

# Multi-Asset & Macro and Liability Driven Investment Responsible Investment Policy

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Q3 2019

For today's investor



<b>Policy Owners</b>	Peter Fitzgerald Al Denholm	<b>Review Frequency</b>	Annual
<b>Effective Date</b>	30 September 2019	<b>Review Committee</b>	Aviva Investors ESG Governance Committee
<b>Scope</b>	This Policy applies to the Aviva Investors Multi-asset & Macro and LDI Strategies		
<b>Purpose</b>	This Policy describes the application of the Aviva Investors Responsible Investment Philosophy to Multi-asset & Macro and LDI Strategies. The Policy is supported by written procedures maintained by each business unit which detail application of Policy elements to the individual investment processes.		
<b>Disclosure</b>	This Policy (but not the underlying Approved Procedures) may be published on the AI website and disclosed to a third party. Approval from the policy owner must be obtained before disclosing the Approved Procedures to any third party.		

## Introduction

**As an asset manager, it is Aviva Investors' fiduciary duty to protect and maintain the value of assets over the long term, which depends on a stable, effective and well-governed social, environmental and economic system. Aviva Investors recognises its duty to act as responsible long-term stewards of its clients' assets. Consistent with its fiduciary and stewardship obligations, Aviva Investors maintains a deep conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes.**

Apart from a limited set of industries outlined in Aviva Investors' Exclusions Policy<sup>(1)</sup>, ESG factors are incorporated into the investment process rather than acting as a formal negative screen. This enables investment teams to capitalise on ESG value drivers whilst appropriately pricing associated ESG risks.

We seek to embed ESG insights across the entire investment process, helping to shape the 'House' macro outlook, while systematically integrating ESG research in country, sector and corporate analysis. This 'connected research' approach, where responsible investment specialists collaborate closely with investment teams across the business, enables Aviva Investors to embrace a holistic and long-term approach to research, investment decision making, and risk management.

1. <https://www.avivainvestors.com/content/dam/aviva-investors/main/assets/about/responsible-investment/downloads/esg-base-exclusion-policy-controversial-weapons.pdf>

## Governance Oversight

Aviva Investors has several internal bodies/personnel responsible for overseeing the implementation of the Policy:

- 1. Aviva Investors ESG Governance Committee (ESG GC)**  
Responsible for overseeing approval, implementation and monitoring of new ESG policies across all asset classes at Aviva Investors.
- 2. ESG Working Groups**  
Responsible for co-ordinating ESG actions, framework & policies across Multi-asset & Macro and LDI strategies. This includes sharing best practice relating to ESG criteria and supporting the development of a common ESG framework. The working groups provide regular feedback and recommendations to the Aviva Investors ESG Governance Committee.
- 3. Aviva Investors Global Responsible Investment (GRI) Team**  
Consists of corporate governance and responsible investment professionals who act as a centre of expertise on ESG matters. The GRI Team works together with fund managers, analysts and risk functions, to add value through the integration of ESG factors into the specific investment analysis and decision-making process.

## Integrating ESG in Sovereign Assessments

A narrow set of environmental, social and governance indicators have traditionally been integrated into our sovereign debt analysis. These most notably included measures of corruption, rule of law and state fragility. However, over time we have both expanded the list of ESG factors monitored and developed standalone ESG sovereign assessments. The untangling of various strands of ESG drivers from other fundamental risk-return characteristics enables our investment teams to better understand risk-return patterns over time. We recognise specific ESG variables impact performance in different ways based upon the dynamics and circumstances of a country. Therefore, by drawing out ESG indicators for each market, we can capture momentum and form country-by-country assessments of materiality and causality.

Aviva Investors proprietary sovereign ESG rating model (AI ESG Sovereign Monitor) seeks to identify the core indicators that can shape the near, medium and long-term stability, growth and sustainability of a country. Factors have been selected and weightings assigned, based upon the modelling of backdated data, and Aviva Investors' views on forward-looking ESG market dynamics and megatrends. ESG indicators monitored and assessed include the following:

### Aviva Investors ESG Sovereign Monitor

Environment	Social	Governance
Environmental health Capacity to cope with natural hazards	Human development Gender equality Social inequality Infrastructure quality	State governance Institutional strength Freedom of press State fragility Ease of doing business

## Integrating ESG in Corporate Assessments

Aviva Investors has a large dedicated team of responsible investment analysts organised by theme, sector and region. The team is responsible for generating industry level and bottom-up ESG company analysis. Collaborating closely with equity and credit analysts, the responsible investment team ensure that material ESG considerations are fully embedded in equity and credit valuations. ESG research and proprietary corporate ESG ratings are made available to all global investment teams through Aviva Investors internal research and portfolio management platforms.

Aviva Investors proprietary corporate and sovereign ESG scoring tools have been developed utilising congruent scales. This enables the attribution of aggregate ESG scores at a fund level for multi-asset strategies.

Further information of how Aviva Investors integrates ESG within corporate equity and credit investments is detailed in a standalone ESG asset class policy<sup>(2)</sup>.

