QUARTERLY ENGAGEMENT UPDATE

Q3 2023

November 2023

As an active owner with scale and global reach, we use engagement, voting and investment decisions to drive a transition to a sustainable future.

AVIVA INVESTORS

Contents

Key contributors

Mirza Baig
Global Head of ESG

Steve Waygood
Chief Responsible Investment Officer

Andy Ford
Head of ESG Investment Specialists

Saloni Shah
ESG Investment Specialist

Engagement overview

An overview of key statistics from this quarter.

3684
company and country engagements

42
engagement wins

22
Of these outcomes were material[1]

344
substantive engagements[2]

40
votes on resolutions at **16** shareholder meetings

20 per cent
of votes against management resolutions (including **46 per cent** of pay proposals)

89 per cent
votes in favour of climate and social shareholder proposals per quarter

WINNER
of The Positive Change Award for Sustainability in the 2023 European Markets Choice Awards

74
countries engaged this quarter

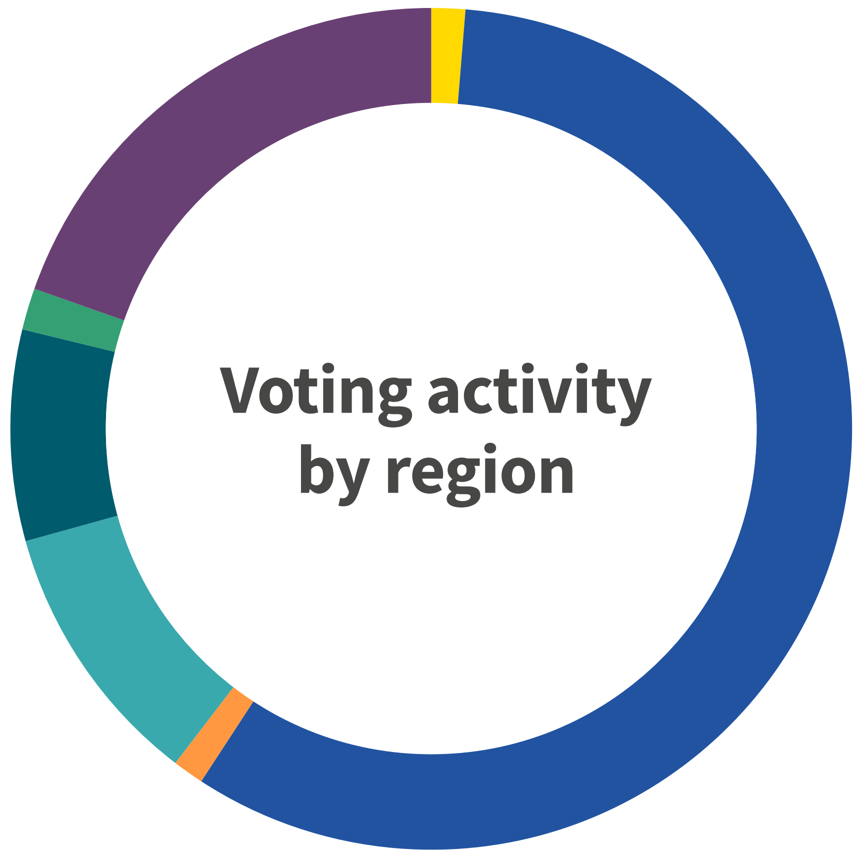
1. Refers to changes deemed particularly meaningful in terms of financial materiality and social and environmental impact and outcomes
2. Substantive engagement constitutes targeted and tailored engagement

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; one of the first asset managers to do so globally. Our policy is reviewed annually and signed off by the Aviva Investors board.

This quarter's voting statistics – key numbers

- Voted on **40** resolutions at **16** shareholder meetings
- Voted against **20 per cent** of management resolutions, including **46 per cent** of pay proposals



Region	(%)
Africa	1.3
Asia	57.9
Australasia	1.2
Europe (ex UK)	10.3
North America	8.1
South America	1.6
UK	19.6

Source: Aviva Investors.

Issue	Number of resolutions	Non-support (%)
Anti-takeover measures	4	0.0
Auditors	644	9.6
Climate-related (resolution proposed by management)	3	33.3
Directors	2,817	25.1
Other	1,063	11.9
Related party transactions	312	18.9
Remuneration	844	45.9
Report & accounts	374	11.5
Share issues/capital related	1431	7.5
Shareholder resolutions (E,S & G issues)	40	37.5
Shareholder resolution (supported by management)	101	15.8
Takeover/merger/reorganisation	152	5.9

Source: Aviva Investors.

Pillar voting

	Number of companies not supported (management resolutions) having not met our expectations	Percentage of shareholder resolutions supported
People	133	100
Earth	7	100
Climate	9	75

Source: Aviva Investors.

Fairness, climate action and nature protection: Our key takeaways from AGM season

By partnering with companies, encouraging them to be more progressive, we believe we can contribute towards a world that is more sustainable, stable and prosperous. Where they fall short, we will not hesitate to use our votes and broader influence to hold them to account.

By partnering with companies, encouraging them to be more progressive, we believe we can contribute towards a world that is more sustainable, stable and prosperous. Where they fall short, we will not hesitate to use our votes and broader influence to hold them to account.

As our CEO Mark Versey set out in February in our annual letter to company chairpersons, our three stewardship priorities for 2023 are:

1. Tackling the cost-of-living crisis
2. Transitioning to a low-carbon economy
3. Reversing nature loss

In the first half of the year, our team voted at 4,495 meetings, most of which were annual general meetings. Around one quarter of the votes cast were not in support of management, broadly consistent with previous years.

