RESPONSIBLE INVESTMENT REVIEW

2022

The intelligence that guides
our investment decisions

AVIVA INVESTORS

Contents

Key. **Case study icons**

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

Actions always speak louder than words

Last March, I wrote an article on the growing ESG and responsible investment backlash.[1] The context was Russia's invasion of Ukraine and the fears of energy security it triggered, which some commentators used as "evidence" investors were mistakenly turning away from fossil fuels on ESG grounds and are "too focused on climate change".

Such arguments were nonsensical then and remain so. Russia's invasion only strengthens the argument to accelerate the energy transition, so we are not dependent on supplies from hostile and unpredictable regimes.

Investing responsibly is not a fad; it is an investment belief. Companies and governments that conduct their business in a sustainable way are more likely to succeed in the long term. Bad practices don't just hit the headlines; they hit the bottom line as well. It is that simple.

At the same time, I'm not here to defend the indefensible. There have been enough sanctions against everyone from major US financial institutions to Australian energy companies and asset management businesses to know greenwashing is real.

For a business like ours, if you are going to hold investee companies to account on their progress to net zero, diversity, equity and inclusion and track record on human rights, you need to be able to hold a mirror up to yourself and make sure you practice what you preach. Of course, there are still areas we can improve in, but when it comes to investing our clients' capital responsibly, year-in, year-out, I will put our track record up against anyone.

You can find evidence of this throughout this report, which provides comprehensive insights into our activities last year. Just to pick out a few highlights, our macro stewardship team has continued its campaign to reform the international financial architecture in order to mobilise private finance to address the climate crisis. I had the privilege of joining members of the team at COP27 in Egypt, where we delivered that message to policymakers and other key stakeholders. It was well received, but we urgently need to see that support turn into concrete actions.

Meanwhile, at a micro level, we have expanded our climate engagement escalation programme from the biggest carbon emitters in the energy, metals and mining and utilities sectors to include the biggest users of fossil fuels. We recognise a successful transition needs to address the demand, as well as supply, side of the equation.

We are also making excellent progress in real assets, including investing £360 million in social housing providers in 2022; £110 million in Connected Kerb, an electric vehicle infrastructure specialist; and passing our 2025 target to originate £1 billion of sustainability-linked real estate loans three years early.

When it comes to responsible investing, actions will always speak louder than words. I'm proud to lead a company of action.

Mark Versey
CEO, Aviva Investors

"Investing responsibly is not a fad; it is an investment belief. Companies and governments that conduct their business in a sustainable way are more likely to succeed in the long term."

1. Thick skins and tin ears, Mark Versey, March 25, 2022

Turning talk into action

We are proud to be a company of action, united by a firm-wide commitment to work with and for our clients to do what is right for them, society and the world around us. Responsibility is embedded across all levels of our organisation, in our purpose, people and processes. Understanding ESG, the risks and the opportunities, makes us better investors, delivering the investment outcomes our clients expect and helping us make informed decisions on people, earth and climate.

Sustainability as a bedrock

We employ systematic and robust consideration of material ESG factors in our investment decisions, using insights that go beyond the conventional. Our portfolio managers are empowered to make the right decisions for the best client outcomes, supported by an ESG capability that is integrated into our investment franchises via specialist teams.

Active ownership

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

Market reform

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

1

2022 responsible investment highlights

2022 liquid markets 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[2]	**194** of these outcomes were 'material'[3]
1,425 substantive engagements[4]	**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)
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

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

2022 real assets highlights

This covers the investments we make in infrastructure, real estate, private corporate debt and structured finance. We made strong progress in 2022, including exceeding our 2025 target to originate £1 billion of sustainable transition loans three years early. We also released a report on the progress towards our 2040 net-zero ambition, evidencing our origination of green and sustainability-linked assets, as well as the steps we have taken to decarbonise existing assets.

Since releasing the report in May, we have made further progress, originating over **£500 million** in green assets and a further **£1 billion** of social assets. We have continued to grow our sustainable lending programme, delivering a further **£300 million** of sustainable transition real estate loans.

Additionally, we launched a volunteering programme focused on delivering social value in communities where we invest. Our real assets team delivered over **900 hours** of volunteering in 2022, spread over 225 individual volunteering days, with many individuals and teams using their entire three-day volunteering allowance for the year.

In real estate asset management, we focused on better understanding the requirements to decarbonise our larger and more complex assets, whilst establishing key partnerships that will help us to accelerate this process. This led to the delivery of over **60 net-zero due-diligence audits** of existing assets, with the results of those integrated into our 2023 business planning process.

Meanwhile, our solar partnership with Push Energy developed over **£1.8 million of solar schemes**, which are in varying stages of planning, design and construction. This includes an innovative multi-site deal with a major UK retailer. Upon completion the solar pipeline will deliver over **1,900 kilowatt peak** of energy generation capacity, giving our occupiers cheaper energy, reducing their reliance on the grid and improving energy resilience.

2022 real assets highlights (cont'd.)

A critical part of our work in real assets is to ensure we design and develop assets that meet the requirements of our sustainable design brief. The brief sets high standards for newly constructed and refurbished assets, helping us bring forward buildings with better energy efficiency and lower carbon emissions. In 2022, we adopted the NABERS design for performance principles across five developments with a combined value of **£750 million**. NABERS requires stakeholders throughout the development process to work together to meet a predetermined level of energy efficiency, meaning future occupiers of a building can be assured as to its ongoing operational costs.

In addition to tackling operational emissions, we must address embodied emissions in the construction supply chain. In 2022, we led detailed design work to reduce these emissions across our projects, with major successes on two schemes, Gava in Barcelona and Bermondsey Yards, a **173,000 sq ft** office in Southwark, London. Both schemes surpassed their targets following fundamental changes to their design.

2022 was also a pivotal year in exercising our new baseline exclusions policy, ensuring we do not lend or lease properties to excluded companies. This year we refused to provide financing to a listed company as the underlying properties in its portfolio were leased to a tobacco producer. Ensuring our exclusions policy applies across all asset classes is critical and our team acted decisively in this case to exclude the investment.

ENGAGEMENT CASE STUDY

Cost of energy

Governance | **People** | Earth | Climate

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.

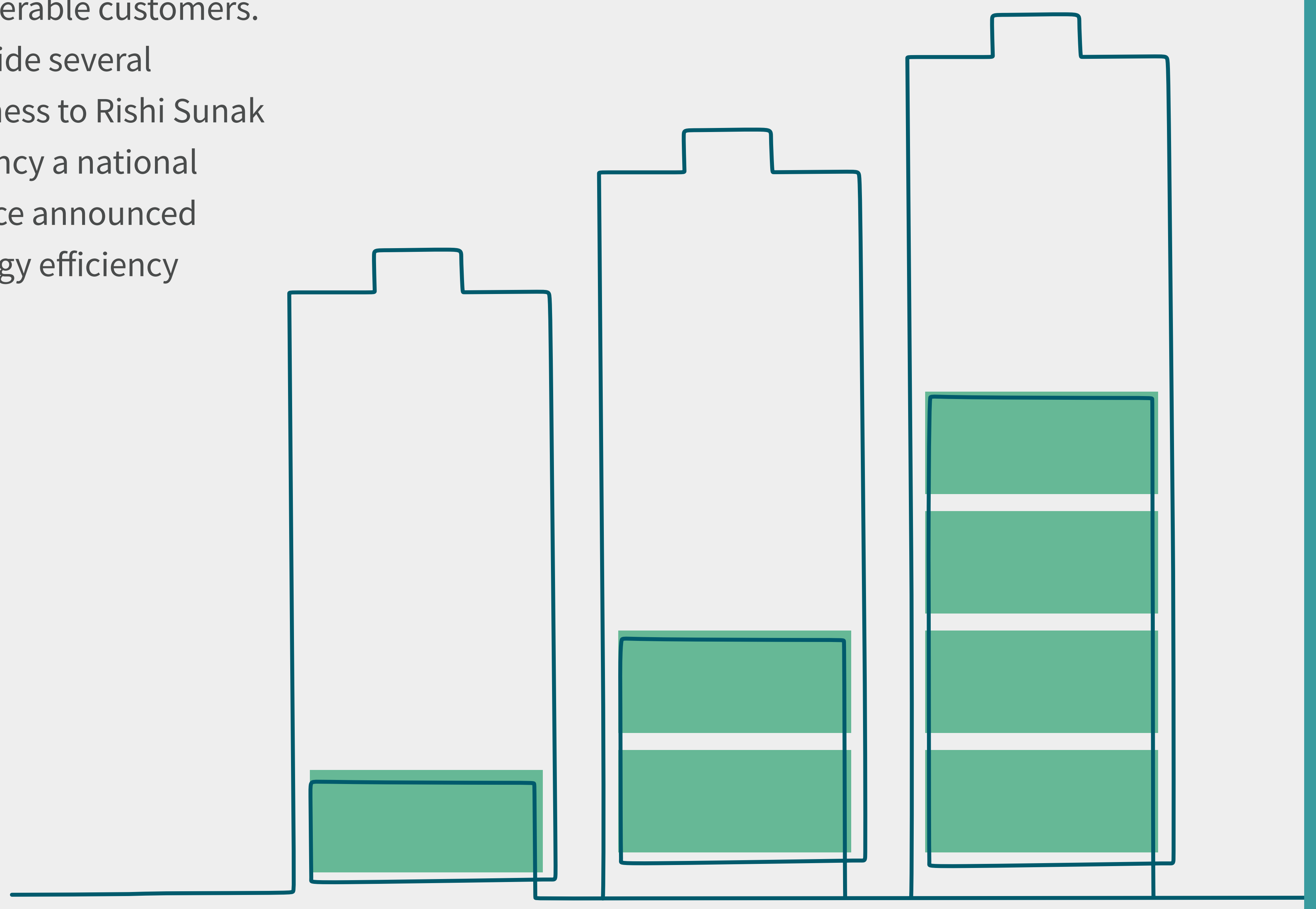
Action

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

Governance | People | Earth | **Climate**

13 CLIMATE ACTION

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.

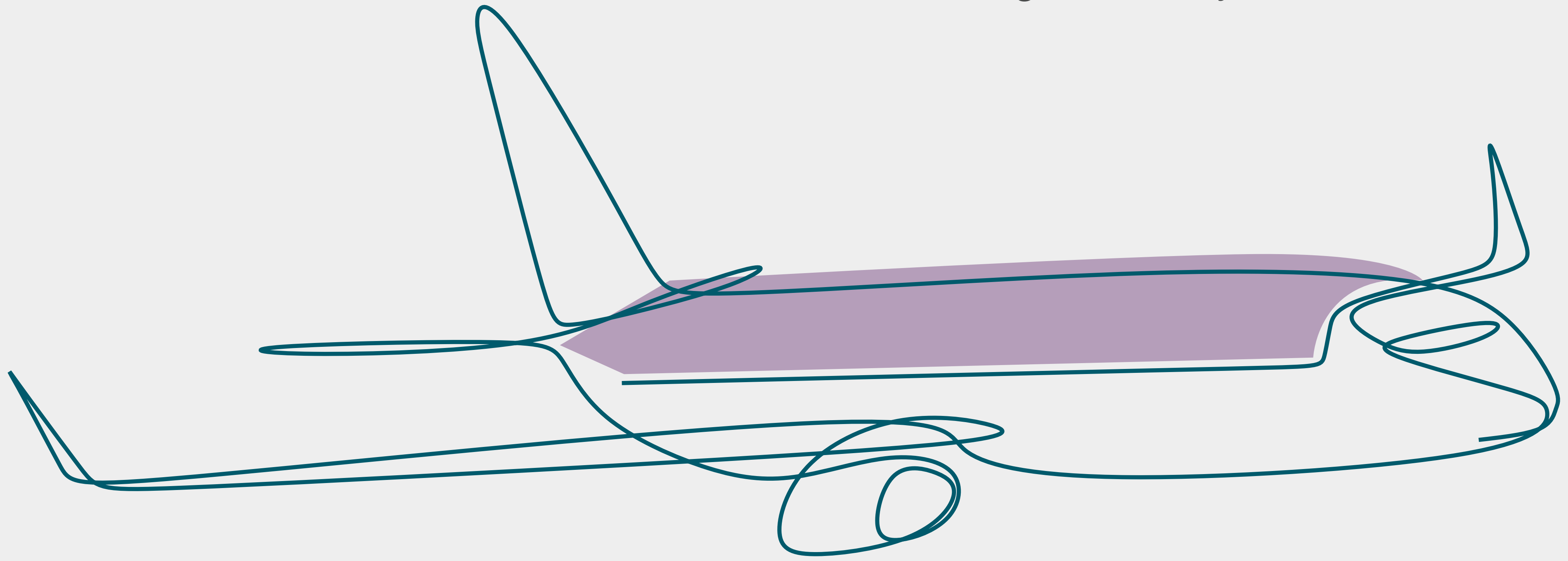
Action

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

Forest degradation

Issue

The Canadian Boreal Forest is one of the last remaining intact forests globally and an important biodiversity hub. It is, however, under increasing threat of degradation due to exploitation for timber used in construction and pulp destined for consumer products like toilet paper.

P&G, a market leader in the toilet paper segment in the US, sources pulp from Canadian forests. Despite the inherent supply chain risks, we found limited disclosure on sourcing standards and impact on forest degradation. Furthermore, the company was not mitigating these impacts using other materials, like bamboo or recycled paper.

Action

We met with P&G on three occasions in 2022 to share best practices regarding forest degradation. We collaborated with the Natural Resources Defence Council, which helped outline the best way forward on the Boreal exposure. In addition to measuring and disclosing how much pulp is sourced from intact forest land, we asked for a time-bound commitment for no deforestation. Our discussions also included the implementation of free, prior and informed consent of local and indigenous communities, as well as an increase in the use of alternative/recycled materials.

Outcome

In August 2022, P&G announced steps to reduce its impact on forests. While the company has demonstrated some progress against our asks, our view remains that these new developments can be enhanced further, especially regarding the net reduction of its virgin pulp footprint. To escalate our concerns, we voted against three board members at the 2022 AGM, as they failed to provide the leadership needed to align P&G's pulp sourcing with the urgency of the climate and biodiversity crises, exposing the company to significant risk.

We will continue to engage with P&G and are exploring engagements with Canadian provincial governments.

INTEGRATION CASE STUDY

The push for an independent board chair structure

Governance People Earth Climate

Issue

Facebook changed its name to Meta Platforms in October 2021, signalling a strategic shift to the metaverse. We have had concerns with its corporate governance for several years. These include its board composition and dual share-class structure, which gives the founder, CEO and board chair Mark Zuckerberg control of the company.

We believe the lack of an independent board chair has contributed to a pattern of governance failings, including mishandlings of controversies, increasing risk and costs to investors. Regulatory pressure continues to mount on technology firms. This contributes to a high-risk environment, combined with Meta's potential impact on society from the metaverse.

Action

Working with the Treasurer of Illinois and other investors, we escalated our concerns and co-filed a shareholder resolution at the 2022 AGM, recommending Meta's board adopts an independent board chair structure. Although the resolution was unsuccessful, Meta acknowledged investors' concerns. We met with Meta's lead independent director in 2022 with the other co-filing investors. Our engagement focused on the combined CEO/ board chair roles, the role of the lead independent director, the board's definition of independence, the company's dual share-class structure and lack of equal voting rights.

Outcome

These governance concerns, alongside regulatory risks to the advertising market, contribute to an overall negative ESG view on the company. Through insights gained from cross-asset collaboration between our equity, ESG and credit teams, we identified material concerns on antitrust litigation and regulatory risks to its credit profile compared to peers. As a result, we did not buy the new bond issue from Meta. The bonds have underperformed since they came to market.

INTEGRATION CASE STUDY

Renewable energy in developing countries

Governance | People | **Earth** | Climate

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.

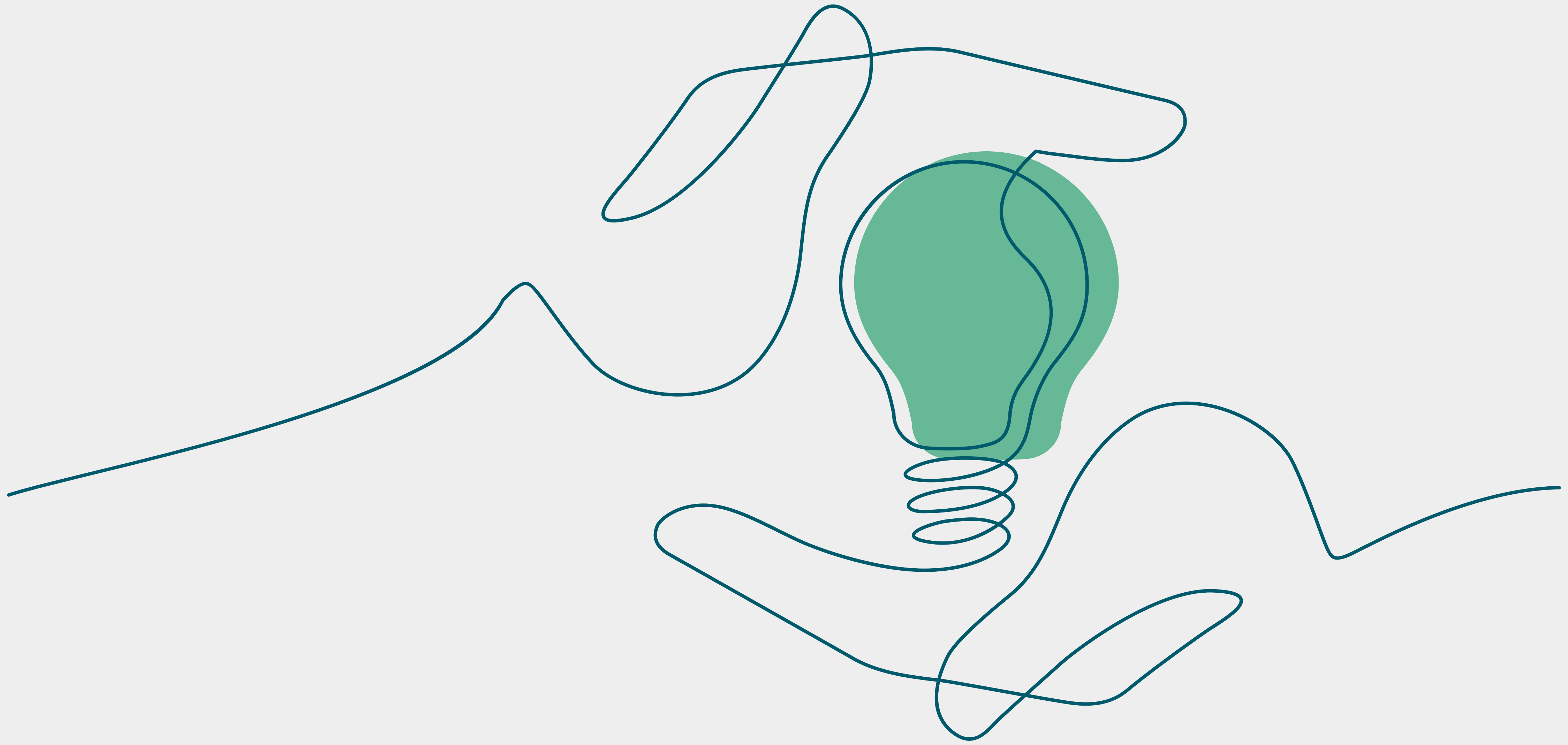
How electricity is currently sourced in India has challenges. Seventy-two per cent of India's electricity mix is derived from coal, which contributes roughly 40 per cent of India's CO_2 emissions. Building, operating and maintaining coal power plants is costly. Furthermore, roughly 1.5 million deaths 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.



INTEGRATION CASE STUDY

Poor governance and scandals

Governance People Earth Climate

3 GOOD HEALTH AND WELL BEING

8 DECENT WORK AND ECONOMIC GROWTH

Issue

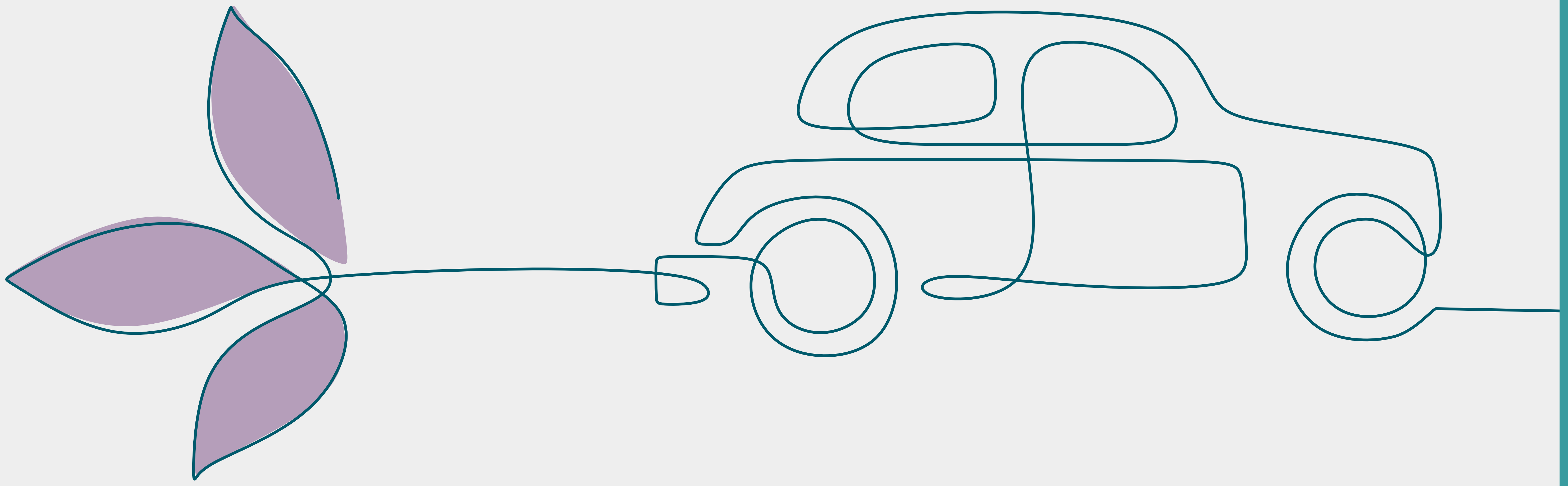
Green transport is essential to meet global climate goals. The transport sector roughly contributes 20-25 per cent of global CO_2 emissions. Greater use of electric vehicles (EVs) can reduce this, with this market set to benefit from structural growth. We have exposure to this theme within our funds through well-positioned car manufacturers and material suppliers. One company held by our emerging-market equity team was an Asian supplier for battery technology. In January 2022, one of the supplier's key production facilities halted production after a major fire, with the company facing allegations of poor governance and insider dealing.

Action

The EM equity team engaged with the company on these issues but was unsatisfied with the company's response. Details provided by the management team in the immediate aftermath were vague, especially regarding insider dealing. The company confirmed senior executives were under investigation by the authorities. We evaluated the potential medium-term impact of our ESG concerns on the company's prospects and were concerned these could become significant. We believed these events would negatively impact the supplier customer relationships – given its own sensitivity to ESG risks within its supply chain.

Outcome

As a result of the scandals, our research and engagement activity, we decided to exit our position and monitor corrective actions. In the interim, we have continued to gain exposure to the structural theme of EVs through other names that present less ESG risk.



ENGAGEMENT CASE STUDY

LNG to help soaring costs of energy prices

Governance | People | Earth | **Climate**

Issue

Since 2021, energy prices have risen sharply due to the fast-paced global economic recovery, changing weather patterns, postponed maintenance work caused by the COVID-19 pandemic and prior decisions by oil and gas companies and exporting nations to reduce investments. To add to already limited resources, Russia began curtailing gas shipments to Europe in 2021, prior to its invasion of Ukraine. As Europe sought alternatives, this drove up the cost of US, Australian and Qatari liquid natural gas (LNG), causing prices to soar and supply to be rerouted away from traditional Asian LNG customers. In addition, gas prices often set the cost of electricity, so power rates rose as well.

To address this, producers and importers of LNG have taken steps to construct infrastructure that will raise the amount of LNG that can be exchanged worldwide. Nevertheless, these projects will take several years to complete and will impact global carbon emissions.

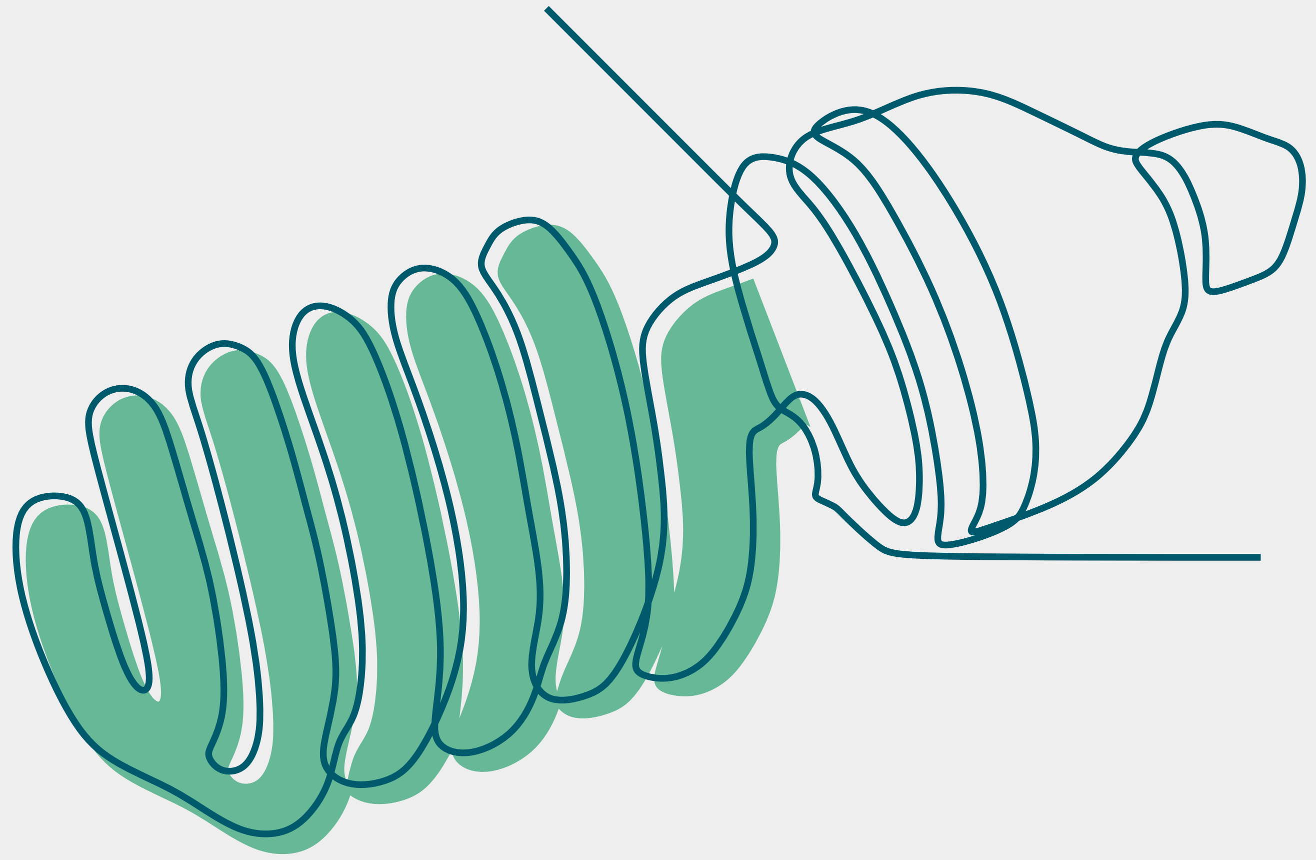
Action

Recognising the challenge of managing trade-offs between growing LNG demand and climate change, our ESG and credit research team jointly engaged with US gas company Cheniere to explore the company's climate strategy.

The company demonstrated positive momentum in its management of climate risks, including providing LNG customers with cargo emissions tags, which offer quantitative analysis of the emissions associated with each LNG cargo created.

Outcome

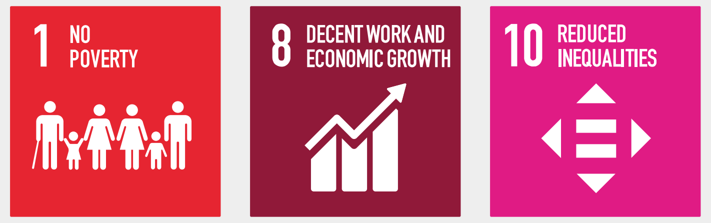
Discussions with management reinforced our views of Cheniere as an industry leader seeking to exceed operationally, financially and environmentally, leading to large increases in our bond holdings. Cheniere Energy has been able to take advantage of the global energy crisis, particularly in Europe. European countries' plans to switch from Russian natural gas to imported LNG have resulted in long-term contracts for Cheniere. Consequently, our funds benefitted when Cheniere received a credit rating upgrade in 2022.



VOTING CASE STUDY

Incentives to change

Governance People Earth Climate



In our 2021 *Responsible Investment Annual Review*, we wrote that in 2022 we would be looking for structural change regarding executive pay to ensure it is more clearly aligned with sustainability objectives. Achieving strategically environmental and social goals requires all empowered stakeholders to be fully aligned and committed to their delivery. Our annual letter to board chairs in 2022[5] set out our expectations, including:

- variable compensation plans include robust, stretching and externally validated sustainability targets that are clearly linked to the commercial strategy;
- existing bonus and long-term targets that are fundamentally at odds with sustainability commitments should be retired; and
- total expected pay outcomes should not be inflated due to the inclusion of additional sustainability performance metrics.

During 2022, we engaged directly with several companies on these issues and are pleased to see a large number introduced ESG targets in their variable pay plans.

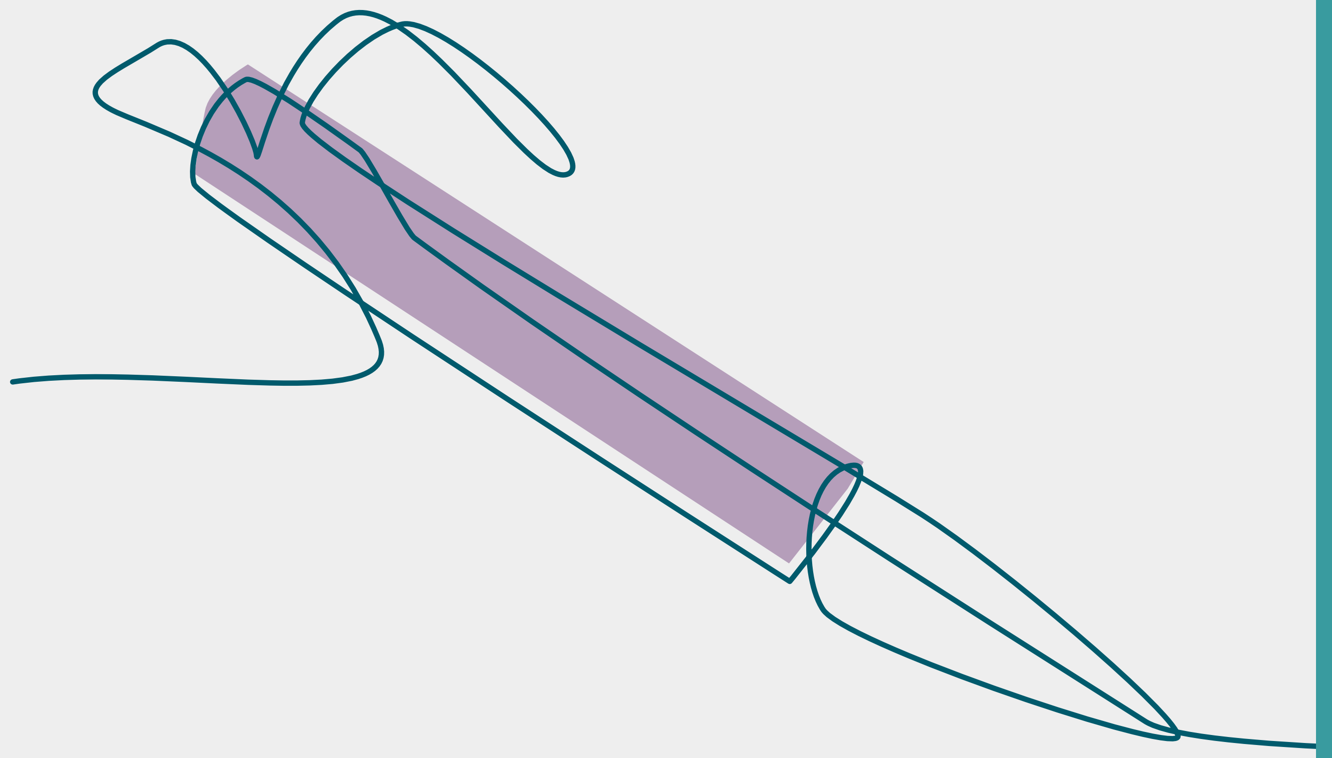
However, implementation varies greatly, and it is too soon to determine whether the introduction of ESG goals in executive pay will have the desired effect. This is because a number of companies introduced ESG targets in the annual bonus for FY2022; therefore, we will assess the pay outcomes against specific targets in 2023. Our views will depend on both the disclosures and appropriateness of targets and whether such bonuses are justified. Essentially, this aspect of the bonus should only be paid out if management have moved the dial on the most material ESG challenges facing the company. If we have concerns (including where ESG targets have not been introduced), we are likely to vote against the remuneration report, just as we would for similar concerns on bonuses in relation to financial metrics.

