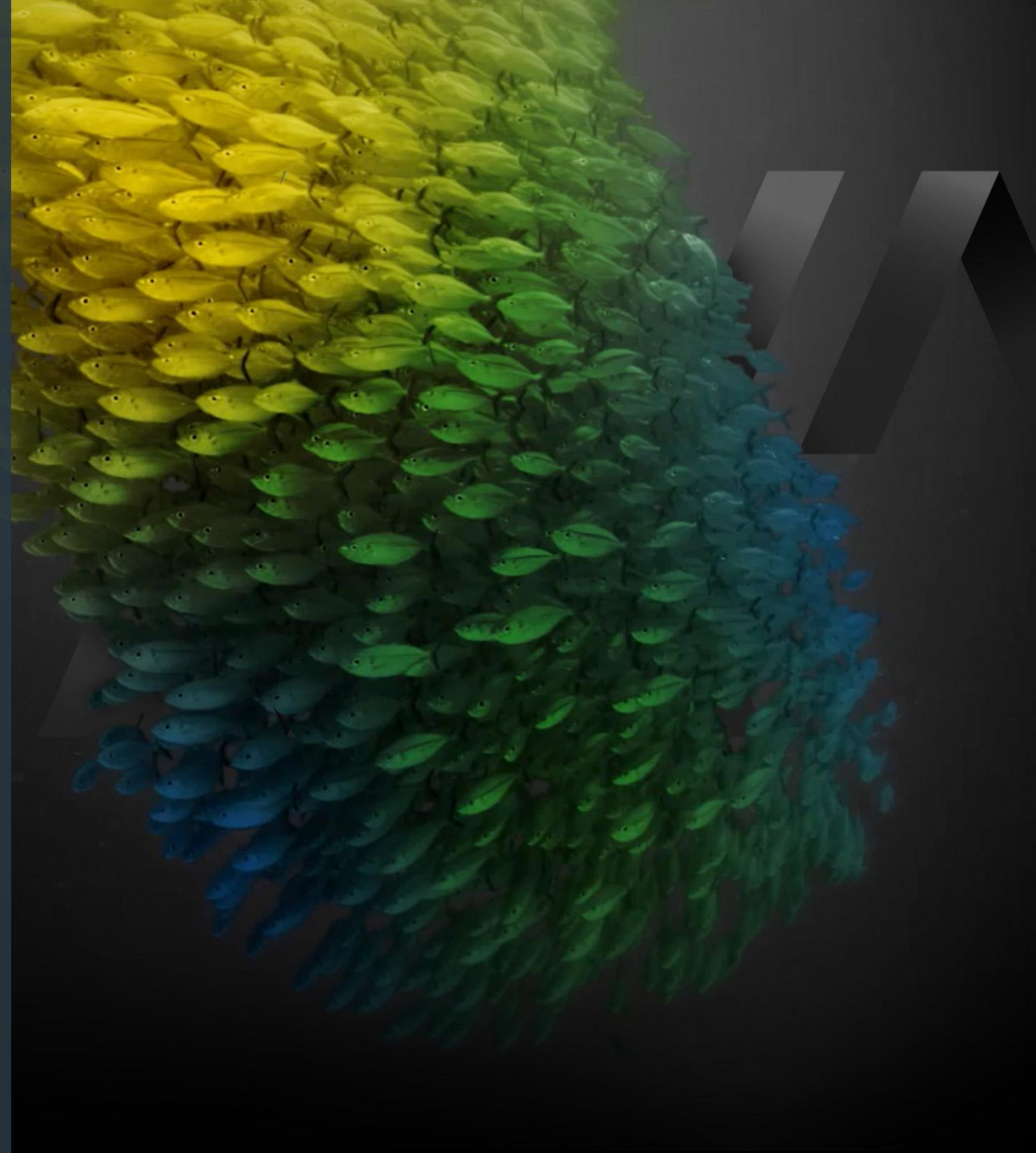


# Aviva Investors Sustainable Transition Franchise - Equity Exclusions Policy

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**FEBRUARY 2023**



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# Summary of the Sustainable Transition Franchise Equity Exclusions Policy

## **This document sets out the Equity Exclusions Policy for Aviva Investors Sustainable Transition franchise**

Our Sustainable Transition franchise aims to support three key sustainable outcomes – relating to People, Climate and Earth (or Natural Capital). These represent what we believe to be the biggest sustainability challenges in the world today, namely social inequality, climate change and biodiversity loss.

Each fund in the franchise follows a common investment philosophy to avoid significant harm, invest in solutions and back the transition aligned to its particular theme.