Fairness and inequality

As the cost-of-living crisis has continued, there have been an increasing number of questions around executive pay, fairness and inequality. Fairness is a complex and multi-faceted issue, including 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.

Our key takeaways from AGM season

(cont'd.)

A considerable number of the pay reports we did not support in the first half related to concerns over excessive CEO pay, including cases where the gap between employees and the executive has widened. Runaway pay carries reputational risk and can damage morale. The issue is particularly prevalent in the US. Overall, our concerns on pay ratios were slightly down on last year, suggesting executives are seeing their remuneration adjusted.

Meanwhile in the UK, we continued to challenge organisations that do not pay the real living wage or are not accredited by The Real Living Wage Foundation, which led us to reject 53 UK remuneration reports.

Positively, we welcome the fact more companies disclose how they are supporting employees through pay, benefits and wellbeing packages. Many have chosen to award higher salary increases in percentage terms to the lower paid and some have made one-off support payments. We now want to see greater transparency around how broader stakeholder considerations are viewed in deciding executive pay, particularly in the treatment of customers and within consumer-facing energy and utility companies, supermarkets and banks.

We need to be mindful of the wider picture around executive pay. Investors need to balance the aforementioned issues with ensuring pay is sufficiently competitive to recruit and retain executive directors. Navigating this path is likely to present challenges for investors and companies and this is something we are considering and discussing with stakeholders. Nevertheless, our observation is that discussions have shifted from simply focusing on just the people at the very top. Perhaps we are moving away from the "star CEO" culture.

Our key takeaways from AGM season
(cont'd.)

Climate Action

Given the urgent need for companies and economies to decarbonise, we scrutinise commitments on climate action closely, and throughout 2023 we expect a record-breaking number of shareholder proposals in this area.

We hold directors to account if we see a lack of transparency and disappointing progress on climate action. We are also sensitive to cases where companies say one thing and do another, for example, supporting Paris climate targets while lobbying against them at the same time.[3]

Although we see increases in the number of signatories to the Science Based Targets Initiative (SBTi), there is often a lack of financial planning that would give creditability to the energy transition.

With these objectives in mind, we voted against over 100 directors at different companies during H1 2023.

Given the systemic nature of the issue, we have also encouraged companies to do more in supporting policy reform. Comprehensive climate action demands policy shifts, incentives and regulatory frameworks that encourage a rapid but orderly and just transition to renewable energy. Market forces alone cannot tackle the climate crisis - we require political will and public policy muscle.

Nature protection

Humans are rapidly destroying the natural world and the ecosystems on which we depend. It is clear the Earth's biodiversity and ecosystems are not being valued today, resulting in their exploitation and depletion. However, given that 55 per cent of global GDP is reliant on our biodiversity and ecosystems, we believe it is just a matter of time until it is and will increasingly become an important driver of company valuations.

We were one of the first to formally embed our assessment of corporate commitments to, and disclosures on managing biodiversity and deforestation-related impacts and dependencies in, our voting policy in 2022. This year, we expanded our focus to include financial institutions. Deforestation is one of our focus issues as tackling this issue is inextricably linked with addressing climate change.

To date, we have voted against resolutions at 104 companies with significant exposure to tropical deforestation as a result of a lack of robust policies and targets to reduce deforestation. Many companies acknowledge the problem but do not have adequate policies to identify where the risks are or are unable to demonstrate any action on reducing deforestation.

Biodiversity-related shareholder resolutions are a more recent phenomenon at company AGMs. There have been fewer than a dozen focused on maintaining biodiversity, the sustainable use of plastics and water; we supported most of them.

3. Read more about action against the largest carbon emitters in Supply and demand: Tackling both sides of the carbon emissions equation

Regional insights on voting action

1: The polarisation of ESG

Firstly, we have seen several anti-ESG shareholder resolutions in the US that could have a contagion effect elsewhere. ESG has become politicised on both sides; in our view, one troubling development is that what in reality are anti-ESG proposals areoften in disguise / mocked up as being pro-ESG.

These proposals are effectively urging companies to go against or withdraw from agreed and well-established ESG priorities.

Our default position is to vote against anti-ESG proposals, but there may be certain occasions where we may support such proposals.

The emergence of these resolutions has muddied the waters – not only is there is a lot of nuance to the issues being raised, there is now complexity in trying to disentangle political agendas from the investor or corporate focus.

2: Are US Boards truly independent?

Staying in the US, the first half saw an increase in voting against non-executive directors in the US (2,601 in H1 2023 vs 2,546 in H1 2022).

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). Whilst this may not seem like a particularly long time, there are many companies where non-executive directors have served between 15-20 years. The average would be higher if it wasn't for new directors joining boards in recent years, which, to some extent, have been appointed in order to meet shareholder expectations on diversity.

Therefore, we will vote against long-serving directors if there is an insufficient number of truly independent directors on the Board). Interestingly, US companies typically do not see this as a problem.

Our view is that boards need to be properly refreshed to ensure new perspectives are brought, alongside experience, 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.

3: Japanese Board diversity on the rise

Finally, this year has seen a decline in our votes against Japanese companies (223 in H1 2023 vs 251 in H1 2022) as a result of improved female representation on Japanese boards.

In 2021, the average percentage of female directors on Japanese boards was 8.7 per cent. The average is now over 12 per cent, which has largely been driven by investor sentiment and is an issue we have been encouraging companies to address for years given Japan being undisputedly behind other countries in this area. This demonstrates how persistent and collaborative engagement can be a powerful tool for change.

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 in the boards and management of TSE prime companies last September. 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 to facilitate the nomination of more female directors. 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 market to achieve at least 30 per cent female representation by 2030.