2. Global Credit and Equities Responsible Investment Policy

## Responsible Stewardship

At its simplest, stewardship means taking responsibility for something entrusted into our care. As a large global asset manager, responsible stewardship means monitoring, engaging, and, where appropriate, intervening, on matters that can have a material impact on the long-term value of our clients' investments - matters such as corporate and country governance, diversity, climate change, protecting ecosystems and promoting human development.

As investors in equities we utilise our voting rights to hold management and corporate boards to account on the extent to which they are protecting the interest of long-term shareholders and growing the business in a sustainable and responsible manner. We also engage in regular dialogue with companies, on behalf of our equity and credit holdings, to share best practice and encourage more responsible behaviours over time.

In select circumstances, Aviva Investors will engage with representatives of sovereign issuers, including ministries of finance, to exchange perspectives on regulatory developments and environmental, social and governance policies. As a respected long-term global investor, we are able to leverage our standing in the market, to provide recommendations to government agencies on a range of topics including sustainable finance, and the economic merits of adopting progressive social and environmental policies.

Further information of how Aviva Investors approaches and discharges its stewardship responsibilities is detailed in a standalone stewardship policy<sup>(3)</sup> and responsible investment activity report<sup>(4)</sup>.

3. Aviva Investors Stewardship and Responsible Investment Policy

4. Annual Review – Responsible Investment

## Multi-Asset Strategies

On a quarterly basis Aviva Investors holds a cross departmental investment forum to debate and agree a consensus macroeconomic and political outlook for key regions and markets. The 'House View' forms the base case investment outlook which flows through to capital allocation and investment idea validation for multi-asset strategies. Members of the responsible investment team are represented in these fora and ensure relevant and material macro and thematic ESG considerations are embedded within the House View and risk outlook.

All investment ideas implemented within Aviva Investors' flagship AIMS multi-asset range of funds must be approved by the Strategic Investment Group (SIG). A representative of the responsible investment team is a permanent member of the SIG ensuring that material environmental, governance and social considerations are considered when evaluating investment themes, country exposures and underlying securities in individual baskets. All investment papers presented to the SIG for approval include an assessment on positive and negative ESG factors which may impact the success of the idea.

## Multi Asset Range

The Multi Asset range seeks to allocate pools of capital across a spectrum of asset classes and active and passive strategies to deliver optimum risk adjusted saving and retirement outcomes for clients.

Assets allocated to internally managed funds will be subject to Aviva Investors' in-house ESG approach across equities, corporate and sovereign debt. This includes the integration of ESG data and insights within the investment process, and the implementation of active ownership rights consistent with Aviva Investors commitment to be a responsible long-term steward of capital.

Assets allocated to externally managed active funds will be selected and monitored by Aviva Investors multi-manager team. The multi-manager team has developed a proprietary '7P process' for evaluating managers which includes an assessment of the parent firm, policies, people and portfolios. The 7P process has been designed to fully integrate ESG policies and performance of external managers during the selection and on-going review process. Where standards fall short of our minimum ESG expectations, we will engage with the manager, and where possible bring any associated voting rights back in-house to Aviva Investors.

The investment team receives a regular ESG score of the Multi Asset range in absolute terms and relative to appropriate benchmarks. This enables the fund managers to consider ESG portfolio trends in future asset and fund allocation decisions.

## Macro Strategies

Sovereign debt strategies are fully integrated into Aviva Investors' House View process described above, and the base case macro outlook is subsequently incorporated into fund strategies. Developed and emerging markets focused investment teams then complement this process with deep dive assessments on the fundamentals of individual countries. This comprises both a quantitative and qualitative approach to sovereign research. Aviva Investors proprietary ESG Sovereign Monitor is utilised by investment teams to enrich their traditional economic and political data models. In addition, the responsible investment team supplements ESG data scores with qualitative commentary and insights on a core group of developed and emerging markets. Where issuers exhibit comparable pricing, technical and fundamental characteristics, investments will be steered towards countries with stronger ESG credentials.

Aviva Investors recognises that the investment value of ESG sovereign ratings often resides in trends and momentum rather than absolute scores. This is particularly important for emerging markets where absolute scores are generally lower and more volatile. ESG qualitative forward-looking insights are leveraged by investment teams to identify countries that are likely to be positively or negatively re-rated and are currently being mis-priced in the market.

## **LDI Strategies**

Liability Driven Investment strategies typically maintain portfolios composed of government debt securities of varying durations issued by G7 countries. Consequently, the extent to which ESG considerations materially impact portfolio construction is limited relative to strategies with broader and more diversified investment universes. Nevertheless, LDI investment teams monitor ESG ratings of securities and portfolios and will give deference to issuers with higher ESG ratings where practical.

## **Industry Participation**

Aviva Investors advocates policy measures to support efficient and sustainable capital markets at national, EU and UN levels to improve outcomes for our clients. Aviva Investors also utilizes its influence and insights as a large institutional investor to advocate for policy reforms that address market failures and help build more sustainable capital markets.

Aviva Investors is also a proud founding signatory of the UN Principles for Responsible Investment (UNPRI) and is committed to complying with these Principles across all asset classes.

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles