 1 January 2024). Our voting disclosure includes details on reach resolution and vote decisions. In addition to providing the key reasons of any against votes and abstentions, we provide a detailed rationale on resolutions we have "exceptionally" supported.

For our standard reporting we also show our voting record for the fund in question.

Voting decisions *(cont'd)*

Fixed income votes – Voting has the most direct relevance to equity investments as shareholders have the right to vote at shareholder meetings, such as annual general meetings (AGMs). As the name suggests, shareholders have an annual opportunity to exercise their voting rights and hold boards to account.

However, our stewardship principles are also applied to other asset investment classes such as fixed income and property, where appropriate. For example, bondholder meetings may be convened to seek consent from the relevant bondholders in respect of amendments to trust deeds or indentures that may affect the terms of the bonds. Decisions on these will be determined by fixed income analysts and fund managers based on what they consider to be in the best interests of the fund and clients.

Please see page 10 for our vote against an automotive technology supplier's Director due to a lack of progress on our asks, and on page 53 where we voted against the Elect Director of a US bank following unsuccessful attempts to engage.

4. **Intensified dialogue (public):** The next step is sharing concerns with other investors or stakeholders through a public lens. Sharing this publicly sends a clear message to the company about the importance of issues raised, and encourages the company to address these directly More specifically, this includes:
   - Public statements (including speaking to the media), press comment and writing formal public letters. IIHC press release not mentioned on page 82 or elsewhere in the document.
   - Attending and asking questions and/or making statements of intent at AGMs. For example, as part of our involvement in the Shareaction Chemicals Decarbonisation Working Group (see page 90), we publicly asked questions at the 2023 AGMs of leading European chemical companies about their decarbonisation targets/transition plans. Elsewhere, as part of our involvement in the UniGlobal Investor Initiative for Responsible Care, we made a public statement of issues at one company's AGM.
5. **Capital allocation:** Depending on the investment strategy of a fund, this can take the form of underweighting an issuer compared to the benchmark, excluding from a sustainable-labelled funds, or non-participation in new equity or debt offerings.
6. **Divestment:** Divestment will only be used as a last resort where other escalation levers have been exhausted. Where we make the decision to divest our exposure to an issuer due to unsuccessful engagement, this is likely to be where we see the lack of progress on the sustainability issue as a material risk to our investment. We will make clear the conditions for reinvestment should companies begin to meet our expectations. Please see pages 10 and 120 for examples of divestment.

All of these levers are underpinned by broader macro/systems-level engagement with legislators, regulators and other standard setters to galvanise systems change.

Climate Engagement Escalation Programme (CEEP)

G P E C

Issue

The United Nations Environment Programme's (UNEP) recent report, *The Emissions Gap,* 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. We established our three-year Climate Engagement Escalation Programme (CEEP) to make a difference in encouraging deeper, faster action.

Action

CEEP applies across our equity and credit portfolios and is focused on 30 of the most systemically important carbon emitters from the oil and gas, mining, steel and utilities sectors that contribute approximately one third of all global emissions, considering their Scope 3 footprint.

Phase 1 launched in January 2021, when we sent letters to all board chairs outlining our expectations of what constitutes a robust climate strategy and approach.

We are willing to use all the tools and power available to ensure our 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, we will divest our holdings in those companies where Aviva Investors has discretion to take action.

The figure to the right provides an overview of our five key asks. We view these criteria as key to robust net-zero-aligned business strategies.

Summary of key expectations:

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

Climate Engagement Escalation Programme (CEEP) *(cont'd)*

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.

