RESPONSIBLE INVESTMENT REVIEW SUMMARY

2022

The intelligence that guides our investment decisions

AVIVA INVESTORS

Responsible investment review

This year's Responsible Investment Annual Review seeks to demonstrate how Aviva Investors has turned talk into action in 2022. We are product advocates of the Financial Reporting Council's (FRC) UK Stewardship Code and this report provides an executive summary of the impact that our responsible investment approach has had on our clients and on the society we serve.

Key. **Case study icons**

- Governance G
- People P
- Earth E
- Climate C

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2022 responsible investment highlights

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

3,328
company engagements

366
engagement wins[1]

194
of these outcomes were 'material'[2]

£1 billion
of sustainable transition loans provided, three years ahead of the **2025** target

1,425
substantive engagements[3]

73,438
votes on resolutions at **6,732** shareholder meetings

27 per cent
of votes against management resolutions (including **49.1** per cent of pay proposals)

60 net-zero
due diligence audits of existing assets delivered

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

350+
internal ESG research reports produced to support investment integration

41
countries engaged, **34** of which received letters on climate priorities

£1.8 million
of solar schemes are being developed in partnership with Push Energy

1. Defined as changes in entity behaviours in line with a prior engagement ask
2. Refers to changes deemed particularly meaningful in terms of financial materiality and social and environmental impact and outcomes
3. Substantive engagement constitutes targeted and tailored engagement

Purpose, strategy and culture

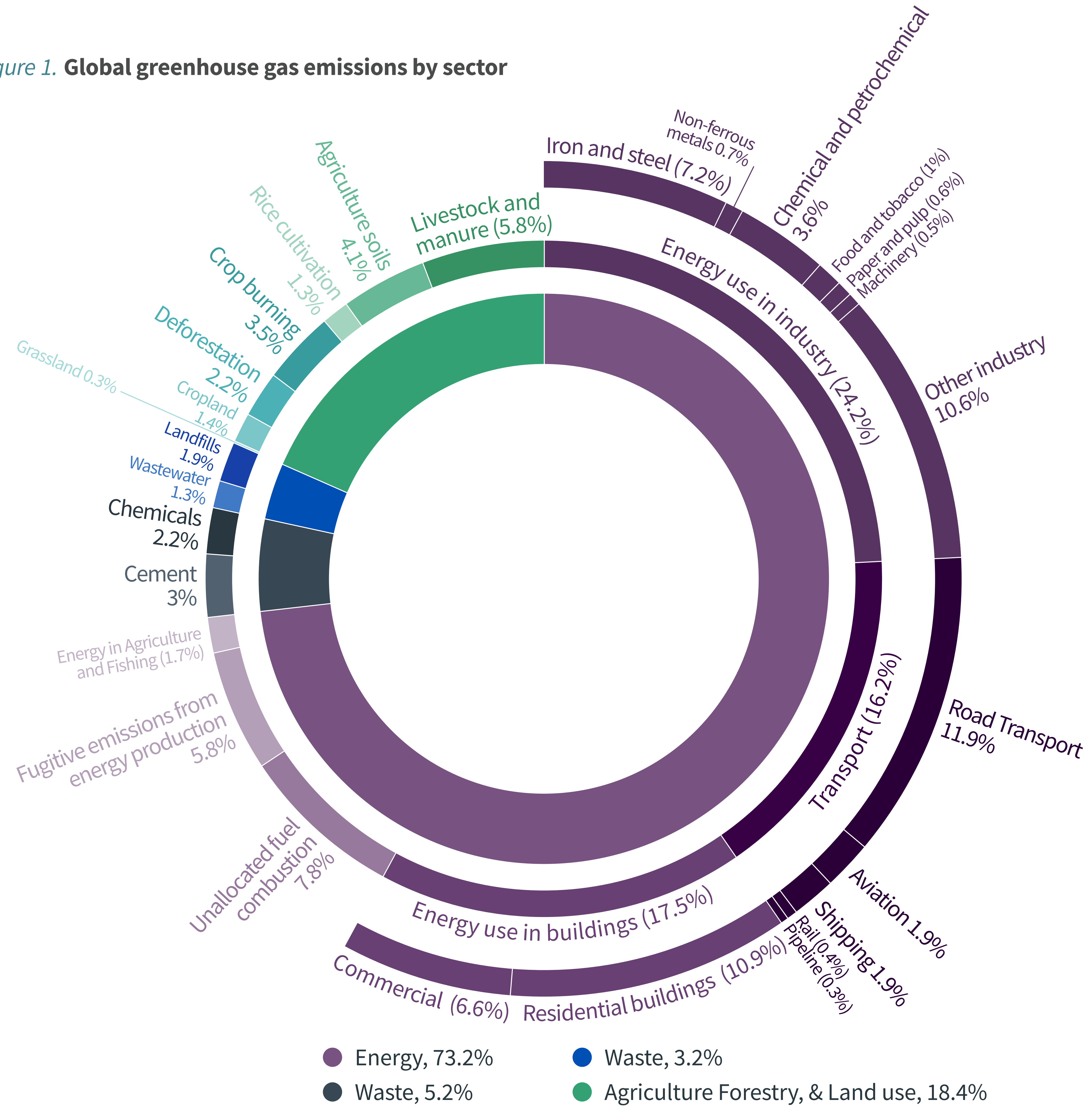
Our responsible investment philosophy

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

Investing to drive the transition

Our responsible investment philosophy is to invest in the transition to a more sustainable future and, importantly, promotes the relative merits of engagement over divestment. We seek to identify and invest in companies focused on delivering sustainability solutions, exhibit the highest standards of corporate behaviour (when measured against national and international norms), or are transitioning and evolving to become more sustainable and responsible. This final element sets us apart from many of our peers. 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 not help facilitate the transition to a low-carbon economy. Real change requires a radical overhaul of the world's economy and industries. Investors must be willing to support and be fully engaged in the transition from "brown" to "green". Creating a better tomorrow means we must play our part as investors in helping today's world become better.

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



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

Purpose, strategy and culture (cont'd.)

Adoption of solutions is key

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, 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 real assets 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.

In addition, 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. We of course 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 ultimately change the global economy and address these issues.

Proprietary T-risk models → Frameworks

We aim to identify both current sustainability leaders but also corporate and sovereign entities that have the potential and commitment to improve from a lower current base level. Using our proprietary transition risk (T-Risk) models alongside qualitative research generated by our large, dedicated team of in-house ESG specialists, we identify firms we believe will transition their business models and better manage their sustainability impacts.

We believe these businesses are most likely to be the winners of tomorrow. This approach increases the size of our investment universe and, with it, the opportunity to have the greatest possible impact. Crucially, it also increases our ability to generate alpha for clients and build more robust portfolios.

Changing the rules of the game

Investors can help drive the required transition by using a variety of levers, including voting, engagement and what we call macro stewardship. This refers to engaging with regulators, governments and other entities to change "the rules of the game" in favour of businesses providing solutions to sustainability problems or supporting the transition to a sustainable future.

We aim to correct market failures such as a lack of corporate disclosure on ESG risks and climate change – at a national, EU and international level – to improve long-term policy outcomes.

We believe engagement should "have teeth". Our engagement activity has a direct feedback loop into our investment decision-making, with the ultimate sanction of divestment a possibility if we believe we are not likely to see sufficient progress made by an investee entity. Importantly, in such cases, we will not "go quietly into the night"; where appropriate, we will publicly detail our reasons for divesting.

Purpose, strategy and culture (cont'd.)

Sustainable outcomes

We structure our thinking, research and sustainable product development around three key pillars, representing what we consider the three key sustainability challenges globally, namely social justice, biodiversity and natural capital loss and climate change. These pillars are aligned to the UN's Sustainable Development Goals (SDG).

We provide investment options across a range of asset classes that enable our clients to partner with us to address these challenges.

Figure 2. **The three biggest sustainability challenges**

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

Promoting well-functioning markets

Sustainable Finance Centre for Excellence – Macro Stewardship

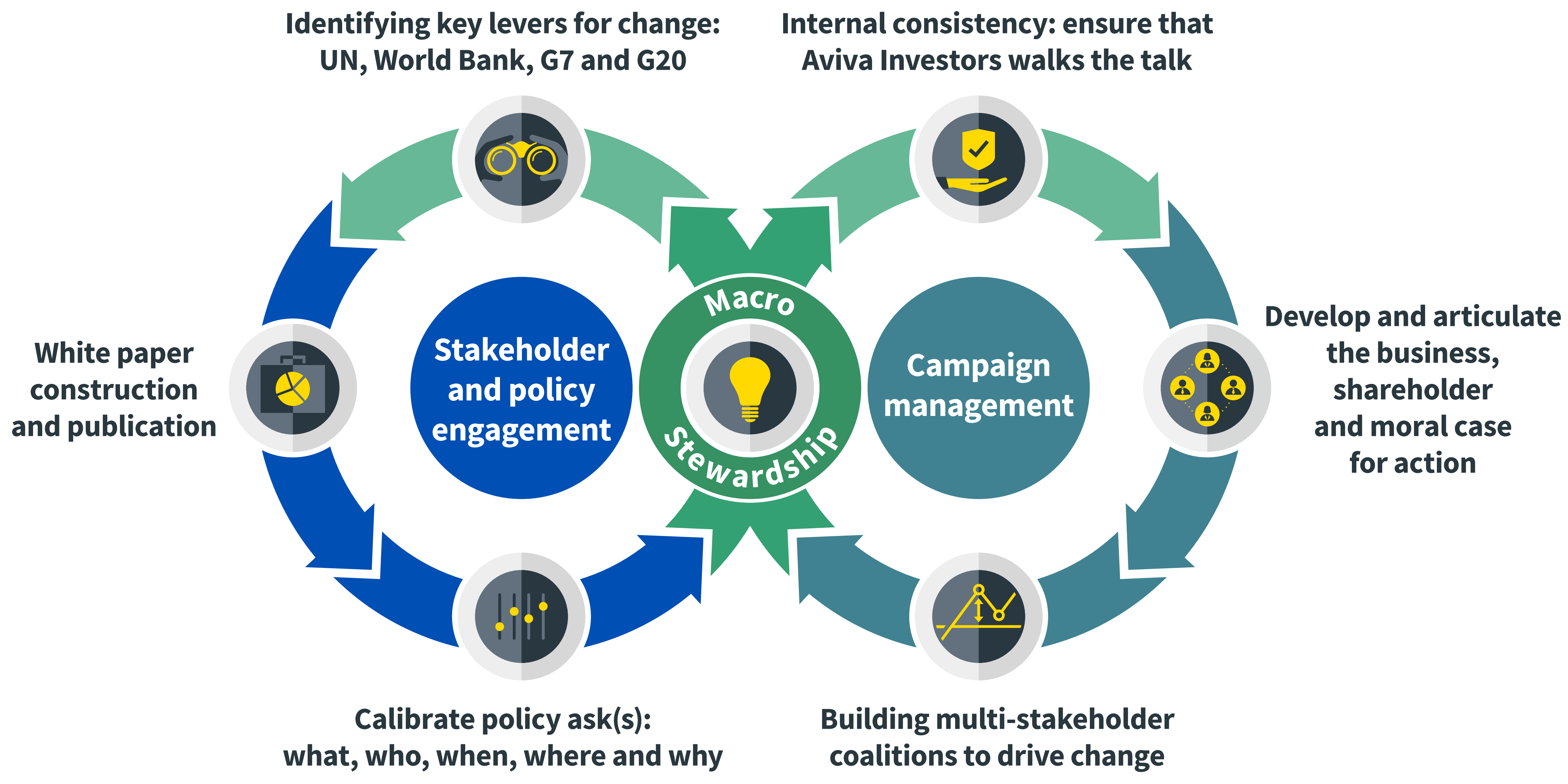
Our macro stewardship work represents a natural progression from ESG integration and micro stewardship. Investors do not operate in a vacuum, and feedback loops exist between investment activity and the real-world upon which we rely to deliver risk-adjusted returns in the long run.

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.



MARKET REFORM CASE STUDY

Advocacy for the transformation of the financial system to finance the transition to a low-carbon economy

G P E C

2 ZERO HUNGER | 8 DECENT WORK AND ECONOMIC GROWTH | 13 CLIMATE ACTION | 17 PARTNERSHIPS FOR THE GOALS

Issue

We are currently way off track to limit warming to 1.5 degrees Celsius above pre-industrial levels by the end of the century. This is despite 198 countries committing to the Paris Agreement. To finance a just transition to a net-zero economy, finance must align with the temperature and sustainable development goals of the Paris Agreement. The "international financial architecture" (IFA) describes the international institutional governance arrangements that seek to uphold the effective functioning of the global monetary and financial systems. The IFA has evolved over time in response to successive financial crises. However, work undertaken to address climate risks is insufficient to address the systemic risks and market failures linked to the climate crisis.

Action

In November 2022 we published Act Now[4] – A climate emergency roadmap for the International Financial Architecture. This was published just before COP27 and formed the focus of our advocacy efforts at the conference. The report outlines risks to the stability of the financial system posed by the impacts the current three-degrees-plus trajectory will produce by 2100.

It sets out five clear policy asks for each of the institutions within the IFA:

1. Create a roadmap to place the supervision of the just transition to net zero on or before 2050 on a science-based pathway at the centre of its purpose.
2. Request stakeholders to implement changes to support the reorienting of the institution towards putting climate at its heart.
3. Report annually on the progress of the institution and those it supervises, regulates, coordinates, towards delivery of net-zero.
4. Collaborate to create and collectively steward a global net-zero transition plan for finance and making recommendations to governments for the policies needed for the successful transition of the global finance system.
5. Convene a summit to implement necessary reforms; for example, marking 80 years since the Bretton Woods conference by plotting a pathway for the financial system to be harnessed to tackle the biggest challenge of the next 80 years – the climate emergency.

4. Source Act Now

MARKET REFORM CASE STUDY

Advocacy for the transformation of the financial system to finance the transition to a low-carbon economy

G P E C

Outcome

COP27 saw the reform of the IFA as one of its defining narratives on finance. Momentum built from the World Bank and IMF annual meetings in October, and powerful advocacy from Barbados Prime Minister, Mia Mottley, for her Bridgetown Agenda[5] that found supporters in the halls of Sharm, most notably French President Emmanuel Macron. COP26 President, Alok Sharma, used his speech at the Wilson Centre[3] at the World Bank annual meetings to outline the need for institutions to put tackling the climate crisis at the heart of everything that they do. He also spoke repeatedly at COP27 about the need for a "Bretton Woods 2 moment" to repurpose the IFA for climate action.

Our own advocacy for IFA reform and the policy recommendations of the Act Now report included meetings and events with finance ministers, heads of bodies within the IFA and the Glasgow Financial Alliance for Net Zero (GFANZ), the UN Secretary General's Global Investors for Sustainable Development, WWF, and the UK Transition Plan Taskforce.

The outcome text from COP27, the Sharm el-Sheikh Implementation Plan[7] includes, for the first time, acknowledgement that delivering the investment needed for the transition to a low-carbon global economy will "… require a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors".

This is welcome. But it is only the start of the systemic change needed to transition finance such that it can finance the transition. Encouraging those with their hands on the levers of power to deliver the reforms needed to match the scale of the climate challenge will be a key focus for us in 2023.

5. The 2022 Bridgetown Initiative - Foreign Affairs and Foreign Trade
6. COP President: Looking Back and Stepping Forward Wilson Center, Washington DC - GOV.UK (www.gov.uk)
7. Reaching 1.5°C: A Vision for the Future | Chatham House – International Affairs Think Tank

MARKET REFORM CASE STUDY

Antimicrobial resistance

G P E C

Issue

Antibiotics and other antimicrobials have been a global success story, underpinning industrial agriculture and revolutionising modern medicine, to the point where many pathogens are not considered particularly alarming. However, the irresponsible overuse of these compounds poses a profound risk to human health and biodiversity, as well as systemic threats across sectors. There is a parallel problem of chronic underinvestment in research and development for new antibiotics

Action

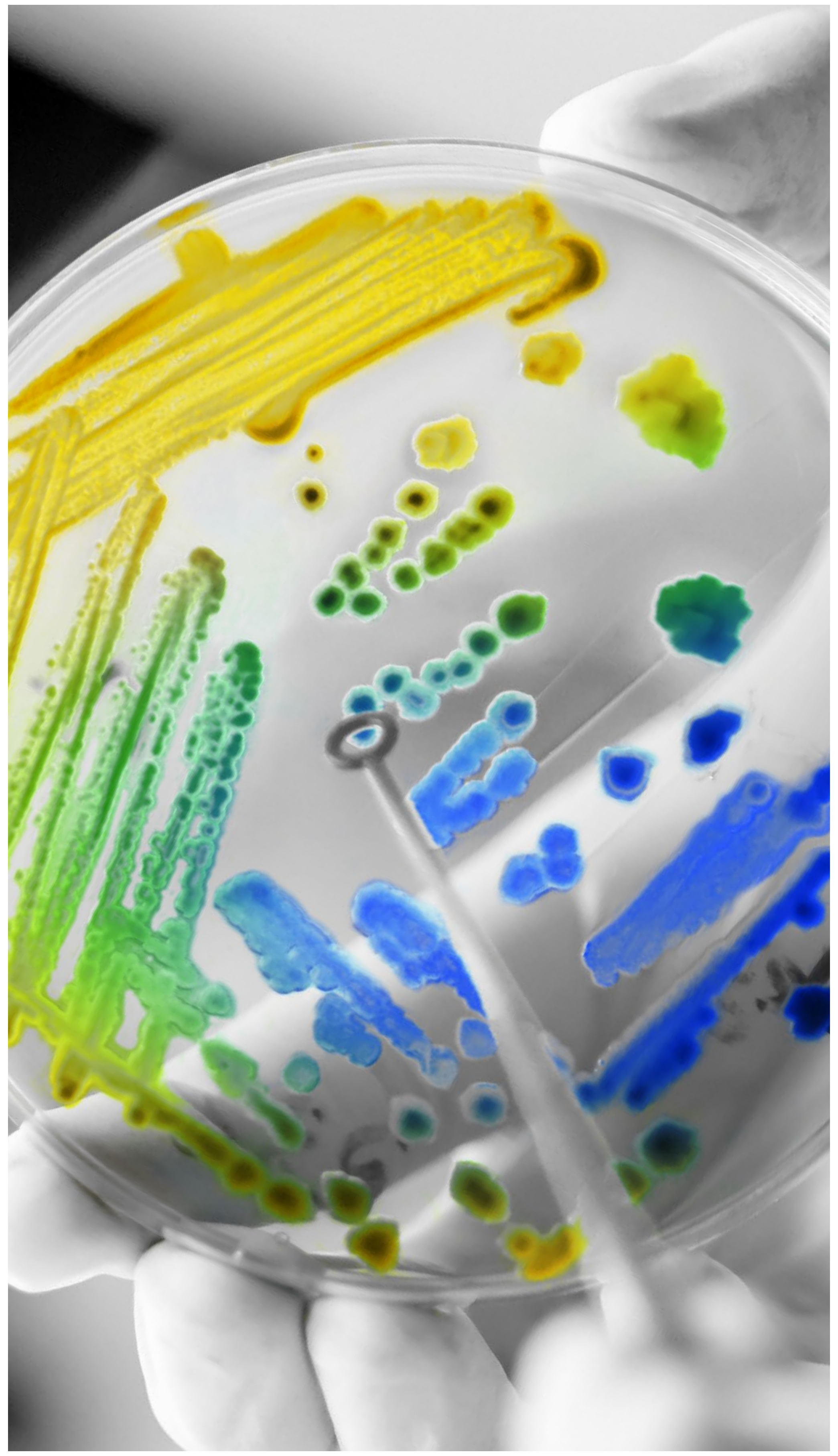
In recent years, our stewardship efforts have intensified, reflecting our concerns at the public health and financial implications of AMR, not least due to our investments in food retail and production, pharmaceuticals and biotechnology companies and health insurance. In World Antibiotic Awareness Week 2022, we launched a white paper: Confronting a Permacrisis. This set out, for the first time, how AMR, climate change and biodiversity are linked in complex ways. It argues climate change and nature loss are contributing to conditions that allow certain pathogens to spread, while antimicrobials – an essential part of the toolkit against disease – are becoming less effective. AMR is the result of a governance failure; it has become a critical public health issue, which demands an urgent, coordinated response. This report intends to trigger debate about what that response could look like.

We also gave evidence at the All-Party Parliamentary Group on AMR and the All-Party Parliamentary Group on water sanitation on policies the UK government could enact to combat AMR.

Outcome

As recognised by Professor Dame Sally Davies in a 2022 letter to Amanda Blanc and Mark Versey, we have successfully used our influence to convince G7 finance ministers to commit to collaborating with investors, policymakers and companies to mitigate AMR. In its G7 presidency priorities, published in early 2022, the German government confirmed this commitment, as did the EU Council's presidency trio of France, Sweden and the Czech Republic

Building on this, we presented to the Global Leaders Group on AMR, chaired by the Prime Minister of Barbados and the Prime Minister of Bangladesh, on the role of finance in tackling AMR



Investment approach

ESG integration across all asset classes

Responsible investing is a driving force across our £222.6 billion of 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.

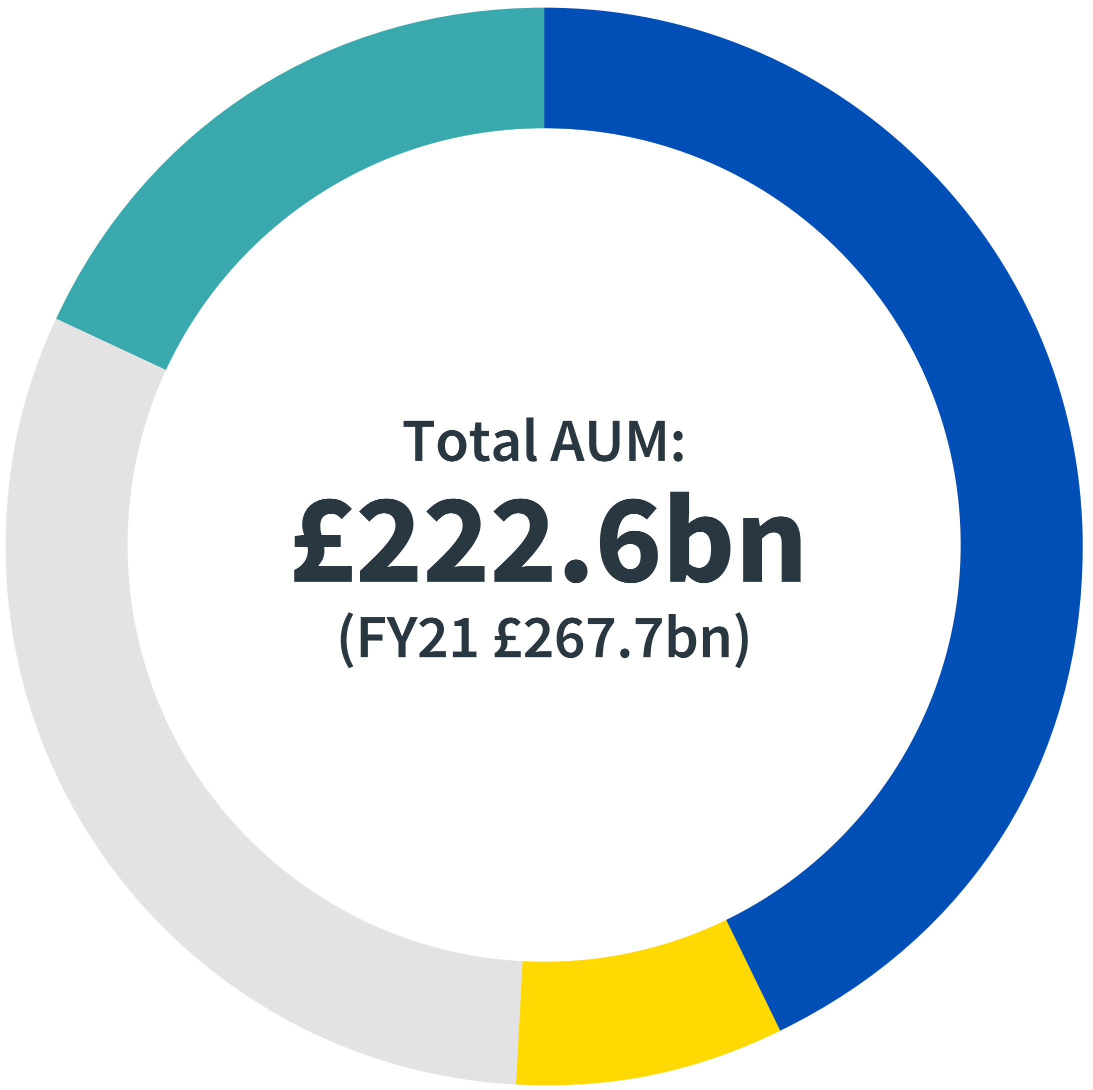
This approach is set out in our firm-wide responsible investment philosophy and ESG policies for each asset class.

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

Our sustainable outcomes research, ESG research and stewardship teams are embedded within the investment function, which ensures close collaboration with our investment professionals, sharing of ideas and alignment to our investment coverage of corporates and sovereigns.

Assets under management

The chart below shows breakdown of assets under management (AUM) by asset class and geography, as at year-end 2022. This is intended to provide context to the more detailed description of our responsible investment approach across asset classes in the pages that follow.



Source: Aviva Investors.

Investment area

Credit	**£95.30bn**	**43%**
Canada		6%
France		2%
Singapore		4%
United Kingdom		85%
United States of America		3%
Equity	**£18.14bn**	**8%**
United Kingdom		100%
Multi-asset and Macro	**£68.86bn**	**31%**
United Kingdom		99%
United States of America		1%
Real Assets	**£40.30bn**	**18%**
France		2%
Singapore		1%
United Kingdom		97%
Grand Total	**£222.6bn**	

Integration pillars

The systematic integration of ESG into our investment processes, as outlined above, is underpinned by a four-pillar framework that is robustly embedded 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. 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 ensure material ESG factors are considered when determining the firm-wide macro outlook.

These fit alongside our baseline exclusions Policy (BEP[8]), 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.

8. Please see Policies and documents - Aviva Investors for our Baseline Exclusion Policy

INTEGRATION CASE STUDY

Collaboration to identify risks and opportunities

G P E C

Issue

During a daily investment call, the rates team and ESG partner actively considered their exposure to Italian government bonds based on prospective European Central Bank (ECB) monetary policy tightening, concerns over political instability and risks to energy security. The team saw a material risk that wider Italian credit spreads coupled with rising core Bund yields could spark a negative feedback loop for Italian debt sustainability. Our sovereign ESG score indicated Italy's profile was weaker than peers, particularly on governance, while complementary sustainability data highlighted areas of potential environmental weakness.

Action

As discussions progressed, a potential six to 12-month short position in Italian government bonds emerged. Our sovereign ESG analyst wrote a qualitative research note on Italy's ESG profile, detailing risks concerning access to critical EU funds following the removal of a reform-minded National Unity government and Italy's exposure to Russian gas, raising the possibility of winter energy shortages. ESG momentum was rated as negative. The note was presented to portfolio managers, enabling the team to agree watchpoints and ultimately adding conviction to the trade idea, which was then implemented.

Outcome

The trade was the fund's top contributor to returns over the initial month as the spread on Italian debt widened rapidly, forcing the ECB to begin work on a new policy tool. This calmed markets initially before the spread began widening again as uncertainty grew around the prospects for a new right-wing Italian coalition government.

The ESG analyst monitored the agreed watchpoints and issued an updated note highlighting improving energy security and moderating political tone, including a commitment to EU Recovery Fund-related reforms.

The updates were discussed alongside emerging macro factors, including ECB communication concerning the timetable for the removal of quantitative easing policies – supporting Italian debt sustainability.

Weighing all factors, the portfolio managers subsequently took profits on the position while analysts continued to monitor watchpoints in anticipation of further opportunities.

INTEGRATION CASE STUDY

Renewable energy in developing countries

G P E C

Issue

India is one of the fastest-growing economies in the world, predicted to become the world's most populous nation by the end of 2023 with GDP expected to double between now and 2031. India is the third-largest producer of electricity globally; however, it still possesses low electricity consumption per capita. Rapid urbanisation, consumption and production will need to be supported through further investment and expansion of its energy infrastructure. How electricity is currently sourced in India has challenges. Seventy-two per cent of India's electricity mix is derived from coal, which contributes roughly 40 per cent of India's CO^2 emissions. Building, operating and maintaining coal power plants is costly. Furthermore, roughly 1.5 million deaths each year are linked to air pollution, of which coal-fired power generation is a large contributor.

Action

These challenges are leading to a rethink of how electricity is supplied and consumed in India, in which renewable energy presents an attractive solution. Our emerging-market debt (EMD) team recognised the opportunity to invest in the Indian renewable sector due to a positive policy environment and supportive financial conditions. In-depth analysis was conducted to consider the drivers and barriers to growth of the sector. The view was further supported by a country-level ESG assessment. The EMD and ESG teams then collaborated to identify key issuers likely to benefit from this environment.

Outcome

Our EMD team developed a positive view on the sector and was able to identify a shortlist of names to invest in. Investments were made in three rapidly growing companies, Continuum Energy, Greenko and Renew Power, which are renewable asset developers and renewable electricity producers.

Engagement outcomes

In 2022, we undertook 1,425 substantive company engagements, of which 604 were led by equity and credit team members. We participated in 2,361 collaborative letter-based engagements (some of which were considered substantive and included in the aforementioned number), focusing on issues such as climate disclosure and human rights.

The chart to the right demonstrates the global outreach of our engagement.

In 2022, we achieved **366** engagement 'wins', where we saw changes in entity behaviours in line with a prior engagement ask.

194 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 2022, our CEO set out our annual stewardship priorities for the year to more than **1,500** companies across **30** countries with a concerted focus climate change, biodiversity, human rights and executive pay.

Engagements by region

Regional Breakdown	
Africa	1.4%
Asia	9.8%
Australasia	3.9%
Europe ex UK	20.1%
North America	32.9%
South America	3.4%
UK	28.5%

In 2022, we achieved 366 engagement 'wins', where we saw changes in entity behaviours in line with a prior engagement ask. 194 of these successful outcomes were 'material'; changes deemed meaningful in terms of financial materiality and social and environmental impact and outcomes.

Engagement

Approach to engagement

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.

How we engage

We have a fully integrated approach to investment and ownership, combining the skills of fund managers, analysts and ESG specialists.

During daily, weekly and quarterly discussion forums, we continually monitor an entity's management and performance, including developments that may have a significant impact on their valuation or risk profile. As part of our analysis, we track areas of performance, including improvements in an entity's awareness or management of ESG risks and opportunities. Here, we use information from several external ESG research firms as one input into our own company assessments to be questioned, examined and built on.

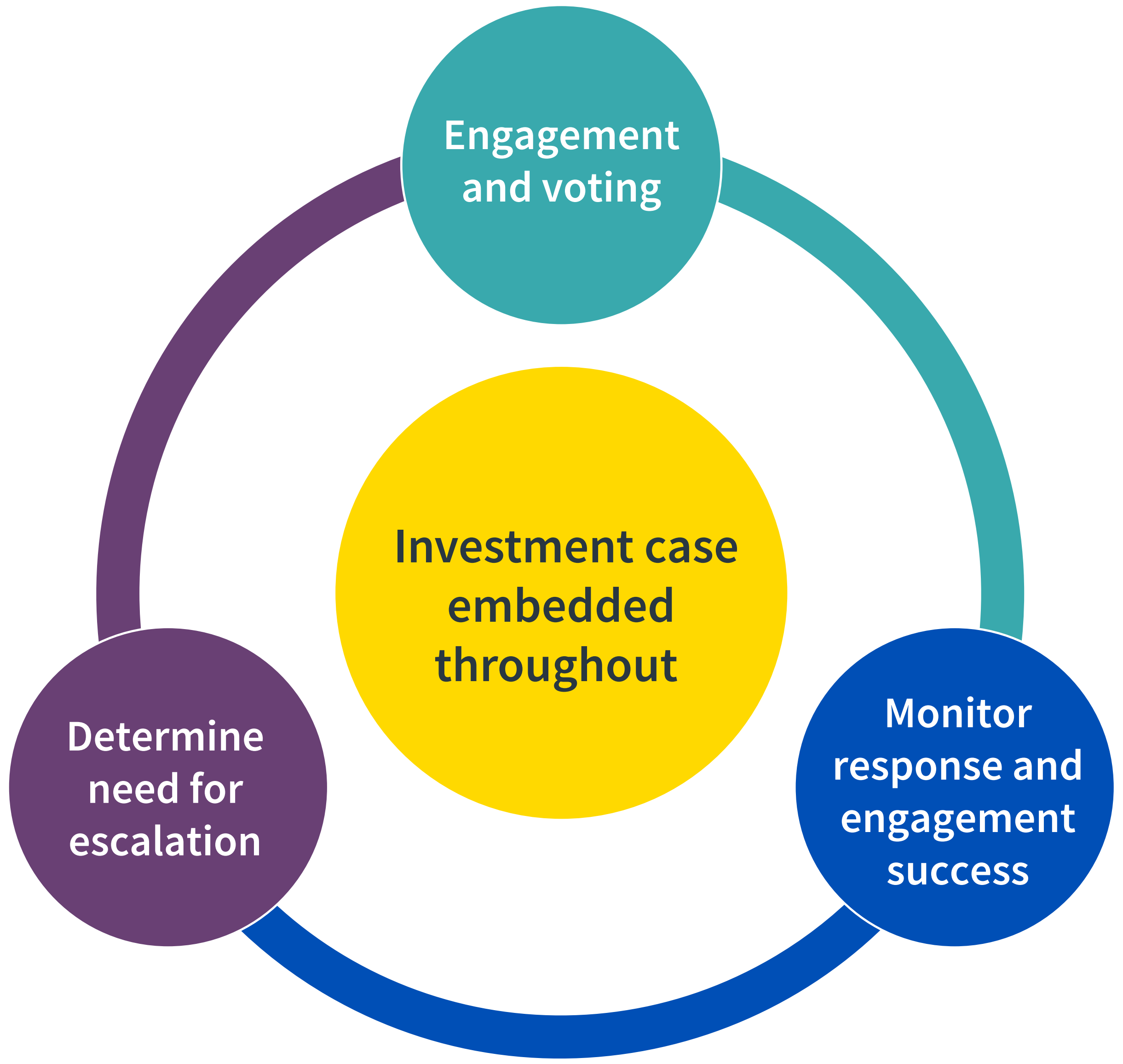
Our sustainable investment team has extensive networks within its respective field. Information is drawn from publicly available corporate information and company meetings, broker reports, industry bodies, research organisations, thinktanks, legislators, consultants, NGOs and academics.

Through this, we aim to evaluate the relevance and materiality of ESG factors on the sustainability of future earnings growth and as potential risk factors.

For sovereign entities, this enables us to evaluate ESG factors on the stability of the entity and earnings potential. If we feel we do not have enough information or have identified gaps, we will engage with the entity to discuss these issues in more detail.

This dialogue is conducted in close cooperation with, and often led by, portfolio managers and research analysts.

Key insights are published internally on our centralised research platform, presented at investment team meetings and are easily accessible to analysts and portfolio managers. These include company, industry and thematic notes to feed into idea generation, analysis, forecasts and conclusions about further escalation.



ENGAGEMENT CASE STUDY

Cost of energy

G P E C

Issue

The cost of energy in the UK soared in 2022, largely owing to a combination of supplier failures, insufficient hedging and the structure of electricity pricing systems. This was exacerbated by natural gas shortages following the Russian invasion of Ukraine.

Surging inflation also put pressure on the cost of living, leaving many at risk of falling into fuel poverty.

Most at risk were customers on prepayment meters who make up around 10 per cent of UK customers and are often from lower-income households. We considered the impacts on vulnerable consumers a market failure and an engagement priority.

Action

We engaged with three major UK retail energy suppliers (Scottish Power, E.ON and Centrica) to better understand what they were doing to support vulnerable customers. We made recommendations based on regulatory requirements and good practice we observed across the sector.

These included prioritising the rollout of smart meters for prepayment customers and introducing more affordable debt repayment programmes. Given the critical role of the regulator, we also spoke to Ofgem regarding its plans to protect vulnerable customers and strategy for longer-term sector reform. To support our work, we spoke with thinktanks and fuel poverty charities.

Outcome

Progress has been disappointing, as in late 2022, Ofgem published findings that showed the sector was failing to support vulnerable customers. Like us, Ofgem issued a letter to suppliers regarding the enforcement of prepayment meters. A recent *Times* investigation on forced prepayment meter installation by British Gas, a subsidiary of Centrica, is symptomatic of the concerns we raised about industry practices regarding vulnerable customers. We also co-signed a letter alongside several charities and private sector business to Rishi Sunak to support making energy efficiency a national priority. The government has since announced a package of investments in energy efficiency and home insulation.

ENGAGEMENT CASE STUDY

Decarbonisation of airlines

13 CLIMATE ACTION

G P E C

Issue

The aviation sector currently accounts for around 2.5 per cent of global carbon dioxide (CO_2) emissions from fossil fuels and is behind in preparing for a net-zero future. Demand is set to double to over eight billion passengers by 2050, which must be matched by a significant reduction in emissions. For that reason, driving faster action in the sector is a key focus of our expanded Climate Engagement Escalation Programme.

Action

In 2022, we engaged with eight global airlines to push for more ambitious targets on climate change and a credible strategy to achieve carbon reduction. Points of discussion included sourcing a sustainable airline fuel (SAF) feedstock base, following a high-conviction research paper by our ESG research team, which we view as the most feasible way to decrease aviation emissions. Regarding offsets, we requested companies disclose the proportion of overall current/planned emissions reductions coming from them and set targets to phase out usage to focus on actual emissions reduction. Recommendations were also made on strengthening scenario analysis and existing governance systems.

Outcome

We were pleased with the quality of engagement on their decarbonisation challenges. American Airlines has aligned its sustainability disclosures with the Task Force on Climate-related Financial Disclosures (TCFD), undertaken scenario analysis and set climate targets. Delta Airlines disclosed its first TCFD report and adopted science-based targets. EasyJet released its net-zero roadmap in September, with a focus on transitioning away from offsetting, raising the bar for the industry. IAG also set specific 2030 SAF targets, a promising development for the company and industry.

We will continue to encourage further improvements in 2023 and collaborate with our macro stewardship team to accelerate the policy intervention needed.

ENGAGEMENT CASE STUDY

Net-zero due-diligence audits

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE | 11 SUSTAINABLE CITIES AND COMMUNITIES | 13 CLIMATE ACTION

G P E C

Issue

The unconstrained delivery of buildings and infrastructure has been a major contributor to the climate crisis. Direct emissions from buildings, power and transport are responsible for 60 per cent of UK emissions, with those from supporting industries exacerbating the problem. The climate crisis presents catastrophic risks. In our commitment to achieving net zero for one of our real estate strategies, we analysed the assets in detail to inform asset management plans.

Action

The team undertook 30 net-zero due-diligence audits within a two-month timeframe. The audits include a short summary about the asset and current status of energy efficiency and carbon emissions before introducing measures that can be taken to get the asset to net zero, or nearly net zero, along with estimated costs for these measures.

A further 31 audits were undertaken across real estate and RELI in the remainder of the year bringing the total for standing assets to 61, giving us significant coverage of our portfolio and informing business planning for 2023.

Outcome

As a result of the success of the net-zero audits, five social audits were also undertaken to form a baseline for the assets and inform the delivery plan for social impact element of the strategy. Additionally, for assets that had a net-zero audit but were not selected for the strategy, our asset managers were able to use these as a feasibility study to assist with business planning to improve the green credentials of these assets.