Promoting well-functioning markets

Sustainable Finance Centre for Excellence – Macro Stewardship

Our macro stewardship work represents a natural progression from ESG integration and micro stewardship. Investors do not operate in a vacuum, and feedback loops exist between investment activity and the real-world upon which we rely to deliver risk-adjusted returns in the long run.

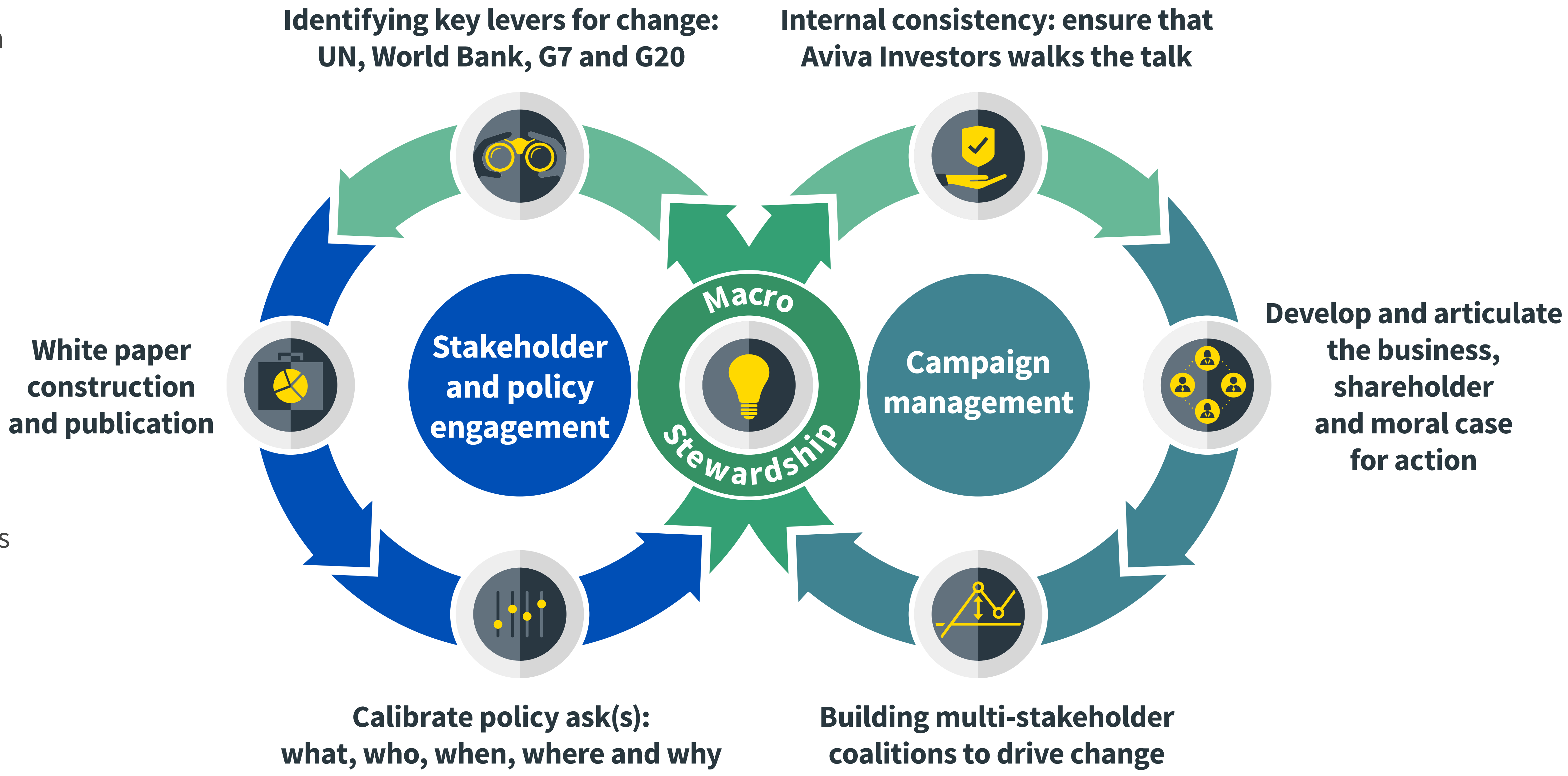
All investments have an impact, whether positive or negative, upon environmental, societal and financial systems. These real-world systems in turn can affect the overall risk and return profile of capital markets. Market failures, such as unpriced negative externalities, can present systemic risks which, if left unchecked, can disrupt the stability of the market and therefore threaten investment performance.

In this sense, each of the SDGs is representative of one or more market failure. Collectively, a failure to deliver the SDGs represents a risk to the stability and integrity of financial markets, with concurrent risks for market participants and our clients.

While ESG integration and engagement are crucial, they are insufficient on their own to create a sustainable financial system. Investors can only do so much in a market where the rules of the game incentivise poor practices while failing to reward sustainable ones.

Investors should therefore intentionally and proactively identify policies and practices that contribute to the stability of environmental, societal and financial systems. This is not something that can be undertaken by investors alone, who are equipped to exploit market inefficiencies, not rectify market failures. But nor is it something policymakers and regulators can do effectively or efficiently without multi-stakeholder engagement. Identifying and establishing regulatory systems and policy interventions to correct material market failures and foster sustainable and more resilient capital markets relies on robust feedback loops between investors and policymakers.

Our Sustainable Finance Centre for Excellence targets the most material risks and failures in both financial and non-financial terms, where we have agency, opportunity, and expertise to act and influence policymakers, regulators and peers. We harness insights from our investment process to ensure engagement with those who shape the rules of the game is robust and well-informed. To the right, you can see how we use macro stewardship to seek to correct market failures.