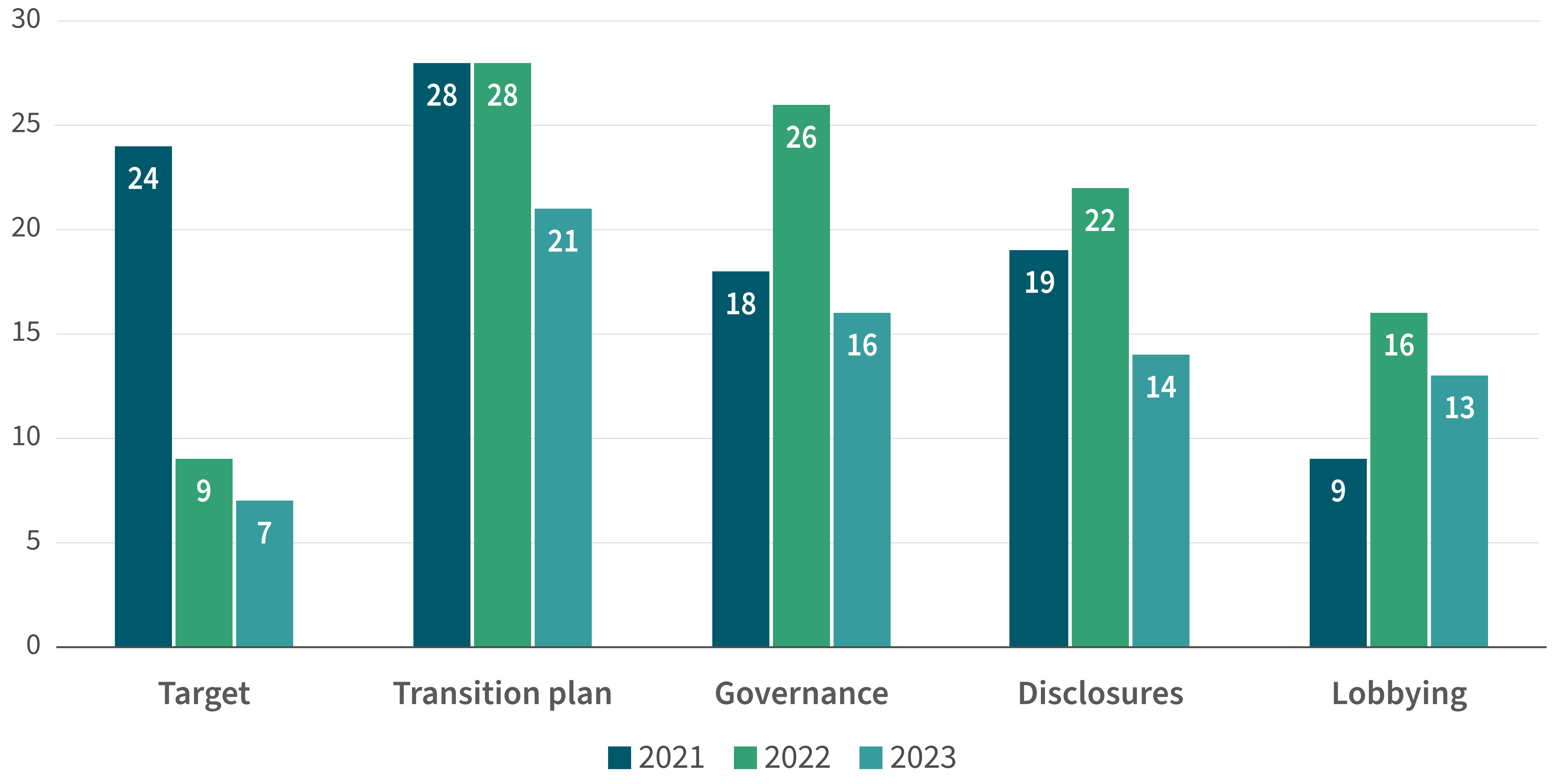
While not yet convinced of any company's full Paris alignment, we are pleased with the quality of conversations and range of progress observed across a challenging set of asks. We observe meaningful improvements as part of our assessment of companies on our robust scoring framework. Median scores have improved compared to 2021 with **277 engagement "wins"** observed (i.e. where we have seen progress in behaviour in line with our requests for change). Figure 7 below provides a breakdown of progress observed across our 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.

- 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 calling for the following:

1. **More credible and detailed transition plans,** that clearly identify opportunities in low-carbon value chains and related expected returns
2. **Greater recognition of climate change's different impact across the crosscutting 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. We expect companies setting net-zero ambitions to demonstrate how they are supporting policy actions necessary to successfully decarbonise assets and value chains.

Figure 7- **Progress observed across five key requests for change**



Escalation action

We are currently reviewing the findings of our engagement to establish next steps, including appropriate escalation action for some companies. In our experience, working constructively with boards and management in private is the most effective way to achieve positive change. However, where we have been unable to achieve success, we will escalate our engagement, considering potential divestment action where Aviva Investors has discretion to take action. See pages 108 - 112 for more detail on the engagement tools at our disposal to escalate engagement over time.[54]

Over the last three years we have demonstrated a willingness to use the full range of rights at our 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, we voted against management at 28 companies**, articulating clear areas where we seek improvement to facilitate greater Paris-alignment. The following case studies demonstrate how we 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 our CEEP focus group.

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

Constructive discussions have taken place with the company's sustainability teams, and notable progress has occurred to evolve and strengthen Chevron's climate change disclosure and action to align with our own and wider shareholder feedback. For example, we welcome its 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, we believe the pace of evolution in Chevron's climate strategy can go further. This has prompted us to continue advocating for a more ambitious approach. We 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. We 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, we see an opportunity for Chevron to enhance its transparency regarding its just transition plans.

54. Every engagement and escalation strategy will have aspects that are particular to the circumstances of the company (its business model, domicile and financial profile) and our own perspectives as the asset manager, including our stewardship history and levels of influence.

Escalation action *(cont'd)*

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 we believe there is room for more robust disclosure of targets to fully align with the ambitious goal of limiting global warming to 1.5 degrees celsius, we 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 2030. 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, we 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, we will launch the next iteration of our climate stewardship programme. We are looking to amplify and accelerate our impact in this field in two main ways.