COLLABORATION CASE STUDY

Collaborating to engage with sovereigns

G P E C

Issue

Engagement offers an opportunity to gather information and drive change, including for sovereign bondholders. At an estimated $60 trillion, sovereign debt represents a significant portion of global investment assets.

Crucially, finance ministries and central banks – natural touchpoints for sovereign investors – are pivotal actors in global sustainability challenges, including climate change. They are central to the efforts to accelerate the necessary economic transformation and mobilisation of investment, helping mitigate the threat to long-term growth and prosperity that makes climate a material consideration for investors.

Maintaining a transparent and constructive dialogue can be mutually beneficial, enabling sovereigns to articulate their approach to managing sustainability risks, investors to voice support for action, and both sides to gain a deeper and more common understanding of those risks.

However, sovereign engagement comes with challenges. One is limited access, particularly to major issuers who operate in highly liquid markets. These issuers can make up a significant portion of investor portfolios and have outsized influence on the global climate transition.

Collaborative initiatives are one way to amplify the voice of investors, yet opportunities with sovereigns and on climate change have to date been limited.

Action

At the start of 2022, we and another global asset manager engaged with the UN Principles for Responsible Investment (PRI) about setting up an initiative to change that. We then outlined a PRI-coordinated pilot to bring global investors together to support governments to take all possible steps to mitigate climate change, in line with the goals of the Paris Agreement. The pilot focused on Australia at a critical juncture for the country's climate policy.

The PRI recruited an advisory committee (AC) and, together, undertook stakeholder mapping, identified priority topics and partnered with an organisation with deep country expertise. The initiative launched over the summer with Aviva Investors as an AC member and lead investor for the department responsible for climate change.

Outcome

The group's first meeting with Australian officials took place in October 2022, focusing on relationship building, exchanging perspectives on climate financing and identifying relevant contacts across government departments. This was followed by constructive calls with other stakeholders, including at the Department of the Treasury.

Exploratory meetings have strengthened the dialogue between investors and sovereign representatives, laying the foundations for more in-depth discussions in 2023.

The continued success of the pilot could serve as a proof-of-concept for a wider programme of collaborative engagement. In doing so, the initiative would complement our own engagement, bolstering support for sovereigns to deliver on their climate change commitments to the benefit of our investments, their citizens and the planet.

COLLABORATION CASE STUDY

PFAS or "forever chemicals" – Mitigating exposure across industries

G P E C

Issue

From cooking equipment to fire repellents; from clothing to electronics; and from furniture to food packaging – chemicals are an essential component of products that are part of our everyday lives. However, it is estimated that nearly 70 per cent of chemicals are hazardous to people and the environment. It is currently difficult for investors to gauge the regulatory, litigation and reputational risks faced by chemical manufacturers. Public disclosure outlining what, where and how much manufacturers produce is poor.

Furthermore, chemical companies have been involved in a series of lawsuits and litigation, particularly concerning PFAS or persistent chemicals. As understanding of the problems associated with persistent chemicals is becoming mainstream, while legislation is increasing globally, including in the US and EU. Consumer brands are also exposed to these risks, with evidence emerging on the presence of PFAS in cosmetics such as mascara and foundation products. This increases legal and reputational risks due to the growth of "clean beauty" preferences.

Action

We have led a multi-year collaborative engagement initiative in this area. In December 2021, we coordinated a joint letter signed by 23 investors with a combined $4 trillion in assets under management (AUM). During 2022, we subsequently coordinated engagement calls with the companies and investors to discuss these asks.

In September 2022, we mobilised a group of 47 investors with combined AUM of $8 trillion to expand the letter and target 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
- Work to improve their ranking in the next annual ChemScore benchmark.

We also engaged with Coty and L'Oréal to better understand their exposure to PFAS.

Outcome

Following our letters, 3M announced it will stop making PFAS by 2025. This follows years of litigation, regulation, NGO campaigning and public opposition. 3M also cited investor pressure in its announcement. Its performance on PFAS and progress on phasing these chemicals out has been integrated into the regulatory and reputational risk considerations within our research.

ESCALATION CASE STUDY

Climate Engagement Escalation Programme (CEEP)

G P E C

Issue

The United Nations Environment Programme's (UNEP) recent report 'The Emissions Gap'[9] 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

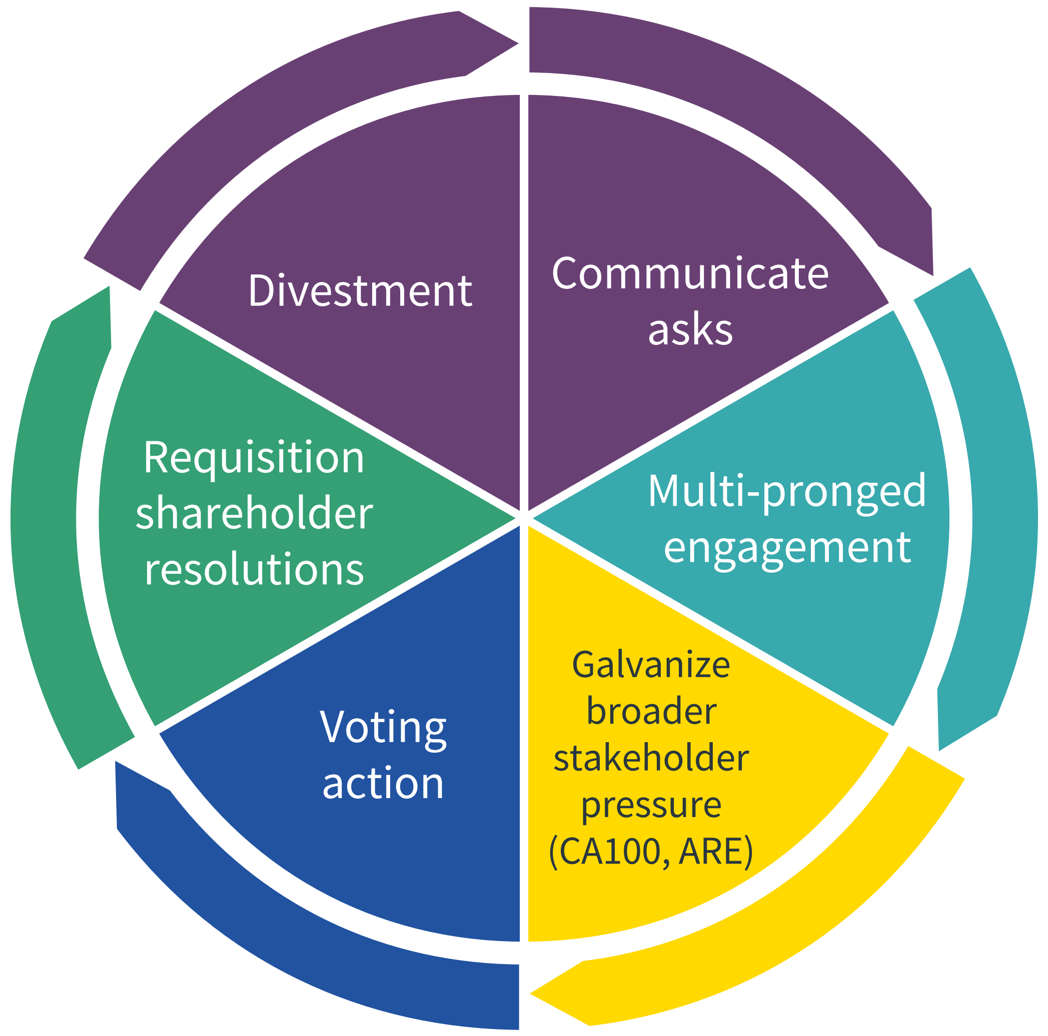
Transition plans: Integrate decarbonisation roadmap into corporate strategy, include near-term targets

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

Monitoring progress

A formal assessment of company progress using our proprietary framework is conducted biannually. The outcome of this analysis will determine candidacy for further escalation.