The exclusions policy that we apply to the equity funds in the franchise is designed to avoid significant harm to the three key sustainable outcomes that we support.

The policy comprises exclusions relating to People, Climate and Earth, and certain funds will have enhanced exclusions relating to the particular outcome that they target where we deem that is necessary to allow the fund to meet its own objectives.

The following pages set out the exclusions that apply to the whole equity franchise and any additional exclusions applying to individual funds. The policy and appendices include detail on the excluded activities and relevant thresholds (e.g. revenue).

## **The Sustainable Transition Equity Exclusions Policy comprises three levels:**

- 1) Our firm-wide Baseline Exclusions Policy<sup>1</sup>
- 2) A set of exclusions that apply across all equity funds in the Sustainable Transition franchise focussing on nature, climate and social related issues.
- 3) Any exclusions specific to an individual Fund

<sup>1</sup>Aviva Investors Enhanced ESG Baseline Exclusions Policy: <https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/>

# Scope and application of the policy

## Scope

This exclusions policy only applies to equity funds within the Sustainable Transition franchise.

Level 1 and 2 exclusions apply to all equity funds in the Sustainable Transition franchise. This includes:

- Climate Transition Global Equities Fund
- Climate Transition European Equities Fund
- Natural Capital Transition Global Equities Fund
- Social Transition Global Equities Fund

Level 3 exclusions are applied as follows:

- Natural Capital-related level 3 exclusions apply to the Natural Capital Transition Global Equities Fund
- Social-related level 3 exclusions apply to the Social Transition Global Equities Fund

## Application

Exclusions are generally applied by prohibiting investment in any financial instrument where the issuer is involved in Excluded Activities (e.g. controversies or violations of principles) or, where relevant, derives income above the specified revenue thresholds from Excluded Activities (such issuers being referred to as “Excluded Issuers”). This may include subsidiaries of the Excluded Issuers.

We also prohibit indirect exposure via the use of derivatives to these Excluded Issuers, subject to certain exceptions<sup>1</sup>.

Please note: The application of Sustainable Transition Franchise Equity Exclusions Policy is reliant on: (i) data provided by third party data providers; and (ii) AI and third-party proprietary models. Data from third party data providers may be incomplete, inaccurate or unavailable. Where we seek to rely on proprietary models these may similarly rely on information which is incomplete, inaccurate or unavailable. As a result, there is a risk that AI may, from time to time, incorrectly assess a security, issuer or index. There is also a risk that AI, or the third-party data providers on which we may depend, may not interpret or apply the relevant ESG characteristics correctly. AI does not warrant the fairness, accuracy or completeness of any data used, or assessment made, in connection with this policy.

## Monitoring and divestment

The list of issuers excluded by these screens is refreshed every 6 months. Following this refresh, any divestment from newly identified Excluded Issuers shall normally be completed within 90 days.

On the introduction of any new or amended screens (e.g. changes to the revenue thresholds), any divestment from newly identified Excluded Issuers shall be completed as soon as reasonably practicable.

<sup>1</sup>For example, exposure to a broad-based financial index in which the company is a constituent, or where a fund invests in other underlying funds, managed by third parties, which may not operate equivalent baseline exclusions.

# Three levels of equity exclusions

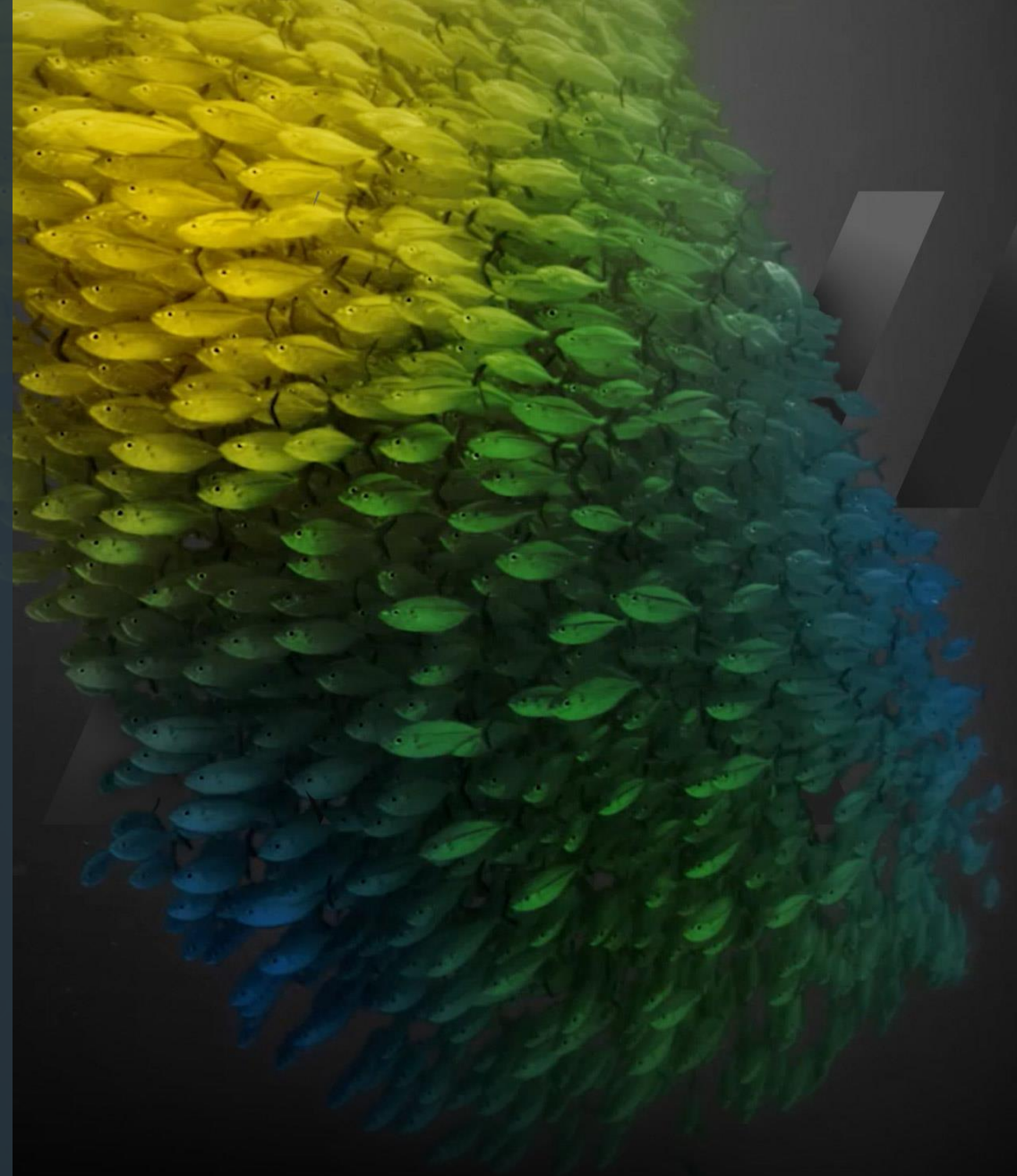
LEVEL 1	LEVEL 2	LEVEL 3 <sup>4</sup>
Firm-wide Baseline Exclusions Policy <sup>1</sup>	Sustainable Transition franchise	Social Transition
Controversial weapons (baseline)	Fossil fuels (enhanced)	Global norms controversies <sup>3</sup>
Civilian firearms ≥5% manufacture	ESG controversies <sup>3</sup>	Predatory lending ≥5% operations
Fossil fuels (baseline) <sup>2</sup> Thermal coal: ≥5% power gen / mining Arctic oil: ≥10% production / extraction Oil sands: ≥10% production / extraction		Controversial weapons (enhanced) and conventional weapons
Tobacco ≥0% production ≥25% distribution or sale		Natural Capital Transition
UN Global Compact violations Verified by internal assessment		Environmental controversies <sup>3</sup>
		Intensive agriculture ≥10% operations
		Pesticides ≥10% production

<sup>1</sup>Aviva Investors Enhanced ESG Baseline Exclusions Policy: <https://www.avivainvestors.com/en-gb/about/responsible-investment/policies-and-documents/>. Further detail is available at this link. Please note this policy went live in July 2022 and divestments are expected to be concluded by the end of 2022. <sup>2</sup>Includes an exception process for companies that have set an SBT. <sup>3</sup>As defined by MSCI's ESG controversy scoring methodology. <sup>4</sup>Each category of level 3 exclusions applies only to an equity fund in the franchise with the relevant theme as specified in the name of the category



# Appendices

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# Appendix A – Level 2 Exclusions (1 of 2)

Activity	Description	Threshold*
Thermal coal	Companies that derive revenue from mining or extraction of thermal coal and/or its sale to external parties or thermal coal power generation	0%
Thermal coal reserves	Companies with any Thermal Coal Reserves (metric tonnes)	>0
Arctic oil and gas production	Revenue from offshore or onshore Arctic Gas and Oil Production. The definition of Arctic is geographical and includes production activities north of the 66.5 latitude	0%
Natural gas power generation	Revenue from natural gas power generation	≥ 15%
Liquid fuel power generation	Revenue from liquid fuel power generation	≥ 10%
Unconventional oil and gas production	Revenue derived from unconventional oil and gas production	0%
Shale oil and gas reserves	Companies with any proved reserves (mmboe) of shale gas and/or shale oil owned by a company. This also includes tight gas, coal bed methane and coal seam gas.	>0
Oil shale & tar sands reserves	Companies with any proved reserves (mmboe) of oil shale & tar sands owned by a company	>0
Conventional oil and gas production	Revenue derived from conventional oil and gas production	≥ 10%

\* In the case of revenue - maximum estimated percentage of revenue

**Note regarding the fossil fuel screens:** Exclusions are identified using third party data, in some instances Aviva Investors will review a company's approved science based target and long term strategy to consider an exemption.

# Appendix A – Level 2 Exclusions (2 of 2)

Activity	Description	Threshold*
Unconventional oil and gas reserves	Companies with any unconventional O&G Reserves (mmboe)	>0
Oil and gas reserves	Companies with O&G Reserves (mmboe)	≥ 1000
Oil and gas extraction and production	Revenue from O&G Extraction and Production	≥ 10%
Oil and gas distribution and retail, equipment and services, petrochemicals, pipelines and transportation, refining and trading	Revenue from O&G Distribution and Retail, Equipment and Services, Petrochemicals, Pipelines and Transportation, Refining and Trading	≥ 75%
ESG controversies <sup>1</sup>	Ongoing very severe ESG controversy relating to violations of national or international conventions and commonly accepted global norms (such as UN Global Compact), implicating a company directly through its actions, products, or operations	Red flag

\* In the case of revenue - maximum estimated percentage of revenue

**Note regarding the fossil fuel screens:** Exclusions are identified using third party data, in some instances Aviva Investors will review a company's approved science based target and long term strategy to consider an exemption.

<sup>1</sup>As defined by MSCI's ESG controversy scoring methodology



# Appendix B – Level 3 Social Exclusions

Activity	Description	Threshold*
Global norms controversies <sup>1</sup>	Controversies relating to UN Global Compact Principle 10 and companies involved in severe controversies relating to the UN Guiding Principles or the ILO Standards (labour compliance broad and core)	Red or Orange flag <sup>2</sup>
Predatory lending	Companies that derive revenue from products and services linked to controversial lending practice	≥ 5%
Manufacturing of cluster munitions and landmines	Companies that derive revenue from the manufacturing or production of cluster munitions or landmines, including components, systems and support services	0%
Manufacturing of civilian firearms and nuclear weapons	Companies that derive revenue from the manufacturing of civilian firearms or nuclear weapons and related systems and components	0%
Conventional weapons	Companies that derive revenue from weapons systems, components and supports systems and services or weapons-related support systems and services. Conventional weapons are weapons of warfare which are not nuclear, chemical or biological in nature.	≥ 10%
Conventional weapons	Subsidiaries of (>50% owned by), or companies that own 20% to 49.99% of, companies that derive revenue from weapons systems, components and supports systems and services or weapons-related support systems and services. Conventional weapons are weapons of warfare which are not nuclear, chemical or biological in nature.	0%

<sup>1</sup> As defined by MSCI's ESG controversy scoring methodology

<sup>2</sup> Orange flags only consider ongoing cases initiated after January 2019

\* In the case of revenue - maximum estimated percentage of revenue

# Appendix C – Level 3 Natural Capital Exclusions

Activity	Description	Threshold*
Environmental controversies <sup>1</sup>	Controversies related to land use and biodiversity, toxic spills and releases, energy and climate change, water management, operational non-hazardous waste, and management of supply chain environmental impact	Red or Orange flag
Intensive agriculture	Revenue from intensive agriculture	≥ 10%
Pesticide production	Revenue from the production of pesticides	≥ 10%

\* In the case of revenue - maximum estimated percentage of revenue

<sup>1</sup>As defined by MSCI's ESG controversy scoring methodology

# Important Information

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Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited (AIGSL). Unless stated otherwise any views and opinions are those of Aviva Investors. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature. Information contained herein has been obtained from sources believed to be reliable but has not been independently verified by Aviva Investors and is not guaranteed to be accurate. Past performance is not a guide to the future. The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested. Nothing in this material, including any references to specific securities, assets classes and financial markets is intended to or should be construed as advice or recommendations of any nature. This material is not a recommendation to sell or purchase any investment.

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