Firstly, we will scale engagement with systematically – important carbon emitters to help transform low-carbon energy system supply and demand. We 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, we 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 we will organise a series of roundtables convening stakeholders from across the value chains of the largest sectors contributing to global GHG emissions. As per our 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.

We hope these forums will help industries improve their understanding of collective value chains, refine synergies that exist between them, identify how best to implement climate solutions and collaborate and/or bring new business models to scale. Secondly, these roundtables will help inform the direction of our macro stewardship team's policy development and engagement programme with governments, regulators and standard setters. As an example, our aviation roundtable from June 2023 has fed into the recently published report *Boosting Low Carbon Investment in the UK: A Policy Roadmap*. (See more information on our aviation roundtable on page 7.)

ESCALATION CASE STUDY

Sustainable Investing programme: Social Transition Engagement Programme (STEP)

G P E C

One of our Sustainable Investing strategies invests in companies supporting the transition towards a more socially just and equitable society. Its holdings include companies demonstrating leadership in their management of social risks and opportunities, or those providing specific products or services such as access to healthcare, finance or education for underserved groups or communities.

STEP is our engagement programme targeting all companies invested in the relevant portfolio, with a goal to help the fund achieve its aim of supporting the transition towards a more equitable society. It aims to ensure companies demonstrate robust human rights disclosure and due diligence (HRDD) and work towards implementing a credible living wage commitment.

We will measure success based on company alignment with our expectations. Within three years of inclusion in the portfolio, companies should evidence progress against two expectations:

1. Identify, prevent, mitigate and account for how they avoid and address negative human rights impacts they cause, contribute to or which are linked to their activities through business relationships by conducting human rights due diligence.
2. Ensure workers are paid a living wage and support efforts to ensure workers in their value chains are paid a living wage.

Our expectations are linked to the World Benchmarking Alliance's (WBA) Social Transformation Framework,[55] which articulates a set of baseline expectations companies should meet to support the goal of "leaving no one behind". Human rights due diligence, in line with the UN Guiding Principles on Business and Human Rights (UNGPs), and living wages are two of these minimum expectations.

Monitoring progress

Company performance against these expectations will be determined by an annual qualitative assessment. Although all companies are regarded as demonstrating leadership in one or more aspects of their social performance, all have further to go. As such, companies are categorised across five grades (1-5) to indicate the extent to which they meet our expectations.

We hope to maintain an open dialogue and partnership with companies as they evolve and strengthen their respective strategies, management and reporting in alignment with our asks. There will be times, however, when our concerns have not been adequately addressed. In these circumstances, we are prepared to escalate specific areas of concern to effect the change we seek.

Alignment Level	What this typically means
1	The company is aligned and shows best practice
2	The company is proactive and demonstrating significant progress aligning
3	The company is active and taking clear action to align
4	The company is reactive and shows embryonic/limited action to align
5	The company is not aligned and inactive

55. Social Transformation Framework | World Benchmarking Alliance

This will generally begin with a more focused project of intervention aimed at securing changes to the board, management or practices. We will seek additional meetings with company management to enhance our understanding of its stance and help the company to understand our position. Should this initial step fail, we may consider further escalation. For example, we may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise our voting rights against the board.

Ultimately, our willingness to stay invested and/or provide future capital will be determined by the extent and pace to which companies demonstrate meaningful progress over time. Where escalation has been unsuccessful in delivering the changes requested and we do not feel confident that the company intends to address our concerns, we are committed to divest.

Progress update for 2023:

Below is a snapshot of how companies currently scored against our evaluation framework, ranked in categories 1 to 5.

Company classification	Percentage of holdings (%)
Level 1	9
Level 2	17
Level 3	34
Level 4	17
Level 5	23
Total	**100**

Engagement progress in 2023

- 40 STEP engagements in 2023, 53 per cent of which were substantive
- Eight STEP-related wins in 2023, 38 per cent of which were material

As of 31 December, 2023, 97 per cent of holdings had responded to our original outreach letter. Over the course of the year, we engaged with all holdings in the portfolio, holding one-to-one meetings with nine companies (26 per cent of holdings), with 21 substantive engagements carried out.

While in 2022 our focus had been on meeting with as many holdings as possible to explain our expectations to them, our focus in 2023 shifted slightly to those companies that had not yet made significant progress and that were classed as Level 4 or Level 5, based on our assessment. In particular, we decided to exercise our voting power and voted against the re-election of relevant directors at two companies that we felt had provided us with particularly poor responses and slow progress. For the other target companies, we focused on setting up in-depth follow-up meetings and sending tailored emails with detailed questions.

Over the course of the year, we observed some encouraging progress on our specific asks. Specifically, we have logged eight “wins”.[56] This progress demonstrates that many companies are not only receptive to our asks but have now started to put serious effort and resources into achieving them. The progress we have seen spans from companies strengthening their human rights policies by introducing relevant wording referencing the United Nations Guiding Principles on Business and Human Rights (UNGPs) to carrying out inaugural human rights impact assessments and providing related disclosures.