A robust escalation approach to track and drive progress through the life of the programme



9. Emissions Gap Report 2022 (unep.org)

ESCALATION CASE STUDY

Climate Engagement Escalation Programme (CEEP) (Cont'd)

G P E C

Outcome

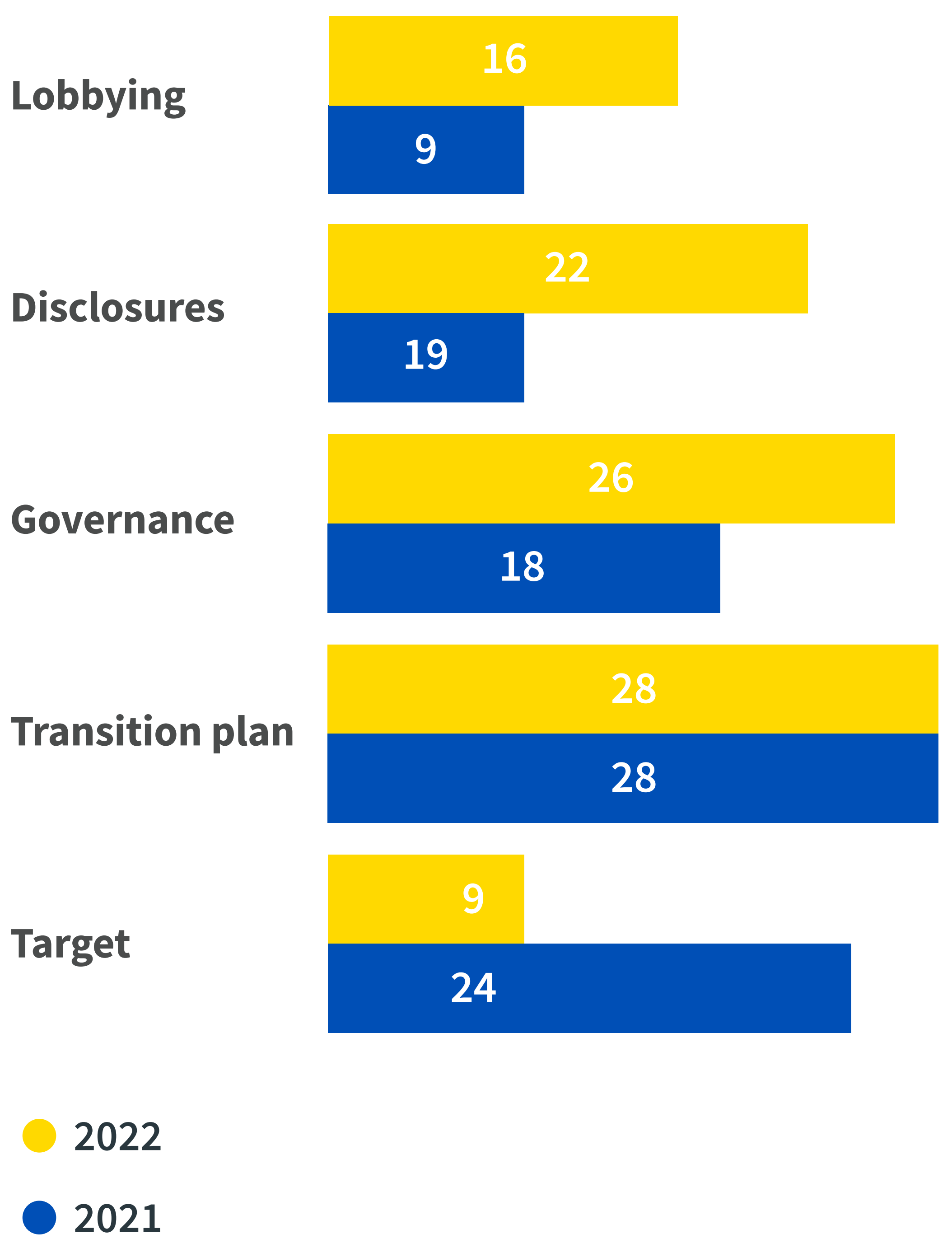
At time of writing, we have undertaken 218 engagements across the CEEP focus group. These include one-on-one meetings, conference calls, and participation in industry events and workshops.

While not yet convinced of any company's full Paris-alignment, we are pleased with the quality of conversations and progress across a challenging set of asks. Companies across geographies have been very receptive to our feedback. With 200 engagement 'wins'[10], their progress will be kept under review.

22 companies have announced or strengthened their ambition to achieve net-zero by 2050 or sooner. All companies have taken steps to strengthen ESG governance structures at the board and management level and provide greater transparency over existing structures and processes, in line with TCFD recommendations.

The figure to the right provides a breakdown of progress across our five expectations.

Breakdown of CEEP wins



Source: Aviva Investors.

Escalation

- Where progress/responsiveness has fallen short of our expectations, we have taken action to amplify pressure on companies. In 2022, we coordinated with various investor and stakeholder networks and attended company AGMs to drive public accountability and scrutiny of company practices.
- We have also taken voting action at company AGMs. During the 2022 proxy season, we sanctioned 18 companies. Example resolutions include the discharge or approval of company accounts, director elections, climate-related shareholder proposals and 'Say on Climate' votes.

Priorities

In 2023, we will deepen our engagement activity to engage with laggards and increase the stringency of escalation action against those falling particularly short of our expectations, making specific requests for change as well as raising the bar in new areas:

- Meaningful consideration of material climate risks in company accounts and associated audits
- Evidencing the employment of best practice just transition principles to understand and alleviate the social impact of company decarbonisation strategies. Setting more comprehensive targets aligned with the SBTN framework once guidance is finalised (this should include the full value chain within scope).

In tandem, we are expanding the scope of the programme to encompass hard-to-abate industries, including heavy duty transport (aviation, shipping and long-haul trucking), chemicals, cement and steel, which are key sources of fossil-fuel demand. We have begun with the airline sector (see page 17).

10. Where we have seen progress in behaviour in line with our requests for change

Sustainable Outcomes Programme

Social Transition Fund Engagement Programme (STEP)

The Social Transition Global Equities Fund (STF) 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 STF. 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.[11]

Natural Capital Transition Fund Engagement Programme (NCEP)

Our Natural Capital Transition Global Equities fund (NCTF) 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 NCTF. 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.[12]

Climate Transition Fund Engagement Programme (CTEP)

The Climate Transition Global Equities Fund (CTF) 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 CTF 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.[13]

Escalation

To ensure maximum influence, this programme has a robust escalation process. Progress against these requests will be reviewed and scored annually. Although all companies are regarded as sector leaders, we further categorise companies across five levels to indicate their level of alignment.

The outcome of this assessment will determine whether a company will be subject to further escalation through engagement, voting, or – at the end of the programme – divestment if insufficient progress has been made.

Priorities

As well as targeted developments specific to each programme, we are increasing the stringency of our minimum sanctions to encourage companies to align their efforts. Chairs or other responsible directors of companies persistently falling short of our expectations and/or demonstrating insufficient responsiveness will receive a vote against during 2023 AGMs. Please see our global voting policy for more detail on the hierarchy of proposals we will target if a voting sanction applies for companies.[14]

11. Annual letter to company chairpersons - Aviva Investors
12. Annual letter to company chairpersons - Aviva Investors
13. Annual letter to company chairpersons - Aviva Investors