Some of the companies we have engaged with on this are Headlam, Ocado and Severn Trent.

In Q2 2022, Headlam consulted us on its remuneration plans for the 2022 financial year. We responded with our feedback, including the need to address the lack of ESG targets in variable pay. The company communicated it would incorporate sustainability targets within its bonus framework for FY22. We are pleased to see progress given the company's size, sector and complexity of operations. However, specific targets have not yet been disclosed due to commercial sensitivity and we will review these ahead of the 2023 AGM.

We made a similar request to Ocado. We note that its remuneration committee will take into consideration ESG factors, among other factors, when determining whether the formulaic vesting levels under the value creation plan (VCP) are appropriate in the context of business and individual performance. However, we think it is important to incentivise management (through bonuses and/or VCP) to focus on the delivery of key ESG metrics to ensure the company is well-positioned for the longterm.

Regarding Severn Trent, at the company's 2022 AGM, we abstained on the remuneration report, as whilst there was no material misalignment between pay and performance for the year under review, bonuses were 81 per cent of the maximum (representing 97 per cent of salary). We felt the remuneration committee should have used discretion to reduce bonuses due to the sewage issues experienced.[6] Whilst the company claimed this had already been reflected in the outcomes (because bonus targets include customer and environmental aspects), it was not clear to what extent this had taken place. We welcome that for 2022/2023, a portion of the bonus will relate to river health criteria. This is in keeping with the company's stated priority of preserving river quality and river pledges, as announced in March 2022.



5. Annual letter to company chairpersons – Aviva Investors
6. Severn Trent Water fined £1.5m for sewage discharge – BBC News

COLLABORATION CASE STUDY

A multifaceted approach to deforestation

Governance | People | **Earth** | Climate

Issue

Ending deforestation and implementing natural climate solutions could make a significant contribution to achieving the Paris climate target, as well as slowing biodiversity loss and supporting human rights. With most deforestation driven by demand for palm oil, soy, cattle products and pulp and paper, the need for action is urgent.

Cattle ranching is the biggest driver of deforestation in Brazil, home to one of the largest carbon sinks globally. Cattle ranching is primarily driven by demand from the meatpacking industry, but other co-products such as cattle hides (leather) play a role in the continued destruction. Auto manufacturers are key buyers: 80 per cent of Brazilian leather is exported, with leather car seats estimated to account for half of these exports.

In 2009, major Brazilian meatpacking companies committed to end the purchase of cattle linked to Amazon deforestation. Twelve years on, these companies have made minimal progress, and still cannot attest to the extent they are buying cattle raised on deforested land. Meanwhile, deforestation in the Amazon has reached a 16-year high, with warnings the rainforest is approaching a tipping point at which damage will be irreversible.

Action

Our deforestation engagement covers several industries and different value chains. One example is the auto industry, where we joined an investor engagement initiative aimed at enhancing the due diligence and traceability of the leather used by auto manufacturers such as Mercedes Benz and General Motors. Another example is outlined on page 7 regarding Boreal forest degradation.

Regarding cattle, we escalated our engagement with a Brazilian beef exporter that began in 2020, given the rate of deforestation in Brazil. We requested the company bring forward and expand deforestation targets to include legal deforestation and issue a public call to the government to facilitate a full traceability programme and a RFID tagging programme.

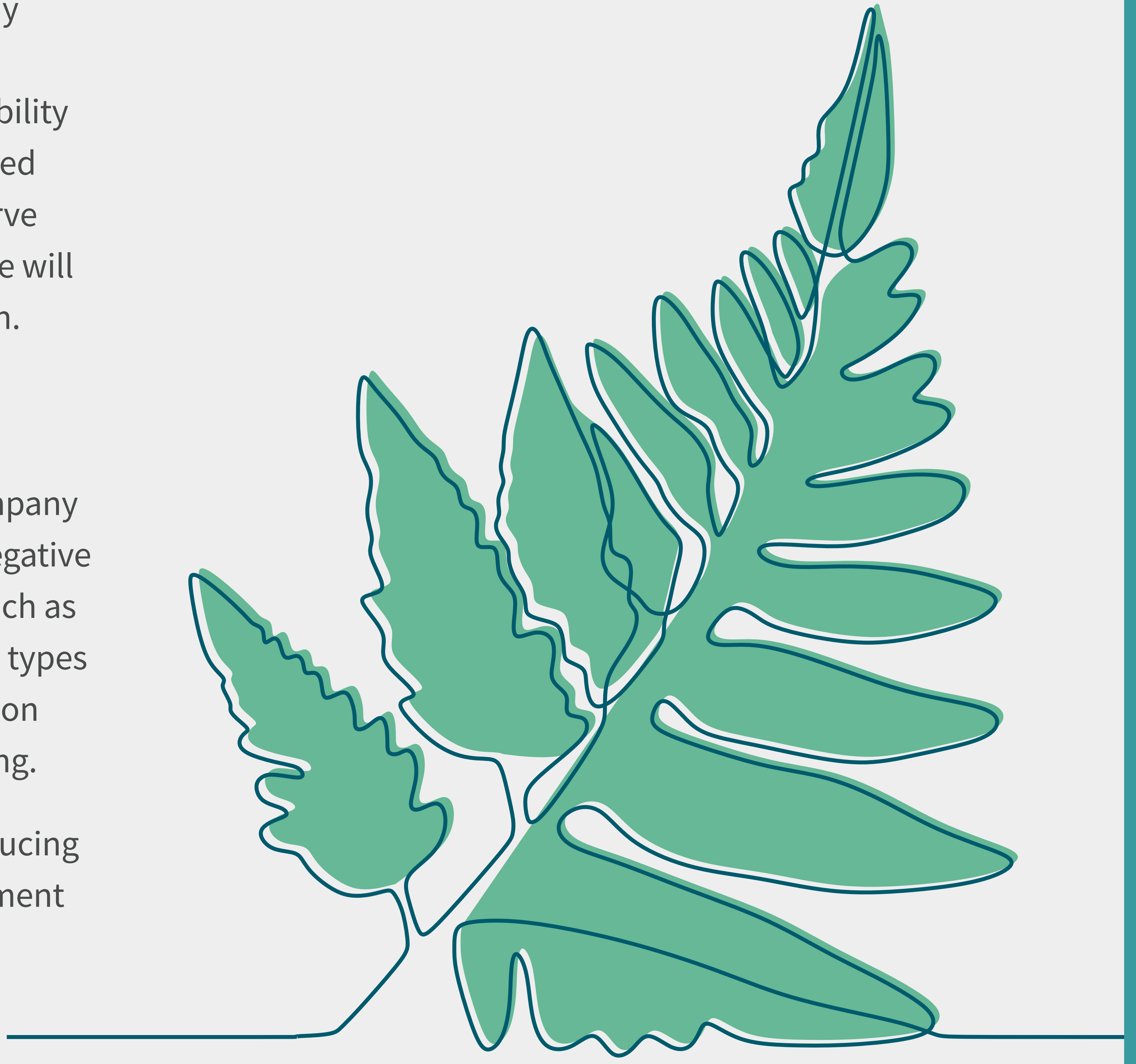
We also were one of 30 investors globally to sign a commitment to eliminate agricultural commodity-driven deforestation from our portfolios by 2025, known as the Financial Sector Deforestation Action, and this year carried out a deforestation risk assessment of our holdings. See page 102 for more details.

Outcome

Our engagement on leather has resulted in the identification of good practices on supply chain due diligence. For instance, we were pleased to find General Motors is engaging with its leather suppliers and has achieved significant traceability to slaughterhouses. It is also the only company in the sector participating in the CDP's Forest questionnaire. While we made asks for traceability to farms and for alternative materials to be used in auto interiors with GM, these efforts can serve as a blueprint for others to follow. This year we will also start engaging on the rubber supply chain.

Regarding our engagement with the Brazilian beef exporter, we were disappointed in the company's response. Given our belief the company was not moving fast enough, alongside the negative headwinds of changing customer demand (such as certain UK supermarkets ceasing to buy some types of beef from Brazil),and increasing regulation on supply chain deforestation, we sold our holding.

As part of our work on FSDA, we will be introducing a more comprehensive deforestation engagement plan in 2023, based on the results of our deforestation risk assessment.



This document is for professional clients and institutional/qualified investors only. **Past performance does not guarantee future results.**

COLLABORATION CASE STUDY

PFAS or "forever chemicals" – Mitigating exposure across industries

Governance | People | **Earth** | Climate

3 GOOD HEALTH AND WELL BEING | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 15 LIFE ON LAND

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.

COLLABORATION CASE STUDY

Collaborating to engage with sovereigns

Governance People Earth **Climate**

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.

ENGAGEMENT CASE STUDY

Bondholder engagement

Governance | People | **Earth** | Climate

13 CLIMATE ACTION | 15 LIFE ON LAND

Issue

Stewardship has traditionally been associated with equity holdings. As an owner of the company, shareholders are entitled to vote on company resolutions, which promotes further dialogue. As fixed income and responsible investing have gained in popularity, greater attention has been placed on stewardship by bondholders. Notions that bondholders lack influence have been challenged.

In 2020, the HM Treasury-led Asset Management Taskforce published a report, '*Investing With Purpose: Placing Stewardship at the Heart of Sustainable Growth*,'[7] which highlighted stewardship in fixed income as an area of improvement.

Action

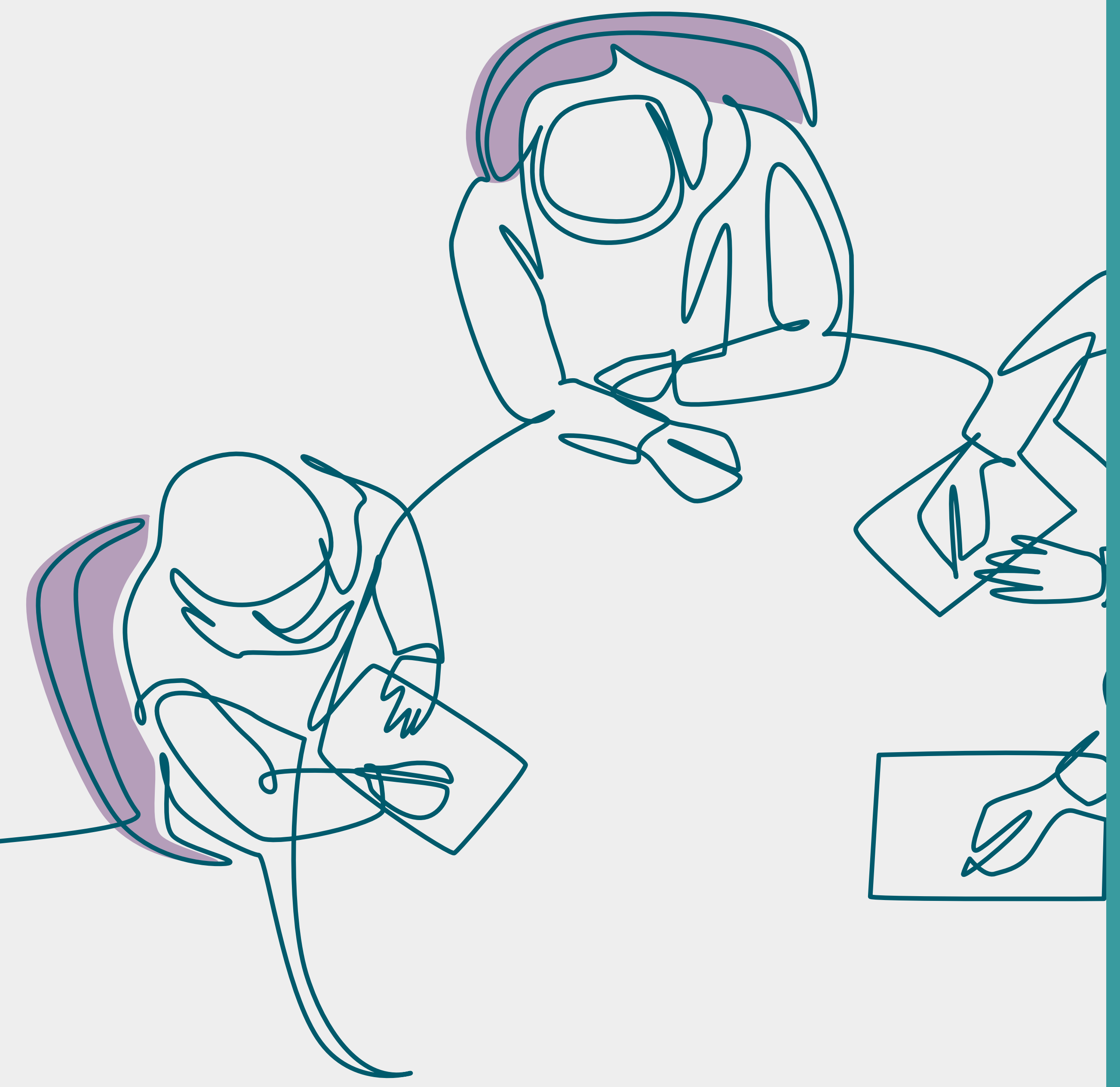
As a result of that report, the Investment Association, a trade body that represents UK asset managers created a Stewardship in Fixed Income Working Group, in which Aviva Investors and 14 other UK investors were invited to participate. Over the course of 2021/22, the group collaborated to develop guidance on stewardship in fixed income for issuers, asset managers and other stakeholders. The guidance was published in a 20-page report in November 2022.[8]

Outcome

The guidance outlined the importance of fixed income stewardship. It featured multiple asks, but mostly called for issuers to improve transparency on their debt management and ESG strategies, as well as encouraged issuers and investors to build better long-term relationships to support improved investment and sustainable outcomes.

Recognising the challenge of stewardship in fixed income extends beyond investors and issuers; recommendations were also raised with other key stakeholders, including banks, credit rating agencies, data providers and regulators.

The report represents an important step in promoting fixed income stewardship within a broader sustainable finance ecosystem. It initially focused on stewardship with corporate issuers; as a next step, the working group hope to explore and promote stewardship in other areas, including sovereign and other non-corporate issuers.



7. Investment managers place stewardship at the heart of sustainable growth | Press Releases | The Investment Association (theia.org)
8. Fixed Income Stewardship Report.pdf (theia.org)

INTEGRATION CASE STUDY

14,000 hours of EV-charging delivered across real estate

Governance People Earth **Climate**

Issue

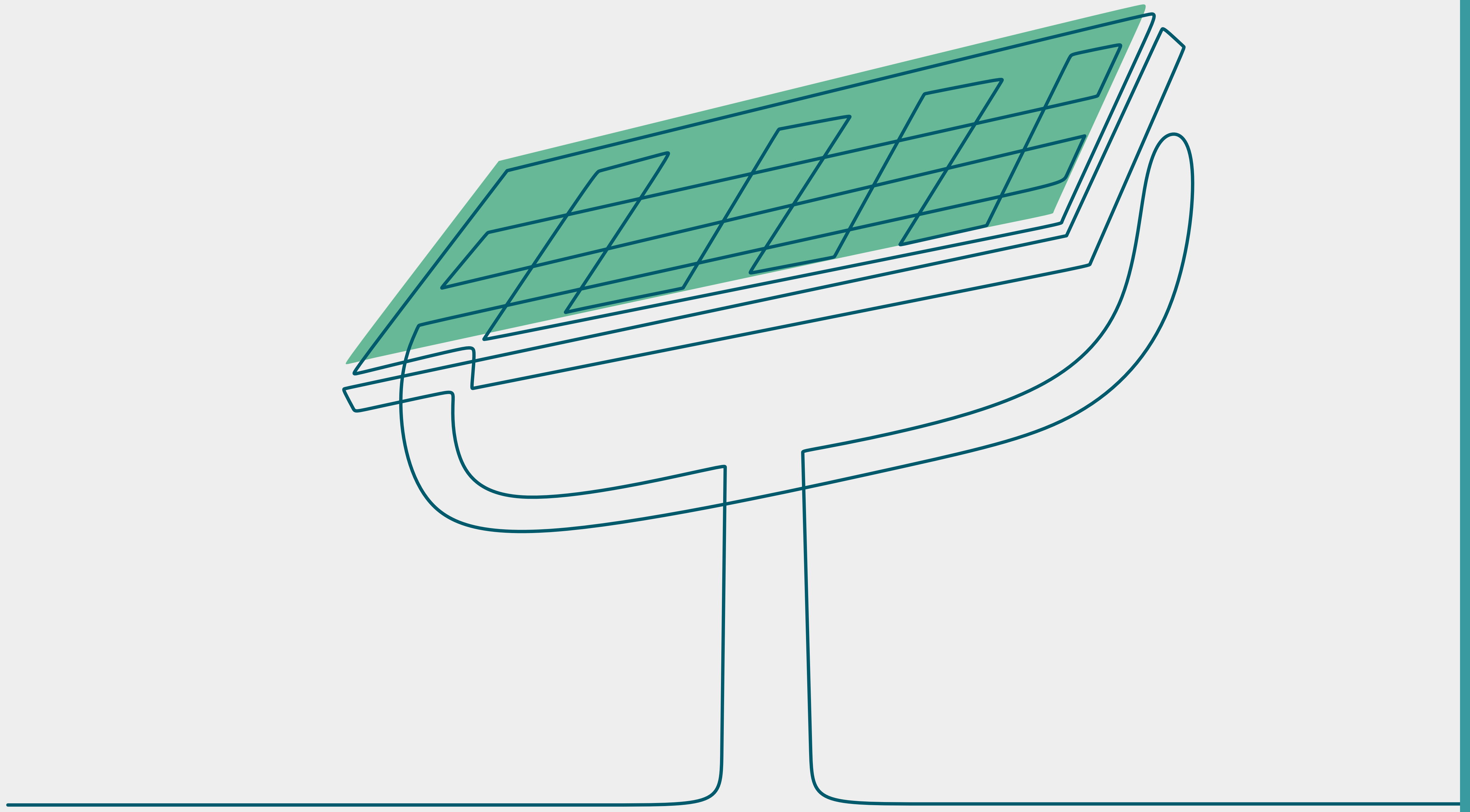
Electric vehicles (EVs) are core to the electrification of transport and the achievement of the UK's net-zero ambitions and commitment to ban the sale of new petrol and diesel cars from 2030. But while use of EVs is gathering pace, the majority of EV drivers have driveways and have been able to install their own charging points. EV drivers without driveways predominantly live in urban areas where air quality is poorest, making accessibility of EV-charging infrastructure a social issue.

Action

Thanks to a deal completed by our infrastructure equity team in the summer, we will invest up to £110 million in Connected Kerb Limited, the fastest-growing company in the municipality-led EV charging sector. Connected Kerb specialises in long-dwell, habitual EV charging and is primarily focused on publicly procured contracts with local authorities, providing key charging infrastructure to communities who need it most. This deal follows our successful partnership with RAW Charging at the end of 2021, which has installed 31 chargers across 11 sites.

Outcome

Overall, these partnerships give us a network of 40 charging bays, which has delivered 14,000 hours of charging time to customers. Our stake in Connected Kerb gives us further capacity to grow the network, branching out to residential and kerbside destinations throughout the portfolio.



INTEGRATION CASE STUDY

Continuing our investment in social housing

Governance | **People** | Earth | Climate

Issue

The UK's housing crisis has been significantly exacerbated by COVID-19 and its impact on workforce availability, as well as the lack of construction materials. With over a million families on local authority waiting lists for social homes, there are not nearly enough new homes being built to meet demand.[9]

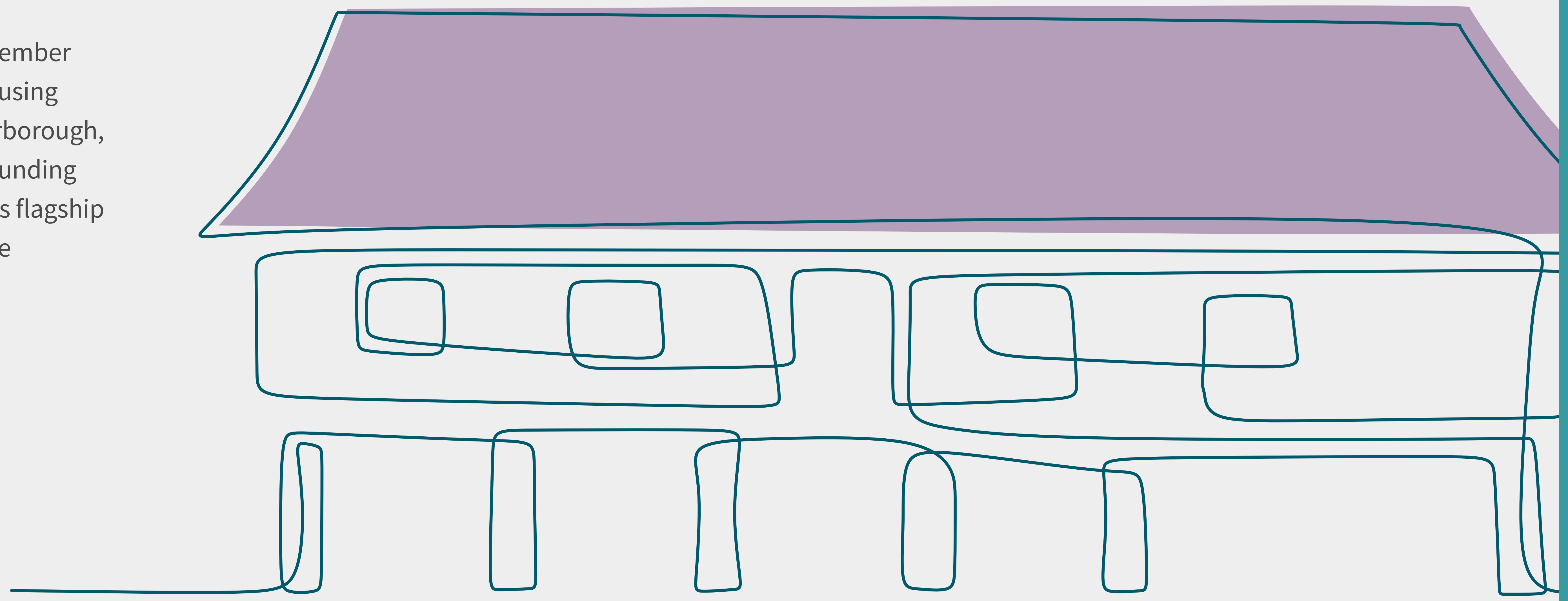
Action

In August, our structured finance and private corporate debt team completed a deal to provide £72.5 million in funding to Peaks & Plains Housing Trust ('Peaks & Plains'), a social landlord based in Macclesfield, Cheshire. The funding will enable Peaks & Plains, which manages over 5,000 homes across East Cheshire and the High Peak, to continue delivering on its plans for communities across three local authority areas in Cheshire, as well as Derbyshire, High Peak in the East Midlands, and Northwest England.

We also announced the completion in November of an £80 million placement with social housing provider Cross Keys Homes, based in Peterborough, Cambridgeshire[10]. Cross Keys will use the funding to support its growth and the building of its flagship scheme in Northminster, which will provide 315 affordable homes.

Outcome

Social housing financing can deliver material positive societal impacts, particularly for low- to middle-income households. Our continued investment in this sector demonstrates our commitment to delivering social infrastructure, while also offering our clients attractive risk-adjusted and countercyclical returns.



9. https://england.shelter.org.uk/support_us/campaigns/social_housing_deficit
10. Aviva Investors completes £80 million investment with social housing provider Cross Keys Homes

2

Purpose and governance

2.1

PURPOSE AND GOVERNANCE

Purpose, strategy and culture

How our purpose drives what we do

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

Staying at the cutting-edge of responsible investment is central to what we do. We have a long heritage of leadership in responsible investment, having published our corporate governance voting policy since 1994. We included material environmental and social issues within that policy in 2001 and also became founding signatories of the UN Principles for Responsible Investment (PRI) in 2006. We continue to innovate and seek opportunities to drive the development of responsible investment today, evidenced by the action taken to embed ESG capabilities within our investment teams and our extensive participation and leadership of sustainable finance initiatives.

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

Recognising clients want to target specific outcomes linked to the SDGs, we continue to develop our capabilities to deliver research, engagement and solutions as part of our sustainable outcomes approach. This has included the launch of a global sustainable transition range, as well as a commitment to deliver net-zero across real assets by 2040, accompanied by a detailed plan and targets.

In parallel, we advocate for transformational change to incentives and rules so that capital markets become more long term and support the SDGs. To deliver the estimated $90 trillion of investment needed to deliver sustainable development over the next 15 years and move from "billions in overseas development assistance to the trillions in investments of all kinds", as the World Bank notes,[11] the private sector and private finance need to play a greater role.

To that end, we convened the coalition for an International Platform for Climate Finance (IPCF) to produce recommendations to help marshal the financial resources needed to power a transition to a Paris-aligned global economy. These recommendations were adopted by the $140 trillion Glasgow Financial Alliance for Net Zero (GFANZ) in their COP 26 Call to Action, and the IPCF continues to push for their implementation.

Finally, we recognise our own business plays an integral part in today's financial ecosystem and its capacity to deliver for society. As such, it is not only our actions as participants in capital markets but also our own culture and activities that must embody our values and live up to expectations. This report should also be read in the context of Aviva's broader corporate responsibility[12] and TCFD[13] reporting.

> Responsible investment is front and centre of our business strategy, alongside a focus on enhanced customer outcomes and simplification.

11. Press Release: From Billions to Trillions--Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance (imf.org)
12. Corporate responsibility | About – Aviva Investors
13. Climate-related financial disclosure – Aviva plc

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.

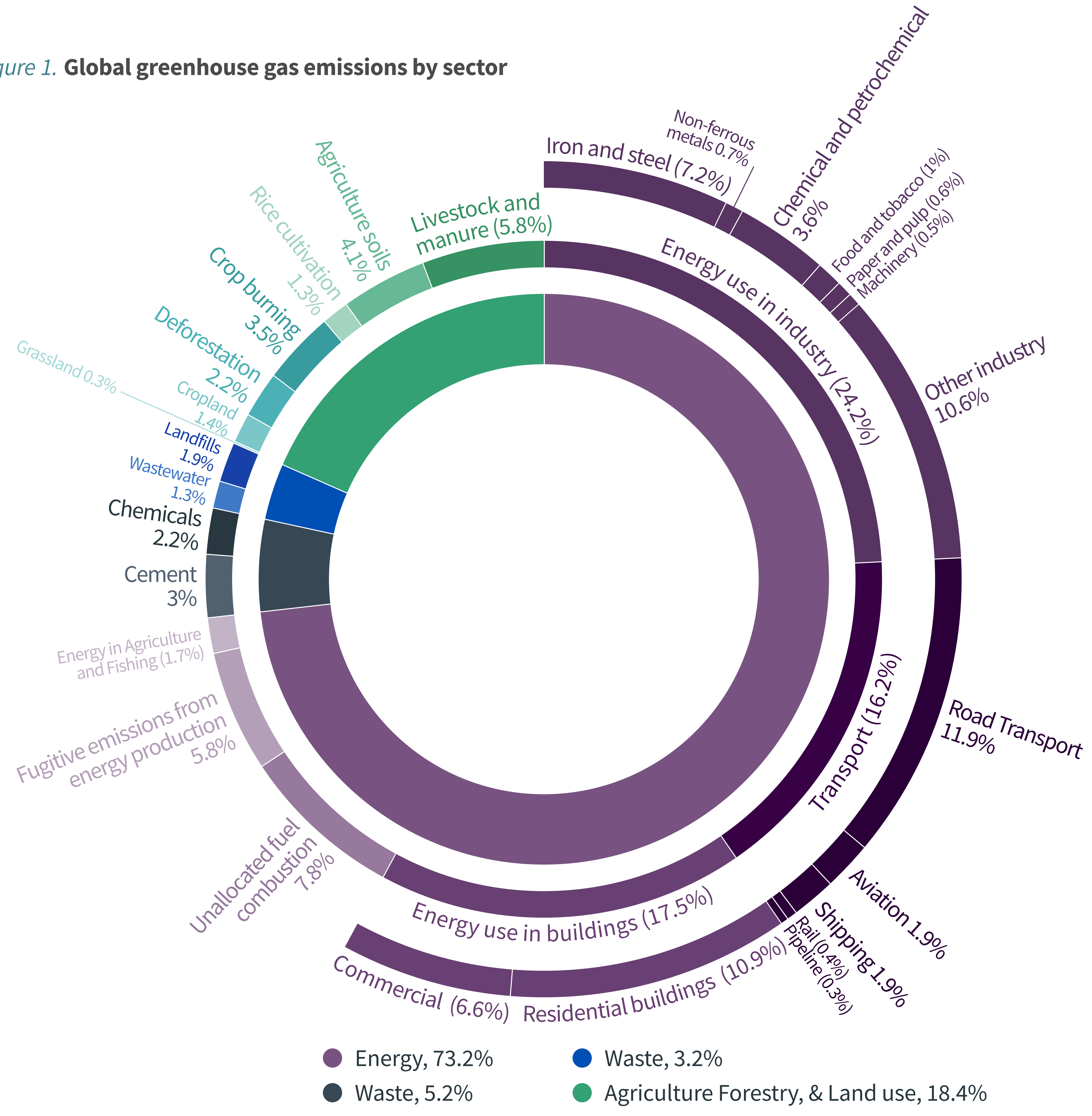
Investing to drive the transition

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.

> 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

Our responsible investment philosophy (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 1, 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.

Our responsible investment philosophy (cont'd.)

Turning the spotlight inward

We look to hold ourselves to the same governance and ethical standards we expect of others. Performance against ESG objectives is embedded into investment teams' and senior management's annual evaluation and compensation frameworks. Responsibility for implementation of our responsible investment philosophy rests with the executive committee and heads of investment functions. Our commitments in this area are fully embedded into our internal controls environment and subject to robust challenge from our control functions as well as assurance from external auditors.

Exclusions

There are specific sectors and economic activities where we consider the sustainability risks to the climate, planet and people to be so severe that providing equity and debt funding is fundamentally misaligned with our responsible investment philosophy and corporate values. In these cases, we forgo the opportunity to engage, and actively exclude companies and industries from our investment universe.

Over the last 12 months, we have enhanced our baselines exclusions policy. For instance, we have integrated the UN Global Compact into our policy and, as such, companies we do not believe meet the standards of the UN Global Compact are excluded from our investment universe. This decision is informed by MSCI data, but such exclusions are determined at our discretion as opposed to being based on third-party analysis.

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

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

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

Source: Aviva Investors.

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

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

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

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

2.2

PURPOSE AND GOVERNANCE

Governance, resources and incentives

Governance of our investment processes

Our governance structure and processes ensure our approach to ESG integration and active ownership is embedded throughout our business. This allows us to meet the requirements of the Shareholder Rights Directive II (SRD II) on how we monitor and engage with companies on strategy, financial and non-financial performance, risk, capital structure, social and environmental impact and corporate governance. This also includes how we work with other shareholders. There are examples of this in action throughout the document.

Aviva plc, our parent and largest client, sets the tone for the approach to responsible investment across its business units. This is underpinned by Aviva's sustainability ambition, to deliver net zero across its investments by 2040. Key group governance structures include the ESG leadership team and the climate plan across all business units.

With ESG a central part of our strategy, the ESG philosophy, asset class policies, objectives, targets and performance are directly overseen by our executive committee. Furthermore, the chief investment officer for liquid markets, in conjunction with the heads of equities, credit and multi-assets, are responsible for integrating ESG into their investment processes. Similarly, within our Real Assets function, the chief investment officer, along with the heads of each asset class, are responsible for ESG integration. ESG specialists are embedded within the investment teams.

Ongoing ESG developments are monitored by these specialists as well as our regulatory development and client-facing teams, with any revisions to policies subject to approval by the executive committee.

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

- ensuring strategies are being managed in accordance with our baseline exclusions policy;
- ensuring processes are being managed in accordance with the respective asset class policies;
- ensuring suitable protocols are in place so that each fund has applicable screens applied in accordance with IMA guidelines;
- ensuring ESG scores and analytical tools are made available to portfolio managers (on the investment platform) and are referred to and considered as part of the investment process;
- ensuring relevant ESG factors are considered in support of investment ideas and asset allocations;
- mandatory ESG-specific section completed on all analysts' research documentation; and
- ESG investment-specific staff are members of key liquid markets strategy meetings.