56. This is where companies have either achieved our asks or made significant progress towards achievement

Key challenges

While we were pleased to see some progress among companies over the past year, many of the same challenges as last year remain pertinent:

- In general, many companies still need to take into account the corporate responsibility to respect human rights as articulated in the UNGPs; too many companies are unfamiliar with their responsibilities, what due diligence entails and how human rights are relevant for all parts of the business. While many of our initial engagements focused on improving companies' understanding of their responsibilities, rather than on substantive issues in value chains, we now expect to see accelerated progress.
- Further progress against the two core asks is likely to depend on the ability of engaged company representatives to convince colleagues (across multiple layers of management) about the **benefits of introducing practices such as human rights due diligence or implementing a living wage.**
- Economic uncertainty and rising costs have magnified the **differences that appear to exist between commercial objectives and guaranteeing a decent, liveable wage**. Many companies claimed to have understood the concept of a living wage and the importance of compensation covering the costs of living for their employees. However, only a small (but slowly increasing) number are currently proactively benchmarking the wages they provide against living wage standards; and even fewer had factored in their contractor or supply chain workforce.
- Finally, while we recognise some companies are making progress and demonstrating "leadership" against our asks, it is also true these same companies often continue to be linked with human rights-related allegations or controversies. This suggests that strengthening approaches to managing human rights risks and impacts is likely to uncover more of the "bad" practice hidden from plain view, and certain businesses with complex, often opaque, international structures are inherently more prone to causing harm to people than others. The latter is a flaw of company business models; the former can be a tool to help reform them.

ESCALATION CASE STUDY

Human rights due diligence

Issue

HRDD is a core expectation of the UNGPs and requires businesses to identify, respond, mitigate and prevent adverse human rights impacts in their own operations and supply chains. Failure to do this can lead to human rights abuses, and financially material consequences for companies including negative media attention and even litigation. Completing a human rights impact assessment enables better visibility for investors on how a company is managing and mitigating its salient human risks.

Action

As part of our STEP,[57] we requested a range of companies from different sectors and geographies conduct a human rights impact assessment, evaluating and prioritising human rights risks and impacts.

Outcome

While progress has varied across the holdings, we have seen some companies make improvements in line with our requests. Bank Rakyat has increased references to human rights in its public sustainability report, citing the UN Guiding Principles. It has also signed up to the UN Global Compact.

Progress with an Asian semiconductor manufacturing company has been limited. The company was not responsive to engagement from our ESG and the strategy's portfolio managers, removing a valuable method to gain insight into the culture of the firm. While it does provide disclosure on some salient issues, questions remain about the lack of disclosure on working times, increases in adverse health and safety incidents and employee complaints, and greater use of contractors. As we were unable to engage directly with the company or to gain further assurance on its workforce practices, we divested from the position as managers no longer felt comfortable holding the position.

Priorities ahead

We will continue to increase pressure on STEP companies, particularly those that are currently making slow progress against our asks and those that are deemed to potentially have a high human rights impact. It is our ambition to progress from discussions about human rights due diligence processes and human rights impact assessments to discussions about individual salient issues and the effectiveness of companies' actions, although this may not be possible in all markets. We also expect companies to be more transparent about their practices regarding living wages and dialogue with stakeholders, such as unions and communities.

As 2024 will mark the third and final year of most holdings' inclusion in STEP, we intend to ramp up our voting and other escalation activity during the upcoming AGM season and beyond to demand greater progress from slow movers and to remind them of the risk of divestment if they fail to act.

57. Please see more information on page 117

Sustainable Investing Programme – Natural Capital Transition Engagement Programme (NCEP)

Effective and responsible active ownership is part of our fundamental investment approach. Companies are heavily exposed to changes in societies and the natural environment. We believe by engaging with companies and their management, we can improve our understanding of their issues and approaches to managing them, helping us to protect or enhance the value of our investments.

The NCEP is our engagement programme targeting all companies held in one of our Sustainable Investing strategies, running for three years from a company's inclusion in the portfolio. Its objective is to help the fund achieve its aim of helping reverse devastating trends fuelling the degradation and loss of nature and transitioning towards a nature-positive future.

NCEP will achieve this by asking all companies to make progress against three requests:

1. To identify and disclose the most material impacts and dependencies on biodiversity in their value chain.
2. To set ambitious SMART targets covering their most material biodiversity impacts, in line with emerging guidance from the Science-Based Targets for Nature (SBTN).
3. To demonstrate progress against one company-specific ask, identified by us and research partner ZSL as a critical gap in the company's management of impacts and dependencies on nature.

These expectations are aligned with guidance and suggested targets from the Science Based Targets Network and UN Convention on Biological Diversity COP process.

To ensure harmony across programmes, NCEP follows the same process for monitoring progress and escalation process as STEP.[58]

Progress update for 2023

Below is a snapshot of how companies currently scored against our evaluation framework, ranked in categories 1 to 5.

Company classification	Percentage of holdings (%)
Level 1	2
Level 2	17
Level 3	15
Level 4	39
Level 5	27
Total	**100**

Engagement progress in 2023

The fund has sustained its dedication to companies instrumental in the transition towards a nature-positive economy throughout 2023. Our comprehensive analysis, as set out in the fund's annual report, reveals substantial progress in several key areas. There has been a noticeable increase in companies delivering on our first ask which will assist them in progressing to the next step of setting nature-related targets. Advancements have been made in addressing company-specific biodiversity challenges, as identified by our research partner ZSL.

We have proposed to vote against four solutions names, and we often find that these companies do not reach the level of expectation for transition companies. Simultaneously, we have identified five companies which successfully delivered on our requests and two names which exceeded our expectations.

In terms of engagement, we have achieved a remarkable response rate, with over half of the holdings actively participating in meaningful dialogues. This interaction has been vital in understanding their action plans and commitments towards biodiversity and inform the fund's investment strategy, and inform our future planning.

Challenges faced

The year also presented its challenges, particularly in biodiversity assessment and its practical implementation. A number of companies indicated that they were at an early stage in this area and found it challenging to assess biodiversity impacts and dependencies across their value chains. Several of them did not view biodiversity as a material issue, focusing instead solely on emissions management and broader ESG risks. This underscores the need for ongoing dialogue with these companies to emphasise the critical importance of addressing nature alongside climate for business resilience. The September 2023 launch of the TNFD recommendations marked a significant milestone in this area. It provides a clear framework for companies to measure biodiversity impacts, enabling more accurate reporting and informing future targets setting. This is key for companies working to reverse biodiversity loss, and we anticipate playing a role in delivering our fund's sustainability objectives.

58. Please see page 117

ESCALATION CASE STUDY

NCEP case study, Bureau Veritas

Issue

The protection of wildlife and ecosystems is crucial to protecting our planet. Biodiverse ecosystems act as carbon sinks, with the world's forests absorbing 16 billion metric tonnes of CO_2 per year. Around 25 per cent of our prescription medicine comes from rainforest plants. Most companies have their largest impact on biodiversity via their supply chains, but cannot trace the origin of their raw materials or guarantee they are sustainably sourced.

Action

We engaged with Bureau Veritas on its work helping companies improve traceability and verification in their supply chains as one of our holdings in the strategy. We met with the Vice President, the Head of Investor Relations and Financial Communications, and the Chief Sustainability Officer.

Outcome

The company disclosed intentions to conduct a biodiversity assessment and set related targets, as well as plans to increase its biodiversity-related offerings to clients. It is currently working with Lucie, a French company dedicated to biodiversity, to deliver a service called Biodiversity Progress to clients. We believe that sustainability certification should provide another leg of growth to the company's top-line acceleration story, considering rapidly growing demand from corporates to evidence traceability throughout their supply chain operations. Additionally, Bureau Veritas' submission of SBTs demonstrates its commitment to environmental sustainability, setting an example for other companies. We added to our position in Bureau Veritas on several occasions over the second half of 2023 as it has given us confidence in its determination to stay ahead of peers on the natural capital theme.

Priorities

As 2024 progresses, we aim to enhance disclosure standards for constituents of our fund. With the TNFD and SBTN guidance now in place, we expect them to provide more comprehensive information on their biodiversity impacts and dependencies. We will also be addressing underperforming companies in line with our robust sustainability standards, particularly those that have been held in the fund for over a year. We will continue to engage with the companies to ensure wider recognition of the critical role nature plays. Central to our efforts is the strategic integration of nature considerations within the corporate frameworks of the companies we hold.

As 2024 will mark the third and final year of most holdings' inclusion in NCEP, we intend to ramp up our voting and other escalation activity during the upcoming AGM season and beyond to demand greater progress from slow movers and to remind them of the risk of divestment if they fail to act.

Sustainable Investing Programme – Climate Transition Fund Engagement Programme (CTEP)

G P E C

We believe persistent and constructive dialogue with issuers and corporates is vital to preserve and enhance the value of assets on behalf of our beneficiaries and clients. This is achieved through voicing our support for more sustainable practices and gathering insights through engagement and research to inform investment decisions.

CTEP is our bespoke engagement programme targeting all companies in our Public Market team's climate transition capabilities. Its objective is to help the Climate Transition Global Equities Fund achieve its aim of positively influencing climate-related behaviour and help generate competitive returns.