Amanda Blanc, Aviva Group CEO, and the Transition Plan Taskforce Disclosure Framework Launch

Governance People Earth Climate

Issue

Ahead of COP26 in 2021, there was an increasing trend among companies to make public commitments to reach net zero emissions without explaining the roadmap to achieve their targets. Today, more companies have released transition plans, but only a small minority of FTSE 100 companies have detailed, actionable plans, compared to a significant majority of companies publicly saying they are committed to becoming net zero by 2050.

Climate transition plans are a key tool to demonstrate credible action on climate to stakeholders and investors. High-quality transition plans have the potential to mobilise green and transition finance at a transformative scale globally.

Action

Amanda Blanc, the Aviva Group CEO, pushed for the creation of the Taskforce ahead of COP26, and set the tone with Aviva's own 2040 Net Zero ambition, announced in March 2021, and first release Transition Plan in 2022. This led to the establishment of the Transition Plan Taskforce (TPT) 18 months ago, which Amanda was invited to co-chair, to deliver a gold standard for private sector transition plans. The TPT's final Disclosure Framework was launched at a market open event at the London Stock Exchange in October 2023. As the TPT's outputs are set to be referenced in UK regulation, they will empower investors, consumers, and lenders to be able to make decisions based on comparable and consistent information.

Amanda, as the TPT Co-Chair, was invited to deliver a keynote speech at the launch event. Speaking to an in-person audience of 120 senior leaders from across the economy and civil society and a further 1100 online attendees, she focused on:

4. The need to stick at your net zero journey. After creating a transition plan, businesses need to deliver it, and this might involve difficult decisions along the way. The Framework gives a clear and consistent process for trying to navigate the journey.

5. The importance of getting others involved. Only a small fraction of the wider economy has prepared transition plans, so companies should share the Framework with other companies they interact with at every level.

A call to push the system. Governments, regulators, supervisors, international financial institutions and multilateral bodies all have a key role to play in the net zero transition, so with businesses now expected to rigorously plan for the net zero transition, we should ask the same of those that govern us.

Outcome

Through Amanda's leadership of the TPT, and previous work Co-Chairing the GFANZ transition plan working group, Aviva are continuing to deliver UK leadership in the norm-building toward a global baseline standard on transition plans, by prioritising international consistency at every step of the way with existing standards and frameworks. The TPT is already engaging with non-UK governments and regulatory networks to support conversations on how to build common baselines and principles for transition planning.

Companies successfully achieving some of their transition goals depends on the enabling environment. That's why we are continuing to advocate for governments, and all members of the international financial architecture, to set out detailed transition plans on how they are managing climate change risks and how they are contributing to the net zero transition and hope to see this discussion develop further at COP28.

OECD High-Level Plenary on preventing carbon lock-in in transition finance

Governance People Earth **Climate**

Issue

The current level of emissions means that the window for meeting the Paris Agreement's goal to limit the global average temperature rise to 1.5°C is 'rapidly closing'. Investment into fossil fuel production and infrastructure is continuing, which means that there is a high risk of carbon lock-in. This occurs where fossil fuel assets continue to be used, despite the availability of low-emission alternatives, delaying the transition to a low-carbon economy. From an investment perspective, it is crucial that transition finance is not used to make marginal improvements to high-carbon infrastructure but be anchored in entity-wide climate transition plans.

Action

Steve Waygood was invited to join a high-level plenary with the Organisation for Economic Cooperation and Development (OECD) at their head office in Paris. He was asked to represent the private investor voice during a discussion on how transition finance can be credibly scaled up to mobilise investment in low-carbon technology in high-emitting industries, in order to avoid the risk of carbon lock-in.

During the plenary, Steve was joined by panellists representing the conservation organisation World Wide Fund for Nature, climate change think tank E3G, economic policy think tank Official Monetary and Financial Institutions Forum, and the financial supervisor Spanish Financial Markets Authority. Steve focused on:

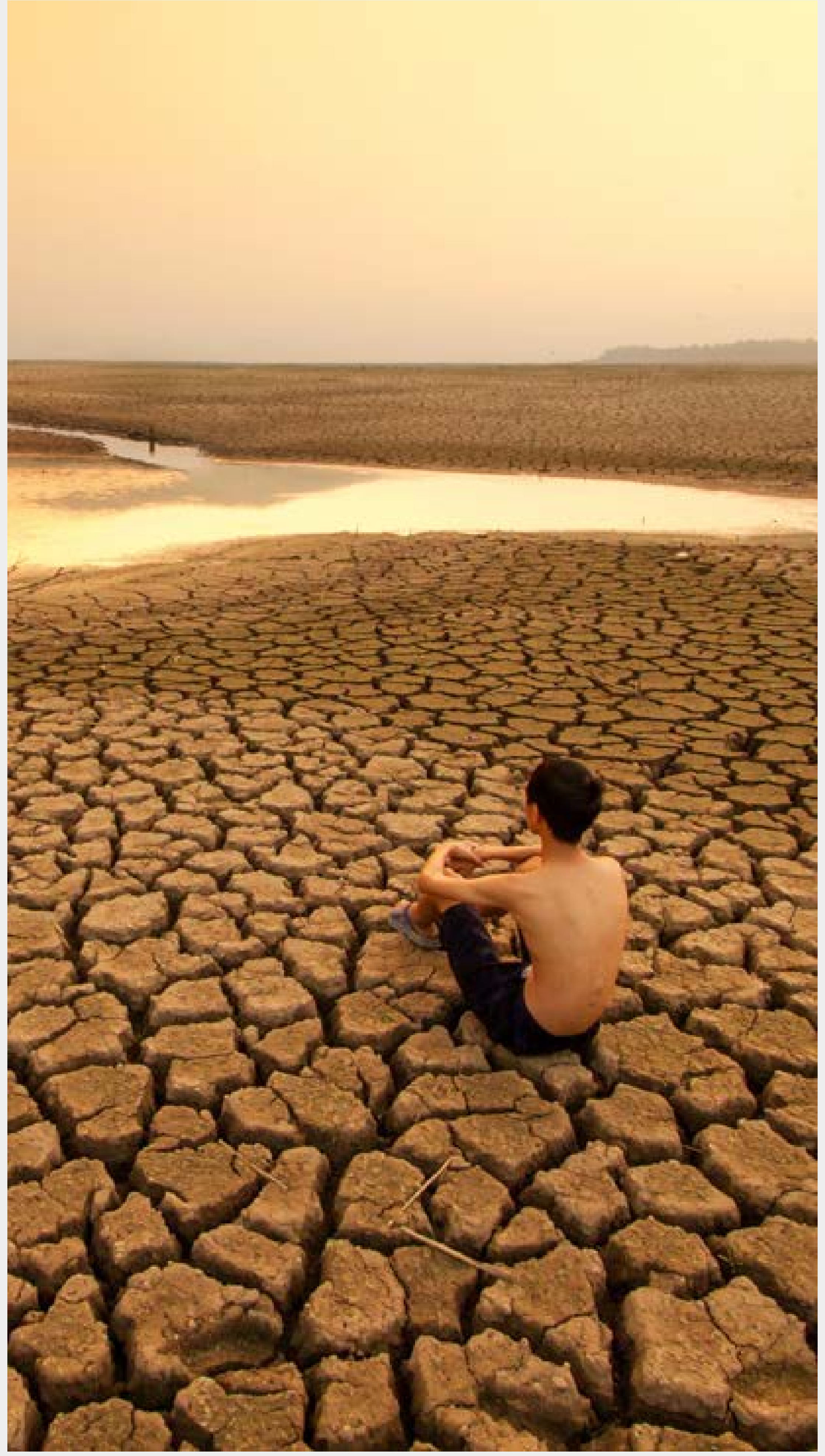
- The urgency needed to deliver the policy mechanisms to drive private sector investment in transition finance. The current emissions trajectory may lead to long-term consequences that result in economic collapse in some countries, with a likely erosion of value in the tens of trillions of dollars.
- The importance of interactivity between the policy needs of companies and investors on a regional and sectoral basis and the development of policy frameworks to support the transition.
- The need for all members of the financial architecture to develop transition plans, in line with reinterpreted mandates. Progress against the plans should be reported on annually. As well as the decarbonisation of operational and financed emissions, the scope of these transition plans should include the development of an enabling environment for those it regulates, and collaboration with international partners to support a just global transition.
- Countries should produce transition plans, detailing how their nationally determined contributions under the Paris Agreement are funding the transition and setting out a clear policy pathway. National transition plans will be a key input when investing in sovereign debt.
- The present gap for a facilitator of the financial architecture transition. Organisations with existing capabilities in this area could fulfil this role, such as the OECD.

Outcome

The OECD are a key stakeholder in our campaign for reform of the financial architecture due to their role in the international financial ecosystem. Ahead of COP28, we would like to see international financial architecture reform in the dialogue on how to unlock the $4-6 trillion per year needed to transform to a low-carbon economy by 2050, and this plenary was a chance to reiterate our call to countries and institutions to use their influence to request that each institution set out a pathway to align their work to the transition.

We continue to develop work on how the reform of the international financial architecture could be facilitated by an existing institution within the system, to identify gaps for accountability and steward the transition. We believe the OECD could be a suited candidate for this work, through their strong convening power and connections with the G20 and UNFCCC and will take opportunities to explore this further.

UN Framework Convention on Climate Change (UNFCCC) on Article 2, paragraph 1 (c) of the Paris Agreement



Issue

There is a huge investment gap to be closed to finance the transition and private and public finance together must be mobilised to do so. The UNFCCC Standing Committee on Finance found that climate finance in 2019-20 was $803 billion , which is less than a quarter of the annual investment levels needed by 2050.

In the Paris Agreement, Article 2, paragraph 1(c) aims to make finance flows consistent with a pathway towards low GHG emissions and climate-resilient development. Article 9 stipulates that developed countries should provide financial assistance to developing countries with respect to mitigation and adaptation. As part of a global push, developed countries should continue to lead the mobilisation of climate finance from a wide variety of sources. As private finance participants, we offer any assistance we can to bring finance and finance system outcomes into international climate negotiations. On occasion, we get invited to participate in deliberations with multilateral organisations to help inform the negotiation outcomes, such as COP28 happening in Dubai later this year. Our macro stewardship engagement with policymakers and negotiators helps ensure they understand the role of private finance and why international financial architecture reform is vital to unlock investment and needs to feature in main conferences.

Action

Most recently Steve Waygood was invited to attend the second workshop under the Sharm el-Sheikh Dialogue on Article 2, paragraph 1(c) under the Paris Agreement, in Geneva. The workshop brought together a diverse range of voices from the public, private and NGO sectors to develop the understanding of Article 2, paragraph 1(c) and its complementarity with Article 9.

At the workshop, Steve argued that paragraph 1(c) needs to be relevant to all flows of private finance, not just development finance. He expressed deep concern at the current lack of a coherent plan for mobilising capital to fund the transition to a low-GHG emissions and climate-resilient economy at a sufficient scale.

This is a key aspect of our macro stewardship engagement because climate change is a systemic risk that will lead to an erosion of value across all portfolios over time. As part of our duty to look after our clients' long-term interests, we advocate for changes to the financial system that will correct these market failures.

Outcome

A report on the workshop discussion, including Steve's contributions, is being prepared for consideration by the 194 countries that ratified the Paris Agreement at COP28.