With ESG a central part of our strategy, the ESG philosophy, asset class policies, objectives, targets and performance are directly overseen by our executive committee.

Governance of our investment processes (cont'd.)

Building an inclusive workplace

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

In an environment of fairness, inclusion and positivity, we all achieve more. This kind of inclusive and productive working environment is created when everyone feels stronger together – with no barrier to their ability to contribute, collaborate and succeed.

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

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

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

- Our Inclusion Committee was established in 2020 and is sponsored by our CEO and People Director. While it is important to ensure our DE&I focus covers the full spectrum of diversity, we decided on three strategic priorities of gender, ethnicity and social mobility as our key pillars to drive and accelerate progress.
- In 2022, we revamped our approach and articulated a clear DE&I vision, formalised governance structures, established priority areas and associated targets, and developed action plans to guide and track the delivery of our DE&I ambition to have the greatest impact on our culture.
- In 2021, we launched a reverse mentoring programme, which was detailed in Aviva's Black Lives Matter action plan. All members of our executive committee participated in the programme, where they were mentored by a black colleague with the aims of promoting an inclusive culture, developing a pipeline of black talent and supporting conversation on race-related issues. The programme continued in 2022, but widened its base to include mentors from all diversity characteristics partnering with senior leaders from the business as well as Board members to provide a different perspective on diversity and, among other aims, identify specific actions in support of inclusion goals.
- We take part in both Mission Gender Equity, formerly known as the 30% club, and Mission INCLUDE cross-industry mentoring programmes, which are an important method of development and education for the mentees and mentors who participate. The programmes aim to improve the inclusivity of organisations and diversity of senior leadership teams globally. In 2022, 16 employees took part in the programmes.
- We launched our Return to Work initiative in 2018 and launched the fifth programme in January 2023. This is a six-month programme for investment industry professionals returning to work after an extended career break, with the goal of securing a permanent position.

There is a particular focus on underrepresented gender equality within investment/client-facing roles; this programme builds a future candidate pipeline to develop into senior roles to support the gender pay gap. The current retention rate is 71 per cent, and we aim to increase this in 2023.

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

- As part of our attraction and retention strategy, we piloted a term-time working programme that allows individuals to work 75 per cent of the time (13 weeks off), paid on a pro-rata basis and taken off during school holidays. The pilot was conducted with two employees in the front office, with a positive response from both employees and leaders. This is seen as progressive within the industry and illustrates our flexible working approach to retain gender balance and a work-life balance.
- As part of our early careers outreach, we partner with a number of charity organisations (upReach, Career Ready, 10,000 Black Interns, GAIN) and social enterprises (Investment 2020), which act as feeders onto our internship, trainee and graduate programmes.

Governance of our investment processes (cont'd.)

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

To progress the existing early career offerings, additional interventions to support graduates and school leavers in planning for post education took place in 2022. In partnership with Greenhouse Sports, a charity which partners with schools where over two-thirds of children are living below the poverty line, a pilot 'Career, Industry and Skills programme' for year 10 students was launched, ending in a week-long work experience for 11 students. A virtual insight week, 'Spring connections', also took place in conjunction with Aviva Group, upReach and Career Ready, the purpose of which was to give young people from less advantaged backgrounds an introduction to working in the insurance and asset management sectors (160+ attendees).

Incentives

As part of the annual goal-setting process, all members of the executive committee, including chief investment officers, have an ESG-aligned performance measure that contributes to the annual appraisal process and remuneration plans. ESG performance measures are also cascaded and embedded across the respective investment teams' goals.

Responsible investment policies

We have developed a suite of responsible investment policies to clearly articulate our approach to ESG at a company, asset class and product level. The responsible investment policies sit within a tiered framework that ensures all policies maintain consistent principles and any positions agreed cascade down throughout the business in an efficient manner. Policies refer to the UK and may differ across geographical jurisdictions for other Aviva entities.

Governance of our investment processes (cont'd.)

Corporate backdrop	**Aviva plc group-wide corporate responsibility policies** Corporate employee policies (e.g. diversity, parental leave) · Modern slavery and human trafficking statement · Human rights policy · Business ethics code · Corporate responsibility, environment and climate change business standard · Biodiversity policy
Tier 1 Overall approach	**Aviva Investors' responsible investment philosophy**
Tier 2 Firm-wide policies	Aviva Investors global voting policy · Aviva Investors baseline ESG exclusions policy
Tier 3 Asset class policies	Aviva Investors credit & equities – responsible investment & sustainability risk policy · Aviva Investors multi-asset & macro & liability-driven investment – responsible investment & sustainability risk policy · Aviva Investors real assets – responsible investment & sustainability risk policy
Tier 4 Fund and mandate documentation	Specific funds have additional individual specifications such as exclusions, inclusions, targets and impact measurements
Client-led policies/ segregated mandate documentation	Client-specific · Client-specific exclusionary policy

Policy framework

Tier 1 – Policies: Overarching responsible investment philosophy, beliefs, governance and commitments.[14]

Tier 2 – Policies: Key ESG firm-wide policies that are applied across all ESG investment and related supporting activities.[15]

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

- Credit and equities – responsible investment and sustainability risk policy
- Multi-asset and macro and liability-driven investment – responsible investment and sustainability risk policy
- Real assets – responsible investment and sustainability risk policy. Each asset class policy is published on our website.[16]

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

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

2.3

PURPOSE AND GOVERNANCE

Conflicts of interest

Conflicts of interest

We take our fiduciary duties to clients and beneficiaries very seriously. We apply a consistent and transparent approach to the management of conflicts of interest in accordance with our regulatory obligations. The Aviva Investors Global Conflicts of Interest Policy sets out the principles and standards to identify, manage and record conflicts of interest across all our offices.[17]

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

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

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

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

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

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

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

Our principal objectives when considering matters such as engagement and voting are always to act in the interests of our clients and underlying beneficiaries, and to treat all clients and beneficiaries fairly.

17. https://www.avivainvestors.com/en-gb/capabilities/regulatory/

Conflicts of interest (cont'd.)

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

- Making companies aware each year of our areas of focus on governance matters, including the Aviva Investors Global Voting Policy. This enables boards to take our expectations into account without a conflict coming into play, and also demonstrates our commitment to a transparent process on behalf of all client funds
- Being transparent to companies and to clients on our voting decisions and the rationale for such decisions
- Making our voting decisions public on a company-by-company basis so our voting record is transparent and available for external scrutiny
- When agreed with clients, we will act on their specific voting direction (for their holdings), including the use of independent third-party instructions
- Voting process and decisions, including incidents of potential conflicts, are subject to review by Aviva Investors' internal audit function, and Aviva Investors' operational risk framework facilitates ongoing compliance; incorporating documented processes and controls.

Voting shares at Aviva plc meetings

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

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

(ii) Subject to (iii) below, where Aviva Investors is responsible for voting rights over Aviva plc shares held or managed on behalf of external clients, given the potential for a conflict of interest, Aviva Investors will exercise no discretion over those voting rights and its default position will, therefore, be to refrain from exercising those voting rights.

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

Voting shares that are also segregated clients

We recognise that a conflict of interest potentially arises when we are voting at shareholder meetings of issuers which are also segregated clients. In such scenarios, we will exercise no discretion. Instead, voting will be in line with our Global Voting Policy[18], which will be provided through custom policy research generated by our external voting provider. If there are any resolutions which our voting provider has 'referred' to us to make a vote decision (note that this will only occur if no specific criteria has been agreed / there are particular circumstances relating to the relevant resolution that warrants review), then the default position will be to vote in line with ISS benchmark recommendations (for the refer items only).

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

18. Policies and documents – Aviva Investors

2.4

PURPOSE AND GOVERNANCE

Promoting well-functioning markets

AVIVA INVESTORS

Promoting well-functioning markets

Any responsible investor must act in the best interests of clients and the integrity of the market. In our position as market participants and stewards of our clients' capital, we have a duty to promote the integrity of markets and play our part in ensuring that they function well. This requires us to identify potential market-wide and systemic risks as well as those that manifest at an asset class, sector or issuer level. We can then seek to mitigate these, at whichever level they arise, through engagement. This will sometimes involve exercising our rights and responsibilities over the assets we hold. In other cases, it will involve engaging with policymakers to correct market failures and systemic risks. Ultimately, our aim is to contribute to the transformation of the financial system, enabling it to serve the needs of the present without harming generations to come. We think of these actions as "macro stewardship".

Market failures mean short-term incentives and long-term financial and sustainability interests misalign, and only policy action can correct them. But even though market participants are dependent on policymakers and regulators to make these changes, that does not absolve them of the responsibility to highlight issues where they arise and collaboratively engage with policymakers and regulators to promote well-informed and effective policy corrections.

The UK Stewardship Code's principle of promoting well-functioning markets is fully aligned with this duty. But despite Principle 4 being a much welcomed and highly impactful way to improve the sustainability and integrity of the system as a whole, not everyone views it in this way, and it is therefore underutilised.

As such, we encourage further clarification from the Financial Reporting Council on the full scope of expectations around Principle 4 and look forward to the opportunity to engage further on this. We particularly welcome the FCA discussion paper DP/31 "*Finance for positive sustainable change: governance, incentives and competence in regulated firms*", which takes a similar position. We see this evolution of the duties of financial market participants, and the concept of macro-stewardship in particular, as crucial to harnessing the power of markets to deliver the transition to a financial system that embeds sustainability and finances a sustainable real economy.

We use our voice to raise awareness around the concept of 'market failures' that relate to risks in the system, in particular their distinction from 'market inefficiencies' which can and should be exploited by asset managers to generate returns. In recognising this distinction, we engage with policymakers to seek interventions to address market failures and correct them to put markets on a more sustainable footing that will transform the real economy.

This is particularly the case for market failures like climate change that threaten not only the long-term viability of financial markets and financial services business models, but, unless corrected, will ultimately challenge human civilisation itself.

Our work to promote well-functioning markets and bring about a sustainable financial system is embedded across our business, as we undertake stewardship at a micro level (identifying risks, opportunities and impacts by way of our investment research and acting on these insights through corporate engagement) and at a macro level (market reform work to bring about systems change).

> Any responsible investor must act in the best interests of clients and the integrity of the market.

Promoting well-functioning markets (cont'd.)

Sustainable Finance Centre for Excellence – Macro Stewardship

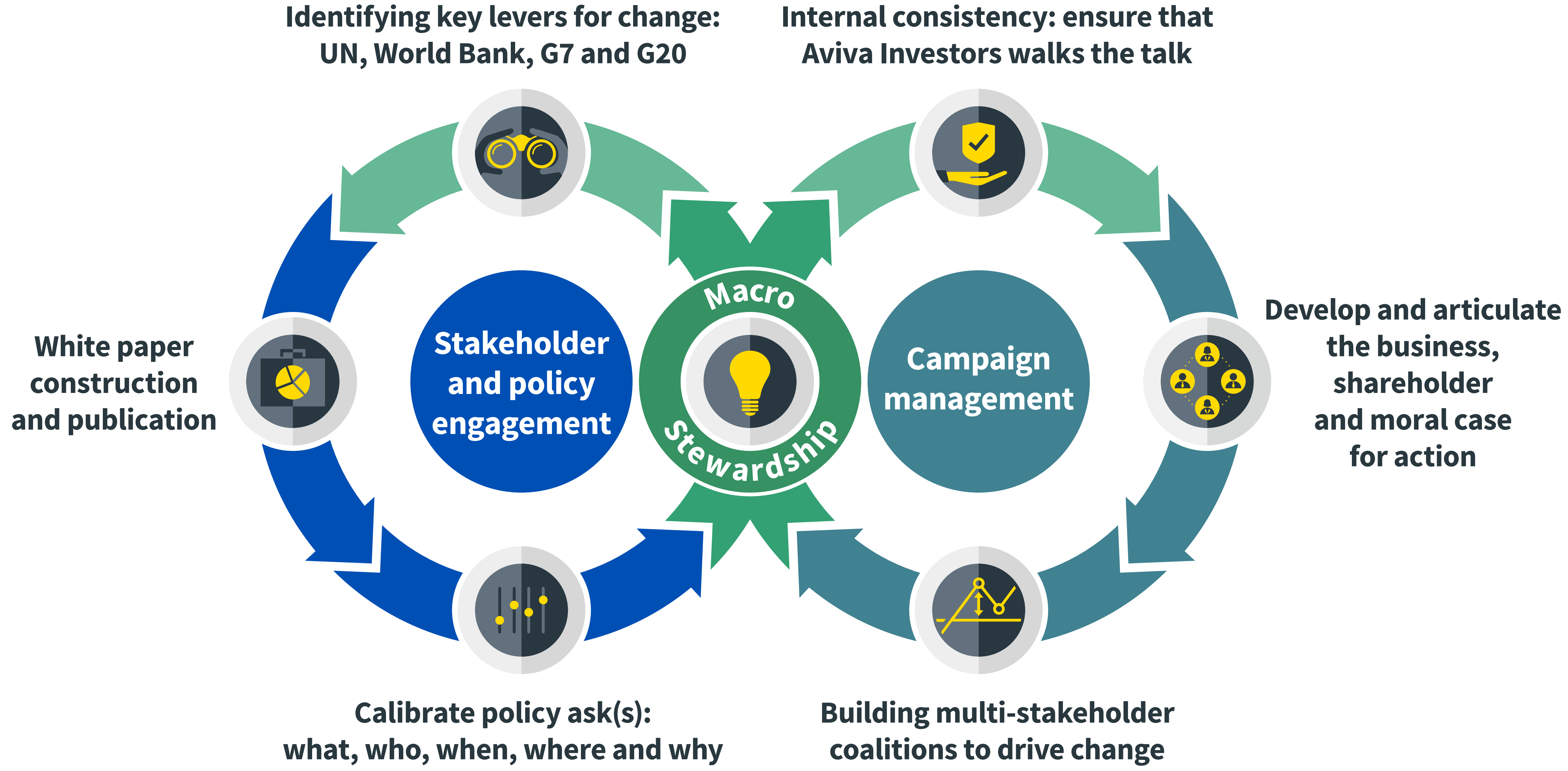
Our macro stewardship work represents a natural progression from ESG integration and micro stewardship. Investors do not operate in a vacuum, and feedback loops exist between investment activity and the real-world upon which we rely to deliver risk-adjusted returns in the long run.

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.



Promoting well-functioning markets (cont'd.)

Climate change

Climate change is the world's biggest market failure. Last year marked 30 years since the Rio Earth Summit, which led to the creation of the United Nations Framework Convention on Climate Change (or UNFCCC). This oversees the COP or "conference of the parties" process, the 27th iteration of which was held in Sharm el-Sheikh, Egypt, in November. Yet more than half of greenhouse gas emissions since 1751 have been created since 1992, and 2022 is set to continue a trend that has seen the past seven years as the hottest on record. Currently, the true cost of unsustainable activity is not reflected in market prices. Therefore, companies can behave unsustainably, in a way that has negative outcomes for society, without material consequences.

Other systemic issues are inextricably linked to climate change. Greater biodiversity and protection of nature supports climate mitigation and adaptation, but rising temperatures exacerbate biodiversity loss and vice versa. Actions driving climate change, like deforestation, soil degradation and destruction of carbon sinks, are not only causing rising temperatures and destroying habitats and animal and plant life, but also undermining the ability of Earth to mitigate the effects of warming we are causing.

The 17th Global Carbon Budget found the effects of climate change have reduced the CO_2 uptake of the ocean sink by around 4 per cent and the land sink by 17 per cent [19]. Inequalities and human rights breaches are deepened by climate change because it disproportionately affects marginalised people and is disproportionately caused by those better off. The richest 1 per cent of the global population are responsible for more than twice as much of the utilisation of the global carbon budget as the poorest 50 per cent [20].

Delaying action has devastating consequences. As at COP26 in Glasgow, participants at COP27 in Sharm el-Sheikh reiterated the goal of the 2015 Paris Agreement to prevent the most catastrophic impacts of climate change by restricting warming to two degrees Celsius or below, but re-emphasised the many magnitudes less severe those consequences will be if warming is limited to 1.5 degrees and reaffirmed efforts to achieve that goal.

However, the reality remains that despite more than 90 per cent of global GDP covered by some form of net-zero target, emissions continue to rise. 2022 saw a record high of emissions from fossil fuels and cement [21]. The scientific consensus of the Intergovernmental Panel on Climate Change is that to have a greater than 50 per cent chance of limiting long-term warming to no more than 1.5 degrees, a 45 per cent cut in global emissions versus 2010 levels is needed by 2030. After Glasgow, we had 98 months to halve global emissions; all that has happened since is that the challenge has become greater with less time to address it.

It is no use single actors or groups achieving net zero if we do not do so as a global average – the race to net zero is one we win or lose together. We are committed to playing our part. We are a member of the Net Zero Asset Managers Alliance, with ambition to reach net zero across our investments by 2040 (in line with Aviva plc). Aviva is also a member of the Glasgow Financial Alliance for Net Zero (or GFANZ), with CEO Amanda Blanc on the CEO Principals Group. We support her co-chairing of GFANZ workstreams on policy advocacy and transition plans for financial institutions. We have also put our experience in macro stewardship with politicians, policymakers and stakeholders into action, often in collaboration with others, to strengthen our voice.

> Aviva Investors is committed to playing our part; we are a member of Net Zero Asset Managers and Aviva has ambition to reach net-zero across investments by 2040.

19. https://essd.copernicus.org/articles/14/4811/2022/
20. https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621052/mb-confronting-carbon-inequality-210920-en.pdf
21. https://www.weforum.org/agenda/2022/11/global-co2-emissions-fossil-fuels-hit-record-2022/

MARKET REFORM CASE STUDY

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

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

G P E C

Issue

A world with two degrees of warming might be uninsurable; a four-degrees world certainly would be.

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 United Nations Framework Convention on Climate Change and the outcomes of the Paris Agreement, as reiterated in the Glasgow Climate Pact from COP26. 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 was not designed with the climate crisis in mind. In fact, it was not designed at all, but has evolved over time in response to successive financial crises. The bodies within the IFA are taking some actions in respect to climate risks, most notably in increased disclosure by financial market participants through initiatives like the TCFD (the recommendations of the Taskforce on Climate-related Financial Disclosures).

They are also increasingly considering climate risks, principally transition risks, through their financial stability mandates.

However, the work to date is insufficient to address the systemic risks and market failures linked to the climate crisis. The Sustainable Finance Roadmap[22] of the G20 Sustainable Finance Working Group and publications like the Financial Stability Board's Roadmap[23] for Addressing Climate-Related Financial Risks provide a starting point. But the world lacks a comprehensive plan for the orderly and just transition of the financial system to net zero by or before 2050 and the realisation of the aim of Article 2.1 (c) of the Paris Agreement[24] to make "…*finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development*."

Action

Building on the proposals[25] for reform of the IFA published in April 2021, and the ongoing work of the Aviva Investors-convened Coalition for an International Platform for Climate Finance, in November 2022 we published Act Now[26] – A climate emergency roadmap for the International Financial Architecture. This was published just before COP27 in Sharm el-Sheikh and formed the focus of our advocacy efforts at the conference.

The report outlines risks to the integrity and stability of the financial system posed by the long-term physical impacts the current three-degrees-plus trajectory will produce by the end of the century. The financial system as we know it and the economic and development benefits its growth have delivered are at risk if extreme consequences of the warming planet are not avoided by actions taken now. The tragedy of the horizon[27] means that once climate change threatens financial stability, it will already be too late to take actions to avoid it.

In "Act Now", we set out five clear policy asks for each of the institutions within the IFA:

1. Create a roadmap or transition plan 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 and work programmes.
2. Review its mandate and constitution and 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 and oversees, towards delivery of the net-zero ambition.
4. Collaborate with other elements of the architecture to create and collectively steward a global net-zero transition plan for finance, reporting annually on progress and making recommendations to governments for the policies needed for the successful transition of the global finance system.
5. Convene a summit or summits to agree and 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.

22. G20-Sustainable-Finance-Roadmap.pdf (g20sfwg.org)
23. FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report – Financial Stability Board
24. ADOPTION OF THE PARIS AGREEMENT – Paris Agreement text English (unfccc.int)
25. Harnessing the international financial architecture to deliver a smooth and just transition – Aviva Investors
26. How to reform the financial system for a net-zero world – Aviva Investors
27. Speech by Mark Carney at Lloyd's of London, Tuesday 29 September 2015 (bankofengland.co.uk)

MARKET REFORM CASE STUDY

Advocacy for the transformation of the financial system to finance the transition to a low-carbon economy (cont'd.)

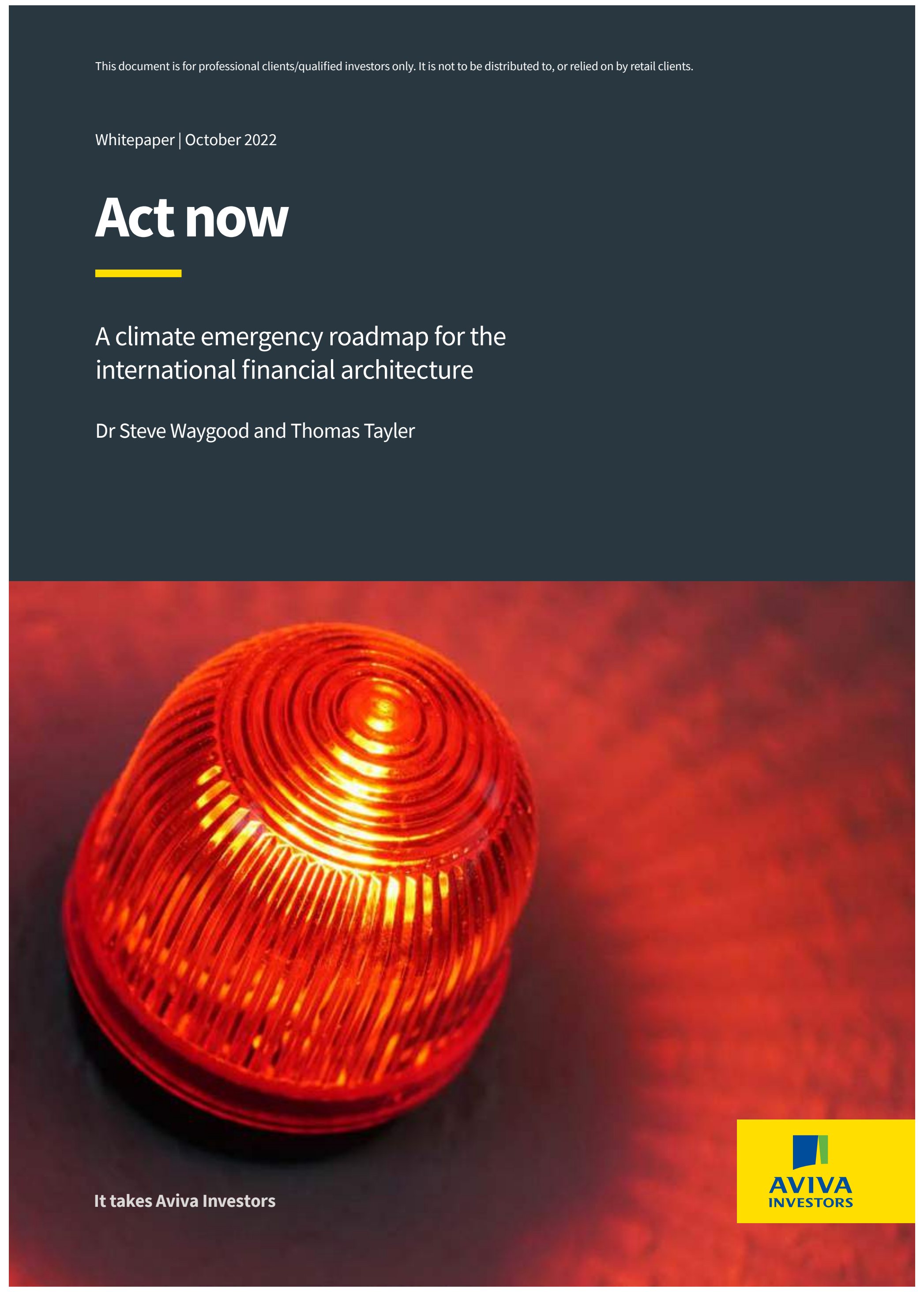
G P E C

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[28] 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[29] 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, including at the launch of a report at a meeting of leading businesses at Chatham House[30] setting out actions focused on the achievement of the 1.5-degrees goal, including IFA reform. 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[31] 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.



28. The 2022 Bridgetown Initiative – Foreign Affairs and Foreign Trade
29. COP President: Looking Back and Stepping Forward Wilson Center, Washington DC – GOV.UK (www.gov.uk)
30. Reaching 1.5°C: A Vision for the Future | Chatham House – International Affairs Think Tank
31. COP27_AUV_2 (unfccc.int)

MARKET REFORM CASE STUDY

Seeking a target to align finance with the protection and restoration of nature in the Convention on Biological Diversity Kunming-Montreal Framework

G P E C

14 LIFE BELOW WATER 15 LIFE ON LAND 17 PARTNERSHIPS FOR THE GOALS

Issue

Biodiversity – the variability and variety of living organisms on earth – is fundamental to human well-being and a healthy planet, and economic prosperity for all. Biodiversity supports all life systems and economies; over half of global GDP is moderately or highly dependent on nature[32].

However, biodiversity is declining faster than at any time in human history;[33] global wildlife populations have plummeted 69 per cent on average since 1970[34]. Delayed action to protect nature would double the cost of intervention from around 8 per cent to 17 per cent of global GDP[35]. In this context, parties to the UN Environment Programme Convention on Biological Diversity (CBD) gathered in Montreal in December 2022 for a fifteenth conference of the parties (or CBD COP15).

Action

As part of support for an ambitious outcome, we advocated for the CBD framework to include a provision to align financial flows with the protection and restoration of nature, broadly equivalent to Article 2.1.c of the Paris Agreement[36].

We first supported this in our response to a 2019 consultation from Business for Nature, a coalition of businesses and conservation organisations. Subsequently, we advocated for an ambitious COP15 outcome, including collaboration with Business for Nature, Finance for Biodiversity and WWF. As part of our commitment to the Finance for Biodiversity Pledge, we were one of three asset managers co-chairing the Public Policy Advocacy Group representing finance at the negotiations. Amanda Blanc, CEO of Aviva, and Aviva colleagues were closely involved in the pre-COP negotiations of the proposed text and supported the negotiations in Montreal, where we also took part in panels and sessions on our biodiversity policy[37], biodiversity measurement and need for Target 14 and Target 15.

Outcome

The Kunming-Montreal Global Biodiversity Framework was agreed on 18 December. It includes targets to end the loss of areas of high biodiversity importance and conserve and restore 30 per cent of land and marine areas by 2030. We advocated the inclusion of all types of finance to be reflected within the goals and targets of the CBD framework and for large companies and financial institutions to monitor, assess and disclose their risks, dependencies and impacts on biodiversity, including in their operations, supply and value chains. This was integrated into the final version of the framework. The hope is that the framework provides a "Paris moment" for biodiversity, and that through the alignment of financial flows, the power and scale of financial markets can be harnessed to support the protection and restoration of nature, where it has previously contributed to its destruction.

32. World Economic Forum (weforum.org)
33. Global Assessment Report on Biodiversity and Ecosystem Services | IPBES secretariat
34. https://livingplanet.panda.org/en-GB/
35. https://www.vivideconomics.com/wp-content/uploads/2021/02/210211-The-Urgency-of-Biodiversity-Action.pdf
36. Article 2.1.c provides that the parties agree to strengthen their response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty by "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" ADOPTION OF THE PARIS AGREEMENT – Paris Agreement text English (unfccc.int)
37. https://www.aviva.com/newsroom/news-releases/2022/12/aviva-calls-for-financial-sector-to-play-a-bigger-and-clearer-role-in-preventing-biodiversity-loss/

MARKET REFORM CASE STUDY

Accelerating macro stewardship and systems thinking

G P E C

Issue

A well-functioning market, free from material market failures and systemic risks, is in the interests of everyone. But when we consider the financial system in the context of the vast systemic challenges it faces, it is financing the seeds of its own destruction.[38]

The financial system is complex and interconnected. There is no "quick fix" to market-wide and systemic risks – such as climate change, AMR and biodiversity loss – which threaten its stability. The prevailing paradigm of finance treats such risks, as well as the integrity of the market, as exogenous to its participants, impacting them but unaffected by their activity. This is unconducive to systems thinking and a blind spot in sustainability. Despite the need for a holistic and systems-based approach, whereby key levers of change are identified and activated, such thinking has largely failed to permeate into conventional wisdom. Recognising finance is causing as well as being exposed to these systemic risks is key to understanding its role within the system and the opportunity to change it.

Action

We have taken action to encourage the uptake of macro stewardship activity throughout the market and galvanise systems thinking in finance. This work challenges the assumptions that obstruct greater engagement with these concepts, yet underpin much of modern finance.

Throughout 2022, the Sustainable Finance Centre for Excellence has produced thought leadership in furtherance of this objective. Of particular note is our *AIQ Macro Stewardship edition*,[39] whereby we set forth a proposed way of thinking about the ESG blind spots in business, finance and economics; redefined stewardship; and laid out the intellectual foundations of a Sustainable Market Hypothesis. Other articles include our '*Act Now*' and '*Confronting a Permacrisis*' white papers, which apply a systems-based approach to the issues of climate and AMR.

We have also supported Forum for the Future in launching a School of Systems Change in Finance, which seeks to contribute to greater understanding of systems dynamics and how they apply to finance, with the aim of fostering a paradigm shift in the industry.

Outcome

Supporting the School of Systems Change in Finance represents an important moment in developing investment professionals as macro stewardship and systems thinkers.

We have also sought to embed systems thinking into education. Of particular note is King's College London integrating our *Act Now* white paper and *AIQ Macro Stewardship edition* into its syllabus. We also collaborated with the University of Oxford on its Global Opportunities and Threats (GOTO) MBA module, whereby our macro stewardship work is a case study.

This is just the start of what will become a much larger movement for change in driving forward systems thinking throughout the financial system. We look forward to collaborating further on this with a broad range of stakeholders.

38. 'The Assisi Accord to harness finance to address climate change, in pursuit of global peace and equality', The Global Foundation, May 2022
39. 'From micro to macro: The new frontier of investment stewardship', Aviva Investors Quarterly

MARKET REFORM CASE STUDY

Antimicrobial resistance

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.

MARKET REFORM CASE STUDY

Investing in our communities – charitable contributions to support sustainable finance and systems reform

G P E C

Issue

In 2022, we donated to causes linked to key sustainable finance themes. In keeping with Aviva's commitment to build stronger communities[40], we look to amplify our impact and voice through community investment and long-term partnerships. Our philanthropic strategy seeks to allocate funds to public good causes with the intention of accelerating progress on sustainability issues. These partnerships provide a critical lever for driving change.

Action

In relation to addressing the systemic risks of climate change, donations were made to support research into the work of the international financial architecture (Clima Capital Partners), research into the economic benefits of leading on the net-zero transition (Scientists Warning Europe), supporting the work of the Global Foundation in systemic reform of the financial system, supporting an event at Chatham House on business ambition for the 1.5 degree target, and engaging young people with the threat to Antarctica and its place in the global ecosystem (Reboot the Future).

We donated to the Institute of Human Rights and Business to support its work. We supported research led by the British Society for Antimicrobial Chemotherapy into the connections between antimicrobial resistance, biodiversity loss and climate change. We donated to the University of Surrey to support Ph.D. research programmes on sustainable finance topics and supported Forum for the Future in creating the School of System Change in Finance. We donated to the Letters to the Earth Project, and again supported the work of Oikos International with students around the world relating to sustainable finance. We supported the RedStart programme for financial education in primary schools and donated to the Royal Society of Arts to support a student design award linked to a regenerative future.

Outcome

These contributions not only supported important projects and research, but also link to our focus across key sustainability areas to foster long-term positive change, increase capacity and opportunities in sustainable finance, and broaden the reach of our work and thought leadership.

40. Building stronger communities – Aviva plc

2.5

PURPOSE AND GOVERNANCE

Review and assurance

Review and assurance

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

The Aviva Investors Operational risk and Controls (ORCM) framework

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

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

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

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

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

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

The Global Heads of Equity and Credit and the Global Head of ESG Investments report directly into the CIO of Liquid Markets. Within Real Assets, the Head of Cashflow Matching, Head of Active Equity, Head of Multi-Assets and Head of Asset Management report directly to the CIO of Real Assets. These heads are ultimately responsible, whilst working alongside the G&C representatives, for ensuring that ESG policies and procedures are embedded within their teams and the ESG factors are integrated into their respective decision-making processes.

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

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

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

Review and assurance (cont'd.)