We will measure success based on company alignment with our expectations. Within three years of inclusion in the portfolio, companies should evidence progress against two expectations:

1. Set near-term SBTs validated by the SBTi, consistent with a 1.5°C pathway. The IPCC's Sixth Assessment report calls for net global emissions to decline by about 45 per cent from 2010 levels by 2030 to comply with a 1.5°C pathway. In our view, SBTi-validated SBTs provide a clearly defined pathway for companies to reduce GHGs in line with Paris Agreement goals.
2. Provide annual public disclosure to the CDP's climate change questionnaire and strive to continuously improve performance. CDP's data set and resulting scores are a key resource in identifying and managing ESG and climate-related risks within our portfolios. It is the most complete source of self-reported corporate environmental data in a standardised and comparable format, widely used throughout financial markets.

To ensure harmony across programmes, CTEP follows the same escalation process as described above for STEP and NCEP.

Engagement progress in 2023

Below is a snapshot of how companies currently scored against our evaluation framework, ranked in Levels 1 to 5.

Company classification	Percentage of holdings (%)	
	Climate Transition Equities	Climate Transition Credit
Level 1	35	34
Level 2	28	26
Level 3	18	21
Level 4	15	7
Level 5	4	12

Engagement highlights:

	Climate Transition Equities Engagement Programme	Climate Transition Credit Engagement Programme
Number of engagements	26	45
Percent of substantive engagements	87%	82%
Number of wins	9	17
Percent of wins that are material	100%	100%

As of 31 December, 2023, we undertook 68 substantive engagements across both the equity and credit climate transition funds, spanning from bespoke letters to one-to-one meetings with company representatives, including board members, senior executives, and managers of specialist areas.

Sustainable Investing Programme – Climate Transition Fund Engagement Programme (CTEP) *(cont'd)*

Our focus in 2023 shifted slightly to those companies that had not yet made significant progress against the asks of the programme and that were classed as Level 4 or Level 5, based on our assessment. In particular, we decided to exercise our voting power and voted against the re-election of relevant directors at two companies that we felt had provided us with particularly poor responses and slow progress. For the other target companies, we focused on setting up in-depth follow-up meetings to improve understanding of the organisation climate transition strategies.

Over the course of the year, we observed some encouraging progress with regards to our ask relating to committing or validating an SBT, where we have logged 22 "wins". Of the progress recorded, 65 per cent of the wins have been generated from companies getting targets validated by the SBTi, while the other 35 per cent relate to companies committing targets. This demonstrates many companies are receptive to our asks and are aligned with our views regarding the need to decarbonise in the near term, between now and 2030, to avoid the most adverse impacts of climate change.[59]

Key challenges

While we have evidenced progress against both key asks of the engagement programme, challenges we encountered during the first year of the engagement programme (2022) persisted.

As outlined in our 2022 annual reports for the Climate Transition Franchise, we acknowledged the increasing requests from investors to participate in various initiatives and therefore noted a reluctance among organisations to make climate change discloses to CDP – particularly in the financial sector. A goal was to engage with CDP to understand what is being done, top down, to ensure participants continue to disclose. As a result we had an insightful training session with the organisation which highlighted the scoring frameworks used and how the disclosures would evolve. Consequently, CDP remained at the forefront of our engagement dialogue with holdings throughout 2023. However, our learnings from such engagements have initiated a review of elements of the investment processes.

Approaching 2030 interim emissions-reduction targets, engagements focused on near-term decarbonisation efforts where key themes such as technological constraints to decarbonise and lack of sectoral guidance reoccurred throughout the year. Our engagement with OCI is an example of this: despite having its own net-zero-by-2050 ambitions, the organisation outlined that it would withhold from committing to an SBT until the SBTi's chemicals sectoral guidance is released. Such engagements resulted in us reviewing our approach to escalation in 2024; subsequently, the decision was made not to escalate against holdings based on the lack of progress against our SBT-related asks if the guidance for the sector has not been provided by the SBTi.

59. We usually expect to receive CDP's Climate Change disclosure scores annually in December, however due to delays in the release of the dataset, we were unable to monitor progress against such asks therefore have not logged any CDP-related wins in 2023.

ESCALATION CASE STUDY

Waste Connections[60]

G P E C

Issue

Acknowledging the Climate Transition Franchise's public aspiration to achieve 90 per cent coverage of holdings having committed to/validated an SBT by 2030, a high engagement priority throughout 2023 was to engage with holdings to assess the extent to which and the pace at which they can align with our asks. Broadly speaking, European companies demonstrate closer alignment to our asks than their North American counterparts so it is insightful for us to engage with our North American holdings to determine potential barriers to alignment of climate action.

Action

As part of CTEP, waste services firm Waste Connections was initially targeted in August 2022, when it was categorised as demonstrating Level 5 alignment due to not disclosing to CDP's Climate Change disclosure and not having committed to an SBT.

Outcome

Since its inception in the Climate Transition franchise, and throughout 2023, we engaged with Waste Connections on four occasions outlining the asks of the CTEP, specifically highlighting the importance of externally validated SBTs. During our initial engagements, Waste Connections explicitly outlined that committing to a target with the SBTi was not something it would pursue in the near term due to the fact the company is a growth-orientated business and ambiguity around the SBTi's baselining frameworks.