Ahead of COP28, we are setting out further suggestions to mobilise private finance to close the huge investment gap needed to fund the transition. We are calling for a cohesive vision for the delivery of finance to support a whole-of-economy transition to avoid fragmentation and unintended consequences. This should be accompanied by a supportive international financial architecture that is consistent with this vision, which means removing financial regulation that holds back the transition and all institutions having their own transition plans.explore this further.

Engagement outcomes

Effective and responsible active ownership is fundamental to our investment approach.

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

The mechanism for engagement varies but typically we engage through emails or letters, which result in one-to-one meetings with company representatives such as board members, senior executives and managers of specialist areas.

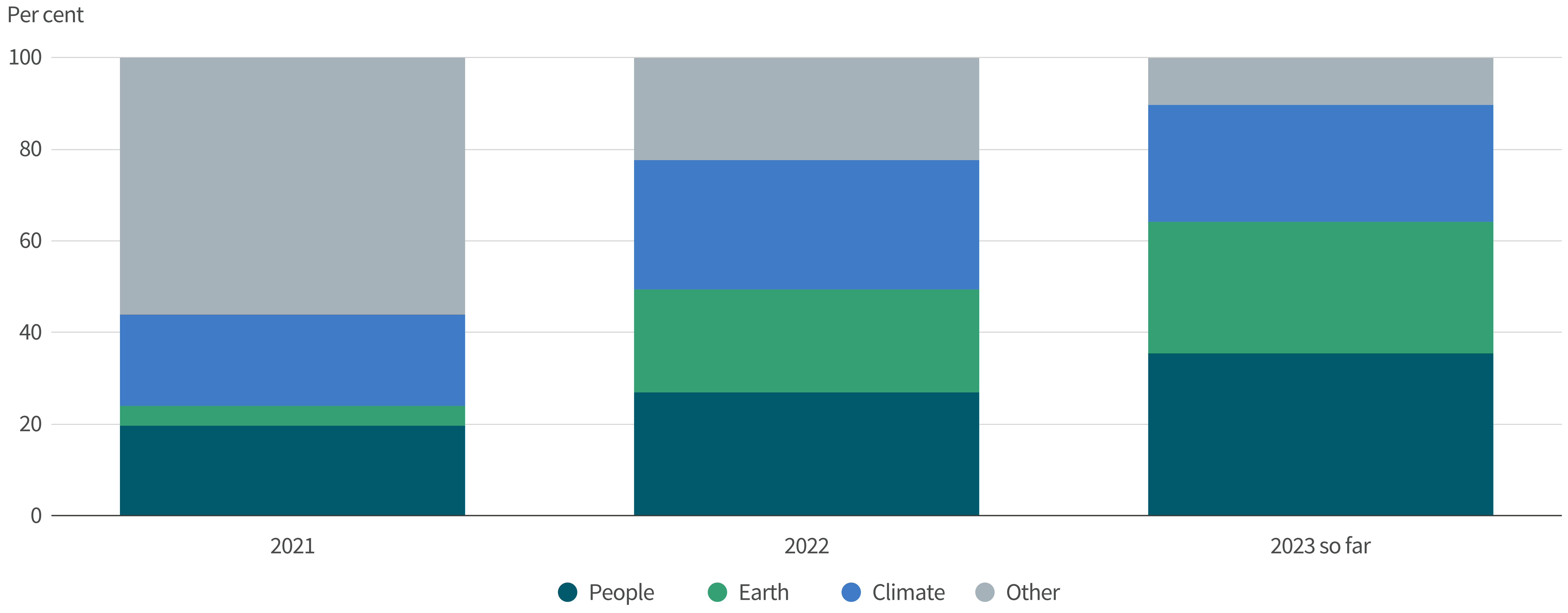
We also engage with company advisers and stakeholders through phone calls to obtain more information on a company or sovereign entity.

Most of our engagement is a solitary endeavour; however, we also engage with other investors in group meetings and collaboratively through participation in dedicated initiatives.