Model risk management framework

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

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

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

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

Voting and engagement activities

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

A review of the Aviva Investors global voting policy is undertaken on an annual basis to ensure the policy and supporting statements are complete and accurate and they have been formally reviewed and approved. Any changes to policies and related statements are assessed to ensure that the supporting set of controls remain complete and accurate.

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

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

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

External assurance

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

3

Investment approach

3.1

INVESTMENT APPROACH

Client and beneficiary needs

Responding to our clients' needs

We manage £222.6 billion of assets for clients around the world, including Aviva plc entities. The tables below give an overview of our client base, as at year-end 2022.

Internal vs external

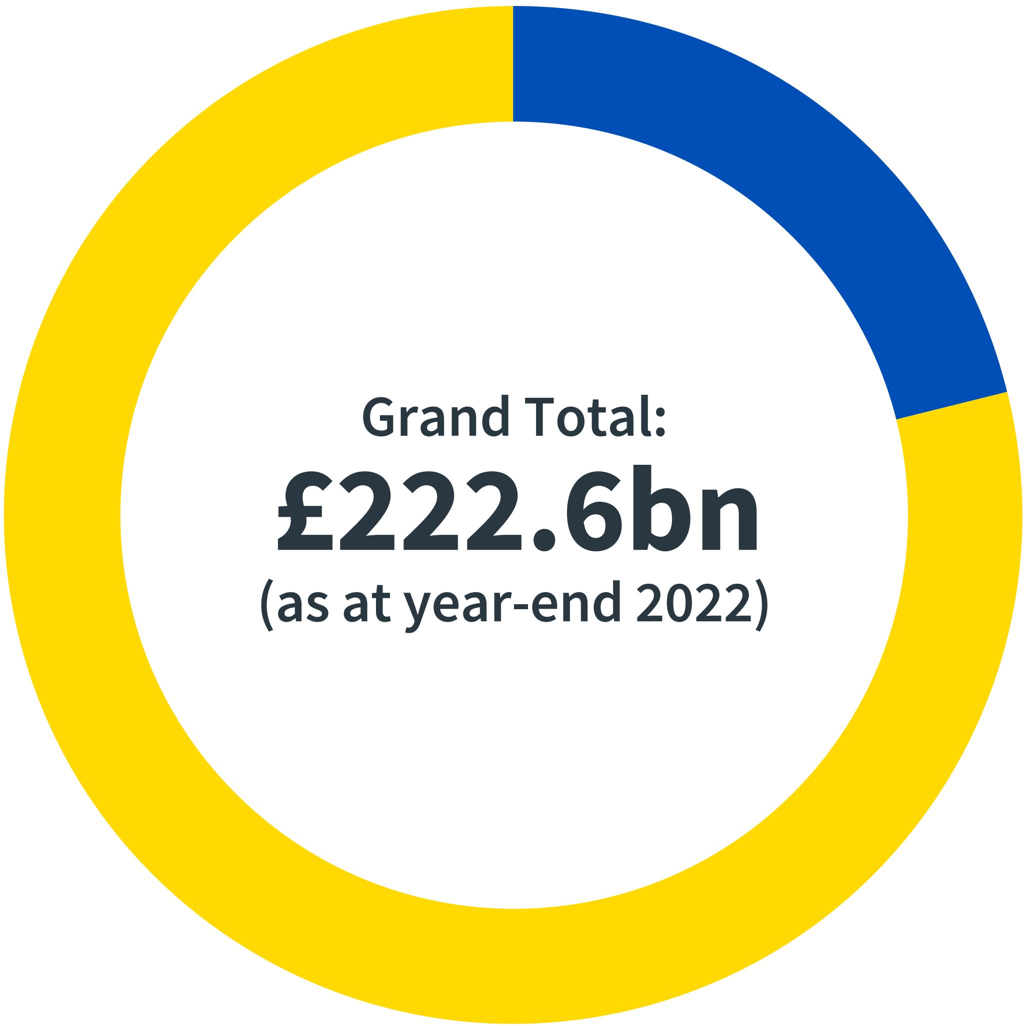
External	£47.5 billion
Internal	£175.1 billion
Total	**£222.6 billion**

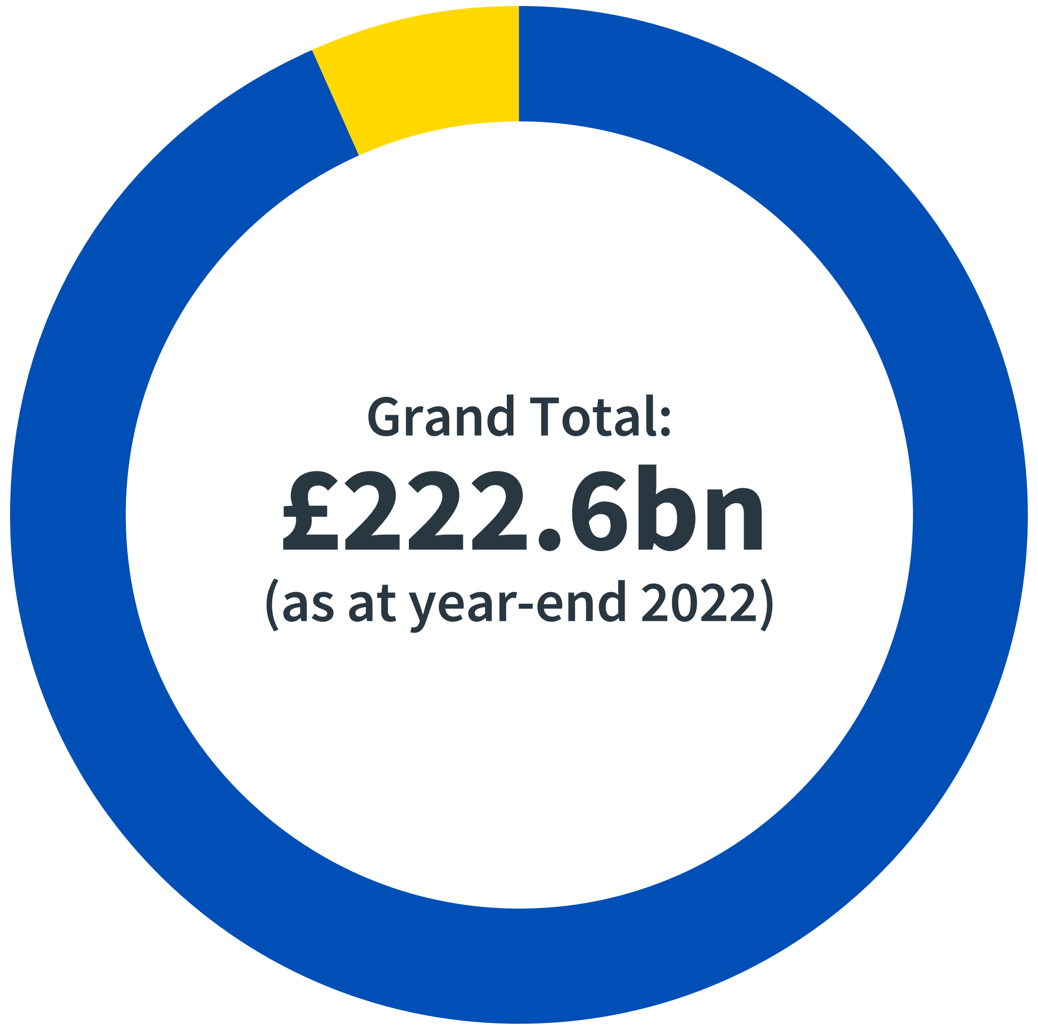
Source: Aviva Investors.

Institutional vs retail

Institutional	£207.9 billion
Retail	£14.7 billion
Total	**£222.6 billion**

Source: Aviva Investors.





Communication plays a critical role in effective stewardship, both consulting with clients on their preferences and outcomes sought and reporting on how their investments are contributing to achieving these. Professional clients' views are sought through ongoing communication; this has been enhanced with a systematic capture of ESG preferences through a questionnaire built into our client relationship system, which feeds into the development of products and client reporting. We have also integrated ESG metrics into much of our client reporting, supported by external inputs and client consultation. We will continue to roll this out across all reporting.

We manage £222.6 billion of assets for clients around the world, including Aviva plc entities.

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

Gathering client preferences

Our professional clients' views are obtained on the following:

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

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

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

- a glossary of ESG terms for clients on our website; [41]
- production of monthly video series '*Powering Change*', in which we update clients on the actions of our ESG team on research and engagement; [42]
- short videos for advisors on investment stories and work by our Sustainable Finance Centre for Excellent on shaping a sustainable financial system; and
- 2023 plans to run adviser-targeted training session on ESG strategy.

Finally, we understand communication on effective stewardship goes beyond individual clients and their assets and extends to wider education on ESG matters to inform their thinking. The ESG Academy, initially targeted at UK advisers, is an example of this. We will continue to produce education videos and webcasts to help ESG thinking.

41. ESG definitions glossary – Aviva Investors
42. Powering Change: ESG video series – Aviva Investors

Communicating with clients

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

In April 2022, we hosted *Turning Talk into Climate Action* for clients. Leading experts in the fields of finance, climate, biodiversity and human rights came together to discuss the transition to net zero and investors' role in achieving this. This featured panels and keynote speeches discussing micro and macro stewardship. We also discussed the interconnected approach between climate, people and Earth, and how the sustainable transition is multi-faceted. Emma Howard-Boyd, Chair of the Environment Agency, Tanya Steel, CEO of WWF, and Chuka Umunna, Managing Director of JP Morgan, attended.

Ahead of COP15, which Aviva CEO Amanda Blanc and Aviva Canada CEO Jason Storah attended, Aviva, our parent company, published the Biodiversity Report[43] which Aviva Investors heavily fed into. This showcased what we did in 2022 regarding our biodiversity policy. We also helped launch the Aviva-WWF paper on *Realigning the UK Finance Sector to a 1.5 degrees pathway.*

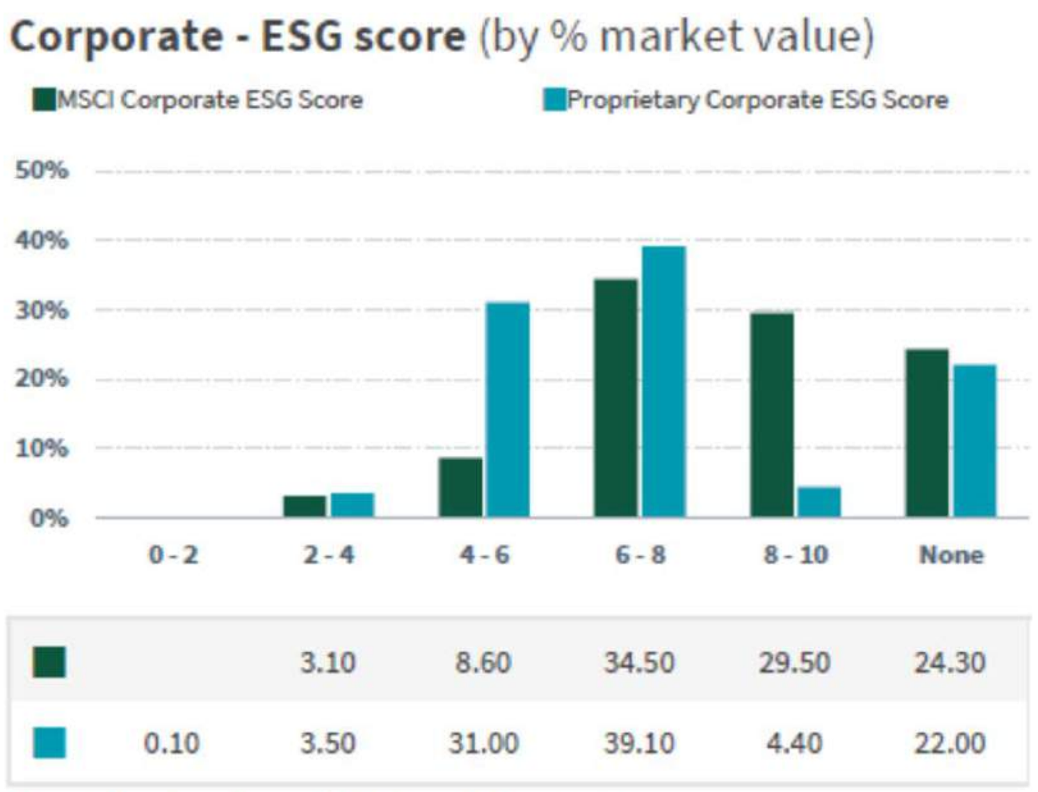
> It is an essential part of our role to communicate to all our clients – institutional, wholesale
> or retail – what we are doing on issues important to them and help them understand the complexities involved.

43. Aviva calls for financial sector to play a bigger and clearer role in preventing biodiversity loss – Aviva plc

Client reporting

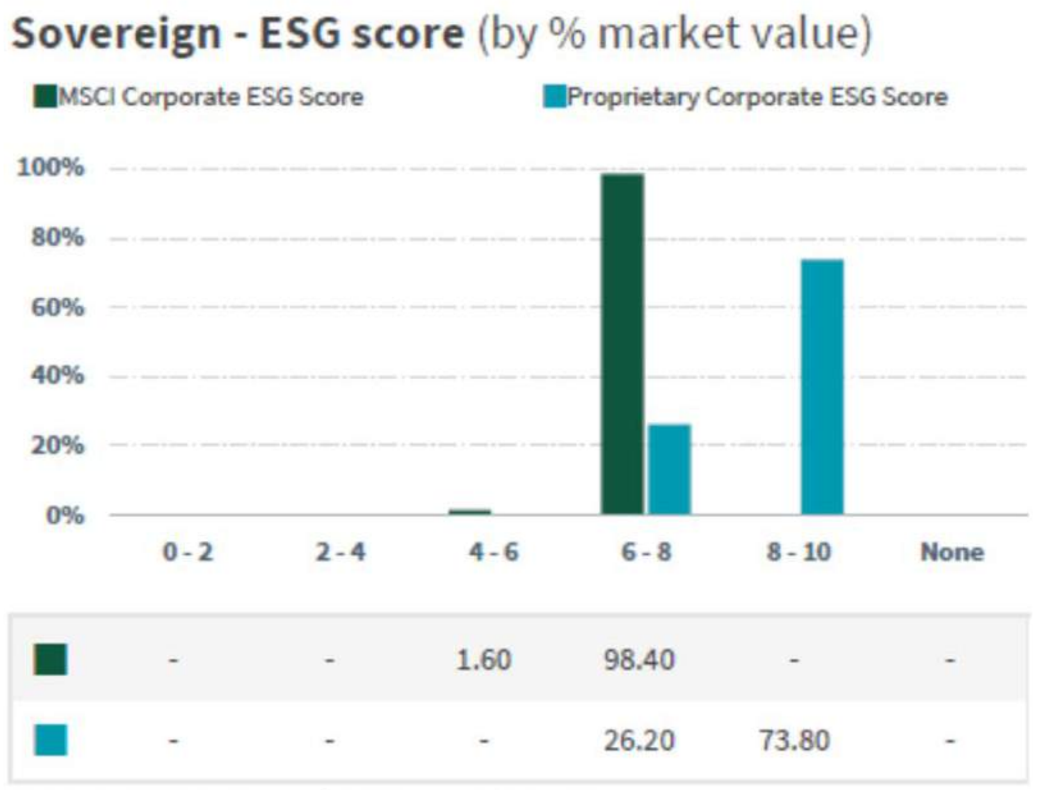
2022 saw us continue to evidence ESG integration into the investment process, by continuing to embed ESG reporting as standard within quarterly reports. ESG client reports may differ across strategies and may not be available for all products and strategies. The ESG section of the report is divided as follows:

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



	0 - 2	2 - 4	4 - 6	6 - 8	8 - 10	None
MSCI Corporate ESG Score		3.10	8.60	34.50	29.50	24.30
Proprietary Corporate ESG Score	0.10	3.50	31.00	39.10	4.40	22.00

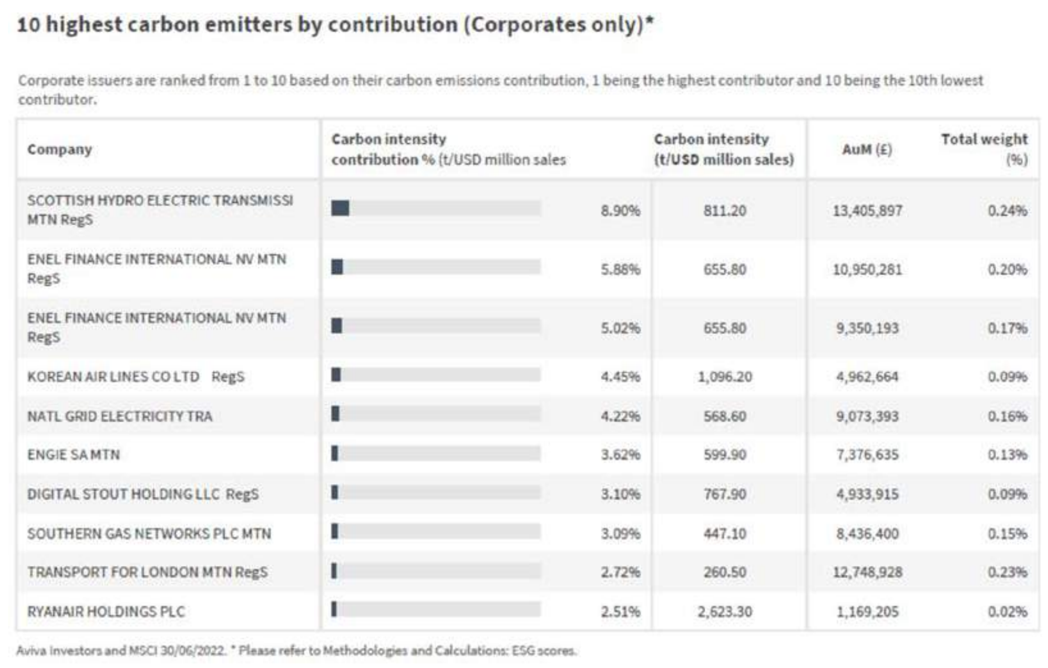
Source: Aviva Investors and MSCI, as at 30 June 2022.



	0 - 2	2 - 4	4 - 6	6 - 8	8 - 10	None
MSCI Corporate ESG Score	-	-	1.60	98.40	-	-
Proprietary Corporate ESG Score	-	-	-	26.20	73.80	-

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

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

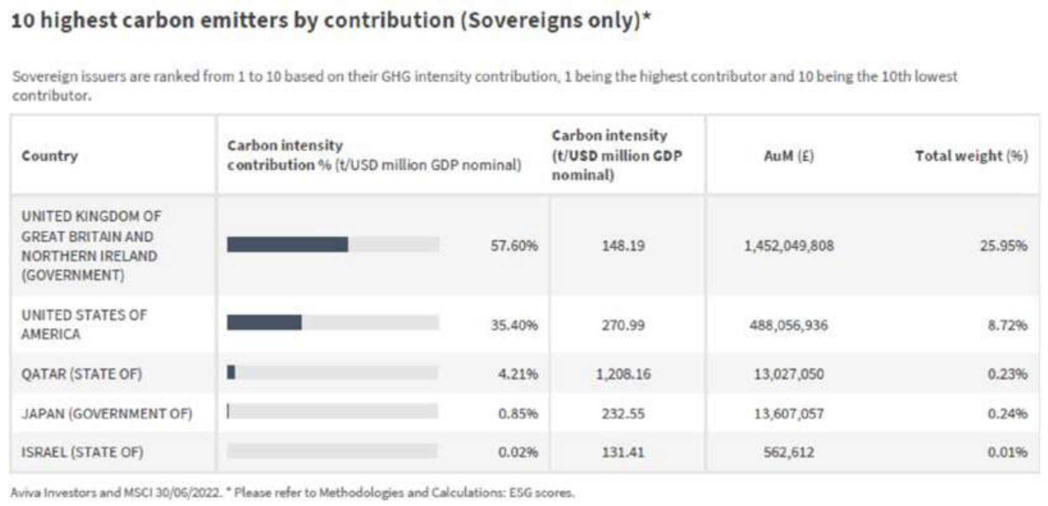


10 highest carbon emitters by contribution (Corporates only)*

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

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

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



10 highest carbon emitters by contribution (Sovereigns only)*

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

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

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

Client reporting (cont'd.)

- Multi Asset Fund (MAF) template – On our MAF templates, we have added in Scope 3 emissions intensity, carbon footprint for Scope 1 and 2 emissions and percentage of corporates owning fossil fuel reserves.

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

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

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

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

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

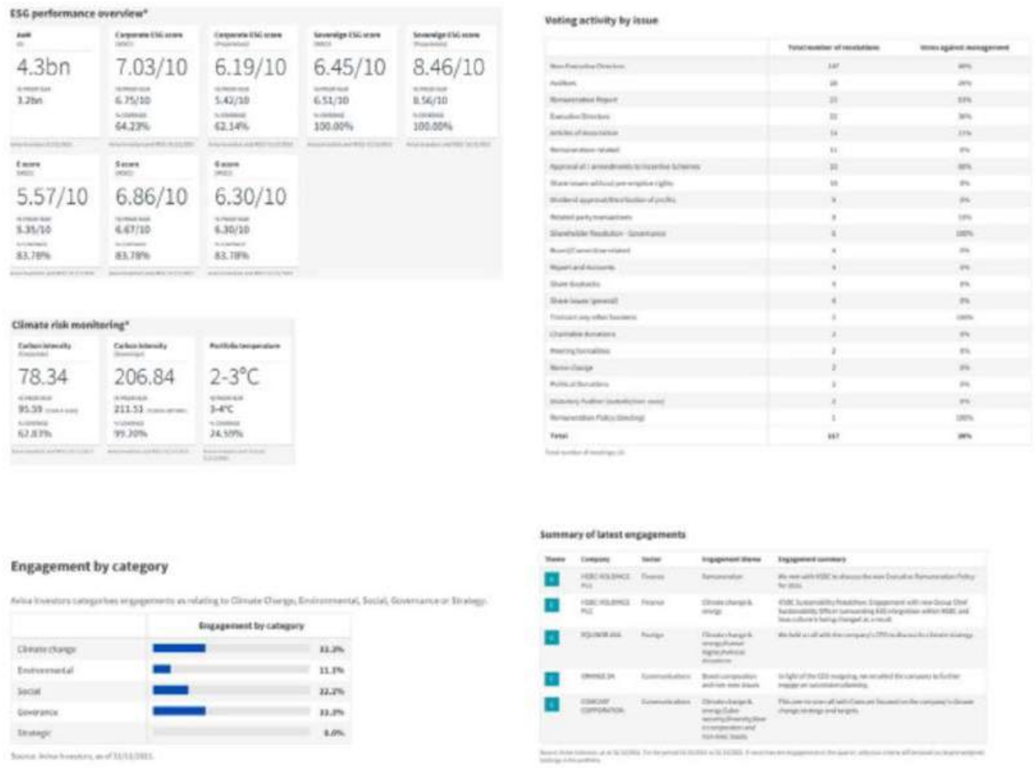
Source: Aviva Investors and MSCI, as at 30 September 2022.

- Fund specific reporting – For our MAF Plus and MAF Core funds, we now produce quarterly reports. These include comparisons of ESG scores against the index and portfolio voting and engagement activity. We are looking to produce something similar in 2023 for our Sustainable Outcomes suite.

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

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

In 2022, we prioritised processes to monitor trends in client ESG requests, ensuring our reporting aligns with their needs. Our focus has been the regulatory obligation of the client, meeting minimum standards of TCFD through CET and ISCWG. We are also in the process of developing a custom template to deliver ESG insight and metrics that do not sit within the standard templates.



Meeting the changing needs of our clients

Investors increasingly seek investment products that help solve the challenges they care about most. From climate change to social inequality, this can be seen across all channels, from institutional clients to retail investors. Exemplifying this change, in recent research, Make My Money Matter found 68 per cent of UK savers want their investments to consider "people and planet" alongside profit.[44]

In line with the above, we are committed to delivering solutions to meet client needs. Aligned with the UN SDGs, we have identified three sustainable pillars – people, Earth and climate – reflected through our suite of sustainable outcome funds.

These are orientated around three major sustainability challenges: social inequality, biodiversity and natural capital loss and climate change. These are systemic and interlinked.

They are also cross-border and cross-sector issues that will not be solved in the short term. To tackle these, we need transformational change. We can't simply invest by excluding bad companies or investing only in firms that are perfect.

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

Our sustainable outcomes approach

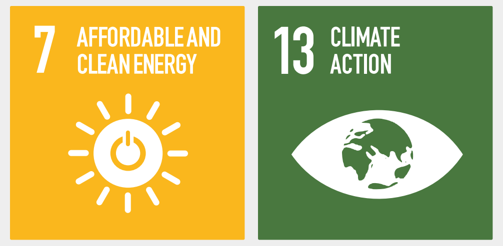
People

Transition
Respect human rights
Promote decent work
Responsible corporate behaviour

Solutions
Access to education
Access to health
Access to finance

Earth

Transition and Solutions
Circular economy
Sustainable land
Sustainable ocean
Climate change



Climate

Transition
Understand climate risk
Decarbonise value chain
Adapt to physical risks

Solutions
Adaptation
Mitigation

44. What's the issue? – Make My Money Matter

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

Our investment approach across our sustainable outcomes suite consists of three elements:

1. We exclude companies causing significant harm to our sustainable outcomes through three levels:

   a. Level 1: Our firm-wide baseline exclusions policy[45]

   b. Level 2: A set of specific exclusions that apply across all equity funds in the Sustainable Transition fund range focusing on social, nature, climate issues

   c. Level 3: Exclusions specific to each pillar.

2. We invest in solution providers: innovative firms with products and services that directly tackle sustainability challenges.

3. It is our belief all firms in all sectors and geographies are impacted by, and have an impact on, the sustainable outcomes we want to deliver. If we want to live in a more sustainable world, all companies must change the way they operate. Therefore, we must use an approach that helps drive the transition through changing existing companies' and sectors' behaviour over time. Investing in solution providers alone does not go far enough. Using our proprietary transition risk (T-Risk) frameworks, we identify firms actively transitioning their business models to manage sustainability impacts and, therefore, are setting best practice in their sectors as well as best managing transition risks. Ultimately, this increases the breadth of companies we research and, with it, the opportunity to not only maximise sustainable outcomes but also generate alpha.

In applying our approach consistently across people, earth and climate, as well as asset classes, we seek to offer clients products to meet their needs. Our Sustainable Outcomes range stretches across all asset classes.

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

45. https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/

3.2

INVESTMENT APPROACH

Stewardship, investment and ESG integration

AVIVA INVESTORS

Stewardship, investment and ESG integration

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.

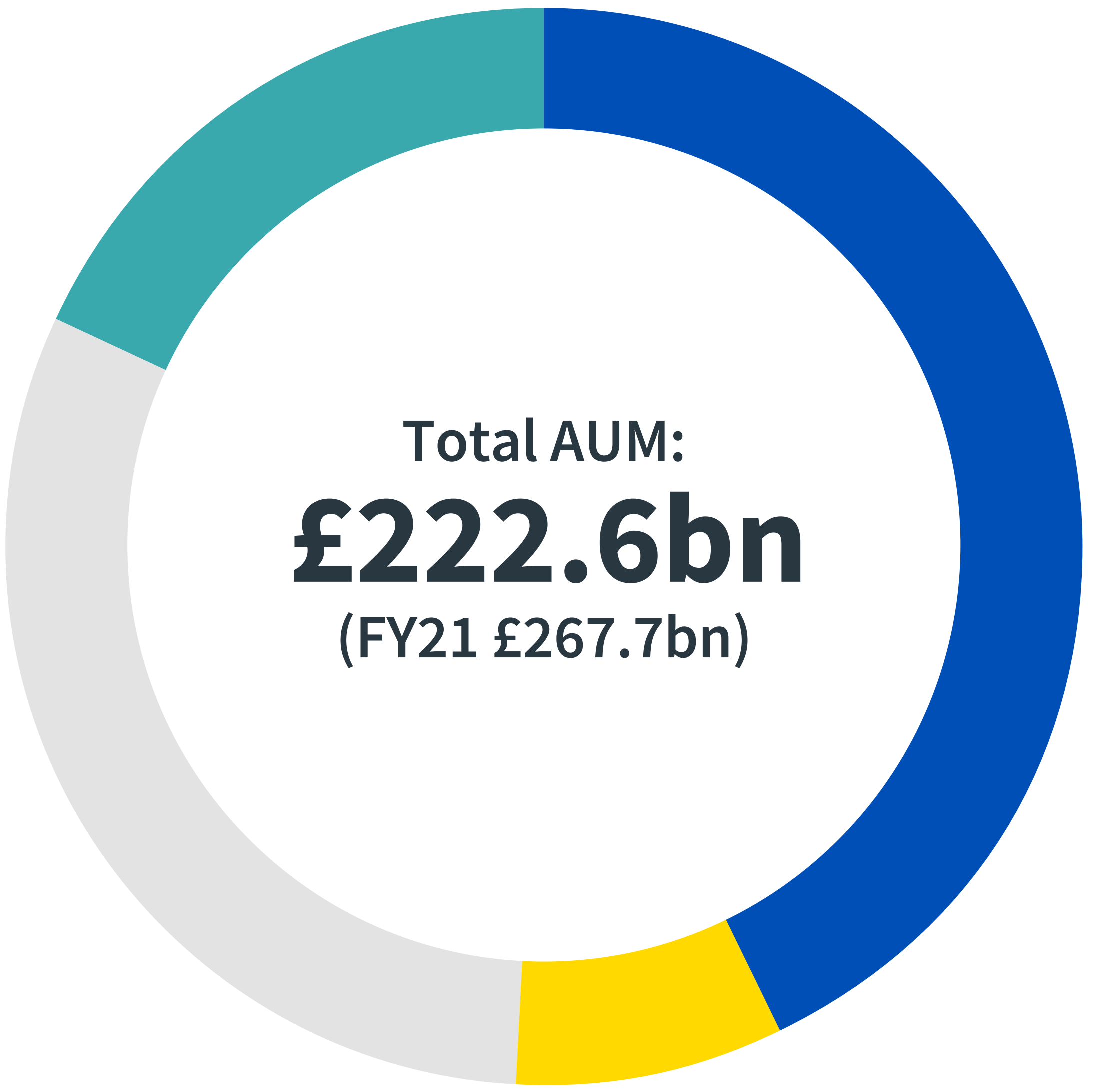
This approach is set out in our firm-wide responsible investment philosophy and ESG policies for each asset class.

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 (please see page 79). 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[46]), 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.

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

ESG integration in equities and credit

ESG integration in equities

Within our equity investment functions, ESG insights are used to help drive better investment decision-making. The investment teams are supported by a variety of ESG data and analytical tools, including our proprietary ESG scoring tool, Elements, and PAI (Principle Adverse Indicator) Framework underpinned by our PAI Notation Tool (PAINT).

Equity research notes incorporate ESG, evaluating quantitative metrics as well a qualitative judgement on material ESG issues that impact their fundamental view. The equity team also incorporates sustainability topics within their meetings with company management. The ESG team collaborates closely with equity analysts to enable bottom-up research, as well as insights on sector ESG trends, themes and corporate engagements. The ESG corporate research analysts, through attending the relevant sector hubs, generate thematic research that helps shape sector views as well as generate ideas.

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

This research provides a foundational platform to inform how to best engage, with results an important input for evaluating the long-term investment case.

Our ESG analysis process is circular with a continuous feedback loop, where each pillar informs the other and ultimately our investment views. This empowers portfolio managers with the ESG insights they need to integrate ESG into their investment process.

As part of our quarterly reviews, we evaluate a range of portfolio-level ESG data, which include the emissions profile of portfolios. To go beyond this data, we interrogate company-level commitments to reduce their carbon emissions, for example the proportion of issuers with an SBTi approved target. Portfolio managers are therefore able to better understand the main contributors to their portfolio's carbon footprint and interrogate its direction of travel. We have begun integrating these insights to prioritise engagement opportunities.

INTEGRATION CASE STUDY

Adapting to pests

Issue

As climate changes, the range of pests will extend into previously inhospitable areas, from the poles to the tropics and more temperate regions. Furthermore, climate change is causing shorter and milder winters in the northern hemisphere, which enables a longer season for pests and hence it is likely that there will be more of them. Research suggests that with every degree rise in temperature, the insect lifecycle becomes shorter and numbers increase.

Action

These changing weather patterns and the impact on pests led our ESG analysts to conduct thematic research. We found Rentokil Initial plc generates over 65 per cent (on 2021 disclosures) of its revenues from pest control and is the world's largest pest control company. In December 2021, Rentokil purchased Terminix, which generated 32 per cent of its revenues from termite control. Through the acquisition, Rentokil has material revenue exposure to pest control.