Despite this, peers in the US waste management industry, such as Republic Services and Waste Management, have both attained validated near-term targets from the SBTi, therefore we remained persistent with our requests. In Q4 2023, we were pleased to see progress as Waste Connections committed to a near-term target with the SBTi. Our engagements with the company will continue in 2024 as we monitor progress and begin to explore other topical themes such as carbon accounting in the waste management sector.

Priorities Ahead

We will continue to increase pressure on CTEP companies, particularly those that are currently making slow progress against our asks and those that are deemed to be in high-impacting sectors based on our internal analysis of sectoral emissions, both in operations and throughout the value chain.

As 2024 will mark the third and final year of most holdings' inclusion in CTEP, we intend to ramp up our voting and other escalation activity during the upcoming AGM season and beyond to demand greater progress from slow movers and to remind them of the risk of divestment if they fail to act.

60. Please note, we divested from Waste Connections in Climate Transition Global Equity in 2024. However, this was not due to ESG factors.

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Afterword – Looking ahead to 2024

Afterword – Looking ahead (Principle 1)

In 2024, we remain focused on supporting efforts to address the challenges facing People, Climate and Earth, from social inequality to the complexities of decarbonisation, from human rights concerns to environmental pollution and biodiversity loss. Our holistic approach to stewardship means we aim to work collaboratively with a range of stakeholders in order to tackle these interconnected issues.

People

While economic conditions are steadily improving in many countries and inflation is slowly being brought under control, many people are still struggling with the cost of living and this issue continues to form a key focus of our engagement work. We are encouraging companies to pay living wages and provide support to vulnerable employees and customers. Human rights due diligence remains an important objective within both our corporate and macro stewardship engagement efforts. In Private Markets, engaging with housing providers to support improvements in housing quality and energy efficiency is a key priority. The Sustainability Reporting Standard for Social Housing (SRS) provides a framework for our engagement in this area.

Climate

Encouraging the setting and implementation of robust and transparent climate transition plans remains a key component of our engagement work at both the micro and macro levels. We are engaging with individual companies, across supply chains and with policymakers and regulators to support decarbonisation efforts, enable accelerated progress towards net-zero targets and help ensure the transition is economically and socially just. We will continue to integrate investment insights into our policy recommendations while also providing insights on policy to our investment desks to inform their decisions and improve client outcomes.

Earth

As nature loss poses significant risks to economies and societies, we are engaging with companies to encourage them to place greater emphasis on preserving biodiversity, including through the setting of comprehensive biodiversity strategies. We expect all companies to begin reporting within a reasonable timeframe against the TNFD framework. In the UK, water pollution remains a matter of public concern and we will continue our engagement with the government, water-related companies and other firms in the supply chain to help tackle the issue. On the macro stewardship side, we will continue our collaborative efforts to ensure the financial risks associated with biodiversity loss are being recognised and tackled at a systemic level.

Governance of ESG and ESG specialists

The next few pages introduce you to all of the people across Aviva Investors who have an ESG investment governance or execution role.

Mark Versey
Chief Executive Officer

Mirza Baig
Chief Sustainable Investing Officer

Steve Waygood
Chief Sustainable Finance Officer

Daniel McHugh
Chief Investment Officer

Louise Piffaut
Head of ESG, Public Markets

Ed Dixon
Head of Sustainability, Private Markets

Candice Thorpe
Director, Sustainability Solutions

Jess Foulds
Sustainability Strategy Director

Sam Tripuraneni
Head of Sustainable Investments

ESG specialists embedded within the business

Our ESG views are informed by connected thinking across asset classes, across multi-stakeholders and across the industry. Our ESG colleagues facilitate knowledge-sharing across the business and upskill the investment teams.