Q3 2023

3684 Overall company engagements

344 Substantive engagements	**42** Engagement wins	**22** Material wins

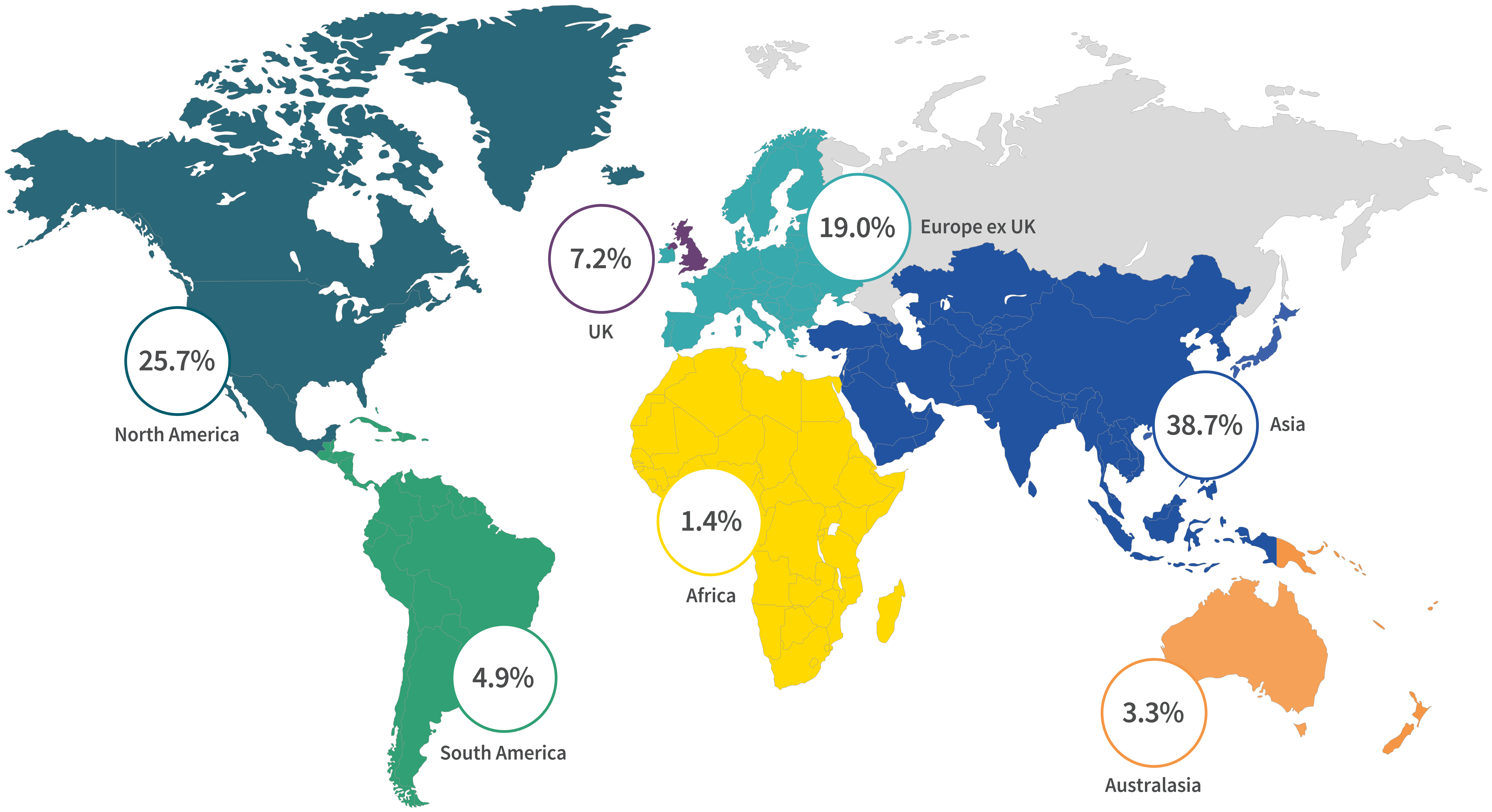


Engagement outcomes (cont'd.)

Engagement by region

Region	(%)
Africa	1.4
Asia	38.7
Australasia	3.3
Europe (ex UK)	19.0
North America	25.7
South America	4.9
UK	7.2

Source: Aviva Investors.



How we engage

Annual chair letter to company chairs

In January 2023, Aviva Investors CEO Mark Versey sent a letter to the chairs of companies we invest in (and some that we don’t, but still want to influence) to set our stewardship priorities for the year.

This year, our three stewardship priorities are:

- **Tackling the cost-of-living crisis;**
- **Transitioning to a low-carbon economy;**
- **Reversing nature loss.**

The letter also addressed why tactical decisions by companies to address short-term challenges cannot undermine longer-term sustainability objectives, and also our commitment to hold companies accountable where progress does not reflect the urgency required.

Annual chair letter to sovereigns

In January 2023, Aviva Investors CEO Mark Versey sent a letter to the finance ministers and central bank governors of 49 different countries we invest in to set our stewardship priorities for the year.

This year, our three stewardship priorities are:

- **Protecting vulnerable people;**
- **Joining and participating in COFM (Coalition of Finance Ministers for Climate Action) and NGFS (Network for Greening the Financial System);**
- **Reversing nature loss.**

This letter drew also drew that tactical decisions to develop strategies regarding the broader economic environment do not undermine the delivery of critical longer-term sustainability objectives.

How we engage (cont'd.)

Climate Engagement Escalation Programme (CEEP)

The United Nations Environment Programme's (UNEP) recent report 'The Emissions Gap'[4] 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. Our three-year climate engagement escalation programme (CEEP) was established 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 a third of all global emissions, considering their Scope 3 footprint. Phase 1 launched in January 2021, when letters were sent to all board chairs on 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 fully divest our holdings in those companies. The figure below 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 lobbying: Transparency over and Paris-alignment for all lobbying activities

Climate disclosures: High-quality TCFD disclosures, including scenario analysis

Management incentives: Effective board oversight and meaningful climate targets in variable pay plans for senior leadership and wider business

Transition plans: Integrate decarbonisation roadmap into corporate strategy, include near-term targets

Climate targets: 2050 net-zero Scope 3 targets for entire business operations, validated by SBTi

4. Emissions Gap Report 2022 (unep.org)

How we engage (cont'd.)

Social Transition Strategy

The Social Transition Strategy 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 a three-year engagement programme targeting all companies invested in the strategy. Its objective is to help the fund achieve its aims mentioned above. It seeks to ensure holdings demonstrate robust human rights disclosure and due diligence (HRDD) by 2030, including a credible living wage commitment, by aligning with our people pillar expectations, the core elements of which are available in our annual letter to company chairs.[5]

Natural Capital Transition Strategy

Our Natural Capital Transition Strategy invests in companies helping deliver the transition towards a nature-positive economy. Holdings include companies that are either sector leaders in transitioning their business model to reduce their impact on nature, or those providing solutions to reduce human impacts on nature.

NCEP is a three-year engagement programme targeting all companies held in the strategy. 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. The core elements of our 'Earth' pillar expectations are published in our annual letter to company chairpersons.[6]

Climate Transition Franchise

The Climate Transition Franchise invests in companies deemed to be responding to climate change effectively as well as those providing solutions for climate change mitigation and adaptation.