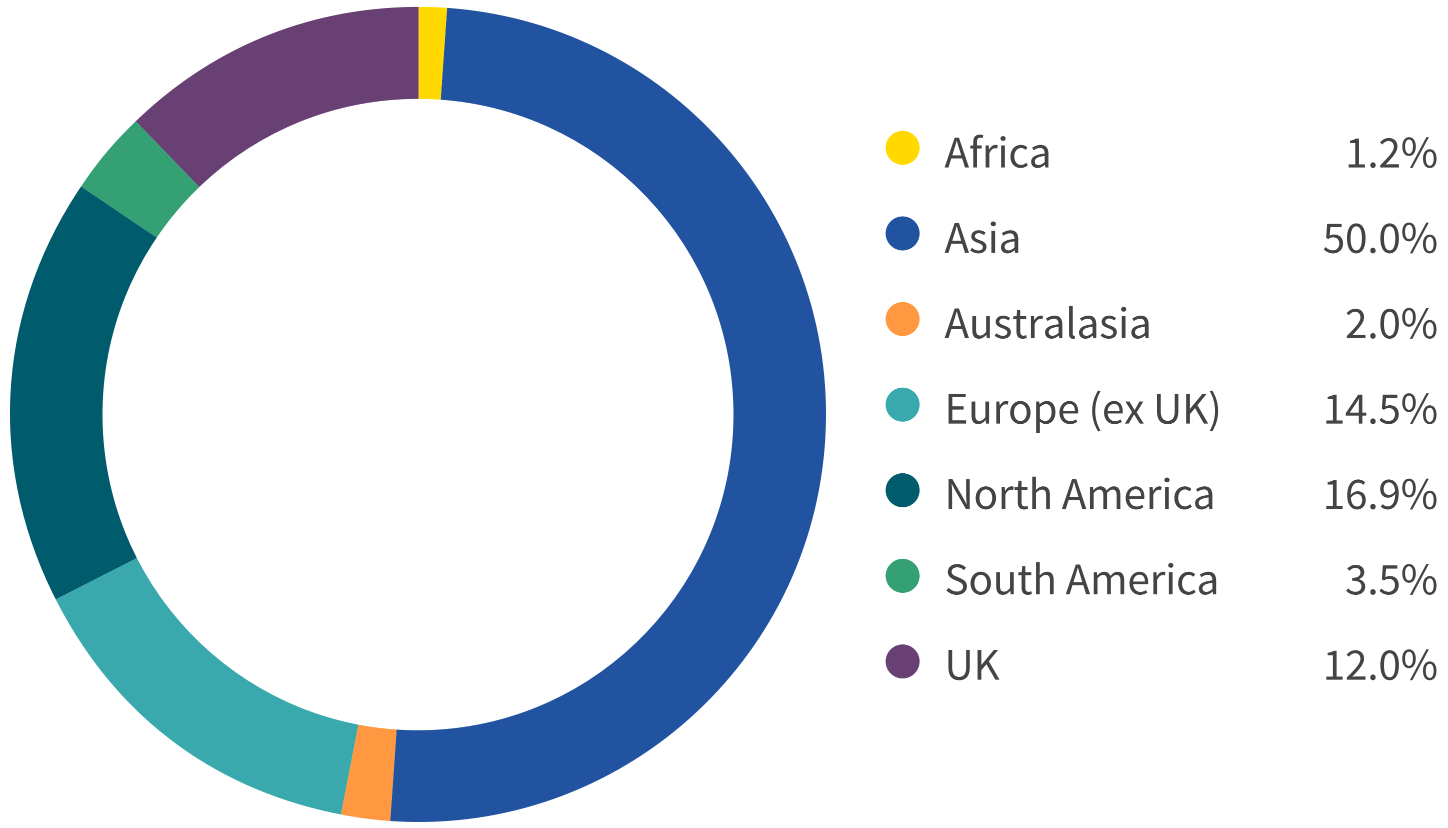
Exercising rights and responsibilities

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.

Our 2022 voting statistics – key numbers

- Voted on **73,438** resolutions at **6,732** shareholder meetings
- Voted against **27 per cent** of management resolutions, including **49.1 per cent** of pay proposals[14]

2022 voting activity by region



Source: Aviva Investors.

2022 voting by issue

	Number of resolutions	Non-support (%)
Anti-takeover measures	81	13.6%
Auditors	5,322	23.1%
Climate-related (resolution proposed by management)	47	42.6%
Directors	30,103	31.1%
Other	9,684	17.7%
Related party transactions	3,206	20.5%
Remuneration	8,111	49.1%
Report & accounts	5,067	7.6%
Share issues/capital related	8,905	16.9%
Shareholder resolutions (E,S & G issues)	863	63.0%[15]
Shareholder resolution (supported by management)	1,120	19.4%
Takeover/merger/reorganisation	929	19.6%

Source: Aviva Investors.

Pillar voting

	Number of companies not supported (management resolutions) having not met our expectations	Percentage of shareholder resolutions supported
People	1,575	84.7%
Earth	83	87.5%
Climate	213	72.1%[16]

Source: Aviva Investors.

14. ShareAction | Proxy voting records challenge asset managers' responsible investment claims
15. Votes on shareholder resolutions (E, S & G issues) (RI AR page 110). The primary reason why we didn't support 63 per cent of the shareholder resolutions is due to many of them being too prescriptive / seeking to micro-manage the company. In some markets, shareholders only need a few shares to propose a resolution and proposals across | broad range of issues fell short on disclosure or justification. As can be seen on the following page, we supported significantly more shareholder proposals specifically related to climate, environment and people because generally the justifications for such proposals were much stronger
16. Our support for climate-related shareholders (72.1 per cent) dropped a little compared to the previous year due to some proposals being too prescriptive / seeking to micromanage the company but also as most companies have made some progress on addressing the issue. Our higher per cent level of support for shareholder resolutions relating to earth (e.g. deforestation) and people (e.g Racial Equity audits) is in part due to these being newer issues where progress has been slower. The large number of votes against management resolutions for 'people' issues is due to different reasons such as a lack of gender and ethnic diversity on company boards, poor female representation in senior leadership positions and concerns over company performance against the Corporate Human Rights Benchmark (CHRB)

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

Daniel McHugh
Chief Investment Officer, Real Assets & Liquid Markets

Mirza Baig
Global Head of ESG Investments

Steve Waygood
Chief Responsible Investment Officer

Abigail Herron
Global Head of ESG Strategic Partnerships

Ed Dixon
Head of Responsible Investment, Real Assets

Andy Ford
Head of ESG Investment Specialists

Cyril Martin
Head of Investment Solutions Strategy and Design

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.

Aaron Harper-Williams
Head of ESG Data

Alice Fisher
ESG Stewardship Ops Analyst

Amy Thomas
Responsible Investment Analyst

Andrea Perales Padron
ESG Analyst

Candice Thorpe
Head Of ESG Strategic Development

Doris Ko
ESG Operations Manager

Eleanor Austin
Sustainable Outcomes Analyst

Emily Day
Responsible Investment Associate

Ethan Tae
Net Zero and Climate Risk Analyst

Eugenie Mathieu
Senior Impact Analyst (Earth Pillar Lead)

Greta Talbot-Jones
Responsible Investment Associate Director

Heloise Hoare
Responsible Investment Associate

Isaac Gardiner
Net Zero and Climate Risk Analyst

Jess Foulds
Head of Strategy

Josephine Benthall
Responsible Investment Associate

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

Joshua French
ESG Analyst

Kiran Sehra
Biodiversity Analyst

Louise Piffaut
Head of ESG Equities Integration

Louise Wihlborn
ESG Analyst

Luisa Jobson
Sustainable Outcomes Analyst

Luke Mulley
ESG Analyst

Mikhaila Crosby
Responsible Investment Associate

Nathan Leclercq
Head of Corporate Governance Engagement

Oliver Morriss
Macro Stewardship Analyst

Olivia Ekeke
ESG Investment Director

Pippa Morgan
Macro Stewardship Campaign Manager

Prince Marapao-Gittings
ESG Screening Operations Analyst

Rachana Nirgudkar
Corporate Governance Analyst

Rebecca Vine
Head of Corporate Governance Policy

Richard Butters
Head of ESG Credit Integration

Rick Stathers
Senior Impact Analyst (Climate Pillar Lead)

Saloni Shah
ESG Investment Specialist

Sam Tripuraneni
Head of Sustainable Outcomes

Sonia Hierzig
Sustainable Outcomes Analyst

Sora Utzinger
Head of ESG Corporate Research

Sylvie Sasaki
Net Zero and Climate Risk Director

Thomas Dillon
Head of ESG Sovereign Integration

Tom Tayler
Senior Manager

Trevor Keeling
Responsible Investment Director

Vaidehee Sachdev
Senior Impact Analyst (People Pillar Lead)

Important information

392085 12/06/2024

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AVIVA INVESTORS