Abigail Herron
Global Head of Health and Nature Policy

Agneta Bamania
Senior Sustainable Outcomes Analyst

Alice Fisher
ESG Stewardship Ops Analyst

Alix Aubry
Corporate Governance Analyst

Amy Thomas
Net-Zero & Climate Risk Analyst

Andrea Perales Padron
Head of ESG Integration – Credit

Doris Ko
ESG Operations Manager

EJ Shin
Senior Climate Strategist

Eleanor Austin
Senior ESG Credit Analyst

Elizabeth Ortiz
Net-Zero and Climate Risk Associate

Eugenie Mathieu
Nature Stewardship Lead

Eve Rooney
Senior Sustainable Outcomes Analyst

Greta Talbot-Jones
Responsible Investment Director

Gurpreet Kaur
ESG Analyst

Ivelina Stefanova
Earth Analyst

Jeremy Ho
Responsible Investment Associate

Joseph Arulfela
ESG Analyst

Josh Downes
ESG Analyst

Kiran Sehra
Biodiversity Analyst

Louise Wihlborn
Senior Stewardship Strategist

Luisa Jobson
Climate Analyst

ESG specialists embedded within the business *(cont'd)*

Manpreet Sandhu
ESG Credit Analyst

Matthew Lin
Sustainable Investing Analyst

Mikhaila Crosby
Responsible Investment Associate Director

Nathan Leclercq
Head of Corporate Governance

Nick Molho
Head of Climate Policy

Oliver Morriss
Senior Strategist

Philippa Grant
Responsible Investment Director

Prince Marapao-Gittings
Social and Data & Frameworks

Pippa Morgan
Engagement Programme Manager

Richard Butters
Head of Stewardship

Rick Stathers
Climate Lead

Riona Bowhay
Senior Macro Stewardship Analyst

Saloni Shah
ESG Investment Specialist

Sonia Hierzig
Social and Data & Frameworks

Sophie English
Macro Stewardship Analyst

Sora Utzinger
Head of ESG Integration – Equities

Sylvie Sasaki
Net-Zero and Climate Risk Director

Thomas Dillon
Head of ESG Sovereign

Tom Tayler
Head of Climate Finance

Vaidehee Sachdev
Social Stewardship Lead

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Appendix – UK stewardship code index

Appendix: Collaborative list

Founders

- Aviva Investors/Church Commissioners/Scottish Widows – Collaborative engagement targeting proxy advisors and data providers to advance corporate HRDD data
- Business Benchmark for Farm Animal Welfare (BBFAW)
- Investor Alliance on Human Rights – Corporate Human Rights Benchmark (CHRB)
- Investor Initiative on Hazardous Chemicals (IIHC)
- Sustainable Stock Exchange Initiative
- UN Principles for Responsible Investment (UNPRI)
- World Benchmark Alliance (WBA)

Members

- 30% Club
- Aldersgate Group
- Asian Corporate Governance Association (ACGA)
- Glasgow Financial Alliance for Net Zero (GFANZ)
- Global Impact Investing Network (GIIN)
- Global Real Estate Sustainability Benchmark (GRESB)
- Institutional Investors Group on Climate Change (IIGCC)
- Investor Action on Antimicrobial Resistance
- Nature Action 100
- Net Zero Asset Managers Initiative (NZAM)
- Partnership for Carbon Accounting Financials (PCAF)
- TheCityUK Nature Steering Group
- TheCityUK Sustainable Finance Forum
- The International Corporate Governance Network (ICGN)
- The Investment Association
- The Investment Association Remuneration and Share Schemes Committee
- The Investor Forum
- UK Corporate Governance Forum
- UK Sustainable Investment and Finance Association (UKSIF)
- UN PRI – Investors Policy Dialogue on Deforestation (IPDD)
- Valuing Water Finance Initiative (Ceres)

Signatories and collaborative events

- 2020 FRC Stewardship code
- Access to Medicine Foundation
- Climate Action 100+ (CA100) – Collaborative Initiative
- Climate Engagement Canada (CEC)
- Dutch Association of Investors for Sustainable Development (VBDO) coordinated – Investor Statement on Plastics
- Farm Animal Investment Risk & Return (FAIRR) – the Biodiversity, Waste & Pollution programme
- Labour Rights Investor Network (LRIN)
- ShareAction – Chemical Decarbonisation Working Group
- ShareAction – Good Work Coalition
- UNEP FI Sustainable Blue Economy
- UN PRI – Advance (Social Issues and Human Rights)
- UN PRI – Collaborative Sovereign Engagement on Climate Change
- World Benchmarking Alliance (WBA) – Advancing Ethical and Responsible Artificial Intelligence CIC

All collaborations and awards current unless otherwise disclosed

Appendix: Collaborative list *(cont'd)*

Awards:

- Insurance Asset Risk's UK & Europe Awards 2023 'Stewardship initiative of the Year' (2023)
- Insurance Asset Risk's UK & Europe Awards 2023 'Climate Mitigation Investment Initiative of the Year' (2023)
- Ranked #3/77 by ShareAction and received an A rating on our approach to responsible investment. We were one of four to receive A or AA rating (2023)
- The Instinet Positive Change Award for Sustainability in our 2023 European Markets Choice Awards (2023)
- Highly commended for Moving Financial Markets at the Finance for the Future awards (2023)
- Moving Financial Markets (Large Organisations) (2022)
- Insurance Asset Risk's UK & Europe Awards 2022 – 'Stewardship initiative of the Year' (2022)
- Insurance Asset Risk's UK & Europe Awards 2022 –'Climate Mitigation Investment Initiative of the Year' (2022)
- Voted a leader on climate voting by Majority Action (2022)
- Voted in the Top 10 of asset managers for voting by ShareAction (2022)
- Corporate Adviser Awards for Best ESG Asset Manager (2022)

All collaborations and awards current unless otherwise disclosed

Appendix: UK Stewardship Code Index

Appendix: UK Stewardship Code Index *(cont'd)*

Important information

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