CTEP is a three-year engagement programme targeting all companies invested in our franchise. Its objective is to help the fund achieve its aims of positively influencing climate-related behaviour and generate competitive returns. These core elements of our climate pillar expectations are available in our annual letter to company chairpersons.[7]

5. Annual letter to company chairpersons - Aviva Investors
6. Annual letter to company chairpersons - Aviva Investors
7. Annual letter to company chairpersons - Aviva Investors

Case studies

Governance People Earth Climate

Investor Initiative on Hazardous Chemicals (IIHC) engagement with BASF

Issue

From cooking equipment to fire repellents; from clothing to electronics; and from furniture to food packaging – PFAS chemicals are a component of products that are part of our everyday lives.

However, it is estimated that nearly 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'.

The Nordic Council of Ministers estimates that the direct healthcare costs from exposure to PFAS in Europe alone are €52-84 billion annually . With their widespread use and toxicity at low concentrations, action must be taken to reduce, and eventually phase out entirely, their use.

Action

In September 2022, the Investor Initiative on Hazardous Chemicals (IIHC), coordinated a joint letter to 54 manufacturers of hazardous chemicals to ask for greater transparency.

Our letter called on these companies 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 and work to improve their ranking in the next annual ChemScore benchmark. We then co-chaired an IIHC meeting with BASF to discuss our asks.

Outcome

Overall, BASF is making progress with regards to transparency, especially compared to peers. For instance in 2024, the company is going to disclose the hazardous chemicals it no longer produces.

The company is also not a major producer of PFAS, but is phasing them out of consumer facing applications. Whilst BASF is illustrating some willingness to be more transparent, we hope to see them go further and also disclose names of hazardous chemicals they do produce in future.

Case studies

ESG and Credit teams' joint engagement with UK Housing Associations

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% 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 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 reporting standards.

We have also been contributing to the ongoing consultation of the Sustainability Reporting Standard for Social Housing.

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. Providers were able to evidence comprehensive stock auditing and digital asset platforms to continuously monitor performance on decent homes and energy efficiency.

In other cases, larger providers operating in London who are more exposed to these risks seem further behind, demonstrating less alignment to SDG 11. In many cases, providers were only able to demonstrate partial stock auditing on a rolling basis, with a lack of clarity on the intrusive nature of these assessments or issues covered. Given that the Sustainability Reporting Standard for Social Housing was released just recently, we look forward to engaging with all companies to see improvements being made.

Case-studies (cont'd.)

Governance People Earth Climate

Intermediate Capital Group and AGMs

Issue

Good corporate governance helps foster an environment for positive performance. We look for evidence that the board is well equipped to effectively look over management. We also look for evidence that it is carrying out its role in ensuring that executive remuneration incentivises the right outcomes, yet is commensurate with executives' performance. Both director accountability and executive remuneration practices were identified as potential governance for Intermediate Capital Group. Over-boarding, which refers to when an individual has excessive external commitments, may hinder their ability to serve an organisation efficiently. Regarding executive pay, we believe that increases to fixed or variable pay should be supported with compelling rationale, and should not be out of line with the experience of other stakeholders, such as customers or employees.

Action

Ahead of the Intermediate Capital Group's AGM, our Head of Corporate Governance spoke to the Company Secretary about our over-boarding concerns for the new Board Chair. We also outlined our concerns regarding executive remuneration.

Outcome

Since our engagement, our concerns regarding the board chair's over-boarding have been addressed, given that it has been reported recently that he will step down as Chair of Lazard, reassuring us that he is able to fully dedicate his time to the company. Regarding pay, we are pleased to see that the Remuneration Committee has taken investors' views into account and decided to withdraw an initial remuneration proposal to increase the bonus opportunity, and also stagger the salary increases planned for executives over 3 years instead of 2. Since the meeting, we have followed up with more specific views on pay. We expressed that whilst the high success / pay out ratio aligns with a strong operating performance, we are mindful that bonuses are consistently close to maximum. Therefore we want to ensure targets are set at a sufficiently stretching level (particularly given the opportunity available). Given the increases in quantum, we advised the company we will be scrutinising targets and outcomes more going forward.

Case-studies (cont'd.)

Tesco's promising climate strategy

Issue

According to the World Meteorological Organisation, global temperatures have almost a fifty percent chance of reaching 1.5 degrees above pre-industrial levels at least once within the next five years. For consumer companies, slow progress is largely attributable to the challenge of addressing supply chain emissions due mostly to the fragmented nature of agricultural value chains. The food and beverage sector, which accounts for about a third of global GHG emissions, faces this difficulty in decarbonising as the majority of its emissions do not stem from direct operations but deep in their supply chains and in the in-use phase by consumers (two major Scope 3 categories).

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 discuss the long-term strategic direction of the company, governance and culture, remuneration and its approach to deforestation. On climate change, we encouraged for its transition strategy to be articulated more clearly and for more ambitious emissions reduction targets. In particular, the development and formal validation of science-based emission reduction targets (SBT) in line with the Science-Based Targets Initiative (SBTi) on all 3 scopes - with an emphasis on its agricultural value chain. This is crucial as more than 90% of Tesco's emissions footprint originates in its value chain.

Outcome

Tesco has made laudable progress, 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 has also rolled out sustainable agriculture innovations such as low carbon fertilizers among key vegetable suppliers, and a requirement for suppliers to commit to a net zero ambition by the end of 2023.

We will closely monitor the company's progress and press for improvement in other areas, including the robustness of its zero deforestation ambition, as well as the effective implementation of its regenerative agriculture and overall biodiversity ambitions.

Important information

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Contact

Aviva Investors
St Helen's, 1 Undershaft
London EC3P 3DQ
+44 (0)20 7809 6000

www.avivainvestors.com