Outcome

The research paper provided strong conviction of Rentokil as an adaptation company. As a result of its revenue exposure to pest control and evidence of a need for increased pest management due to climate change, investment teams feel reassured in the company's growth potential for growth. Rentokil is included within the solution sleeve of our Climate Transition franchise and held across all global equity portfolios.

INTEGRATION CASE STUDY

Supply chain practices within the fashion industry

8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

G P E C

Issue

Given concerns over the environmental footprint and labour conditions associated with fashion business models and their potential impact on share prices, we have engaged with several names in the sector over the years. These insights have fed into our investment views, particularly in relation to companies' performance against social practices in supply chains, as well as implementation of human right policies. This was driven from a reputational risk mitigation perspective, but also the growing regulatory pipeline on supply chain due diligence our ESG team flagged as an issue in 2021.

Action

We aimed to establish ongoing engagement with the senior management and sustainability team at ASOS and a competitor to understand their approach and governance of supply chain practices. While we were reassured by ASOS' performance in relation to peers, we continued to ask for increased ambition and notable progress in supply chain management as part of our continued exposure to the name.

Outcome

Since our engagement, the company has formally launched a comprehensive human rights saliency assessment to allow it to better prevent, identify and address human rights issues in the procurement chain. We see this as an important risk management exercise that will reduce reputational issues as well as improve supply chain visibility and reduce operational disruptions. We maintained our position held by our UK equity team. We will monitor its performance and engage on the results of the assessment in 2023.

INTEGRATION CASE STUDY

The issues with poor governance

8 DECENT WORK AND ECONOMIC GROWTH | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

G P E C

Issue

We engaged with a multinational telecommunications equipment company. The company had strong human rights due diligence practices for its supply chain and conducted a human rights assessment of 5G technology. However, the company recently settled a case with the US Department of Justice (DOJ) concerning systematic corruption activities over a multi-year period, which led to a material fine. As part of the settlement, the company entered in a Deferred Prosecution Agreement (DPA). Investigations by the media in 2022 alleged this had been breached several times, including when it failed to disclose potential payments to a terrorist organisation.

Action

Throughout 2022, we engaged with the company concerning human rights risks and specifically on the media controversy. Our equity and ESG teams met with company representatives where we requested information on the board oversight and decision that led to the company withholding details of an internal company investigation on the potential payments.

Outcome

We were disappointed by the company's inability to provide clarity on decision-making and the governance concerns linked to the withholding of information. Despite some initial favourable views, the meeting raised significant red flags about its ability to manage human rights and corruption risks. Following our engagement, we decided to exit all active equity positions. ESG concerns continue to remain a significant overhang for the shares and contributor to its low valuation. We will closely monitor the company's progress and engage as we value some of the company's work.

INTEGRATION CASE STUDY

Electrification of mining

G P E C

Issue

To meet the required volume of electrification metals to achieve net zero, mining of such metals needs to significantly increase. Mining companies are aware they need to rise to this challenge faster than before. Due to investor, regulator and customer demand, miners are aiming to set their own sustainability agendas to ensure metals are sustainably sourced.

Action

We produced a thematic report on the 'electrification of mining'. We view this as a multi-decade structural shift that provides a tailwind for industrial companies exposed to mining.

To decarbonise their operations, miners can take three steps:

- Electrify their fleets of haulers, loaders and drills
- Upgrade to the most energy-efficient crushing, grinding and sorting equipment
- Replace fossil fuels with renewable energy to power operations.

Making these changes is not only environmentally positive, but can have significant financial and social benefits, including lowering operational costs, increasing productivity and utilisation rates, and improving worker welfare.

Outcome

We found greatest opportunities in industrial companies exposed to underground mining of battery electric equipment. Specifically, we gave a favourable view of Swedish mining equipment pure play Epiroc, a leading producer of specialist loaders, haulers and drills. Epiroc has a major focus on sustainability and will have a full range of underground battery electric vehicles by 2025. The company also offers a battery retrofitting service to further increase the speed of uptake by mining companies. We bought Epiroc across a number of equity strategies.

INTEGRATION CASE STUDY

The investment case for renewable wind energy

G P E C

Issue

Current estimates of the renewable energy needed to meet decarbonisation targets and net zero by 2050 is too low, suggesting installations of renewable energy need to increase, especially in the years closest to 2050. Wind is key to this transition as it provides a form of energy away from fossil fuels, ensuring energy security. Hence, global demand for it has been increasing. Due to the volume growth profile of the wind sector, our equity team sought exposure to this long-term structural ESG theme.

Action

Given installations potential, particularly in the outer years, our equity team conducted bottom-up research on the wind energy value chain.
Being fundamentally minded, we sought to identify companies that will generate good returns on invested capital, through a nuanced approach.

Outcome

Two crucial areas in wind energy are wind turbine original equipment manufacturers (OEMs) and high-voltage (HV) cables. HV cables are essential for the offshore sector, the fastest-growing segment with substantial growth potential. In addition to the revenue opportunity, the returns outlook for cable operators appeared more constructive than OEMs, for which the near-term outlook is predicted to slow down, with lower margins and increased pricing pressure. Given better near-term earnings visibility and relatively inexpensive valuations, we preferred investing in HV cables (Prysmian) compared to pure play exposure through OEMs. As a result, we sold Vestas and Siemens Energy. We continue to keep an eye on this dynamic area, including developers (EDPR, Orsted, Nextera etc.) and other suppliers (Prysmian, Nexans, Deme).

ESG integration in credit

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

Research

Our credit analysts consider ESG factors in their analysis. Where relevant, published analysis needs to clearly capture instances where ESG considerations, in and of themselves, are leading to a better or worse recommendation than non-ESG factors (financial, management quality etc.) alone. The research is supported by qualitative insights from our ESG team, company engagements, ESG data and third-party research. In 2022 we established a credit research ESG committee, containing the heads of credit research, sector leads and ESG analysts. Within this forum, we monitor ESG within the research process, conducting deep dives on individual names or issues should certain risks be identified.

Integration

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

Engagement

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

Fund reviews

We conduct desk-level ESG reviews on a quarterly basis to assess ESG performance and positioning. The reviews are led by an ‘ESG partner’. This partnership enables targeted insights to be shared across our ESG and credit teams. It also provides a key contact for ESG support. Where ESG risks are identified, we may conduct further analysis or engage with issuers.

INTEGRATION CASE STUDY

Developing our research capabilities to identify market leaders

13 CLIMATE ACTION

G P E C

Issue

Research from ESG rating providers is a supportive input into our investment process. It can quickly highlight ESG risks across the thousands of issuers we hold. Whilst we recognise the role of such providers, it is critical to develop our own ESG view to assess risks and investment opportunities.

Action

We have a more constructive view on Bank of America than general market consensus from an ESG and credit fundamentals perspective. The bank has historically derived lower scores from external ESG rating providers, with one assigning a low score of BB from 2018-2020 (with AAA being the highest). We viewed the bank more positively, given its improved governance and exposure to financial inclusion opportunities. We also identified an improving momentum following successful engagement on its climate strategy.

Outcome

Over time, the market's ESG view has become more aligned to our view. The bank's response to our prior engagement asks were reflected in the ESG rating provider increasing its rating from BB to A in 2022. Bank of America continues to make improvements, last year setting financed emissions profiles for high-carbon-intensive sectors to start the journey to meet its 2050 net-zero target. It also features prominently in league tables for ESG debt issuance, factors that further support our internal view and positioning.

INTEGRATION CASE STUDY

Collaboration between teams to understand climate-related performance

13 CLIMATE ACTION

G P E C

Issue

We conduct quarterly ESG reviews with our investment teams to assess ESG factors, including climate-related performance. Understanding climate performance is important to evaluate potential investment risks. For our IG credit team, we have reviewed Scope 1 and 2 emissions-intensity performance for flagship funds and conducted comparisons to benchmark. Through this exercise, we identified one fund that lagged others.

Action

We conducted an exercise to better understand the reason for this underperformance and identified the top ten contributors. We divested from some names following the implementation of a firm-wide baseline exclusions policy in May 2022. For other poor performers, we developed a forward-looking assessment based on our engagement activity and their own climate strategies and targets. Some names were divested or the size of holding reduced due to a deteriorating investment outlook. Where possible, these were substituted by alternatives offering similar risk and return profiles with improved climate outcomes.

Outcome

Following investment action, the fund's corporate holdings reduced Scope 1 and 2 emissions intensity, which, at the end of 2022, was lower than the benchmark. We continue to monitor the fund's top ten Scope 1 and 2 emissions contributors and their progress. Due to the insights gained from this approach, the climate assessments are being expanded to other credit investment teams.

INTEGRATION CASE STUDY

The risks associated with palm oil

G P E C

Issue

Indofood is the largest instant noodles and snack producer in Indonesia. It produces many raw ingredients used within its products, including palm oil, a high-yielding crop with many benefits for the food industry. However, cultivation of palm oil is exposed to significant risks. High demand has contributed to increased deforestation, particularly in Southeast Asia where much of Indofood's supply chain is based. Producers of palm oil also face allegations of poor labour rights and working conditions. Indofood is exposed to these risks. In 2019, Indofood's palm oil subsidiary withdrew and had its membership terminated from the Roundtable of Sustainable Palm Oil, an industry certification scheme, due to allegations of worker exploitation.

Action

During the year, Indofood was highlighted as a potential investment opportunity by our EMD team, on the basis of its market position and valuation. Conversations were held between the credit, sector ESG and biodiversity analysts to better understand ESG risks and opportunities related to Indofood. Our discussions also considered previous failed engagements we conducted with the company on environmental and labour standards issues.

Outcome

As a result, the EMD team felt ESG risks, particularly an anticipated tightening policy environment on supply chain due diligence in the EU and US, which could affect palm oil producers, were not sufficiently priced into the bond valuation. Therefore, a decision was made not to buy Indofood bonds.

ESG integration in multi-asset

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

1. Firm-wide baseline exclusion policy

Certain companies and sectors are excluded or limited from investment as per our Baseline Exclusion Policy. For example, companies operating in coal, tobacco and controversial weapons sectors. Our Baseline Exclusion Policy is reviewed on a quarterly basis.

2. ESG approach of underlying investments (passive strategies)

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

3. ESG approach of underlying investments (active strategies)

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

4. Voting and engagement

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

ESG integration in multi-asset (cont'd.)

ESG integration in multi-strategy

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

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

This is achieved with the input of the sustainable outcomes team on the impact of overarching themes on the real economy, as well as the translation of themes onto individual companies by the ESG corporate research team.

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

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

INTEGRATION CASE STUDY

Promoting better climate strategies

G P E C

Issue

NextEra Energy is a US utility with the largest renewable capacity in its sector. Despite this, it had not committed to phase out fossil fuels from its generation mix or set a net-zero target.

Action

We previously engaged with NEE in 2021, and as a result, they responded to the CDP for the first time and demonstrated positive momentum. Whilst it had set near-term emission reduction targets, it had not yet set net-zero targets nor committed to phase out fossil fuels power generation.

We further engaged with NEE in March 2022 to discuss its decarbonisation and energy transition strategy. We asked it to commit to a net-zero target, set a science-based target and commit to phasing out fossil fuels from its generation mix.

Outcome

In June 2022, NEE announced its 'Real Zero' strategy, the most ambitious climate strategy in the US utilities sector, targeting full decarbonisation by 2045 without offsetting. To provide a sense of scale of this ambition, it plans include a 22.5 times increase in solar power and 100 times increase in battery storage. The plan reaffirms our confidence in NEE as a leader of the energy transition.
As a result, we hold positions across our investment desks, including convertibles, IG and equities. Specifically, the convertibles teams hold NextEra Energy Partners (NEP), an operating entity within the NextEra group solely focused on clean energy. Alongside this, an IG team increased its position partly due to NextEra's climate credentials relative to peers.

INTEGRATION CASE STUDY

Building efficiency equities

G P E C

Issue

Buildings contribute approximately 40 per cent of emissions relating to energy usage. There is an opportunity to significantly reduce emissions by improving the efficiency of buildings and appliances and by expanding the use of heat pumps in place of oil and gas heating in suburban and rural areas. Increased building efficiency will also help slow demand for air conditioning and cooling. Companies that would meet strict efficiency ratings will likely gain most market share as regulation increases.

Action

Decarbonisation is a central theme within our multi-asset and macro team's House View. Within this, there is a focus on the role of governments and private sector to tackle this issue. Through collaboration between ESG research analysts and the equity investment team, we developed a thesis based upon the building efficiency theme.

Outcome

We anticipate investor flows are likely to be increasingly directed to companies benefitting from this theme. This led to the construction of an equity relative-value strategy, consisting of a long basket of strong companies positioned to service those needs, including LED lighting and energy efficient heating and insulation manufacturers. The short leg was represented by the MSCI ACWI index for a market-neutral position that harnesses the long-term structural shift towards building efficiency. We believe the companies held within these baskets will outperform in the long term.

ESG integration in sovereign debt

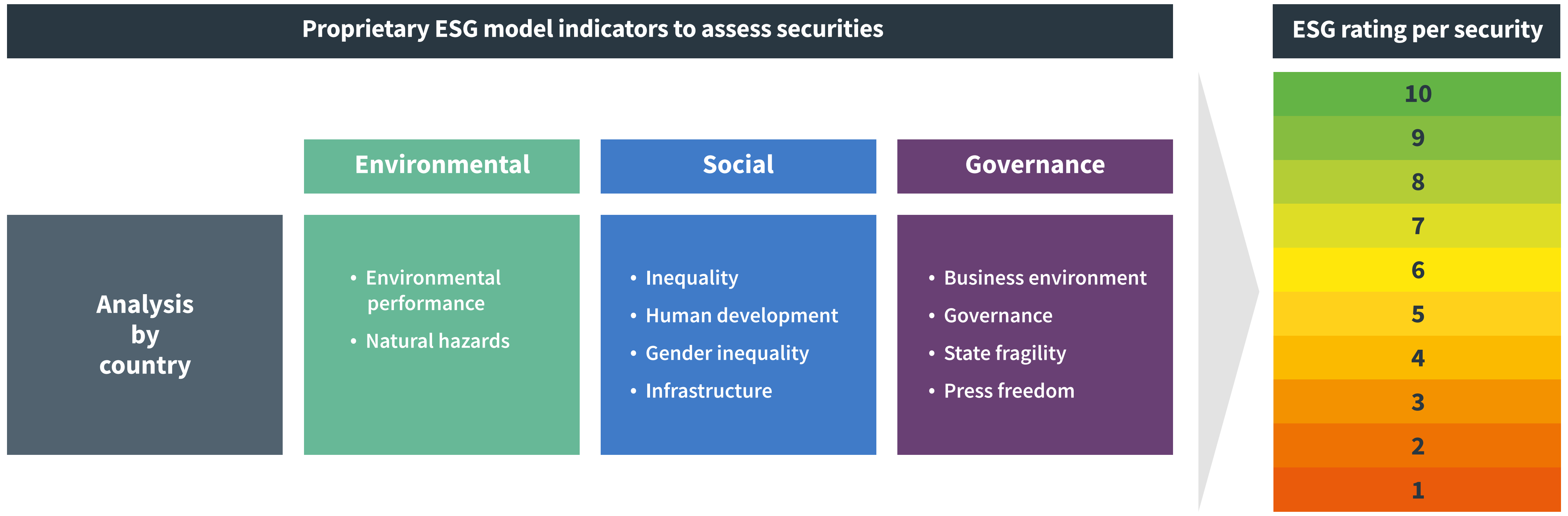
ESG is integrated throughout our sovereign investment process, in line with the four-pillar approach.

ESG data, research and engagement are crucial to our fundamental assessment of issuers. Specialist ESG analysts are active contributors within key investment forums, like the EMD morning meeting. Investment decision makers are receptive and well-equipped to embed ESG insight within portfolios and material ESG risks are systematically evaluated and monitored, including at quarterly ESG portfolio reviews.

Quantitative foundation

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

ESG proprietary scoring system framework for sovereigns



Source: Aviva Investors, for illustrative purposes only.

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

Qualitative insight

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

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

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

Portfolio relevance

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

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

INTEGRATION CASE STUDY

The importance of assessing governance risks

G P E C

Issue

The EMD team was actively considering raising its exposure to South Africa based on favourable fundamentals relative to peers, including benign inflation dynamics, credible monetary policy, improving fiscal metrics and low external risks. Selected valuation metrics were also supportive.

The Aviva Investors sovereign ESG score rated South Africa as roughly in line with peers, despite highlighting notable weakness on social metrics such as inequality. The ESG component of the most recent country review had assigned neutral momentum.

Action

To inform the discussions, the ESG analyst covering South Africa presented a summary of material factors, including progress on reforms designed to alleviate worsening power supply issues ("loadshedding") and systemic corruption. Factionalism within the governing party was identified as a barrier to the implementation of these reforms ahead of elections in 2024.

At subsequent morning investment calls, our ESG analyst provided brief updates on a series of unfolding scandals, flagging they further increased political instability and risked undermining the president's authority within his party.

Outcome

Taking a holistic view and accounting for the evolving ESG dynamics, the portfolio manager took the view that pricing did not provide adequate compensation for the risks at that time. Accordingly, the team did not increase exposure to South Africa at that stage, a decision that contributed to strong alpha generation from South African assets over the year.

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.

ESG integration in real assets

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

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

There are three principal types of risk we consider:

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

In our active real assets equity asset classes of infrastructure equity, real estate equity and real estate long income, we obtain data from suppliers, who engage with our broader supply chain of property managers, developers and contractors. In our cashflow matching asset classes of infrastructure debt, real estate debt, structured finance and private corporate debt, we obtain data from intermediaries and borrowers. Where data concerning sustainability risks or PAIs is not immediately available from the asset or counterparty, we will enter into dialogue with that party to secure the information needed. In cases where this is not available and the lack of information is insufficient to make an informed decision, we will not proceed with the investment.

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

INTEGRATION CASE STUDY

Russia's invasion of Ukraine

G P E C

Issue

To illustrate the integration of ESG into real assets we could look to the example of our £25 million financing for a network of national and regional gas transmission pipelines located in a Western European country, on behalf of one of our third-party mandates.

Action

Russia's invasion of Ukraine in February 2022 made it clear that securing Europe's energy supplies and transitioning away from fossil fuels has become a priority. However, the deal also presented a rare opportunity to invest in a regulated asset providing an essential service within the country's energy system. The company in question had strong sustainability credentials and was expected to play a key role in the country's energy transition to lower-carbon gases. The company also committed, as part of the deal, to provide us with access to ESG reporting.

Outcome

The deal demonstrated the need for several levels of analysis across the ESG spectrum, with our teams underwriting the company, country, sector and thematic risks. The resulting approval for the transaction represented an efficient brown asset that could be transitioned to green, but also the need to accept through robust analysis that transition assets still have an important role to play when social factors are taken into account.

INTEGRATION CASE STUDY

Big tobacco

G P E C

Issue

Financing was requested from our real estate debt team for an existing office park development. One of the tenants was a major tobacco producer on our global stop list. Our baseline exclusions policy "prohibits investment in real estate and all types of real estate long-income investments where a material proportion (over 10 per cent) of contractual rent is derived from tenants that are excluded issuers". Obligations policy apply to the borrower as part of any potential financing or refinancing, so that the material 10 per cent of contracted rent is not breached in relation to occupiers. This would extend to all exclusions and be applied looking at the asset in its entirety.

At the time, the tobacco producer accounted for 9.7 per cent of the contracted rent of the new proposal, qualifying for investment as it does not exceed our 'material tenant' threshold. The question debated in this instance was how we should approach the tobacco company's tenancy on an ongoing basis given that, should another tenant leave, there could arise a scenario in which it would account for over 10 per cent of the contracted rent, making its rental contribution 'material' and therefore breaching our exclusions policy.

Action

After several discussions with compliance teams, it was agreed that the most practical way of mitigating the risk of the 10 per cent threshold being breached is through withholding, or not offering, advanced consent. This would ensure any new leases or amendments to lease agreements would require our approval and could be challenged. This would help prevent against any further space being granted to tenants on our stop list, without dictating or controlling lease events and asset management for our borrowers; for example, how quickly vacant office space is filled.

Outcome

Ultimately, the deal did not proceed due to the proximity of contracted rent from excluded issuers to the 10 per cent threshold. Further considerations included the quality of other tenants, existing lease expiry timelines and demand for vacant space in comparable assets, which did not provide sufficient assurance the borrower would be able to fill vacant space appropriately to ensure the debt facility would remain within the scope of our exclusions policy throughout the loan term. This conveys not only how our exclusions policy was followed in the investment decision process, but also highlights the additional ESG considerations incorporated.

INTEGRATION CASE STUDY

NABERS design adopted across £750mn of real estate

G P E C

Issue

The real estate sector currently relies on EPC certifications to gauge an asset's efficiency or 'green' credentials. While useful in aiding understanding of the theoretical energy performance of an asset, EPC ratings only indicate potential or design intent and do not measure actual energy performance and consumption during operation[47].

Action

We have adopted the NABERS design for performance principles across five developments totalling £750 million in value. Adopting the design standard means we will deliver improved metering and monitoring, as well as better demand-controlled ventilation and sensors, all leading to increasingly energy efficient buildings. To deliver the NABERS process, external parties, including design consultants and internal parties will have to work closely throughout design, construction and operation. In particular, the handover and operations have to improve, needing buy-in from property managers and occupiers to achieve the desired outcomes.

Outcome

This paves the way for future developments to include NABERS in the design to ensure best-in-class developments whilst using a certification standard future occupiers and property managers can rely on.

47. Better Buildings Partnership & Jones Lang Lasalle, "A Tale of Two Buildings: Are EPCS a true indicator of energy efficiency?"

INTEGRATION CASE STUDY

Integration of PCAF methodology across £3bn of debt origination

G P E C

Issue

A key issue for funds with carbon targets is measuring and reporting an investment's carbon credentials. Currently, not all organisations report their emissions or provide asset-level EPC data prior to investment. This year we successfully integrated the Partnership for Accounting Financials into our deal underwriting process for all UK Life debt origination, comprising £3 billion of private debt and infrastructure.

Action

We teamed up with Carbon Trust to create a deal tool that uses PCAF methodology to calculate a carbon intensity score for each new debt investment, alongside a data quality score. The data quality score indicates whether the carbon intensity score has been formulated from energy reporting from the underlying investment, or a sector estimate. This provides an indication of the carbon intensity of UKL's potential investments to help inform its future strategy around origination to reach its 2025 and 2030 carbon targets.

Outcome

Over 40 deals were assessed in 2022, involving intensive analysis of proposed loans and engagement with borrowers and originators. We will continue to use this tool to help with strategies around carbon targets and push for tenants and asset managers to make emissions data more readily available.

3.3

INVESTMENT APPROACH

Monitoring managers and service providers

Monitoring managers and service providers

Proxy advisers

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

We have a systematic review process with ISS, whereby at the end of each voting season, we conduct a series of meetings to review our voting policy based on emerging trends that we or our advisers have observed.

The objective of these engagements is to identify key areas where our own voting policy can be strengthened, understand what our advisers are expecting with respect to broader trends and set in motion an approval process for modifying our custom voting policy ahead of the new voting season.

Where ISS is not able to meet our evolving expectations (i.e. they are not capturing or analysing the data we require), we will contact other providers through our extensive network who are able to deliver to us what we need.

For example, our 2022 voting policy was expanded to hold boards to account for failing to make sufficient progress on gender diversity at senior management level, and this data is coming from another one of our providers, Boardex. In 2023 we will be focusing more on companies that do not pay the real living wage and again, we will be sourcing this information from elsewhere (from The Living Wage Foundation). We also maintain relationships with ISS's peers so that we are aware of the difference between service offerings.

We monitor ISS research on a constant basis and raise any errors identified so they are addressed immediately and/or not repeated. We also make a record of errors enabling us to (1) review the extent of whether the issues have been addressed and (2) reflect on this log when doing annual reviews and contract negotiations. We may have questions about information it provides in its reports. We may not always agree with ISS standard research voting recommendations, but this is not considered problematic as firstly, some of the decisions can be very subjective and secondly, we follow our own guidelines.

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

Overall, we are satisfied with the service provided by ISS to help us make informed voting decisions, including how it responds to the issues we raise. All of the aforementioned is taken into account when reviewing our existing contracts/considering alternative providers.

Monitoring managers and service providers (cont'd.)

ESG data providers

We hold quarterly review meetings with our largest third-party data provider to discuss any shortcomings around data or research outputs to drive continuous improvement. These meetings are informed by an internal third-party data record, where instances of erroneous data or missing research input are systematically logged by ESG analysts and operations managers.

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

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

Aviva Investors' data providers

Data vendors

Large scale data providers with multiple datasets and deep coverage.

FTSE Russell Green Revenue
MSCI
Trucost ESG Analysis S&P Global
FTSE Russell Beyond Ratings standards for positive finance

Data specialists

Innovative and niche providers with specific scope and high quality.

BoardEx
vigeo eiris

NGOs

Specialist analysis, often not for profit. Detailed datasets with issuer scope aligned to purpose.

CDP

Non-government organisations

Monitoring managers and service providers (cont'd.)

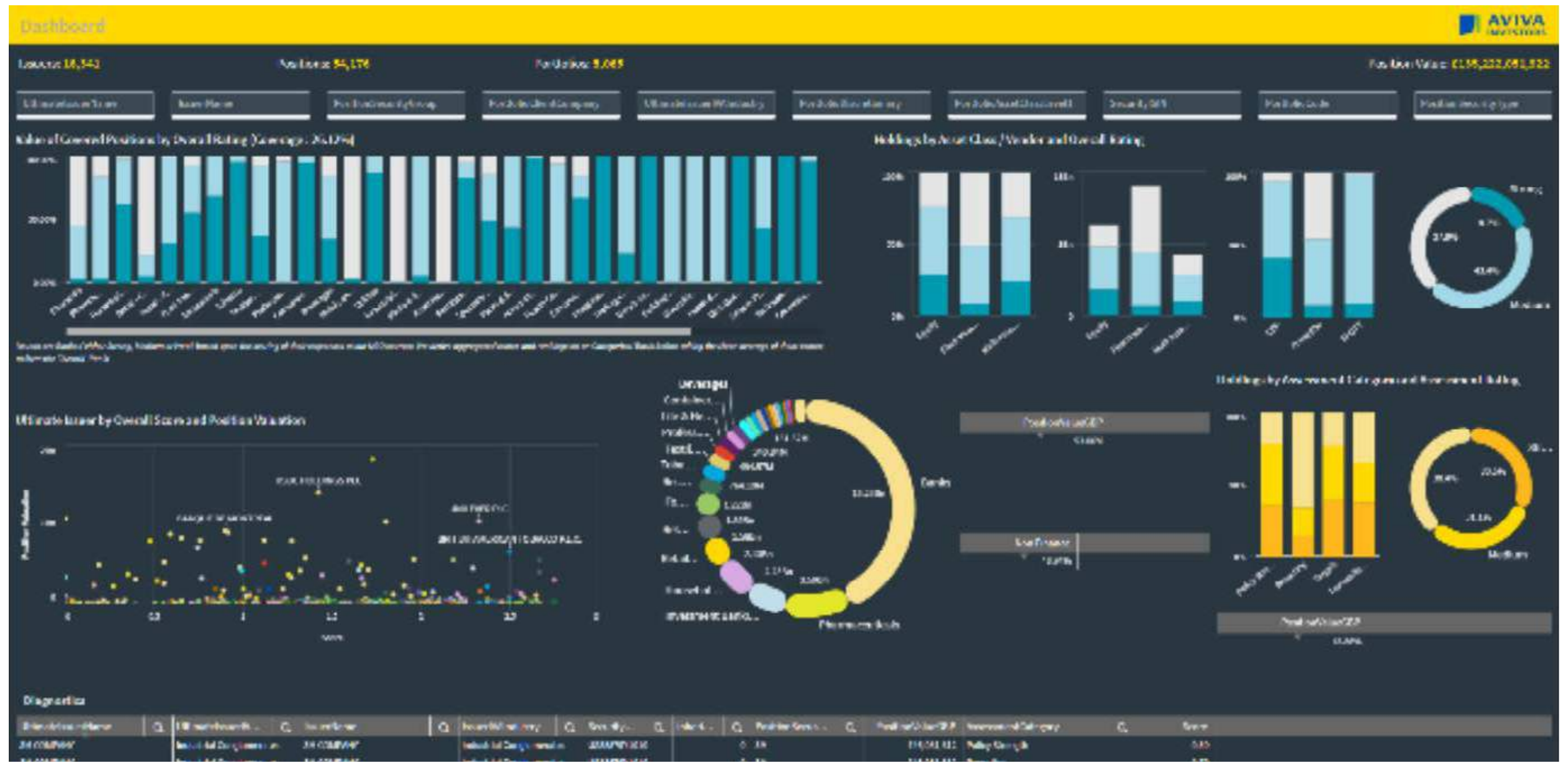
Since appointing a head of ESG data in early 2022 year, our roll-out of bespoke ESG analytics tools for internal and external reporting purposes has evolved. The ESG data team have been responsible for several models and analytical dashboards, using the latest data science techniques to derive greater value from vendors, NGOs and proprietary sourced datasets. Dashboards provide transparency into the construction of output and integration into our portfolio management tool, allowing analysts and fund managers to act accurately on insights. Our 'PAINT' tool, which colour codes SFDR PAI Metrics from MSCI, is an obvious example. Additionally, a new deforestation model using data from NGOs CPD, SPOTT and Forest500 allows us to understand the potential deforestation impact of our investments by scoring companies weak, medium or strong on their policies.

During 2022, a new iteration of our proprietary sustainability risk score for corporate issuers was developed, named Elements 2.0. This was enhanced from Elements (released in 2020) to align with rapid developments in the ESG domain, data availability and improved transparency of the methodology. This is a framework that brings together knowledge and expertise within liquid markets to provide a transparent score to inform investment decisions. Scores provide a high-level indicator of how a company performs across ESG issues.

We will continue this work in 2023, creating additional models leveraging our technical and domain expertise for investment integration. We also seek to further ratify the quality and accuracy of sourced data while engaging with innovative vendors to develop new and quality insights.

PAINT

Deforestation



Monitoring managers and service providers (cont'd.)

Manager research

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

Our established '7P' research framework looks at the following areas: parent, product, people, philosophy, process, positioning and performance. We examine ESG integration through the lens of each as demonstrated in the table below. In judging ESG integration, we seek qualitative and quantitative evidence of ESG application and consider ESG approaches relative to the manager's promised approach, sector and peer best practice and industry trends.

We continue to build on our baseline ESG framework, designed to hold external managers accountable to an increasingly high standard of ESG integration. This still allows for flexibility whilst ensuring ESG materiality is well incorporated throughout the manager's processes. In 2022, much of the qualitative focus was around ensuring the managers we hold are considering climate resiliency within their investment process.

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

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

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

4

Engagement

4.1

ENGAGEMENT

Engagement

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 (see page 96 for further information on collaborative initiatives).

How we engage

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

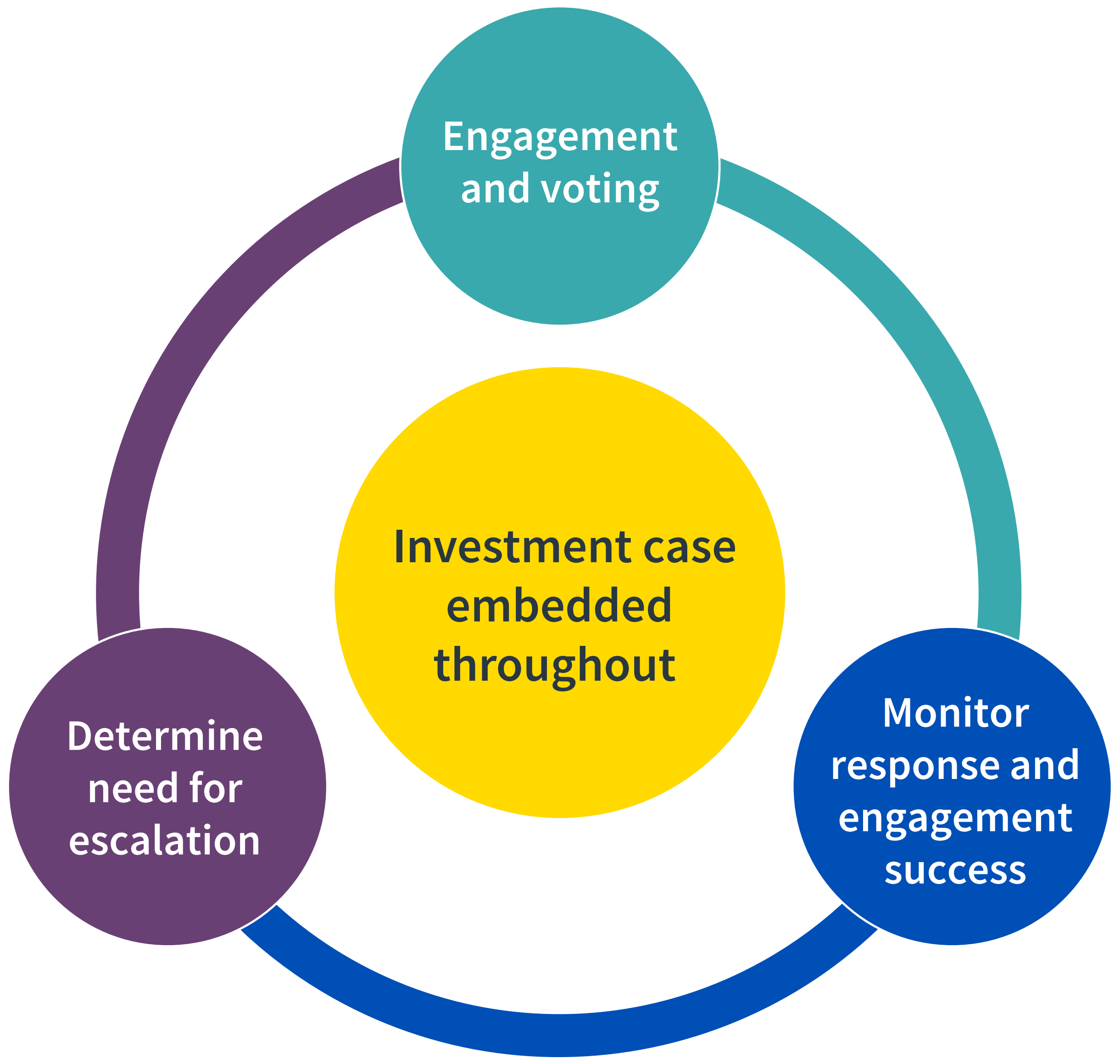
During daily, weekly and quarterly discussion forums, we continually monitor an entity's management and performance, including developments that may have a significant impact on their valuation or risk profile. As part of our analysis, we track areas of performance, including improvements in an entity's 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.

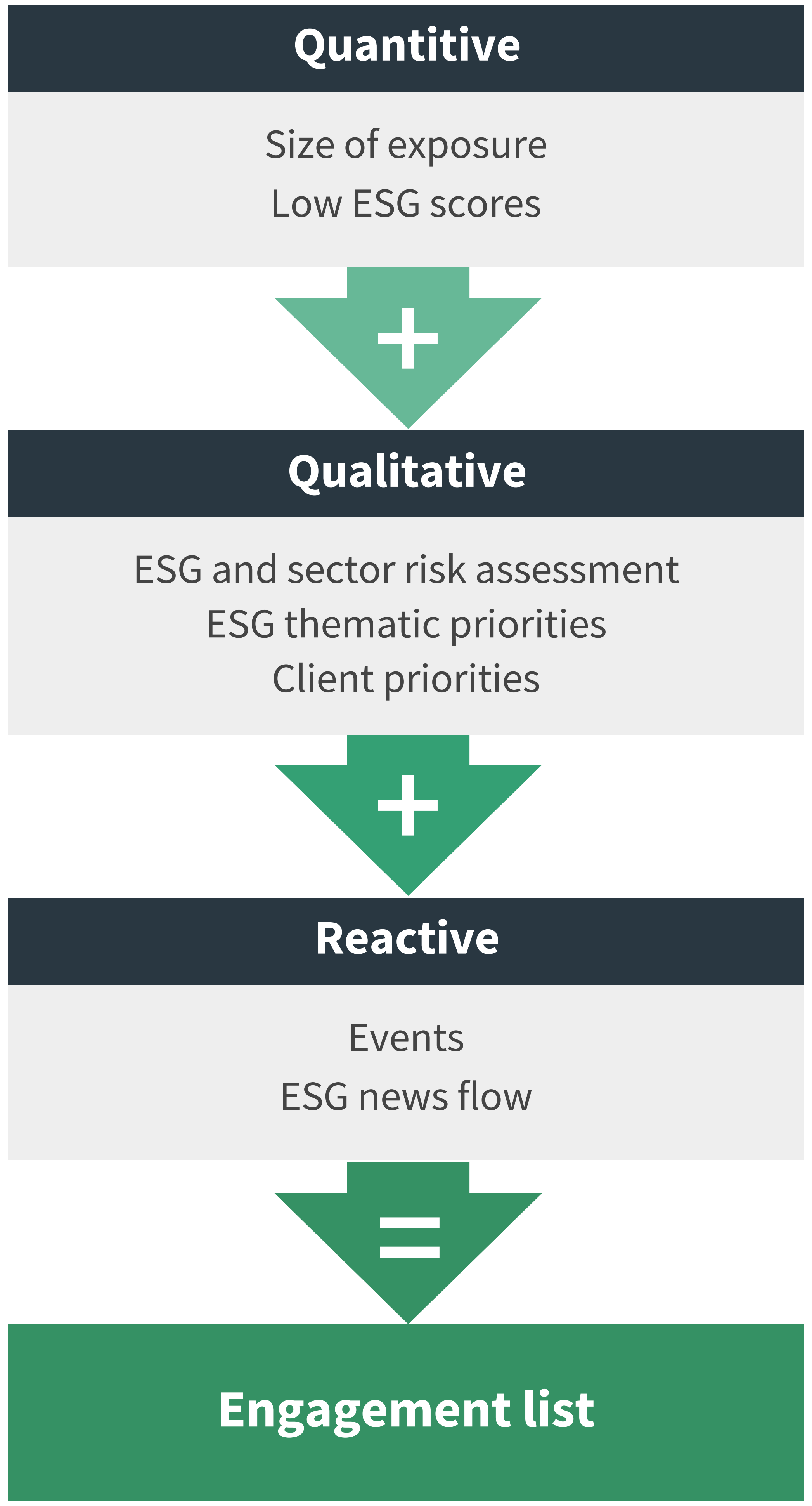


Identifying opportunities

Effective engagement is resource intensive, so prioritisation is key.

We draw up annual engagement plans calibrated by our annual letter to company chairs. These plans are reviewed quarterly, bringing together quantitative and qualitative data, including proprietary ESG scores and internal sector and thematic research, to highlight emerging issues that need to be captured and prioritised.

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



Monitoring progress

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

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

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

Engagement outcomes

In 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 CASE STUDY

Sustained climate improvement

Issue

Petróleos Mexicanos (Pemex) is a state-owned petroleum company that is an indispensable part of the Mexican economy, providing substantial revenues and foreign exchange receipts for the government. Unfortunately, underinvestment has contributed to a chequered ESG track record, marked by frequent safety incidents and environmental disasters. These events have led some areas of the investment community to flag Pemex for failing to meet global norms such as the UN Global Compact (UNGC). Additional disclosures from Pemex could help investors and markets complement external UNGC assessments and provide a fuller picture of the company's efforts to remediate past controversies and indicate future intent to address areas like climate change.

Action

Pemex was included in our Climate Engagement Escalation Programme (CEEP). This allows Pemex's climate progress to be evaluated utilising our rigorous assessment methodology. Additionally, we participate in the collaborative investor initiative Climate Action 100+, supporting structured engagement objectives covering methane flaring, short-term emissions goals, and importantly, UNGC compliance.

Outcome

Pemex has made significant strides since our engagement began, with a major focus on disclosure. Notable improvements include the launch of Pemex's ESG page. We believe Pemex could reach its short-term target (up to 2025) of 95 per cent coverage of Scope 1 and 2 emissions. As a result, we believe Pemex has positive momentum with building its sustainability agenda and continue to hold it in our EMD funds.

ENGAGEMENT CASE STUDY

Role of "quasis" in enabling climate transition

Issue

Quasi-sovereign issuers are companies with full or partial government control. The entities are often unlisted but large issuers of debt and constituents in fixed income markets. Such companies are significant operators in oil and gas and power generation, with over 70 per cent and 50 per cent of global assets in these sectors state-owned. Their close links to governments and custodianship of natural resources, especially in developing economies/emerging markets (EM), makes them key for countries' sustainability policies. Therefore, they can play an important role in solving some of the world's ESG challenges including climate change. Bond investors have a significant opportunity to engage with quasi sovereigns on integrating ESG within their strategy and delivering on targets.

Action

During 2022, our EMD and ESG teams engaged with over 20 quasi-sovereign issuers. These engagements included one-to-one interactions by investment teams with company management, dedicated climate engagement as part of our Climate Engagement Escalation Programme and collaborative initiatives with other investors, such as Climate Action 100+. The domicile and sectors varied but examples include Abu Dhabi projects, Indonesian utilities, Latin American energy companies, Moroccan minerals and Turkish chemicals.

Outcome

Progress on ESG by these companies is ongoing. For some EM quasi sovereigns, ESG is a relatively new concept, whilst for others it is well-established but hasn't been disclosed. But for all, there is impetus to strengthen ESG in practice. We saw some successes throughout the year. As an example, Saudi Aramco adopted 2050 net-zero Scope 1 and 2 GHG emissions targets and published its first sustainability report. However, there is still work to do. We will continue to use our influence to raise awareness of ESG best practice and identify investment opportunities.

ENGAGEMENT CASE STUDY

Engaging to improve climate momentum

13 CLIMATE ACTION

G P E C

Issue

Company AGMs within the banking sector have become a key battleground in the fight against climate change. Increasingly, some banks are proactively putting their climate strategies to a vote. Conversely, banks that demonstrate insufficient progress are targeted by shareholders filing their own resolutions. Two banks facing the latter included HSBC and Credit Suisse. Both resolutions led to two different outcomes.

Action

After pressure from a resolution filed by ShareAction, a UK-based charity that promotes shareholder advocacy, HSBC announced its intention to publish an updated climate strategy. Following dialogue, the resolution was subsequently withdrawn. In response, we engaged with HSBC during the year sharing our expectations on a robust climate strategy.

ShareAction similarly filed a resolution on Credit Suisse, although in this case the bank was less cooperative, and we felt lagged European peers. As a result, we pre-declared our intention to support the resolution.

Outcome

In December, HSBC issued an updated climate policy featuring an ask we had to require its oil and gas clients to provide credible transition plans. Additionally, HSBC committed to cease any direct financing of new oil and gas fields. Meanwhile, nearly a quarter of Credit Suisse's shareholders voted against management on the climate resolution filed by ShareAction. Despite the resolution failing to pass, Credit Suisse responded by showing incremental improvements in its climate strategy, introducing financed emissions targets for high-risk sectors.

ENGAGEMENT CASE STUDY

Continual climate improvement with an American based petroleum company

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

G P E C

Issue

The United Nations Environment Programme report '*The Emissions Gap*' illustrated the window to address the climate crisis is closing. Urgent action is needed, particularly in high-emission sectors like oil and gas; yet company transition plans continue to fall short.

Action

Marathon Petroleum is included in our Climate Engagement Escalation Programme (CEEP); its combined Scope 1, 2 and 3 emissions make it systemically important for the global transition to net zero. We expect all high-impact companies to fully demonstrate a strategy, with targets, in line with the Paris Agreement. Over 2022, we continued to engage with the company to strengthen its decarbonisation strategy.

Outcome

Marathon has since improved the quality of its climate-related disclosure, publicly supporting the Task Force on Climate-related Financial Disclosures (TCFD) and strengthening board oversight over its strategy. It has also improved its emissions reduction targets related to Scope 3 and methane emission intensity and scaled spending on low-carbon, enabling the transition from traditional to renewable refineries. Marathon is demonstrating leadership as one of the first companies in its sector to publish a dedicated just transition report in March 2022, which outlines its approach in alignment with International Labour Organization's guidance.

In 2023, we will continue to work jointly towards a 1.5°C ambition, pressing for a better understanding of its Scope 3 strategy and approach to addressing misaligned climate lobbying.

ENGAGEMENT CASE STUDY

Improving access to healthcare

3 GOOD HEALTH AND WELL BEING
10 REDUCED INEQUALITIES

G P E C

Issue

Improving access to healthcare is a key theme. This includes raising awareness and addressing issues of racial discrimination within the health sector. Many studies used to develop health treatments do not fully represent the needs of all patients. Studies have found responses to treatments can differ among racial and ethnic minorities, and some minorities may experience worse health outcomes from specific diagnoses. According to US Census data, Black or African American individuals make up 13.4 per cent of the population but only 5 per cent of clinical trial participants. Similarly, the Hispanic or Latino population makes up 18.1 per cent of the population but only 1 per cent of participants. This means that we do not know if treatments are equally effective for all populations.

Action

Our ESG team decided to engage on this issue with pharmaceutical company Novartis (a holding within our Social Transition Global Equity strategy) through their access to health and corporate sustainability teams.

Outcome

Novartis informed us it had invested $17.7 million to set up clinical trial centres at historically black medical schools as part of a ten-year plan. They also increased contributions to the Beacon of Hope initiative to $50 million. This initiative was launched in collaboration with black colleges, universities, and medical schools with the goal of reducing health disparities through collective action. It also published its first commitment to diversity in clinical trials. Short-term goals include evaluating diversity and inclusion principles for phase III studies in the US. In the longer term, Novartis expects to expand this commitment to all global trials, leveraging data science to track diversity data across its drug development programmes.

ENGAGEMENT CASE STUDY

Engaging to improve supply chain practices

1 NO POVERTY
4 QUALITY EDUCATION
8 DECENT WORK AND ECONOMIC GROWTH
15 LIFE ON LAND

G P E C

Issue

Nestlé, the largest global and publicly held food group, is exposed through its cocoa supply chains to the issues of child labour, deforestation and ecosystems degradation. These could all cause operational, reputational and regulatory risks. Conversely, Nestlé could be a key player in moving the needle towards improving biodiversity and human rights protection in global food systems.

Action

We have engaged with Nestlé over many years on a variety of ESG themes, including social and environmental due diligence in its supply chains. We recently met with the company to better understand its monitoring systems and tools to ensure key soft commodities are not linked to deforestation and biodiversity loss. This has been particularly relevant in light of increasing regulation on supply chain due diligence in Europe.

Outcome

In line with our asks, Nestlé announced in 2022 it will start an incentives programme to include cash-based incentives for better agroforest practices, income diversification, farm management and, importantly, keeping children in schools instead of tending crops. This is part of a push to purchase all its cocoa through a fully traceable supply chain by 2025. These goals make Nestlé the first multinational food company to pay farmers directly and in tandem with better socioeconomic and environmental outcomes. We will monitor implementation and the outcomes of the programme, which we consider a blueprint for other companies to follow.

ENGAGEMENT CASE STUDY

The importance of decarbonisation

G P E C

Issue

Decarbonising transport will play a crucial role in meeting global climate goals. Rail currently provides a more carbon-efficient means of transportation than other modes. Rail is three times more fuel efficient than trucks. Moving from truck haulage to rail could support a 75 per cent reduction in GHG emissions from road transport. One company to benefit is US rail-road company Union Pacific, held within our Climate Transition franchise and broader fixed income funds.

Action

We conducted multiple engagements with Union Pacific throughout the year on climate change. As part of our timebound bespoke engagement programme for holdings in the Climate Transition franchise, we requested Union Pacific develop and formally validate science-based emission reduction targets (SBT) in line with the Science-Based Targets initiative (SBTi) and publish TCFD-aligned climate disclosures. Our credit analysts also engaged with Union Pacific, encouraging and advising on a ESG-labelled bond transaction to support its climate strategy.

Outcome

Union Pacific made good progress regarding its climate transition strategy, committing both a near-term and net-zero SBT to the SBTi, issued a green bond and published a TCFD report. Despite this, we continue to encourage the company to get its SBTs validated by the SBTi. This will help facilitate the ambitions of the Paris Agreement and alleviate the most adverse impacts of climate change. We still have concerns regarding social and governance issues and will continue to engage with the company on these issues.

ENGAGEMENT CASE STUDY

The benefit of engaging with both companies and trade unions

G P E C

Issue

Teleperformance is a global provider of customer relationship management services. The company's call centres have been at the centre of controversy in recent years due to questions surrounding employee health and safety and freedom of association, which became prevalent during COVID-19. This was brought to our attention by a global union, and ultimately led to a complaint at the OECD National Contact Point in France, which put forward recommendations for the company to strengthen practices regarding freedom of association and collective bargaining for workers. In 2022, additional controversies arose regarding employees' wellbeing on content moderation.

Action

We have engaged with Teleperformance regularly on its labour conditions and intensified our engagements in 2022. These were conducted between our ESG and equities teams. We also held conversations with UNI Global Union to better understand the issues behind the issues outlined in the report. We encouraged the company to conduct meaningful dialogue with unions. In November, the Columbian government opened a probe into Teleperformance's work practices and union-busting practices, to which the market reacted sharply.

Outcome

Teleperformance and UNI Global Union reached a global framework agreement. Investor pressure was an important contributing factor. The agreement is significant, applying to the company's global workforce, and makes provision for freedom of association, dispute resolution, surveillance and health and safety. It establishes appropriate channels for concerns to be recognised and escalated to senior management. We will continue to engage with the company and the union to monitor implementation of the agreement.

ENGAGEMENT CASE STUDY

Green, social and sustainability bonds

G P E C

Issue

Throughout 2022, numerous sovereigns sought investor feedback on their ESG-themed bond frameworks, despite economic headwinds that deterred some from issuing. This presented a valuable opportunity to engage on sustainability topics, promote best practice and inform our investment decisions.

Action

We met representatives from emerging and developed market countries (virtually and physically) to discuss ESG-themed bonds, including Chile, Brazil, South Africa, India and New Zealand.

We used our internal checklist of best practice to evaluate the credibility and additionality of the proposed frameworks. A notable example was multiple discussions with the Uruguayan government on its innovative sustainability-linked bond framework. During a call with officials from the forestry policy team, we discussed the measurement methodology for one of the proposed key performance indicators, drawing on relevant expertise from our biodiversity lead.

Our engagements also provided an opportunity to discuss topics related to governments' overall sustainability profiles and our annual sovereign engagement priorities. We advocated the benefits of using proceeds from ESG-bond issuances to invest in the most pertinent areas of a country's ESG profile.

Outcome

By engaging constructively, we supported issuers in shaping best practice across framework design and prioritisation of bond proceeds.

Our engagements also gave us a better understanding of specific ESG-themed bonds and the material aspects of their issuers' sustainability profiles, adding conviction to investment decision-making. Over the year, we increased our exposure to ESG-themed bonds, and are in a strong position to assess issuance in 2023.

Engagement in real assets

Being active owners of real assets through engagement with stakeholders is critical to creating positive environmental and social outcomes.

Engagement in real assets can be defined as structured interactions on environmental and social issues with customers, including borrowers and occupiers, suppliers and the communities we operate in. This engagement can be carried out through the transaction process or ongoing asset management. In private debt asset classes, we actively engage in transactions by creating covenants and incentives that mandate or encourage environmental and social impacts.

In equity investments where we own assets directly, we focus asset management resources on engaging occupiers and suppliers to reduce building energy use, and engaging with communities through funding programmes to create positive social impacts.

ENGAGEMENT CASE STUDY

Net-zero due-diligence audits

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.

ENGAGEMENT CASE STUDY

Leasing efforts

Sustainability-linked leasing

Efforts to decarbonise the real estate sector must involve greater landlord and tenant collaboration to improve the sustainable occupancy and management of buildings. An effective tool gaining traction in the commercial property sector to address this is sustainable real estate leasing. A sustainable lease is a standard form lease that includes additional clauses, encouraging owner and occupier(s) to enhance the environmental performance of a building. In our real assets business, we have implemented a number of sustainability-linked leases that have successfully embedded sustainable KPIs as well as commercial incentives.

Industrial business park leasing

In 2022, we agreed sustainability clauses in a lease at an industrial business park in Watford. This new lease is aligned with the Green Leasing Framework developed by the Better Buildings Partnership. The lease agreement includes an obligation for the tenant to install EV charging units and solar PV panels on the unit. This will help the asset to use more renewable energy from solar panels, whilst providing amenities for the employees to charge EVs at work.

ENGAGEMENT CASE STUDY

1,900-kilowatt peak of solar in development

Issue

Global energy demand will continue to rise, driven by population growth of almost 250,000 per day[48]. Although there has been a growth in the renewable energy sector, it is insufficient to meet demand. The energy supply crisis has been exacerbated by Russia's invasion of Ukraine in February, and its move to cut off gas flows to the EU by approximately 80 per cent for four months.[49] This caused energy prices to increase exponentially, giving renewable energy an opportunity to provide tenants a cheaper alternative when installing solar PV panels on their property.

Action

A partnership with Push Energy Group has been established to implement solar PV on assets where feasible. This partnership allows for asset managers to easily find a contact and instruct a feasibility study on assets. We have subsequently approached occupiers across our real estate portfolio with solar PV panel installation proposals. We now have £1.8 million of rooftop solar schemes at heads of terms or proposal stage, including an innovative five-site deal with Wickes.

Outcome

Delivering rooftop solar for occupiers gives them cheap energy in a volatile utility cost environment, as well as creating secure rentalised income for clients. This partnership allows for a positive relationship between asset management in Real Assets and Push Energy Group to pave the way for more future solar PV panels to be installed on development projects and standing assets.

48. Centre for European Reform, "The Impact of The Ukraine War on Global Energy Markets"
49. World Economic Forum, "6 Ways Russia's Invasion of Ukraine has reshaped the energy world"

ENGAGEMENT CASE STUDY

Self-storage units

G P E C

Action

In real assets lending, we have delivered extensive engagement through our sustainable transition loans programme. In 2022 this included a £30.8 million loan with Stor-Age, a portfolio of self-storage properties across the UK. The loan benefits from a suite of key performance indicators, includes installation of solar PV and carbon emissions reduction, and the borrower will benefit from margin reductions as they reach the set targets. Earlier in April, we engaged with an existing borrower to provide an additional £90 million to its facility, with the transaction including a commitment from the borrower to increase EPCs across the portfolio, reduce carbon emissions and introduce smart monitors. When each target is met, the sponsor will benefit from margin reductions.

4.2

ENGAGEMENT

Collaboration

Collaboration

Active engagement and collaboration with other investors is an important, if not essential, requirement to exercise appropriate influence at companies.

Collaboration allows information sharing on existing and emerging sustainability risks and enables aligned stakeholders to exert collective influence to bring about change. We are connected to shareholders and broader stakeholders through various national, regional and global forums that facilitate collective discussion and action.

In real assets, we engage with intermediaries and multilateral institutions to encourage environmental or social outcomes.

In 2022, Aviva Investors placed a particular focus on its participation in the following industry initiatives:

- Collaborative Sovereign Engagement on Climate Change
- Climate Action 100+
- The Asia Research & Engagement (ARE) Asia Transition Platform
- Financial Sector Deforestation Action
- EM Investor Alliance
- ShareAction
- Investor working group on a deforestation-free automotive industry
- Plastic Solutions Investor Alliance
- Global Investors for Sustainable Development (GISD) Alliance
- Global Real Estate Sustainability Benchmark (GRESB)
- Carbon Disclosure Project (CDP)
- ChemScore
- Corporate Human Rights Benchmark (CHRB)

For a full list of collaborative initiatives, please see in **Appendix**.

ENGAGEMENT CASE STUDY

Collaborative engagement with Asian companies to accelerate achievement of climate goals

G P E C

Issue

We are one of six founding members of a new multi-year collaborative engagement programme, the 'Asia Transition Platform', coordinated by Asia Research & Engagement (ARE). This aims to accelerate the shift towards achieving international climate goals through engagement with at least 50 Asian companies across its major financial markets. Its initial focus is on carbon risk and coal exposure at financial institutions and power companies.

As of the beginning of 2022, United Overseas Bank (UOB), a Singaporean bank, did not have a net-zero policy, although it had announced it would provide a public commitment and relevant decarbonisation scenarios by the end of 2022.

Action

We met with UOB management twice in 2022. We found the reason UOB was lagging other Asian banks in making a net-zero commitment was its management's decision to complete extensive internal analysis and climate scenario work before making a public commitment. We took this opportunity to encourage UOB to align its net-zero ambition with its peers, to set 2030 interim finance emissions targets and phase out thermal coal financing.

Outcome

UOB has now made a net-zero 2050 commitment and joined the Net-Zero Banking Alliance. UOB's commitment covers six high-risk sectors. It has also pledged to halt financing of the thermal coal industry by 2039. In 2023, we will focus our asks on UOB to improve disclosure around governance mechanisms, including appointing directors with climate change expertise to the board to support relevant climate strategy discussions.

ENGAGEMENT CASE STUDY

Corporate Human Rights Benchmark (CHRB)

G P E C

Issue

In 2014, we helped launch the Corporate Human Rights Benchmark (CHRB), an initiative designed to rank companies on human rights performance. As of 2022, the CHRB ranks 230 globally listed companies in five high-risk sectors. This year's iteration assessed 127 companies in the food and agricultural products, ICT and automotive manufacturing sectors. The 2022 assessment comes at a time of growing regulatory requirements and investor scrutiny
on human rights practices.

Action

We use the benchmark to identify and engage on human rights risks within our investments. The last CHRB assessment took place in 2020, where 106 companies scored 0 on human rights due diligence. We voted against the management of these laggard companies where we had significant exposure in 2021 and 2022. We are also a member of the Investor Alliance for Human Rights (IAHR) that engages with these companies. As part of this group, in 2022 we co-signed a public statement calling out poor scoring companies,[50] and conducted follow-up engagements requesting they engage directly with the CHRB to understand more about the topic in advance of the 2022 assessment, and substantively improve human rights due diligence.

Outcome

In 2022, 66 per cent of food and agriculture companies, 65 per cent of ICT companies and 57 per cent of automotive companies have improved their overall scores on key indicators. On human rights due diligence, 13 companies no longer scored zero, with many substantially improving their overall scores. However, improvements across the business community are required. We support further regulatory action on human rights due diligence and have publicly supported calls for stronger proposals at the EU level.

50. https://investorsforhumanrights.org/cross-sectoral/investors-over-us45-trillion-assets-call-out-leading-companies-over-human-rights

ENGAGEMENT CASE STUDY

Macro and micro stewardship in Asia

G P E C

Issue

We have collaborated with the Asian Corporate Governance Association (ACGA) since 1999. It promotes the improvement of corporate governance in the Asia Pacific region and has helped drive positive improvements in local corporate practices and across the regulatory landscape on issues including board independence, transparency of AGM voting and audit quality. While there is no uniform that fits the varied structures within the region, the ACGA, whose members manage over $40 trillion in assets, can make material differences by offering local correctives.

Action

The China Working group initiated engagements with technology companies in 2022 such as Baidu and Tencent. Topics of engagement included data privacy, board diversity and ESG reporting.

In addition, we continued our collaborative engagement with Alibaba (see details in 2021 Annual Report). We observed progress since its ESG strategy was announced in December 2021, as Alibaba held a call with over 90 investors, demonstrating its roadmap and providing additional disclosure on ESG issues.

We participated in quarterly calls with members and attended the ACGA's 21st Annual Conference. Our global head of ESG investments was a panel speaker, and takeaways on market trends have fed into our stewardship activities.

We contributed to ACGA's policy advocacy work through responses to regulatory consultations. Recent examples include the Hong Kong Exchanges and Clearing plan for a listing regime for specialist tech firms, and the Singapore Exchange's proposed changes to board renewal and remuneration disclosures. We also co-signed a letter to the FSA and JPX/TSE in September 2022 on enhancing gender diversity in the boards and management of TSE Prime companies. We voted against 92 per cent of Asian companies in 2022 due to insufficient gender diversity at the board level.

ENGAGEMENT CASE STUDY

Broader technology

G P E C

Issue

Whilst the primary goal of technology is to serve a positive purpose, its increasing importance within society brings ethical challenges. From digital platforms to telecoms to software developers, technology companies have come under scrutiny due to their harmful impacts on society. We outline below how we've taken a leading role alongside other investors in campaigning on these issues.

Digital human rights

In 2022, we continued our involvement with the Investor Alliance for Human Rights ICT working group. The group supports the Ranking Digital Rights Index, which challenges technology firms to respect digital rights and improve human rights processes. The group strives for regulatory reform and targets poor-performing companies. Within this, we have taken a leading engagement role with three companies. Where engagement fails, the group coordinates AGM resolutions.

Facial recognition technology (FRT)

We also continued to collaborate with other investors on the responsible deployment and use of FRT, initiated by US asset manager Candriam. We led the dialogue with a leading US tech company on its frameworks for developing responsible FRT, particularly its guiding principles and level of oversight. This example was a case study selected for best practice in the initiative's interim report.[51]

Ethical artificial intelligence (AI)

In 2022, the World Benchmarking Alliance launched the Digital Inclusion Collective Impact Coalition (CIC). The coalition represents investors with over $6.3 trillion AUM, and we are an active participant. In April, we supported a joint statement from the coalition asking companies to disclose commitments to abide by principles for ethical AI. We further supported this work by leading on two company engagements.

51. https://www.candriam.com/siteassets/medias/publications/brochure/research-papers/facial-recognition/2022_09_candriam-frt-best-practice---web.pdf

ENGAGEMENT CASE STUDY

Collaborating with retailers for better living wages

G P E C

Issue

In 2022, soaring inflation and the cost-of-living crisis forced millions of households into further financial hardship, particularly those in low-income households. The Living Wage Foundation's '*Life on Low Pay*' report estimated 4.8 million workers earn less than a living wage, with 42 per cent of low-wage workers reporting missing meals regularly for financial reasons. These factors highlight the urgent need to address income inequality and issues relating to low pay.

Action

In 2022, as part of our involvement in ShareAction's Good Work Coalition, we collaborated with other investors to engage with food retailers – a sector known for low pay. We requested companies align wages for the lowest-paid workers – including onsite contracted staff – to the real living wage. We also encouraged companies to accredit as living wage employers. We engaged with retailers including Asda, Tesco, Sainsbury's and M&S, as well as unions to ensure our asks aligned with members' needs.

Outcome

During 2022, retailers made announcements committing to increase pay for workers.
In September, M&S announced a second pay rise for shopfloor workers that fell short of the real living wage. In November, Tesco announced wage increases for hourly workers and committed to bring forward its annual pay review in 2023 from August to January.

Following a shareholder resolution in 2022, Sainsbury's announced new wage rates for 2023 that matched the real living wage rates. Asda has yet to announce new wage rates. We will continue to engage with the sector regarding wages for contracted staff, as well as the broader food retail sector where there are ongoing issues relating to outsourcing.

ENGAGEMENT CASE STUDY

Oceans and plastics

G P E C

Issue

Just over 70 per cent of planet Earth is covered in water; billions of people are directly and indirectly dependent upon oceans for their survival. But all is not well.

The untimely death of marine life, repeated pollution spills and accumulation of ocean plastic are examples of threats already undermining the food, jobs and environmental services oceans provide. Extensive areas of ocean are now ‘dead’ or hypoxic, where the water contains too little oxygen to support life. Fertiliser-enriched run-off from agriculture and wastewater can cause algae to overgrow, stifling opportunities for other lifeforms. Around one billion people rely on fish as a primary source of protein, but overfishing is driving many marine species towards extinction. Destructive practices like bottom trawling are still taking place in marine-protected areas.

The rapid growth in global plastic production from fossil fuel feedstock, single-use plastic products and packaging, and mismanagement of post-consumer plastic waste disposal have resulted in a global plastics crisis. We believe that businesses should play a critical role in tackling this by shifting to a circular rather than linear business model. A transition to more sustainable packaging would respond to shifting consumer preferences towards environmentally friendly offerings and reduce exposure to regulatory risk stemming from reliance on virgin plastic. For example, in 2022 the UK introduced the Plastic Packaging Tax (PPT).

Engaging with others

We attended the Montreal COP15 on biodiversity in December 2022, a vitally important conference for the future of our natural world and health of our oceans. Our Aviva CEO Amanda Blanc chaired the Finance Ministers breakfast, and we supported the “30 by 30” call for effective conservation of at least 30 per cent of the world’s land, water and oceans by 2030. As co-chairs of the Finance for Biodiversity delegation, we lobbied for the aligning of private and public financial flows with the goals and targets of the Global Biodiversity Framework, to ensure governments provide an enabling policy environment to support action by financial institutions. This was finalised in Target 14. We also supported Target 15, to require businesses and financial institutions to assess and disclose impact and dependencies on nature, which has implications for reporting on impacts on water and oceans.

In early 2022, we supported the call[52] for a global treaty on plastic pollution. We were delighted to see UN member states agree on a mandate to negotiate a legally binding global instrument to end plastic pollution in March 2022[53].

We are also a signatory to the UN’s Sustainable Blue Economy Finance Initiative[54]. We will continue to remain a signatory, appreciating the guidance and frameworks it provides to help align investments and lending activities to the UN SDG 14, “life below water”.

In 2022, we supported FAIRR’s sustainable aquaculture engagement to encourage the world’s largest salmon companies to diversify feed ingredient sources to better manage ESG risks associated with sourcing wild fish and soy.

We also further strengthened a substantial collaborative investor engagement programme on hazardous chemicals, gathering 47 investors with $8 trillion of assets under management to call on chemical manufacturers to phase out persistent chemicals (see page 18 for more details).

Natural Capital Transition Fund

Sustainable oceans is one of four investment themes of our Natural Capital Transition Global Equity Fund, launched in November 2021. The fund invests in companies providing solutions to marine pollution and overfishing, such as water treatment and precision agriculture. The fund has a three-year engagement programme to encourage all holdings to reduce their impact on nature. Please see page 112 for more information.

52. As You Sow Investor Call for a Global Treaty on Plastic Pollution — As You Sow
53. As You Sow Investor Call for a Global Treaty on Plastic Pollution — As You Sow
54. Sustainable Blue Finance – United Nations Environment – Finance Initiative (unepfi.org)

ENGAGEMENT CASE STUDY

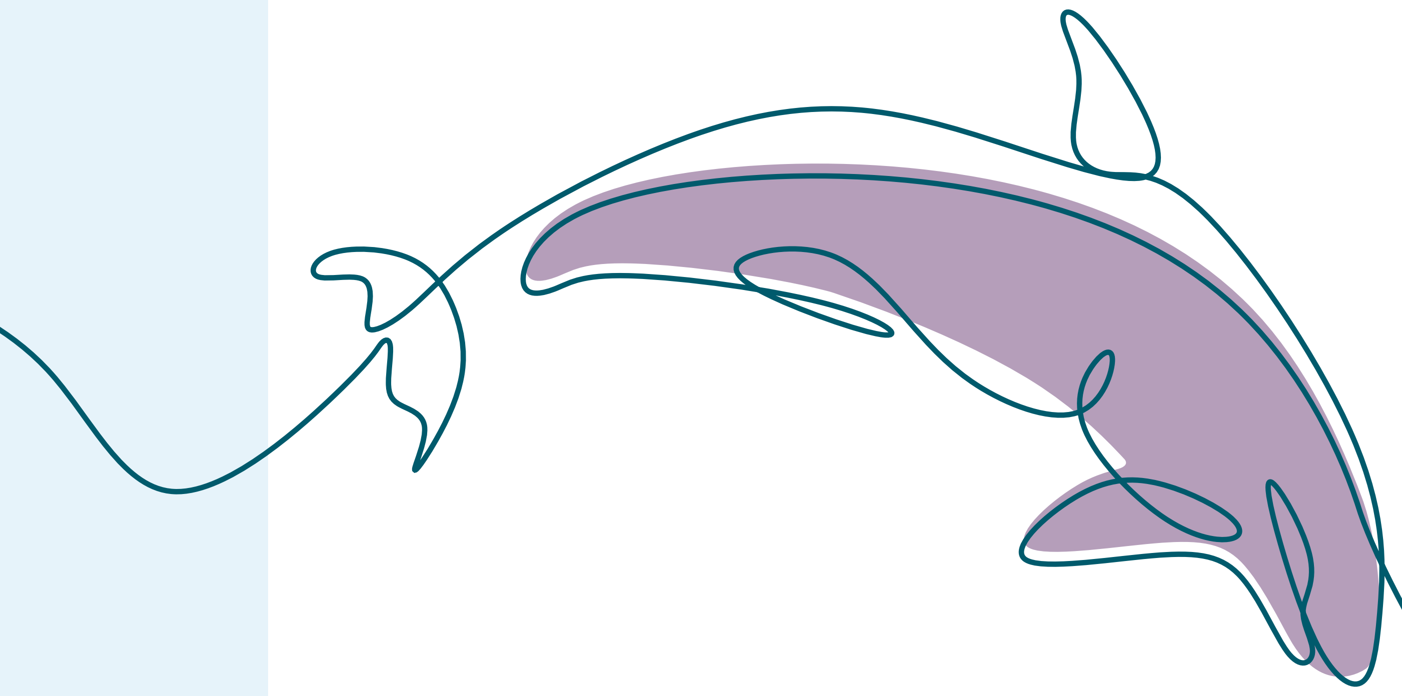
Oceans and plastics (cont'd.)

G P E C

Engaging with companies over plastic usage

Action

We continue to engage on plastic pollution with UK consumer companies with exposure to packaging waste, including Burberry, Britvic and Science in Sport (SiS). Key engagement asks include disclosure of volumes of plastic packaging used, increasing the level of recycled content and trialling of circular or alternative packaging solutions. This is aligned to the Ellen McArthur Foundation's New Plastics Economy Global Commitment.



Outcome

We met with Burberry following its withdrawal from the Ellen MacArthur Foundation Global Plastics Commitment. Burberry stated its departure was a shift toward a more sector-specific approach via the Fashion Pact, which it believes has more specific targets on recycled content and elimination of single-use plastics. Whilst we support this approach and commend Burberry's new plastic and recycling targets, we note a lack of an absolute target on total volume used.

SiS has met its commitment to 100 per cent of products being packaged using recyclable plastic via its newly introduced takeback scheme. However, customer take-up has been disappointing and all packaging is still virgin plastic.

Britvic also demonstrated commitment to reduce reliance on plastic. It has "SMART" targets to reduce packaging and increase recycled content, has implemented methods to aid environmental assessments and is reducing packaging within its Beyond the Bottle strategy. However, it is difficult to contextualise the company's plastics targets due to the lack of disclosure on its breakdown of other packaging materials.

Overall, there is room for improvement on the ambition of plastic-related targets and disclosures across all consumer names we engaged with. However, we recognise the challenges involved with meeting these targets, including the availability of food-grade-quality recycled plastic – exacerbated by the new plastic tax – and the ability of companies to implement circular models due to ill-equipped national recycling systems and low uptake from consumers. Therefore, we support companies in long-term strategies to transition to more sustainable and circular packaging models.

Thought leadership

Other sources of marine pollution include pharmaceutical ingredients such as antibiotics. We partnered with the British Society for Antimicrobial Chemotherapy and the University of Exeter to produce a white paper, *Confronting a Permacrisis; the intersection between Antimicrobial Resistance (AMR), biodiversity loss and climate change*.[55] These are linked in complex ways and this report discusses the intersection of planetary crises. It intends to trigger debate about what that response could look like, including the oceanic impacts on healthcare-associated pharmaceutical pollution.

It seems extraordinary there have been no major studies on the extent of marine chemical pollution, including persistent chemicals that linger, and their biodiversity impacts. So we were pleased to contribute to The Economist report *The Invisible Wave* on marine chemical pollution. The aim of this report was to bring the issue of marine chemical pollution to a wider audience.

On World Oceans Day 2022, we set out ten ways where human actions threaten the health of an essential environment in our article, *In Deep Water*.[56]

55. Confronting a permacrisis - Aviva Investors
56. Ten threats to marine ecosystems - Aviva Investors

ENGAGEMENT CASE STUDY

Pushing for better climate practices

7 AFFORDABLE AND CLEAN ENERGY | 13 CLIMATE ACTION | 15 LIFE ON LAND

G P E C

Issue

Methane, a greenhouse gas, is 80 times more potent than carbon dioxide. Hence, cutting methane pollution is imperative to slow the escalating rate of global warming. However, methane emissions are rising at ever-increasing rates. Last year witnessed the highest-ever recorded rise of methane concentration in our atmosphere.[57] Companies operating in major methane-emitting sectors are exposed to increasing regulation as the gap between current policy framework and policy actions needed will likely decrease.

Action

We have intensified our focus on management of methane emissions. As part of our long-standing involvement with the Emerging Markets Investors Alliance (EMIA), we have engaged with several companies, including Petrobras, the state-owned Brazilian oil and gas producer, to set out a more ambitious approach to methane emissions measurement and management.

Outcome

Petrobras has made steady progress in reducing methane emissions and set targets that, if achieved, will contribute to climate change mitigation while alleviating its own transition risks. Petrobras has also demonstrated significant progress against our key climate expectations. It has set an operational net-zero emissions target, improved the quality of climate-related disclosure, and evolved governance to ensure explicit oversight of its board and board committees.

In 2023, we will increase our focus on improving methane measurement and reporting. We hope to see Petrobras join and use the Oil and Gas Methane Partnership 2.0 framework. This would help investors and other stakeholders be more confident that reporting is consistent amongst oil and gas companies.

ENGAGEMENT CASE STUDY

Multi-year sustained engagement to improve deforestation issues

12 RESPONSIBLE CONSUMPTION AND PRODUCTION | 15 LIFE ON LAND

G P E C

Issue

Since 1970, there has been an average fall in global wildlife populations of 68 per cent, mostly due to human-driven habitat loss, pollution and climate change. This is a serious concern: more than half of global GDP – around $44 trillion – is reliant on biodiversity and ecosystems. While individual company engagement is impactful, collaboration with like-minded investors can amplify our impact. Knowledge sharing amongst investors and environmental NGOs on sustainable practices allows us to promote best practice in our collective engagement efforts.

Action

In November 2021, we were one of 30 investors globally to commit to using our best efforts to eliminate agricultural commodity-driven deforestation from our portfolios by 2025. This working group focuses on the implementation of the Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation[58], known as the Financial Sector Deforestation Action (FSDA). In 2022, we worked with FSDA members to identify priority companies and financial institutions to engage with on deforestation risk, using Global Canopy's Forest 500 list. In support of this, we assessed our exposure to deforestation risk in our investments, with a focus on palm oil, soy, beef, pulp and paper. More information can be found in the Aviva 2022 Biodiversity Report.[59]

Outcome

During 2023, we will lead FSDA engagements with five companies and five financial institutions and support engagements by other investors. Our expectations for these companies can be found here.[60] Following the results of our deforestation risk assessment, we plan to add more companies to the engagement strategy.

57. NOAA analysis finds surge in atmospheric methane, highlighting urgent need for emissions reductions – Clean Air Task Force (catf.us)
58. DFF-Commitment-Letter-.pdf (unfccc.int)
59. Our reports and policies - Aviva plc
60. nature-and-tackling-deforestation – Climate Champions (unfccc.int)

4.3

ENGAGEMENT

Escalation

Escalation

Investor-issuer dialogue is the foundation of good stewardship – it allows for trusting relationships to be built over time, permitting candid discussions about issues that might not otherwise be addressed.

Engagement first philosophy

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

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

Secondly, and more significantly, while divestment sends a signal of dissatisfaction to a company, it does not allow for a clear communication of a desired future state and expected roadmap for change. We prefer to stay invested, engaged and partner with companies as they develop a climate strategy, allowing us to continue to influence the transition pathway as well as the pace.

There will be times, however, when stronger measures are necessary to encourage a company to engage on our concerns.

Considerations for escalation

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

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

Forms of escalation

When more robust action is required to protect our clients' interests and shareholder value, we may make public statements, propose shareholder resolutions, call an extraordinary general meeting or intervene jointly with other institutions. These decisions are taken on a case-by-case basis, to ensure our concerns have been properly heard and dealt with.

A sample of the escalation levers and their practical application in 2022 include:

- additional meetings with more senior company management and/or non-executive directors;
- expressing concerns via company brokers and advisers;
- withholding support or voting against management and non-executive directors. We have begun escalating our dissenting vote against management on various strategic engagement programmes, including our Climate Engagement Escalation Programme (see page 106) and Sustainable Outcomes Programme (see pages 110-115);
- asking questions/circulating a statement of issues at an AGM. As part of our involvement in the ShareAction Chemicals Working Group, we asked questions at the 2022 AGMs of six European chemical companies about their decarbonisation targets/transition plans. In May 2022, we delivered a public statement of issues at a European oil and gas major's AGM on behalf of shareholders and shareholder representatives co-leading engagement with the company under Climate Action 100+;
- co-filing resolutions at an AGM. For example, we co-filed a shareholder resolution at the 2022 AGM recommending Meta's board adopt an independent board chair structure (see page 12);
- coordinating with broader investor and stakeholder networks and partnerships – see our work on ACGA (see page 98). We also consulted with the Natural Resources Defence Council (NRDC) on three occasions over P&G's sustainable pulp sourcing strategy in Canada (see page 11);
- raising concerns with regulatory authorities. We joined 65 global investors representing over $8.7 trillion of AUM to call on the EU to develop regulation to address risks related to surveillance-based online advertising enabled by algorithmic systems and content management. The DSA has now been adopted in the EU and includes a ban on the use of sensitive data for targeted ads;
- making considered public statements. For example, we contributed to Asia Research & Engagements' (ARE) March 2022 public report assessing the Paris-alignment of 32 banks throughout East and Southeast Asia;
- in certain circumstances, we may disclose our voting intention in advance of an AGM; and
- divestment of holdings. We sold out of a multinational telecommunications equipment over concerns about the company's ability to manage human rights and corruption-related risks (see page 64). We also sold out of a Brazilian beef exporter (see page 17) and EcoPro (see page 14).

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*'[61] 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

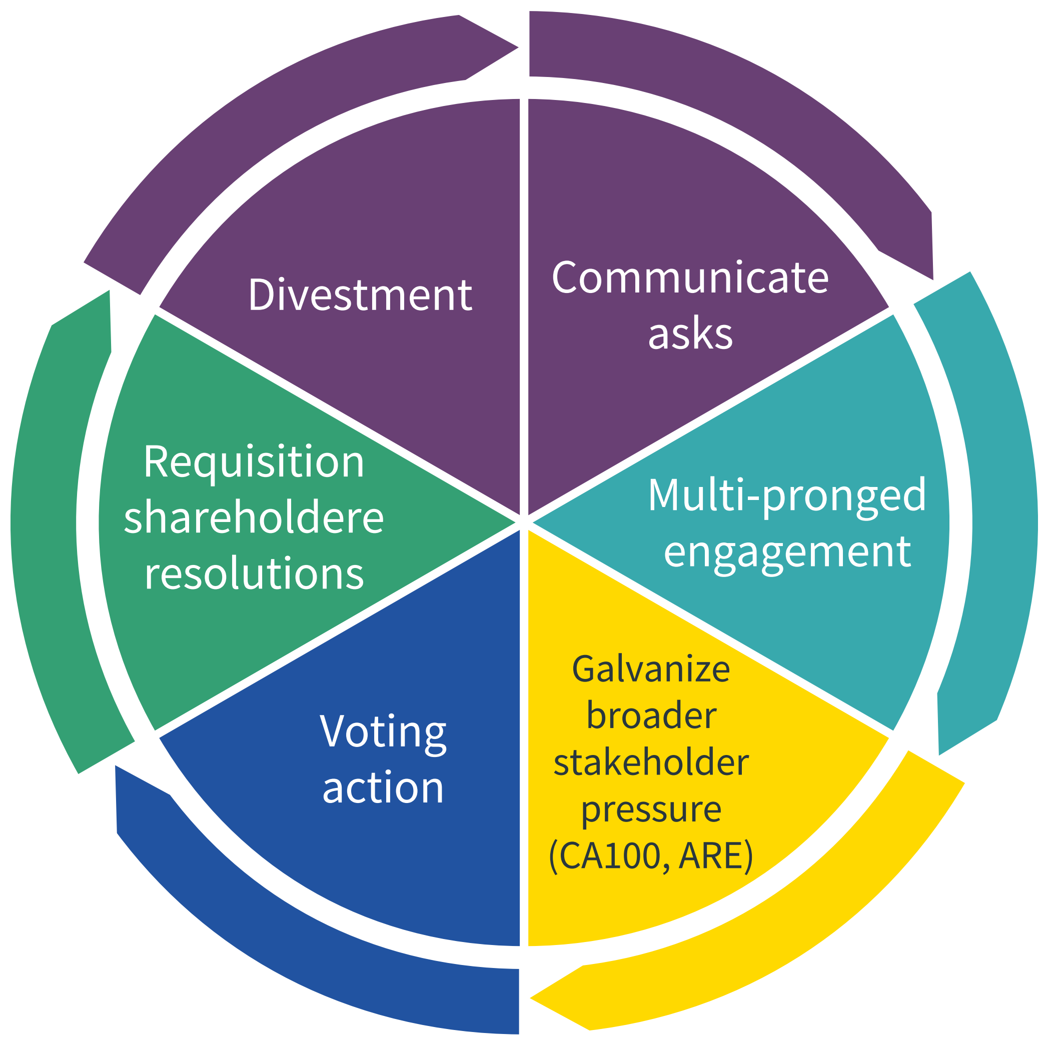
Transition plans: Integrate decarbonisation roadmap into corporate strategy, include near-term targets

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



61. Emissions Gap Report 2022 (unep.org)

ESCALATION CASE STUDY

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

G P E C

Outcome

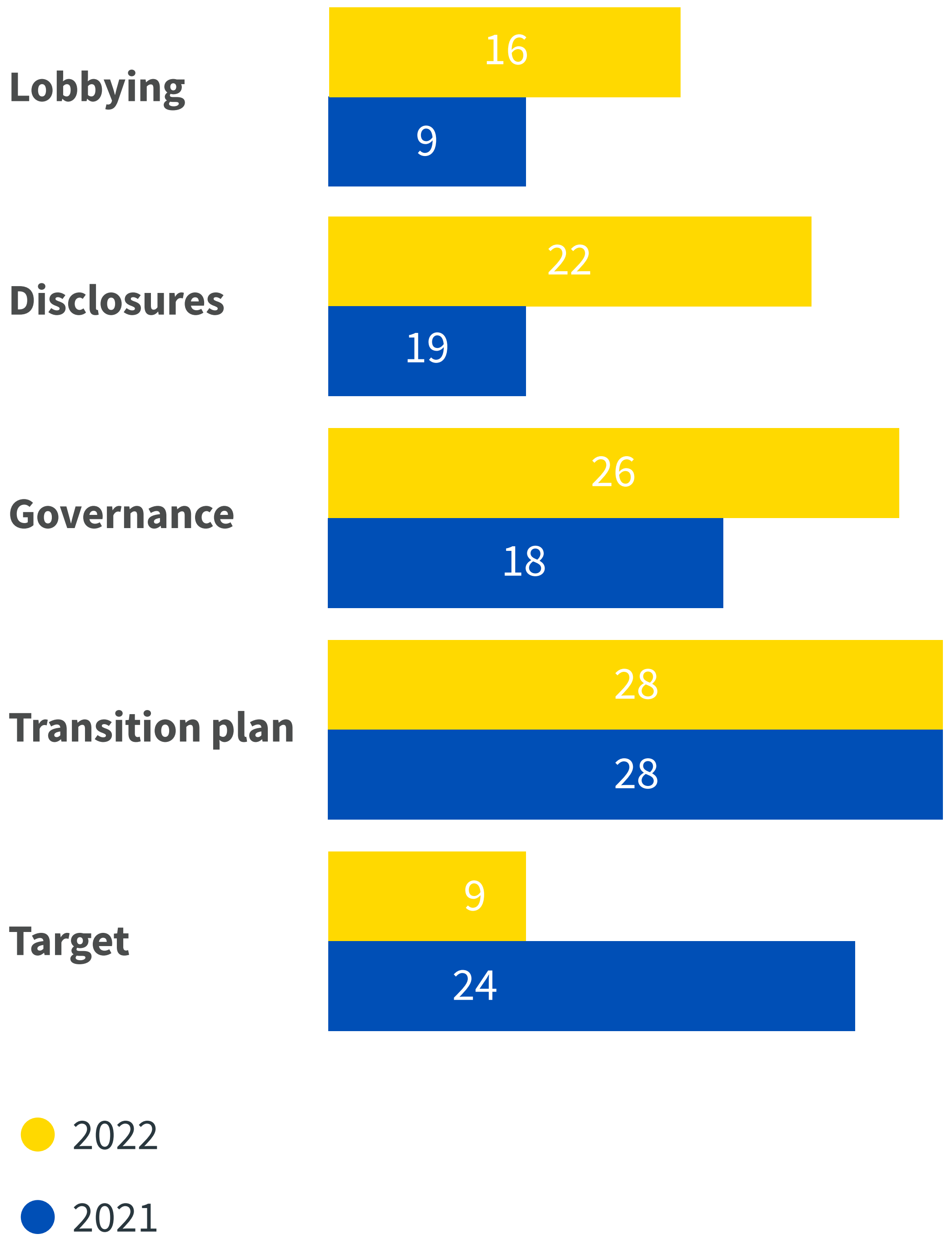
At time of writing, we have undertaken 218 engagements across the CEEP focus group. These include one-on-one meetings, conference calls, and participation in industry events and workshops.

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’[62], 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.

Recent examples of progress by focus companies can be found below.

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

ENGAGEMENT CASE STUDY

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

G P E C

Questions still remain over the variations of scope of commitments and clarity on the details of delivery. Nevertheless, these developments will form a strong foundation for us to build on in the coming year.

Valero

Valero Energy has set out 2025 global refining Scope 1 and 2 GHG emissions reduction/offset targets, with a plan to reduce and offset all of these emissions by 2035. This has been accompanied by a significant increase in growth capex to low-carbon initiatives. It has also taken on board our previous feedback about its remuneration policy by adding an energy transition modifier to the executive long-term incentive programme, tying pay with its 2025 GHG emissions reduction target and deployment of capital to low-carbon projects. It has also published its first TCFD-dedicated report, disclosing net Scope 3 intensity and agreed to participate in the CDP's annual climate change questionnaire. In 2023, key focus points include the development of a clearer roadmap for future reductions, particularly around Scope 3 targets.

Reliance Industries

In 2022 Reliance Industries, has better defined its action plan to achieve its 'Green Transformation', accompanied by a $10 billion capex commitment over three years. To demonstrate its commitment to the low-carbon transition and net-zero ambition by 2035, we would like to see robust interim targets and more detailed disclosure on the roadmaps underpinning its partnerships across the green energy value chain and giga-factories focused on low-carbon activities.

TotalEnergies

Amongst oil and gas majors, Total has the highest levels of renewable energy capacity. As of June 2022, gross renewable electricity generation-installed capacity was close to 12 gigawatts, whereas the objective is to have 100 gigawatts of gross capacity by 2030. It has also significant organic growth capex dedicated to low-carbon growth and technologies. To this end, we believe the company has a crucial role to play in accelerating decarbonisation in hard-to-abate sectors, such as aviation and transport, where the bulk of emissions abatement needs to be achieved to stay within the carbon budget. Key areas of focus include its climate lobbying approach and a clearer operational strategy for the low-carbon transition, which includes disclosing the evolution of its energy mix and targeted production volumes.

ENGAGEMENT CASE STUDY

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

G P E C

Holding companies accountable on their climate ambition

Issue

We have engaged with Rio Tinto for several years to address its Scope 3 emissions (95 per cent of its total carbon footprint) created by assets it does not own or control. These are dominated by the processing of iron ore into steel. Our views have also manifested in voting action at its AGMs, supporting various shareholder proposals on climate accounting and lobbying.

Action

In 2022, we met with the company to discuss the commitments made in 2021 to reduce operational emissions and scale low-carbon capital allocation, and request a clearer quantifiable roadmap to decarbonise its customers emissions. To provide markets with greater visibility over its Scope 3 strategy, we see greater detail on technology roadmaps underpinning its 'value chain' partnerships – including objectives, interim milestones and expected emission reductions. We also pressed for more robust action to address industry associations lobbying against climate action.

Outcome

Rio Tinto has continued to progress plans to decarbonise its largest Scope 1 and 2 emission sources, electricity consumption, aluminium smelting and alumina refining; we were pleased to see its withdrawal from the Queensland Resources Council (QRC) in April 2022. It has proven a consistent roadblock to climate action for two decades. We will continue to work jointly towards 1.5°C alignment, with a focus on scaling advocacy for policies required to achieve its targets.
For mining companies, the absence of economy-wide, Paris-aligned carbon pricing remains an obstacle to accelerating the low-carbon transition.

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 10).

ENGAGEMENT CASE STUDY

Sustainable Outcomes Programme – Social Transition Fund Engagement Programme (STEP)

G P E C

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.[63]

STEP aims to achieve this by asking all companies to make progress against four requests within three years:

1. Conduct a human rights impact assessment, evaluating and prioritising human rights risks and impacts.
2. Integrate the findings of that assessment into relevant internal functions and processes by taking appropriate actions to prevent, mitigate or remediate human rights issues.
3. Identify and engage with stakeholders whose human rights have been or may be affected directly or indirectly by their business activities.
4. Commit to paying workers a living wage and support the payment of a living wage by business partners.

These expectations are aligned with the World Benchmarking Alliance's (WBA) Social Transformation Framework, which provides a baseline set of behaviours all responsible companies should demonstrate.[64]

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.[65]

While acknowledging we are still in the early stages of this programme, there were a number of areas of progress during 2022 that have given us cause for optimism.

As of December 2022, following on from our letter to all companies held in the fund, we heard back from 90 per cent and had one-to-one meetings with 74 per cent to discuss our requests in further detail.

Companies have generally been receptive to our challenges to go further – many appear keen to improve on the areas we outlined and acknowledge the importance of doing so from a societal as well as business perspective.

As expected, we saw heightened awareness of human rights in European companies compared with other markets. Encouragingly, we saw growing awareness and interest from US companies who recognised the need to keep pace with peers.

A small handful of companies have been slightly more resistant. Typically, these companies are just beginning to consider their human rights responsibilities.

In the first year of the programme, we have escalated actions against one company to the point of divestment due to its performance on these issues.[66] As we enter the second year of the programme, we will be reviewing progress to determine which companies we will escalate actions on in 2023.

63. Annual letter to company chairpersons – Aviva Investors
64. The World Benchmarking Alliance's Social Transformation Framework is designed to measure company contributions to the Sustainable Development Goals. These expectations are aligned with international norms on human and labour rights, including the United Nations Guiding Principles on Business and Human Rights (UNGPS) and UN Global Compact (UNGC) criteria. We have selected these indicators as priorities for companies in our portfolio
65. Companies that fail to demonstrate sufficient progress against minimum asks ("Laggard") by the end of the first 12 months of the programme (2022) will be seen as failing to demonstrate sufficient commitment and therefore to responsible conduct; and will face voting sanctions in the 2023 proxy season. Persistent poor performers three years into the engagement programme (2024~) will face divestment
66. Please refer to page 64 for case study

ENGAGEMENT CASE STUDY

Sustainable Outcomes Programme – Social Transition Fund Engagement Programme (STEP) (Cont'd)

G P E C

Pushing for improvement in human rights practices

Issue

Whilst it is lauded for its role in combatting climate change, the renewable energy sector can come with a hidden social cost. Materials used can be sourced from regions with weaker human rights practice. Large infrastructure projects, whilst providing job opportunities, can also have negative impacts on local communities, including land loss, waste and pollution.

Action

We engaged with Acciona, a Spanish renewable energy developer and manager held in our STF. We held a positive meeting with company management and discussed its social strategy. Key issues included employee living wage targets, employee diversity and inclusion, forced labour risks in the supply chain and benefit sharing with local communities.

Outcome

Acciona has made good progress in a number of areas, including carrying out human rights impact assessments for new projects, changing its sourcing of polysilicon (a key material for solar panels) from China and committing to paying a living wage in its operations by 2025. Although it is too early to gauge further progress, we were encouraged by the company's request for a second call and management's appetite to learn and improve. This is particularly the case in relation to the implementation of the living wage, salient issues reporting, diversity targets and benefit sharing. We look forward to participating in Acciona engagements as part of the upcoming PRI-coordinated engagement initiative, 'Advance'.

Priorities

In 2023, we will continue to use this targeted programme in tandem with our other engagement work to drive companies to transition towards a more socially just and equitable society.

Specific areas of focus will be to move on from discussions about human rights due diligence processes and impact assessments to discussions about individual salient issues and the effectiveness of company actions. We also expect companies to be more transparent about their practices regarding living wages and dialogue with stakeholders such as unions and communities.

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.[67]

67. Please see our Global Voting Policy under the Aviva Investors Statements & Philosophy section: Policies and documents – Aviva Investors

ENGAGEMENT CASE STUDY

Sustainable Outcomes Programme – Natural Capital Transition Fund Engagement Programme (NCEP)

G P E C

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.[68]

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

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

These expectations are aligned with guidance and suggested targets from the SBTN and UN Convention on Biological Diversity COP process.

To ensure harmony across programmes, NCEP follows the same escalation process as STEP. While acknowledging we are still in the early stages, there were a number of areas of progress during the year that provided grounds for optimism.

As of December 2022, following our letter to all companies held in the fund, we heard back from 86 per cent and had one-to-one meetings with 58 per cent to discuss our requests in detail. We were pleased by this response rate and look forward to further discussions with companies we have not met in 2023.

A key challenge in 2022 was the lack of well-developed guidance to support companies in carrying out biodiversity assessments. Most companies' responses indicated they were still in the early stages in this regard and waiting for further guidance before taking any next steps. While this is understandable, we are keen to ensure companies do not use this as an excuse for inaction, when a lot of information to support them in their approaches to nature-related issues is already available.

As 2022 was the first year of the NCEP, we have not taken any escalation actions against companies that failed to respond to us or showed signs of inaction. However, now companies have had time to react to our requests, this will be one of priorities for 2023.

68. Annual letter to company chairpersons – Aviva Investors

ENGAGEMENT CASE STUDY

Sustainable Outcomes Programme – Natural Capital Transition Fund Engagement Programme (NCEP) (Cont'd)

G P E C

Leading the way to limiting deforestation practices

Issue

As a holding in the NCTF, we reached out to French luxury goods company Kering in March 2022 to put forward the three engagement asks of NCEP. In addition to engagement requests on a biodiversity assessment and SMART targets, the tailored third engagement ask requested a target to make sustainable certification the standard requirement for high-risk commodity raw materials, rather than just the "preferred" option, and extend sustainable sourcing to other raw materials in the supply chain (e.g. leather, gold).

Action

Following a detailed written response from the company, we held a call with the company in September to discuss these matters further. We had a positive first meeting, during which the company demonstrated it is leading the way in terms of its detailed environmental profit and loss statement and assessment of its impacts and dependencies on biodiversity by raw material, country and process.

Outcome

We consider the company's approach to assessing its impacts on nature so advanced that we have since decided to use it as a best practice case study with other companies held in the fund. We also gained confidence the company is further strengthening its existing nature-related targets, including extending its deforestation commitment to exclude sourcing from areas of deforestation, conversion or degradation of natural ecosystems. We felt reassured the company is leading its peers in terms of transitioning its business model towards a nature-positive future, and will re-engage with Kering next year to discuss further progress.

Priorities

In 2023, we will continue to use this targeted programme in tandem with our other engagement work to drive companies to transition towards a nature-positive future. A specific area we are looking to raise the bar on will be companies' disclosures on their biodiversity impact and dependency assessments. Considering the upcoming release of further guidance from both the SBTN and Taskforce on Nature-related Financial Disclosures (TNFD) in March 2023, we expect companies to provide more granular information throughout the year.

As with STEP, NCEP will also follow the same methods to increase the stringency of minimum sanctions to encourage companies to align their efforts.[69]

69. Please refer to the STEP section

ENGAGEMENT CASE STUDY

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

G P E C

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.[70]

CTEP will achieve this by asking all companies to make progress against two requests within three years to demonstrate their commitment to supporting the transition to a low-carbon economy:

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

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

While acknowledging we are still in the early stages, there were several areas of progress during the year that have given us cause for optimism.

As of December 2022, following on from our letter to all companies held in the fund, 29 per cent have had follow-up engagements with either the climate pillar team or wider ESG and liquid market teams.

The programme has recorded 12 material engagement wins of companies validating near-term SBT commitments and six modest engagement wins of holdings committing near-term SBTs with the SBTi. Of the 18 wins, eight involved high-priority companies.

The CTF has a goal of achieving 90 per cent near-term SBT coverage by 2030, in which the recent wins have increased the near-term target portfolio coverage from 37 per cent from the time of the CTEP launch in February 2022 to 48 per cent at the end of 2022.

The materiality of this progress is significant as SBTs are seen as the key impact measure of the CTFs. When companies set SBTs, the impacts will proliferate through their value chain, encouraging better climate practice among companies outside the scope of the funds.

70. Annual letter to company chairpersons – Aviva Investors

ENGAGEMENT CASE STUDY

Sustainable Outcomes Programme – Climate Transition Fund Engagement Programme (CTEP) (Cont'd)

G P E C

The importance of the Climate Disclosure Project

Issue

Climate disclosures help investors better understand climate-related risks faced by investee companies. We support the CDP, which conducts an annual survey on climate strategies and disclosures companies respond to and are subsequently assessed on. These support us when selecting companies for funds, in particular our Climate Transition franchise. ING, the largest bank in the Netherlands, did not respond to the 2021 survey, which created an action for us to conduct an internal review and engage as a pre-requisite for holding in our climate funds, irrespective of the positive investment view.

Action

In response, a multifaceted engagement response took place between our ESG and credit research teams with an aim for the company to respond to CDP. We wanted to better understand ING's reasoning and express why responses are beneficial for us, the broader investment community and other stakeholders. Failure by ING to respond could potentially deter investments from investors on climate grounds.

Outcome

Following our engagements, we were pleased ING submitted a 2022 CDP climate change disclosure, providing compelling grounds for it to be included within thematic climate funds.

Priorities

In 2023, we will continue to use this targeted programme in tandem with our CTF company deep dives to provide a holistic understanding of the companies and ensure confidence in investment decisions moving forward. Specific areas we will focus on in 2023 include:

1. Review outcomes of the first year of CTEP to analyse wins and fails, with the aim of understanding where and why trends in outcomes are forming and how to impact results in future.
2. Focus on priority companies to increase climate impact of the programme.
3. Begin to assess performance of companies with SBTs.

As with STEP and NCEP, CTEP will follow the same methods to increase the stringency of minimum sanctions to encourage companies to align their efforts.[71]

71. Please refer to the STEP section

5

Exercising rights and responsibilities

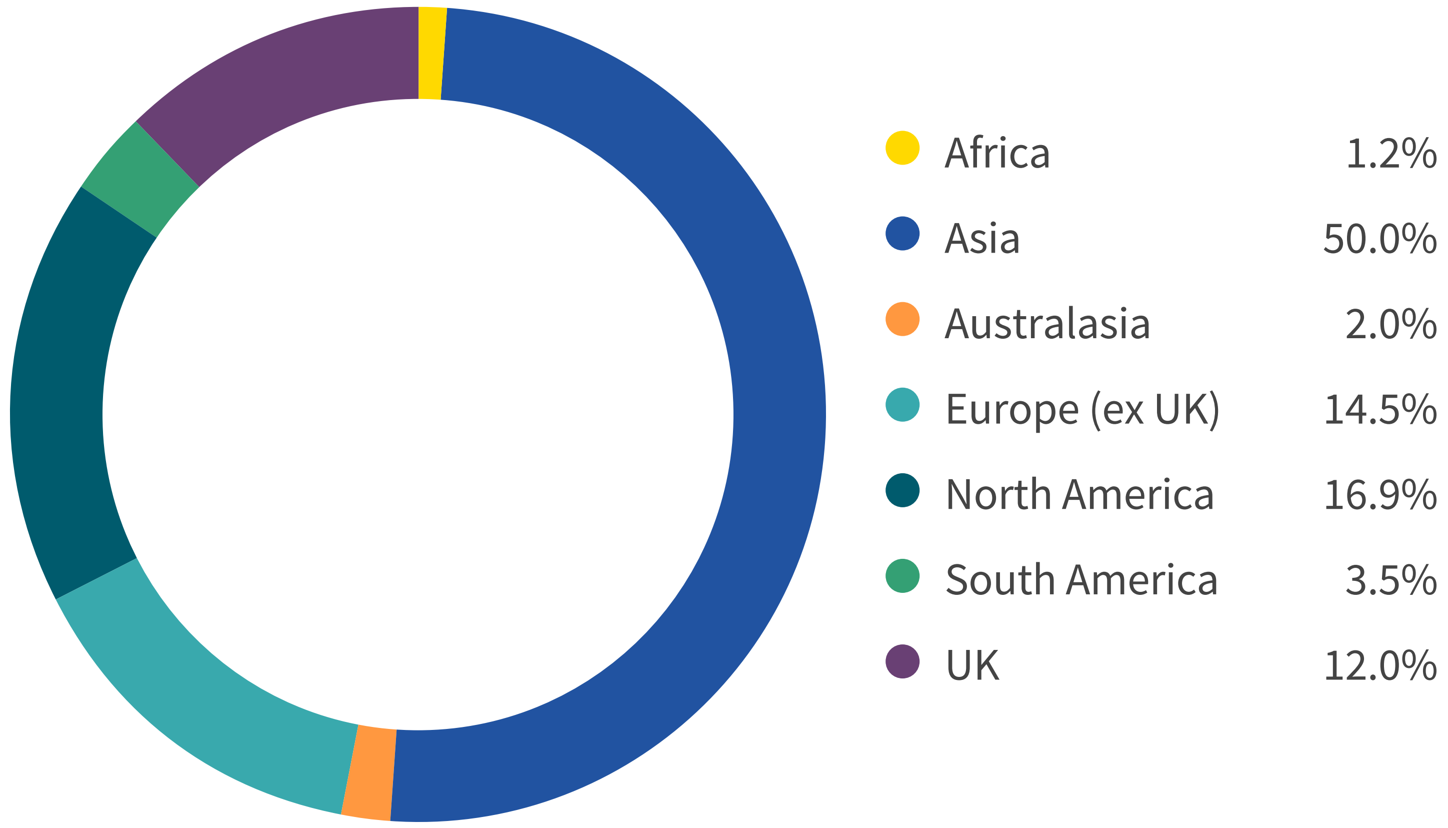
Holding management accountable through voting

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.

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[72]

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%[73]
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%[74]

Source: Aviva Investors.

72. https://shareaction.org/proxy-voting-records-challenge-asset-managers-responsible-investment-claims/
73. 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
74. 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)

Voting decisions

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

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

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

To support us in making voting decisions on thousands of meetings a year, we subscribe to research from third-party providers. These include Institutional Shareholder Services (ISS), the Investment Association's IVIS service and MSCI.

We use research for data analysis only and do not automatically follow research provider voting recommendations. We also receive recommendations from ISS based on our own policy, which we can override in consideration of other factors, including internal views, additional context provided in external research, and company explanations.

In 2022, we voted at 98 per cent of meetings we were eligible to. Unvoted meetings were primarily due to additional costs associated with legal and administrative processes in certain jurisdictions, which outweighed the benefits of casting a vote.

Given the number of companies we own in our portfolios (including index funds), we seek to prioritise engagement by size or value of holding and where it is most likely to benefit our clients. This allows us to consider additional context from the company, which occasionally results in us changing a vote. In addition, every year, we write to the large majority of the companies we hold to notify them of our voting policy (highlighting any changes), and also direct them to our voting records, where they are able to see how we have voted at their AGMs and our reasons for not supporting resolutions.

In 2022, we voted at 98 per cent of meetings we were eligible to

Voting decisions (cont'd.)

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

There will be times when, despite voting against and/or engaging with companies, our concerns have not been adequately addressed. Under these circumstances, the matter may be escalated into a more focused project of intervention aimed at securing changes to the board, management, practices or strategy. As part of our escalation process, we may ask to discuss issues with executive and/or non-executive directors, work with other institutions and investors to press for change or exercise our voting rights against the board.

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

Significant votes

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

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

The key criteria we look at in determining significant votes:

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

We provide clients with details of what we consider the most significant votes in relation to their portfolios

Voting decisions (cont'd.)

Other considerations

Clients – While we do not consult clients ahead of votes (given the significant practical challenges this will create), we are always keen to understand their views on particular issues or companies and happy to provide details of how we voted after the event.

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

There may also be occasions where voting exceptions have been specifically agreed with clients in segregated funds, but generally we retain responsibility for ensuring voting is carried out in a manner consistent with our own approach to stewardship. If a pooled fund investor asked us to vote a certain way, our voting service provider (ISS) has recently launched a new product ('Vote Preference') whereby it will be able to execute split votes in pooled funds. We have had initial discussions with ISS on this service and will follow up on the finer details, in case any clients in pooled funds ask us to vote in line with their own policy.

Stock lending – We have strict procedures in place that only allow shares to be lent out up to agreed thresholds. We also recall shares on loan for the purposes of exercising voting rights where there is good reason to do so (for example, for contentious meetings or on especially important matters) and when this is considered to be in the best interests of our clients.

Voting disclosure – In line with best practice, we make all our voting history (all our voting decisions and a summary of our engagement) publicly available on our website.

For voting disclosure, meetings are updated one month in arrears (for example, a meeting held on 1 December 2022 will be displayed on 1 January 2023). In addition to providing the key reasons of any against votes and abstentions, we provide a detailed rationale on resolutions we have 'exceptionally' supported.

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

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

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

VOTING CASE STUDY

Gender Diversity

5 GENDER EQUALITY

G P E C

Issue

The balanced representation of board directors with respect to gender is a critical business issue, essential for ensuring a deep understanding of key stakeholders, securing the best talent, promoting social inclusivity and propelling commercial success.

Action

In 2022, we continued to focus our engagement with companies where there were concerns over the lack of female representation at board and senior management. We requested they set clear timebound targets for increased board-level gender diversity and establish an associated action plan on diversity ambitions. One company we engaged with was Nintendo, a Japanese video game company. Beyond this, we continued to vote against companies where there are ongoing concerns around gender diversity. One example included voting against the board of Cyrela Brazil Realty, the largest homebuilder and real estate company in Brazil, which has no female directors on its board.

Outcome

Nintendo responded to our letter, acknowledging it can improve diversity and inclusion. The company's latest sustainability report notes the strategic importance of diversity issues. The company formalised a policy on women's careers and specific targets around the Act on Promotion of Women's Participation and Advancement in the Workplace. However, we remain concerned by weak female representation in senior management and will follow up with the company to understand how it plans to remedy this.

Positively, Cyrela Brazil Realty has appointed a female director to the board. More broadly, we will continue to push our agenda for greater board and senior management diversity.

VOTING CASE STUDY

Executive remuneration and the cost-of-living crisis

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

G P E C

Issue

Company performance has been impacted by unprecedented macroeconomic factors – first the global pandemic, promptly followed by the cost-of-living crisis. A sharp rise in our dissent on remuneration-related resolutions was observed during 2021, due to concerns over companies changing performance targets so that management were not penalised because of the pandemic being outside of their control, despite the lack of protection for other stakeholders. While examples of such measures continued in 2022, we paid additional focus to executive pay in consideration of the cost-of-living crisis.

Action

Our votes against executive pay in 2022 continued in the same upward trend as in 2021. We voted against or abstained from voting on 49 per cent of all pay-related resolutions, an increase from 47 per cent in 2021. Compared to the UK, where our dissent on remuneration items has increased marginally between 2021 and 2022 (from 33 per cent to 35 per cent), the US has seen a sharper rise, from 68 per cent to 73 per cent. Whilst there continues to be fundamental underlying issues in the US regarding higher quantum and incentive structures that can create a misalignment between pay and performance, the increase in the number of US pay reports we opposed suggests there is a lag in company responses to broader stakeholder considerations when determining executive pay.

Whilst we are proud of our record of holding boards to account, it is disappointing the issues we are raising are not being sufficiently addressed. This is also evident in the increase in occasions where we are escalating ongoing and/or material concerns through votes against remuneration committee chairs (317 votes in 2021 compared to 415 in 2022). However, in the main, executive pay resolutions continue to receive overwhelming support from shareholders and there will not be widespread change unless more proposals see higher dissent or are even voted down. Across the seven major European markets for example, there was a calibrated 4.2 per cent decrease in contested remuneration votes or resolutions that received more than 10 per cent opposition from 2021, which is not aligned with our voting activity on executive pay.

However, the cause is not lost. The reduction in aggregate dissent levels could, in some cases, be credited to effective voting and engagement taking place whereby previous problematic practices are being discontinued.

VOTING CASE STUDY

Executive remuneration and the cost-of-living crisis (cont'd.)

G P E C

Outcome

An example of such engagement took place with Associated British Foods (ABF) plc, which we were pleased to see decided not to use discretion to enable a long-term incentive award to pay out for a second year in a row. The change in practice was also likely due to a relatively large vote against (our vote included) on the remuneration report at the company's 2021 AGM.

In 2022, we saw a change in the economic climate, as the average person experienced a significant fall in real disposable income. The cost-of-living crisis has placed additional focus on what companies are doing for employees and customers. Any proposed increases to executive pay or large bonuses have been subject to additional scrutiny. For example, in 2022 we chose not to support the increase in fixed and variable pay opportunity for Greggs' CEO and CFO due to concerns regarding wage disputes in relation to subcontracted delivery staff.

We have focused more on CEO/employee pay ratios and whether the gap between CEO and average workforce pay has decreased. The number of remuneration-related resolutions we have voted against or abstained on, at least in part due to concerns over excessive pay ratios, has increased significantly, from 348 in 2021 to 456 in 2022. When engaging with companies in 2022, we focused on retaining management given the reduction in their annual pay during the pandemic, which has contributed to the increasing gap between CEOs and employee pay. We believe the focus needs to shift to employees urgently, particularly those in low-paid sectors, otherwise we are likely to see increases in employee turnover and lower productivity.

In the US, executive pay is even more out of proportion to the wider workforce. For example, a significant one-off long-term incentive award was granted to the new CEO of Amazon. While the award has a long vesting schedule, the size of the award was valued at a staggering $214.2 million. The award, in addition to other remuneration, resulted in an increase in the CEO to employee pay ratio from a double-digit figure to 6,474:1. The pay resolution received significant dissent at the AGM, with c.44 per cent of votes against this resolution. We wait to see how the company will respond.

During company engagement in H2, more companies expressed their awareness of the impact of the cost-of-living crisis on employees, especially when justifying proposed increases to executive pay. For example, certain companies have increased wages significantly and/or provided one-off payments to help employees during this period.

In summary, businesses have a responsibility to protect their most vulnerable stakeholders during periods of extreme stress and we will be encouraging more to commit to paying a 'living wage' for all workers, support vulnerable customers and show restraint on executive pay.

Furthermore, executive compensation is an important signal and barometer of corporate culture. As the workforce are increasingly being forced to trade-off between essential spending, it would be inappropriate for highly paid executives to be fully insulated from the impacts of inflation, the same case we made during COVID-19.

In 2023, our support for executive pay resolutions will continue to depend on companies' actions with all stakeholders. Where concerns remain, we will continue to escalate, holding remuneration committee chairs to account, collaborating with other investors where necessary and reflecting unaddressed issues into our broader investment considerations.

VOTING CASE STUDY

Voting for fairer wages

G P E C

Issue

Paying a fair wage helps build motivated and productive workforces and is a key retention tool in high turnover industries. We are a member of the Good Work Coalition, which is engaging with UK retailers to encourage them to become accredited Living Wage employers. This is a public commitment that all direct and indirect staff earn a wage sufficient to live on. Retailers have a substantial proportion of indirect labour. This is an even more prominent issue given the cost-of-living crisis.

Action

Throughout 2022, we engaged with Sainsbury's with the aim for the company to obtain Living Wage accreditation. Whilst the company stated most of its contractors were already paid at, or above, the living wage, it did not evidence this. Sainsbury's has increased rates for directly employed staff outside London but did not commit to match the rate for third-party contractors. As such, at the company's AGM, we supported the shareholder resolution on the Living Wage accreditation.

Outcome

Whilst the resolution did not get sufficient shareholder support, Sainsbury's has further increased wages for direct workers. We continue to encourage all workers to earn the real living wage, and match the rate for third-party contractors, instead of encouraging suppliers to pay the living wage.

VOTING CASE STUDY

Upholding better nutritional standards

G P E C

Issue

There are a wide range of independent benchmarks to assess the healthiness of products. As companies also use their own definitions, consumers have challenges understanding the nutritional value of products and their impact on health. Unilever historically used its own definition of products having "high nutritional standards". We have maintained multi-year dialogue with Unilever across a range of ESG issues, as well collaboratively with other investors.

Action

ShareAction led a coalition of investors specifically on disclosing against government-endorsed health models. The group also asked Unilever to commit to significantly grow its sales of healthy foods. Escalating these requests, a shareholder resolution was co-filed in early 2022. Whilst we did not co-file the resolution, we engaged directly with Unilever on our expectations around enhanced disclosures and targets on the company's nutritional profile. We posed questions concerning Unilever's actual strategy and internal standards for nutrition and pushed for healthy food targets.

Outcome

In March 2022, Unilever pledged to publish independent benchmark for its food brands, in line with the coalition's asks. Following this and the withdrawal of the ShareAction proposal, we met with Unilever to discuss its pledge and encourage its inclusion in compensation metrics. Unilever committed to start reporting on the nutritional performance of its product portfolio in major markets and set targets on healthy nutrition[75]. The company said targets will not initially be linked to remuneration, but may be incorporated in future. Unilever's move provides greater clarity to stakeholders on its impact on public health, which we hope will stimulate progress in the quality of health reporting across the sector.

75. unileve-portfolio- (unilever.com)

VOTING CASE STUDY

The power of voting to improve deforestation issues

G P E C

Issue

The significant fall in global wildlife population poses a serious concern for our ecosystems. We have engaged with companies on deforestation for many years and found value in leveraging insights from expert stakeholders. Our approach is also focused on collaborative initiatives with other investors to advance the pace of progress. We have also supported shareholder resolutions asking for better reporting on deforestation.

Action

In 2022, we strengthened our voting policy by making deforestation a more formal element. (Please see our Global Voting Policy: Policies and documents – Aviva Investors). We now vote against targeted management resolutions at companies with significant exposure to commodity-driven deforestation risk over their lack of robust policies and targets on reducing deforestation. In particular, the poorest performers identified in Global Canopy's Forest 500 ranking of companies exposed to forest-risk commodities (beef and leather, soy, palm oil, timber and pulp and paper) in their supply chain. Agricultural conversion for these commodities drives over two-thirds of tropical deforestation.

Outcome

By the end of 2022, we had voted against 83 companies on this basis and their progress will be kept under review. These names may be the most exposed to tropical deforestation risk, but this also means they have the greatest influence in the forest-risk commodity supply chains they are involved in. If they act on deforestation and associated human rights abuses, they have the greatest potential to drive change.

VOTING CASE STUDY

Toshiba

G P E C

Issue

In March 2022, Toshiba sought shareholder approval to proceed with the examination of a strategic reorganisation through a two-way split of the company. We had concerns over the proposed plan because the company had not disclosed sufficient information to justify the risks. Furthermore, we had concerns in current management's ability to implement the plan, given the interim CEO was yet to receive a vote of confidence from stakeholders.

Action

We informed Toshiba of our concerns and our intended vote decisions ahead of the General Meeting. We engaged, hoping it could provide context around the sudden departure of former management members and elaborate on the benefits of the strategic reorganisation.

Outcome

Toshiba did not provide sufficient detail to our requests. The proposal to proceed with the strategic reorganisation did not receive sufficient shareholder support. Toshiba is exploring multiple options in terms of continuing as a firm. Subsequent to the General Meeting, two directors were appointed to the Toshiba board, alongside a new independent board chair. We supported these appointments. Given Toshiba's poor track record on corporate governance, the appointment of an independent chair will help the company evaluate the pros and cons of strategic alternatives and should improve transparency of the evaluation process. The other appointments should strengthen the alignment of interests between shareholders and management and they too will be valuable in the evaluation of the various strategic alternatives.

6

Afterword – Looking ahead to 2023

From micro to macro ESG engagement

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.

Tackling the cost-of-living crisis

Companies may need to make difficult decisions on costs, pricing, budgets, financing and shareholder distributions after being confronted with multi-decade highs in inflation, rising borrowing costs and a deteriorating trading environment.

We expect management to explore all opportunities to deliver cost efficiencies, delay non-essential spending, and leverage their pricing power where appropriate. However, this must not come at the expense of the most vulnerable stakeholders within a corporate's business model and value chain. Multi-stakeholder management is not a zero-sum game; we will look unfavourably on any attempts to protect profitability and shareholder returns through the disproportionate and excessive transfer of costs to employees, suppliers and customers.

Furthermore, businesses have a responsibility to protect their most vulnerable stakeholders during this period of extreme stress. We encourage boards to consider the following actions:

- **Pay a living wage**: Companies should commit to paying a "living wage" for all workers, provide secure contracts, predictable hours and appropriate holiday and sick pay. Companies should also seek to mandate comparable obligations on suppliers and contractors.
- **Offer financial support:** Companies should consider providing additional financial support to their most vulnerable workers, including one-off cash payments or other temporary benefits.
- **Engage with trade unions:** Companies must engage with trade unions in good faith and seek a balanced outcome recognising the impact of high inflation on real wages, and the physical and mental toll the pandemic has had on frontline workers. Companies should disclose policies for engaging with unions and report on outcomes and resolutions.
- **Uphold human rights:** Companies must commit to upholding human rights, undertake robust due diligence, establish appropriate whistleblowing and grievance mechanisms, and provide regular reporting on their efforts to eradicate modern slavery. As part of these steps, we expect companies operating in high-impact sectors to implement the Employer Pays Principle to ensure ethical or responsible recruitment in their own businesses and supply chains.
- **Show responsibility on executive pay:** As the workforce are increasingly being forced to make trade-offs to afford essential spending, it would be inappropriate for highly paid executives to be fully insulated from the impacts of inflation. We expect any increases to executive base salaries to be below the average for the wider workforce.
- **Support vulnerable customers:** Companies should review their approach to identifying vulnerable and financially stressed customers, exploring opportunities to adapt their products, services and pricing models to provide financial support to those in need. Companies should also consider developing strategic relationships with charitable initiatives to help build greater financial resilience in the communities they serve.

From micro to macro ESG engagement (cont'd.)

Transitioning to a low-carbon economy

We expect all companies to develop and publish robust and financially viable climate transition plans that will support the decarbonisation of economies in a socially just and inclusive manner.

We are strong supporters of the UK Transition Plan Taskforce Disclosure Framework and expect its recommendations to be integrated into the International Sustainability Standards Board (ISSB) guidance. We encourage companies to pay particular attention to the following components of the framework:

- **Business models**: Describe key impacts of the transition plan on products and services, asset acquisitions and disposals, organisational design, resource allocation, and operational and capital expenditures.
- **Financial planning**: Estimate the impact of the plan on the financial position of the company, including future revenues, costs, cashflows and investment returns. The transition plan should be fully costed and accompanied by sources of funding to implement the strategy.
- **Incentives and remuneration**: Integrate climate targets and metrics into variable incentive arrangements for executives and senior management. The percentage of total compensation linked to climate targets should reflect the extent to which transition plans will fundamentally reshape the business model, growth profile and investment thesis of the company.
- **Engagement with value chain**: Develop strategies to engage and incentivise customers, suppliers and partners to collectively drive the decarbonisation of the entire value chain. Companies should set Scope 3 emissions reduction targets and monitor and report on the success of upstream and downstream initiatives.
- **Engagement with governments**: Engage with governments, regulators, public sector organisations and civil society to help create a coherent, holistic and effective transition pathway. Companies should seek to evidence alignment between government engagement activities and corporate climate commitments, covering direct lobbying as well as indirect influence through trade associations.

> We expect all companies to develop and publish robust and financially viable climate transition plans that will support the decarbonisation of economies in a socially just and inclusive manner.

Reversing nature loss

We expect all companies to begin reporting within a reasonable timeframe against the Taskforce on Nature-related Financial Disclosures (TNFD) framework, due to be finalised in 2023.
In preparation for reporting against the framework, companies should undertake the TNFD recommended business model assessment process, referred to as LEAP. The framework has four core components:

- **Locate interfaces with nature**: Companies should begin by mapping the location of individual assets, business processes, value chains and downstream products to each ecosystem, to enable the appropriate prioritisation of issues and areas for assessment.
- **Evaluate dependencies and impacts**: Companies must identify and quantify all ecosystem services that support the generation of revenues, cashflows and enterprise value for each business process and location and measure the impact the business is having on nature.
- **Assess risks and opportunities**: Companies should determine the risks and opportunities associated with its dependencies and impact on nature, outline existing risk mitigation and identify additional potential actions.
- **Prepare to respond**: Companies should build on the outcomes of the previous steps to define a comprehensive biodiversity strategy. This should include the setting of short-, medium- and long-term targets and action plans to reduce and reverse the impacts of the business on nature. Companies should then determine the scope and substance of financially relevant public disclosures to be made against the TNFD framework.

We acknowledge the magnitude of these challenges and will evaluate companies on the strength of their commitments and ability to demonstrate progress over time.

Mirza Baig
Global Head of ESG Investments

Steve Waygood
Chief Responsible Investment Officer

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

Colin Purdie
Chief Investment Officer, Liquid Markets

Daniel McHugh
Chief Investment Officer, Real Assets

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

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

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

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)

7

Appendix

Appendix: Collaborative list

Founders

- Founding signatory of the Climate Disclosure Project & first asset manager to formally integrate corporate responsibility to voting policy
- Founding member of the Association for Sustainable and Responsible Investment Asia
- Founding signatory of ClimateWise
- Founder of Corporate Human Rights Benchmark (CHRB)
- Founder of Corporate Sustainability Reporting Coalition
- Founder of Digital Inclusion Benchmark
- Founding signatory to the Farm Animal Investment Risk & Return (FAIRR)
- Founding signatories of Global Real Estate Sustainability Benchmark (GRESB)
- Founding partner of Oxfam 365 Alliance Coalition with call to action at Rio+20 Coalition
- Founding signatory to the Powering Past Coal Alliance Finance Principles
- Founding partner of Project Everyone
- Founder of the Sustainable Stock Exchange Initiative
- Founding member/sponsor of TeamPride
- Founding member of the Trinity Challenge (Data-driven solutions to global health issues)
- Founding signatory of the UN Principles for Responsible Investment (UN PRI)
- Founding member of the Valuing Water Initiative (2022)
- Founding member of the World Benchmark Alliance (WBA)

Members

- Asked to join European Commission's High-Level Expert Group (HLEG) on Sustainable Finance
- Asked to join the FSB Taskforce on climate-related financial disclosures
- Aviva Investors became a supporting member of the International Cooperative and Mutual Insurance Federation (ICMIF)
- Aviva Investors joined the Green Finance Taskforce (a govt initiative to push green finance in the UK and implement recommendations from the TCFD)
- Aviva is first insurance company to join UNFCCC Climate Neutral Now Climate Change (IIGCC)
- EM Investor Alliance (2022) European Sustainable Investment Forum (Eurosif)
- FAIRR – EU Taxonomy for Sustainable Finance Letter to EU Common Agricultural Policy
- Global Impact Investing Network
- Global Investors Collaboration Services (GIGN)
- Global Investors for Sustainable Development
- Global Real Estate Sustainability Benchmark (GRESB)
- Institute of Chartered Accountants in England and Wales (on ICAEW's Financial Reporting Committee)
- Investor Forum Board
- Investors Policy Dialogue on Deforestation (IPDD)
- 30% Club
- Aldersgate Group (2022)
- Asian Corporate Governance Association (ACGA)
- Association of British Insurers (ABI)
- Better Building Partnership (BBP)
- Finance for Biodiversity
- Global Financial Alliance for Net Zero (GFANZ)
- Net Zero Asset Managers Initiative (NZAM)
- PLSA (previously: National Association of Pension Funds)
- The European Fund and Asset Management Association (EFAMA)
- The Institutional Investors Group
- The International Corporate Governance Network (ICGN)
- The Investor Forum Investor Group on Climate Change
- The UK Sustainable Investment and Finance Association (UKSIF)
- The World Business Council for Sustainable Development
- Partnership for Biodiversity Accounting Financials (2022)
- Plastics Solutions Investor Alliance
- Sustainability Accounting Standards Board (SASB)
- Taskforce on Nature-related Financial Disclosures
- The Investment Association Investor Action on Antimicrobial Resistance, FAIRR
- The Investment Association Remuneration and Share Schemes Committee
- UN-Convened Net-Zero Asset Owner Alliance

All collaborations and awards current unless otherwise disclosed.

Appendix: Collaborative list (cont'd.)

Signatories

- 2012 FRC Stewardship Code
- Access to Nutrition Initiative
- Artic refuge / ANWR Investors letter urging oil and gas companies not to drill in Arctic refuge
- Business for Nature call to action
- Business for Nature Pledge Business in the Community Ireland, Low Carbon Pledge
- CCLA Investor letter on modern slavery
- Cerrado Manifesto (deforestation), FAIRR
- Change the Race Ratio campaign
- Climate Change Commitment (Launched by Better Building Partnership)
- FAIRR – working conditions
- Finance for Biodiversity Pledge
- IIGCC investor letter on EU net zero emissions target
- Interfaith Center on Corporate Responsibility support for paid sick leave
- Investor Initiative for Responsible Care – UniGlobal
- Montreal Carbon Pledge
- Pensions and Lifetime Savings Association Marine plastics letters
- Powering Past Coal Alliance Finance Principles
- Race at Work Charter
- ShareAction – Chemical decarbonisation initiative
- Social Mobility Pledge
- Terra Carta
- The UK Social Impact Implementation Task Force signatory
- Transition Pathway Initiative
- UN Environment Programme Finance Initiative (UNEP FI)
- UN Global Compact
- UNGPs – UN Guiding Principles on Business and Human Rights
- UN PRI Investor Statement on Corporate Action on Deforestation
- UN PRI Investor Statement on Palm Oil
- UN PRI on Advance
- UN Principles for Sustainable Insurance
- UNEP FI Sustainable Blue Economy
- Votes against slavery (VAS) – Rathbones
- Women in Finance Charter

All collaborations and awards current unless otherwise disclosed.

Collaboration/event

- Access to Medicine Index
- Access to Nutrition Index – collaborative initiative on the responsible marketing of breastmilk substitutes (BMS)
- Asia Research & Engagement (ARE) – collaborative initiative 'Energy Transition Platform' and 'ReEngage'
- Aviva and WWF climate-focused collaboration 'Transition Plans for a Net Zero Future'
- Aviva calls for pension funds to be net-zero by 2050
- Aviva was the first carbon-neutral international insurer
- Became a partner of British Red Cross
- Business benchmark for farm animal welfare
- Business for Nature
- Candriam – Collaborative Initiative on Recognition Technology (FRT)
- Carbon Tracker Initiative
- CEO speaks at UN General Assembly on Sustainable Finance
- Chair of the Investment Association Sustainability and Responsible Investment Committee Natural Capital Declaration
- Climate Action 100+
- Collaboration with Tomorrow's Company
- Collaborative Satellite-based engagement towards zero deforestation
- Collaborative Sovereign Engagement on Climate Change (2022)
- Forum for the Future (2022)
- G7 and the World Benchmarking Alliance's Sustainable Supply Chain Initiative
- Global Initiative for Sustainability Ratings (GISR)
- Grantham Institute
- ICCR – Collaborative initiative on Ranking Digital Rights (RDR)
- Interfaith Centre on Corporate Responsibility (ICCR) – collaborative initiative
- Investor Coalition on Food Policy
- Investor working group on a deforestation-free automotive industry (2022)
- Investors Policy Dialogue on Deforestation (IPDD)
- Launched Roadmap for Sustainable Capital Markets & Sustainable Markets Manifesto
- Partnership for Biodiversity Accounting Financials (PBAF)
- Pledge at the UN summit to 'balance of economic development, the welfare of people and a sound environment, by incorporating these considerations into business activities'
- Shareholder Voting Working Group (SVWG)
- Smith School Stranded Assets Programme, University of Oxford

Appendix: Collaborative list (cont'd.)

Collaboration/event (cont'd)

- Strengthening use of an "Antimicrobial Resistance" (AMR) lens on investment
- The International Integrated Reporting Council
- The Investment Association Remuneration and Share Schemes Committee
- The Prince's Accounting for Sustainability Project
- UN Conference on Trade and Development (UNCTAD) event
- Valuing Water Finance Initiative (Ceres)
- Working conditions/Just transition in the meat industry (FAIRR)
- World Benchmarking Alliance – collaborative initiative related to Digital Inclusion Benchmark CIC
- World Benchmarking Alliance (WBA) – G7 Sustainable Supply Chain Initiative

Awards

- Moving Financial Markets (Large Organisations) (2022)
- Insurance Asset Risk's UK & Europe Awards 2022 – 'Stewardship initiative of the Year' (2022)
- Insurance Asset Risk's UK & Europe Awards 2022 – 'Climate Mitigation Investment Initiative of the Year' (2022)
- Voted a leader on climate voting by Majority Action (2022)
- Voted in the Top 10 of asset managers for voting by Share Action (2022)
- Corporate Adviser Awards for Best ESG Asset Manager (2022)
- European Equity Fund won in the Best Environmental / Climate Change Fund (2021)
- Investment Week Sustainable & ESG Investment Awards – AIQ: The Climate Edition was awarded the Best Sustainable & ESG Thought Leadership Paper (2021)
- Investment Week Sustainable & ESG Investment Awards – Aviva Investors' Climate Transition European Equity Fund won in the Best Environmental / Climate Change Fund (2021)
- Irish Pension awards – ESG Provider of the Year (2021)
- Insurance Asset Risk's 'EMEA Awards 2021' – 'Stewardship Initiative of The Year'
- Corporate Adviser Awards for Best ESG Asset Manager 2021
- Ranked A by ShareAction on Responsible Investment
- Stewardship Disclosure (Asset Manager) award category at the ICGN Global Stewardship Awards (Nov 2019)
- ESG Manager of the Year, Global Investors, Group Investment Excellence Awards (July 2019)
- UN Foundation Award for Business Leadership on the Sustainable Development Goals (Oct 2018)
- UN Momentum for Change Award in 2017 for our commitment to reducing our environmental impact, and for helping to write the world's first corporate governance code and the UN Principles for Responsible Investment (Oct 2017)
- Responsible Investor Award for Innovation & Industry Leadership (June 2017)

All collaborations and awards current unless otherwise disclosed.

Important information

392085

Contact

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

www.avivainvestors.com

AVIVA INVESTORS